vitec group

annual report **2004**

The year saw strong turnover growth as a result of a number of new products being introduced into growing markets. Photographic continues to benefit from an increase in demand for digital SLR cameras, whilst the Broadcast market is slowly improving.

We start 2005 in a much stronger position than at the same time last year, with higher order books and rising volumes. Going forward, Vitec remains exposed to fluctuations in the US dollar, but, as a result of restructuring actions taken in recent years, the Group is now in better shape. Overall the Board views the outlook for 2005 with cautious optimism.

The prestigious 2004 Mario Award at NAB for Vinten's Vector 900

TV Technology Europe's Star Award at IBC for Anton/Bauer's Dionic 160

American Photo Magazine Editor's Choice Award 2004 for Kata Rucksack and Kata Elements Raincover (products distributed by Bogen Imaging)

Hot 1 Professional Photography Award 2004 for Manfrotto's 322RC2 Grip Action Ballhead and Elinchrom Style 600RX (products distributed by Bogen Imaging)

Best Product Award for Clear-Com's Eclipse at the BIRTV2004 show in Beijing

Contents

Cover picture: Anton/Bauer's Stasis combines a shoulder mounted balance system with a mounting for powerpacks for lightweight cameras.

Manfrotto products are trusted by professional photographers and filmmakers to stand up to the most demanding situations. That's why you'll see their gear used in some extraordinary places, from the Space Shuttle to the bottom of the sea.

'Consolidate' and 'Leverage' is moving to 'Grow'

- Strong sales growth; 18% in constant currency, 8.8% in £ sterling terms
- Profit before tax, exceptional items, goodwill amortisation and impairment increased by 30% in constant currency, 0.6% in £ sterling terms
- Two businesses acquired during the year, both fully integrated
- Continued strong cash generation
- Enhanced financing arrangements in place
- Recommended final dividend of 8.9p per share, making a total of 15p per share, in line with expectations.

Turnover *£m*

04	185.4
03	192.8
02	182.2
01	190.4
00	200.0

Headline earnings per share* *pence*

04	22.9
03	23.9
02	34.1
01	42.9**
00	62.8

Operating profit* *£m*

04	17.8
03	17.8
02	24.7
01	30.6
00	40.1

Dividends per share *pence*

04	15.0
03	22.7
02	22.7
01	22.7
00	21.2

* before exceptional items, goodwill amortisation and impairment.
** 2001 restated for FRS 19 'Deferred Tax Standard'.

At a Glance

The Vitec Group supplies a wide range of equipment and services to the broadcasting, entertainment and photographic industries.

With products distributed in nearly 100 countries, over 94% of sales are outside of the UK, with over 50% in the Americas.

	Activities	Brands
Photographic	Design and manufacture of photographic and video camera supports, as well as lighting, support and suspension equipment, for professional photography, video, broadcast and cinematography. Distribution of photographic, video and cine related equipment and accessories.	Manfrotto, GITZO, AVENGER, LITEC, IFF Advanced Rigging, bogen imaging
Broadcast Systems	Design and manufacture of high quality equipment used principally by broadcast and live entertainment professionals. Focused on studio broadcast, outside broadcast, electronic news gathering (ENG) and electronic film production (EFP) markets with applications in the air traffic control and government markets.	anton bauer, drake, VEGA, Vinten, AutoCam, Clear-Com Communication Systems, sachtler, oconnor, RADAMEC Broadcast Systems
Broadcast Services	Rental services and selected sales of camera, video, wireless communication and audio equipment, including engineering support for the film and TV programme production markets.	ASG Audio Specialties Group, bexel Worldwide Video Production Support

Products	Locations	
Photographic, video heads and tripods. Lighting stands, grips, clamps and accessories. Lighting and scenery suspension equipment. Photographic accessories. Live entertainment and exhibition lighting suspension structures.	France Germany Hong Kong Italy USA	
Manual pedestals, tripods and heads for TV, ENG and EFP applications. Remote-controlled camera systems. Studio and portable lighting. Scenery hoists and pantographs. Microprocessor-controlled batteries and chargers for video cameras. Portable power systems for life support devices. Multi locational intercom systems. Party line intercom systems. Wireless intercom systems. Wireless microphones.	China Costa Rica France Germany Japan The Netherlands Singapore UK USA	
Rental of broadcast video equipment. Rental of audio equipment. Rental of high definition TV production support. Provision of support for major event broadcasting and webcasting. Sales of communications, audio equipment and used video equipment.	USA	

Products

Photographic

Broadcast Systems

Broadcast Services


Vector
60

Chairman's Statement

Having joined the Board of Vitec in June, I succeeded Alison Carnwath as Chairman in November. Alison retired from the Board at the end of the year after almost nine years service and we thank her for her contribution to the development of the Group. The initiatives taken under Alison's stewardship are bearing fruit and I look forward to building on them.

I have visited many of the Group's facilities, met key staff and have been impressed by the skill and effort they are bringing to tackling the issues which face the Group. I would like to take the opportunity of thanking all our employees for their contribution to the many changes and improvements they have made - the underlying progress of the business is beginning to show through.

The Board has conducted a review of Group strategy with the Company's new advisers and we are confident that the business is on the right path to generate value for all shareholders.

The results for 2004 are encouraging in terms of organic growth from new product development and from improving markets. We are also benefiting from the reorganisation initiatives that have involved plant closures and significant structural change, combined with improved financial control. As a result, revenues from continuing operations grew 18% in constant currency terms and profit before tax, exceptional items, goodwill amortisation and impairment grew 30% in constant currency.

Earnings per share, before exceptional items, goodwill amortisation and impairment, were 22.9p (2003: 23.9p). As announced at the half year, we continue to experience a high underlying tax rate as all of the Group's profits were earned outside the UK. Nevertheless, tax payments in the year were very low as the Group benefited from a significant tax credit arising from the sale of the ALU business. The lowering of the Group's effective tax rate continues to be a priority.

Cash generation continued to be strong, with net cash inflow from operating activities of £22.5 million (2003: £28.7 million). Working capital increased as a result of the sales growth, but stock and debtor ratios continued to improve.

Acquisition activity

To supplement the organic growth, two small businesses were acquired in the year. As previously reported, our Photographic Division strengthened its in-house distribution activities with the acquisition of Multiblitz, its long-standing distributor in Germany, in January 2004 for £1.4 million. Multiblitz is now integrated and operates as part of Bogen Imaging. In March 2004 we acquired the US assets of Charter Broadcast, a competitor in the rental arena, for a nominal sum which, with transaction costs, brought the total acquisition cost to £0.1 million. That business was immediately integrated into our US network of depots. Both acquisitions are performing well. We continue to look for further acquisitions that will strengthen our existing position or open up new avenues for growth in related areas.

Funding

On 25 January 2005 the Group agreed a new, enhanced loan facility, which has a term of five years. The new facility, which is for an increased amount of £100 million, compared to £55 million previously, is for Group companies' current requirements and for funding any potential future corporate activity.

Profit before exceptional items, goodwill amortisation and impairment, grew 30% in constant currency terms due to the volume increases and the benefits of the plant closure programme and other cost control measures.

2004 dividend

In line with the policy outlined in March last year, which stated that over a period of two to three years we would move towards an average dividend cover level of around two times, the Board is recommending a final dividend of 8.9p, giving a total dividend for the year of 15p per share. Since last year, when our new dividend policy was announced, foreign exchange has weakened against us. However, subject to no further significant weakening in the US dollar, it is our current intention to maintain the current level of dividend per share for 2005 and to seek to return to a dividend cover in line with our stated policy over the next two to three years.

Outlook for 2005

We ended 2004 with the factory and structural reorganisations substantially behind us. The benefits flowing from these, which will continue to be delivered in 2005, have allowed higher spending on R&D and marketing in particular, which in turn has resulted in much stronger product ranges.

We started 2005 in a much stronger position than at the same time last year, with higher order books and rising volumes. Going forward, Vitec remains exposed to fluctuations in the US dollar but, as a result of restructuring actions taken over recent years, the Group is now in better shape. Overall the Board views the outlook for 2005 with cautious optimism.

Michael Harper

Photo: Fabio Ventura, official photographer of the “K2 2004 - 50 Anni Dopo” expedition using a Gitzo G1228LVL levelling tripod and a G1278M quick release centre ball head. www.macromicro.it.

Chief Executive's Review

2004 saw real progress in growing the business. For almost three years we have been operating the 'Consolidate-Leverage-Grow' strategy. 2002 and the first half of 2003 saw multiple plant and facility closures at a time of static sales, while in the second half of 2003 we began to see growth returning. In 2004 we delivered both operational improvements and significant revenue growth, most of it organic, due to the multiple new products and services that we have launched. While we expect to see further benefits from the consolidation actions already announced and implemented, the emphasis on delivery is moving from 'Consolidate' and 'Leverage', to 'Grow'.

Results

2004 saw revenues from continuing operations grow 18% in constant currency terms, including a 4% contribution from acquisitions. Profit before tax, exceptional items, goodwill amortisation and impairment, grew 30% in constant currency terms due to the volume increases and the benefits of the plant closure programme and other cost control measures, despite increases in UK pension costs.

Foreign currency is a major factor in the performance of a worldwide business such as Vitec, and the fall in the US dollar, particularly against the euro, continued to have a significant effect, even after the hedging we have in place.

In £ sterling terms the sales growth was still strong at 8.8% (from £170.4 million to £185.4 million), while operating profit before exceptional items, goodwill amortisation and impairment, was £17.8 million (£17.8 million in 2003), after reflecting adverse transactional and translational impacts of some £4.8 million.

After a slightly lower interest charge, profit before tax before exceptional items, goodwill amortisation and impairment was £16.2 million (£16.1 million in 2003). There was a net operating exceptional charge of £2.1 million relating principally to the previously announced restructuring of the commercial operations within Broadcast Systems.

Revenue Growth

The growth in revenue coming from a combination of new products and market growth. In order to stimulate product sales we have, in the last two years, launched new intercoms systems, new studio camera pedestal and head products, new battery systems, new photographic tripods, and new lighting truss systems. Every brand has reinvigorated its product portfolio and some have replaced their range completely. We continue to win meaningful awards for these new products at trade shows and in trade magazines, which is an encouraging indicator of future prospects. Many of these new products are being patented which, together with an ongoing R&D spend of roughly 5% of non-rental sales, reinforces our market-leading positions. We believe continued innovation is critical to Vitec's future.

The market for our photographic accessories continues to expand, driven by the uptake of digital cameras, which is particularly strong in the '35mm SLR' segment, where we have targeted products for the keen amateur. In our broadcast market, many of the major networks have moved rapidly into making programmes in 'High Definition' (HD), a digital format that greatly enhances the clarity of video images, which is particularly useful for sports coverage. The US rentals market is reviving somewhat and our Broadcast Services Division has developed greater capacity for HD productions in response. It has also been active in coming forward with new service offerings: in particular for complex 'Reality TV' shows. We also generated growth by entering new markets, in particular Air Traffic Control, where we have installed several large intercom systems.

2004 also saw some major external and internal events that boosted revenues. The presidential elections in the USA lifted advertising expenditure, whilst the Athens Olympics saw significant contracts for our rental business, as well as product sales to broadcasters and freelancers. Internally, operational improvements in Photographic reduced lead times to normal levels, converting some backlog into sales. While there are no major sporting events in 2005, most Vitec businesses entered 2005 with order books higher than at the start of 2004.

Restructuring Benefits

We continue to improve the operational efficiency of the Group, exploiting our manufacturing and purchasing scale in both product divisions, greatly reducing the negative effect of the falling US dollar. The benefits from the restructuring of our manufacturing, which although offset by mix changes and some provisions for ageing stock, have underpinned the results for 2004. Our manufacturing operations are now focusing on continuous improvement actions for 2005 and beyond, which enabled us to announce in July the rationalisation of the commercial side of the Broadcast Systems business. A cost of £4 million to £5 million was anticipated, of which a net £2.1 million was charged in 2004. This process is also going well. Ongoing cost control and better use of our rental asset base also improved profitability in Broadcast Services.

It was encouraging that most of our businesses showed a significant improvement in the second half of the year over the first half, as the effects of earlier actions came through.

Executive team

During 2004 we strengthened the management team in the Photographic business in Italy and we recently made several key appointments within Broadcast Systems, further improving the team there.

With the scaling up of our plant in Costa Rica behind us, Brian McCluskie, formerly Operations Director, has left the Company and we wish him well in his future career.

With sales growth in constant currency of 18%, the emphasis on delivery is moving from 'Consolidate' and 'Leverage' to 'Grow'.

Photographic

Products for professional photographers

The Photographic Division saw strong volume growth during 2004. In constant currency terms, sales were up 23%, including 6% from the acquisition of Multiblitz. This underlying growth was driven by the continuing launch of new products and the demand for digital cameras, particularly in the digital SLR segment. However the fall in the US dollar against the euro reduced that growth to 12% in £ sterling terms, and also adversely affected margins.

The market for accessories for the professional photographer was stimulated by innovations such as the new joystick head, whose ergonomically-shaped pistol grip allows the user to position the camera and activate the shutter with one hand, and the new 303SPH head which facilitates the composition of panoramic shots, useful for capturing architectural images. Manfrotto also has an important position at the lower end of the video camera support market, catering to a different channel to our Broadcast brands, where the new 519 Pro-video head generated a lot of interest. Also in the professional arena, Litec continued to develop its presence across Europe; its lighting truss range was augmented with new tower systems to support the Libera trusses launched last year.

The majority of the growth, however, came as a result of the boom in affordable digital SLR cameras that are now being bought by keen amateur photographers. The new Neotec tripod, which is targeted specifically at this user group, has been selling well ahead of expectations, and there are other products planned for this exciting segment.

Improvements in manufacturing operations have also helped increase volume in 2004. The closure of the small plant at Nove in Italy early in the year has simplified work flow; the IT systems, now rolled out to all but one site across the division, have given greater visibility to suppliers of our needs and, together with efficiency improvements within the factories, allowed Manfrotto to cut its lead-time substantially, converting several weeks of backlog into sales. Manufacturing improvement activities are now focused more on cost reduction actions and on further improving the health and safety culture.

Following the disposal of ALU at the end of 2003, the management structure was changed, with several senior vacancies being filled from outside the Group. The Campese offices were renovated, generating sufficient space to centralise the operations and administration functions previously dispersed around the other plants. This has already driven improved coordination and efficiency. In August a representative office was established in Hong Kong in order to better support our local third party distributors.

	2004	2003
Turnover	£68.7m	£61.5m
Operating profit*	£12.3m	£13.9m
Operating margin*	17.9%	22.6%

*before exceptional gain of £0.1 million (2003: £nil) and goodwill amortisation of £0.2 million (2003: £0.1 million)

Litec's varitower

Manfrotto's 303SPH head

Manfrotto's 322RC2 grip action ball head

Manfrotto's Neotec tripod

Manfrotto's 519 pro-video camera head

The ‘Fig-Rig’ was designed by Manfrotto in conjunction with renowned film director, Mike Figgis. “Leaving Las Vegas”, which he wrote, directed and scored was nominated for four Oscars, winning Best Actor for Nicholas Cage.

Broadcast Systems

Products and systems primarily for broadcast applications

The Broadcast Systems Division also saw a year of growth, with sales up 13% in constant currency, 6% in £ sterling. This was a marked improvement following several years of stagnation due to the decline in the broadcast market. Each unit has new products to promote – the new Quattro-S pedestal from Vinten is particularly encouraging as it, and the family of new studio/outside broadcast control heads based on the Vector 900, are generating sales in a part of the market where we already enjoyed a significant market share. Our portable power company, Anton/Bauer, continued to take market share in Europe, winning orders from TFI in France and RAI in Italy.

The Olympics acted as a catalyst for several purchasers, with many of the Group's products used there and it was a strong year for robotics products. 2004 saw the opening of a sales office in Beijing, which will strengthen our position in China as local broadcasters gear up for the 2006 Asian Games and the 2008 Olympics.

In addition, non-broadcast applications also grew. 2004 saw significant shipments of support devices for surveillance equipment, and of Air Traffic Control intercoms systems to Korea, China and Vietnam, as well as the large contract for the German Space Operations Centre. This will be used to monitor the forthcoming Soyuz mission. Margins are improving in this area, as we complete the product development work and are able to be more selective about the projects to which we bid.

In September we announced that, with the manufacturing restructuring bedding down, part of the commercial operations of this division would be rationalised. The aim was to reduce internal duplication while ensuring we could maintain the pace of innovation for which our brands are known. These projects are going well, they produced benefits in 2004 and are expected to produce further benefits in 2005, on top of those flowing from the plant closures. In Camera Support we are optimising many of our back office operations in the USA and Europe, for which the new IT systems are an important foundation.

In Communications the two main companies, Clear-Com and Drake, have been integrated and the brand repositioning exercise completed successfully. Both brands now have access to all product families, and this has been well received by customers. New distributors have switched from other suppliers to join the Clear-Com network. As part of these changes, new managing directors have been recruited for both the Camera Support and Communications businesses.

During the year, Vinten celebrated 40 years on the site at Bury St Edmunds, England, having moved from North London in 1964, and Sachtler relocated a short distance to new facilities at Eching near Munich, where sales, marketing, customer service, and most importantly R&D, will be based.

	2004	2003
Turnover	£86.9m	£81.9m
Operating profit*	£3.9m	£3.9m
Operating margin*	4.5%	4.8%

*before exceptional charges of £2.2 million (2003: £1.9 million), goodwill amortisation of £0.8 million (2003: £0.7 million) and impairment of goodwill of £0.4 million (2003: £nil)

Clear-Com's RS-600 partyline intercom system

Vinten's Quattro-S pedestal

Vinten's Vector 60 head

Anton/Bauer batteries and Sachtler tripods and heads are the choice of many cameramen.

Broadcast Services

Rental services and technical support mainly for the broadcast market

Broadcast Services saw a 24% growth in US dollar sales, which translated to a 10% growth in £ sterling. Many of the drivers of this growth are expected to persist in 2005. The ongoing strengthening of the market, first evident in the latter part of 2003, continued, buoyed by the backdrop of improving US advertising spend, and we have benefited from the uptake of High Definition (HD) programming. Operating margin grew from breakeven to 5.4%, and the unit continued to generate cash despite increased spend on new rental equipment.

Bexel has also captured an increasing number of reality shows as the technical standards demanded by producers have steadily risen; examples are Survivor, The Apprentice, The Osbournes, and most recently the latest series of American Idol and Brat Camp. Many of these shows have also needed sophisticated audio systems from ASG, our high end audio integrator. During the year, progress was also made to widen the range of services offered; for example, Bexel can now help clients fit-out facilities with fibre optic cabling that allows subsequent events to be staged more efficiently.

The Charter acquisition has gone well, with additional contracts for the depots in Chicago and Orlando that were taken over, as well as gains from the elimination of surplus equipment. The expanded network of 10 depots means that broadcasters can rely on us to support them with assets and technical support throughout the country. In 2004 this led to a 'preferred supplier' agreement being concluded with Disney, covering ABC and ESPN as well.

	2004	2003
Turnover	£29.8m	£27.0m
Operating profit*	£1.6m	£0.0m
Operating margin*	5.4%	0.0%

*before goodwill amortisation of £0.4 million (2003: £0.5 million) and impairment of goodwill of £nil (2003: £2.1 million)

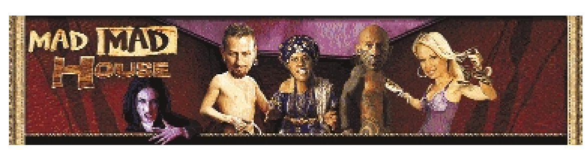
The second half saw the summer Olympics in Athens, with contracts won for AOB (Athens Olympic Broadcasting) and with two German broadcasters, ARD and ZDF. Both these prestigious contracts went smoothly, a testament to the high levels of technical service within Bexel that customers have come to rely on. These contracts will not repeat in 2005, but we continue to see underlying growth in rentals.

Asset management is a major determinant of success in any rental business, and the division's new IT systems have facilitated the production of more sophisticated analyses of contracts, asset acquisition costs and revenue generation, that enable utilisation to be optimised. This is reflected in an improved ratio of revenues to net assets, 2.4 in 2004 versus 1.7 in 2003. The application of these tools, and the continued use of sub-rentals, has allowed higher levels of spending on new, frequently High Definition, equipment than in the year before, while still generating cash. The business entered 2005 with an asset base level better aligned to its needs.

During the year the New York and Dallas facilities were upgraded, and in December the main Burbank office relocated from its old site with four small buildings, to new premises where everyone is under one roof, which will yield cost and efficiency benefits from 2005.

Gareth Rhys Williams

Gareth Rhys Williams



Bexel has supported these recent high profile reality TV shows in the USA, as well as Survivor, The Apprentice, American Idol, Girls Behaving Badly, The Osbournes, Newlyweds and Taildaters.

Bexel has supported The Academy Awards broadcast for many years. ‘Oscar Night’ at the Kodak Theatre looks great on TV, a testament to the skill of the many technicians who work on such a complex event.

Financial Review

Continuing operations

Turnover increased by £15.0 million (from £170.4 million to £185.4 million) or 8.8% in the year. There was underlying growth in all three divisions. Photographic and Broadcast Services benefited from a contribution of £3.5 million and £1.8 million respectively from the acquisitions of the domestic distribution activity of Multiblitz in Germany and Charter Broadcast North America. Excluding the incremental effect of those acquisitions, underlying sales growth was £22.6 million or 14%, but this was significantly reduced by the effects of adverse foreign exchange rates on translation, £11.6 million, and transaction, £2.1 million. The balance of growth, £0.8 million, came from the full year effect of acquisitions made part-way through 2003.

Gross profit margins fell from 43.6% to 41.3% reflecting a change in mix in a number of businesses and the adverse effect of foreign exchange transactions, particularly in the Photographic Division. Gross profits were £0.3 million higher than the prior year before a contribution of £1.9 million from 2004 acquisitions.

Net operating expenses, before exceptional items of £2.1 million and goodwill amortisation and impairment charges of £1.8 million, increased by £2.2 million (3.9%) to £58.7 million. £1.2 million of the total increase related to 2004 acquired businesses, £4.1 million to existing businesses and there was an offsetting foreign exchange translation benefit of £3.1 million.

Operating profit before exceptional items and goodwill amortisation and impairment charges was unchanged at £17.8 million, including contributions of £0.1 million and £0.6 million from the acquisitions of Multiblitz and Charter Broadcast North America respectively. Operating profit margins were 9.6% compared to 10.4% in 2003. The year on year effect of translating overseas profits was £0.9 million adverse and the effect of exchange rate changes on transactions after hedging, principally the weaker US dollar against the euro, was £3.9 million unfavourable.

There is a net operating exceptional charge of £2.1 million relating principally to previously announced restructuring plans within the Broadcast Systems Division which will enable the Camera Support and Communications businesses to operate in a more integrated manner. It is expected that the overall charge will be between £4.0 million and £5.0 million, in line with previous guidance.

Goodwill amortisation and impairment The charge was £1.8 million (2003: £3.4 million including £2.1 million impairment charge against the goodwill of the US Systems Wireless business).

Taxation The effective taxation rate on operating profit before exceptional items, goodwill amortisation and impairment has increased to 42.0% (2003 39.8%) and includes £1.6 million (9.9% rate) of deferred tax. The tax charge is relatively high because profits have arisen in high tax jurisdictions but the Group has incurred net losses in the UK on which it has not benefited from tax relief.

Cash flow and net debt Cash generation remained strong. However, net debt increased slightly from £10.4 million to £11.3 million after £1.5 million acquisition costs and £2.7 million cash cost of restructuring actions.

Net cash inflow from operating activities was £22.5 million (2003: £28.7 million), equating to 55p per share (2003: 70p per share). Cash outflow from an increase in working capital (principally due to a £1.2 million decrease in creditors) was £1.4 million (2003: £4.0 million inflow). Capital expenditure and financial investments were £10.0 million (2003: £10.2 million), of which £4.8 million related to rental assets and £0.8 million to IT projects, partly financed by the proceeds from asset disposals of £1.6 million (2003: £2.4 million).

Working capital was increased by the effect of the two acquisitions and higher volumes, partially offset by efficiency programmes. Stocks decreased by £0.6 million to £32.6 million,

whilst stock days decreased to 109 (2003: 126 excluding Retail Display). Trade debtors at £26.2 million were £2.0 million lower than last year with debtor days at 52 days (2003: 60 days excluding Retail Display). Trade creditors at £15.7 million were £0.7 million higher than last year (whereas other creditors were £1.6 million lower). Amounts recoverable on long term contracts increased by £1.1 million to £2.1 million.

Tax paid in 2004 of £1.4 million reduced considerably from 2003 (£10.8 million). The prior year included the settlement of an historic tax claim of £1.4 million, whereas the current year has benefited from Italian tax credits arising from the sale of the Retail Display business in 2003.

Treasury Policy Financing, currency hedging and tax planning are managed centrally. Hedging activities are designed to protect profits, not to speculate. Substantial changes to the financial structure of the Group or treasury practice are referred to the Board. In 2003 the Board approved the use of option contracts for hedging foreign currency receipts.

As in previous years, a portion of the transactions of subsidiaries in foreign currencies is hedged 12 months forward. Forward foreign exchange contracts at 31 December 2004 totalled £5.2 million (2003: £16.0 million). In addition, the Group had simple option contracts, for the sale of dollars for euros over the period January 2005 to December 2005 totalling £9.3 million (2003: £8.4 million) and for the sale of dollars for £ sterling over the period January 2005 to August 2005 totalling £0.9 million (2003: £nil). Translation of foreign currency profits and interest rates are not hedged. Foreign currency net assets are not hedged other than by normal Group borrowings.

The Group operates strict controls over all treasury transactions involving dual signatures and appropriate authorisation limits.

Financing Activities The average cost of borrowing for the year was 4.8% (2003: 4.8%) with the upward trend in interest rates being offset by the transfer of some of the Group's £ sterling loans into Euros and US dollars. Net interest cover (using profit before exceptional items, goodwill amortisation and impairment) remained high at 11 times (2003: 10 times). The Group's £55 million three-year bilateral credit facility agreements which were due to expire in October 2005 were replaced on 25 January 2005 with a five-year £100 million multicurrency revolving credit facility agreement involving five banks.

UK pensions The Group contributes to two UK defined benefit pension schemes. At the end of 2003 the Group closed both schemes to new members, replacing them for 2004 onwards with a Group personal pension plan, currently with Standard Life. A full triennial actuarial valuation was undertaken as at 5 April 2004. At that date, the schemes had assets with a combined market value of £28.3 million. On the basis of the assumptions adopted, the value of the schemes' assets was equal to 94% of the value placed on the benefits that had accrued to members allowing for expected future increases in salaries. As a result of the valuation, and following the increase of £0.1 million per annum in Company contributions from the beginning of 2003, regular contributions were again increased by £0.2 million per annum with effect from the date of valuation. In addition, employees' contributions were increased from 1 January 2005. The Group's UK pension charge to the profit and loss account under SSAP24 has increased from £0.9 million in 2003 to £1.5 million in 2004 after the effects of accounting for moving from a previous surplus to a shortfall in scheme assets when compared to accrued liabilities.

International Financial Reporting Standards ('IFRS') The Group has completed its initial investigation into the impact of adopting IFRS with effect from 1 January 2004. The areas currently identified as most affecting the profit before tax and shareholders' funds are as a result of the adoption of IAS 19 Employee Benefits (in respect of pensions), IAS 38 Intangible Assets (in respect of capitalising major development costs), IFRS 3 Business Combinations (in respect of goodwill) and IFRS 2 Share Based Payment and IAS 10 Events After the Balance Sheet Date (in respect of the dividends declared after the balance sheet date). The exact impact of adopting IFRS, as well as a full analysis of the impact on the 2004 published results, will be communicated in May 2005. The Interim Results for the six months ending 30 June 2005 will be prepared in accordance with IFRS.

Alastair Hewgill

Alastair Hewgill

Turnover from continuing operations increased by £15.0 million (from £170.4 million to £185.4 million) or 8.8% in the year.

Board of Directors

Michael Harper *BSc, MSc*

Chairman, non-executive, independent, British, aged 60, appointed to the Board on 14 June 2004, became Chairman on 1 November 2004; member of the Audit Committee, the Nominations Committee and the Remuneration Committee. Currently Chief Executive of Kidde plc and non-executive director of Ricardo plc, Umeco plc and BBA Group plc. Formerly held senior roles with Vickers plc.

Gareth Rhys Williams *BSc, MBA*

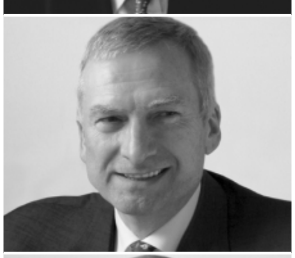
Chief Executive, British, aged 43, appointed to the Board on 23 November 2001. Previously Regional Managing Director, Central Europe, of BPB plc. Prior to this he held senior management positions with Rexam plc, responsible for their European film coating business, and for NFI Electronics. Following initial training in IT at STC, he joined Lucas in a production management role before studying for his MBA at INSEAD. He is a chartered mechanical and electrical engineer.

Alastair Hewgill *BSc, ACMA*

Finance Director, British, aged 50, appointed to the Board on 14 May 2002. Previously he held senior finance positions within GKN plc over a period of 11 years, including Finance Director of GKN Aerospace Division and Head of Corporate Finance for the group.

Sir David Bell *MA*

Non-executive, independent, British, aged 58, appointed to the Board on 12 March 1997; the Senior Independent Director; member of the Audit Committee and of the Nominations Committee and Chairman of the Remuneration Committee. Currently Chairman of the Financial Times Group, a director of Pearson plc, non-executive Chairman of the Windmill Partnership, Chairman of Common Purpose Europe and Chairman of Crisis, a charity for the homeless.

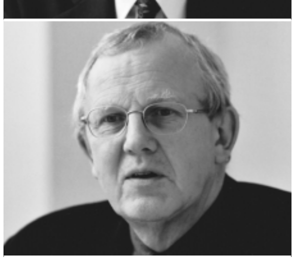


Nigel Moore *FCA*

Non-executive, independent, British, aged 60, appointed to the Board on 1 March 2004; Chairman of the Audit Committee, member of the Nominations Committee and of the Remuneration Committee. Until recently, a London based partner of Ernst & Young. Currently Chairman of TEG Environmental plc, a Director of IntelligentComms Limited and a Trustee of the Butten Trust.

John Potter *CEng, MIEE, AMBIM*

Non-executive, independent, British, aged 61, appointed to the Board on 1 February 1999; Member of the Audit Committee, the Nominations Committee and the Remuneration Committee. Formerly a director of the TI Group plc until his retirement at the end of 1998 and President and Chief Executive Officer of Oxford Automotive, Inc until his retirement at the end of June 2004.



Will Wyatt *CBE, BA*

Non-executive, independent, British, aged 63, appointed to the Board on 10 June 2002; member of the Audit Committee, Chairman of the Nominations Committee and member of the Remuneration Committee. Currently Chairman of Human Capital Limited, Chairman of the University of the Arts London, Governor of Magdalen College School, Oxford and Director of Racing UK Limited and Racing UK Holdings Limited. Formerly Chief Executive, BBC Broadcast. Other posts within the BBC included Managing Director of Network Television.

Roland Peate *FCIS, ACMA*

Secretary

Directors' Report

The directors present their report and the audited accounts of the Group for the year ended 31 December 2004.

Review of the Group and its activities
The performance and activities of the Group during the year are set out in the Chairman's Statement, the Chief Executive's Review, the Financial Review and the At a Glance pages.

On 8 January 2004 the Group acquired the assets of the distribution arm of Multiblitz for €1.9 million (£1.4 million) cash.

On 30 March 2004 the Group acquired the operating assets and certain of the liabilities of Charter Broadcast North America Inc. for £0.1 million, including acquisition expenses.

Results and dividends
The Group's profit on ordinary activities before tax, exceptional items, goodwill amortisation and impairment amounted to £16.2 million (2003: £16.1 million). Profit on ordinary activities before tax but after exceptional items, goodwill amortisation and impairment amounted to £12.3 million (2003: £7.8 million).

The directors recommend a final dividend of 8.9p per share (2003: 16.6p). If approved, the dividend per share for the year will total 15p (2003: 22.7p). Subject to approval by shareholders, the final dividend will be paid on 20 May 2005 to shareholders on the register on 22 April 2005.

Post balance sheet events
On 25 January 2005 the Group signed a five year £100 million Multicurrency Revolving Credit Facility Agreement to replace the two existing Multicurrency Revolving Credit Facility Agreements which had termination dates of 28 October 2005. The first draw down on this Facility was made on 31 January 2005.

Future development
The Group's continuing strategy is to grow its businesses through organic expansion and carefully planned acquisitions principally in areas related to its existing businesses, customers, markets and skills.

Research, development and engineering
The management of the Group continues to recognise that new products are essential to its long-term success and considerable emphasis is placed on active product development programmes in the manufacturing companies. In 2004 those companies spent £7.9 million (2003: £8.8 million) on research, development and engineering.

Share capital
Details of shares issued during the year are set out in Note 21 to the accounts on page 64. An analysis of shareholdings is shown on page 72. The middle market price of a share of the Company on 31 December 2004, the last day of dealing in 2004, together with the range during the year, is also shown on page 72.

Substantial shareholdings
As at 22 March 2005, the Company had been notified of the following interests of 3% or more of its issued share capital:

Interest by	Number of shares	%
Harris Associates L.P.	3,409,307	8.30
Baring Trustees (Guernsey) Limited	2,698,374	6.58
Manfrotto SA	2,478,374	6.05
*Britel Fund Trustees, The Trustees of BT Pension Scheme	2,347,148	5.71
Prudential plc	2,261,589	5.51
*Royal Mail Pensions Trustees Limited and Possfund Custodian Trustee Limited	2,218,342	5.40
*Devon County Council	2,056,234	5.01
*The Essex County Council Pension Fund	2,056,234	5.01
*Hermes Focus Asset Management Limited, Hermes Investment Management Limited (as general partners of the UK Small Companies Focus Fund (SCFF)) and Hermes SLP Limited, as partner in SCFF	2,056,234	5.01
*Nottinghamshire County Council	2,056,234	5.01
*Ram Trust Services Inc	2,056,234	5.01
Deutsche Bank AG and its subsidiary companies	2,001,162	4.87
Legal & General Investment Management Limited	1,645,736	4.01
Lloyds TSB Group plc and its subsidiaries	1,643,488	4.00
Aviva Plc	1,623,127	3.96

*Each interest marked with an asterisk above is, or includes, an interest as a limited liability partner of the Hermes Small Companies Focus Fund, the total notified interest of which is 2,056,234.

Directors' Report continued

Directors

The directors during the whole of the year were Gareth Rhys Williams, Alastair Hewgill, David Bell, John Potter and Will Wyatt.

Nigel Moore became a director on 1 March 2004. Michael Harper was appointed a director on 14 June 2004 and became Chairman on 1 November 2004 when Alison Carnwath stood down at the end of October 2004. Alison Carnwath resigned as a director on 30 December 2004.

The remuneration of the directors is set out in the Remuneration Report on pages 22 to 28.

Photographs and biographies of the current directors are set out on page 18.

Directors' shareholdings

The following table sets out the beneficial interests of those persons who were directors at the end of the financial year. The interests in the Company's shares are shown as at 31 December 2004 and 1 January 2004 or subsequent date of appointment. Details of the directors' other interests in the Company's shares are set out in the Remuneration Report on pages 22 to 28.

Directors' shareholdings	31 December 2004	1 January 2004 or subsequent date of appointment
Chairman		
Michael Harper	15,000	-
Executive Directors		
Gareth Rhys Williams	27,705*	17,705*
Alastair Hewgill	15,651*	7,651*
Non-executive Directors		
David Bell	-	-
Nigel Moore	5,695	-
John Potter	3,000	3,000
Will Wyatt	675	675
	67,726	29,031

* Includes interests of 7,705 shares by Gareth Rhys Williams and 1,651 shares by Alastair Hewgill purchased in the market using funds supplied by the two directors and held by Mourant & Co Trustees Limited, the trustee used to hold shares in respect of awards made under the Deferred Bonus Plan.

Payments to suppliers

It continues to be the Group's policy that the Company and individual subsidiary companies are responsible for negotiating terms and conditions under which suppliers operate. Once agreed, payments to suppliers are made in accordance with those terms and conditions, subject always to the supplier having complied with them. That policy will continue for the financial year ending 31 December 2005. For the financial year ended 31 December 2004 the Company paid its suppliers on average within 16 days (2003: 15 days) of date of invoice.

Committees of the Board

Details of the Audit Committee, the Nominations Committee and the Remuneration Committee are contained in the Corporate Governance section of this annual report and in the Remuneration Report.

Corporate Social Responsibility Report

The Group's report on social, environmental and ethical matters is set out on pages 29 to 32. The Group has policies in respect of the following key areas: risk and fraud, employment (including employees and employee communication), whistleblowing, environment, human rights, community impact and involvement, relationships with suppliers, customers and other stakeholders.

Donations

In 2004, charitable donations were made by the Charity Committee from its account with the Charities Aid Foundation totalling £3,700 (2003: £7,000). Following the tsunami disaster in December 2004, the Group has offered equipment from its range of Drake air traffic control VCS intercom systems to assist in the aid effort to re-establish affected airports. No donations were made to any political party. For further information on donations refer to the section on Community Impact and Involvement set out in the Corporate Social Responsibility Report on pages 29 to 32.

Annual General Meeting

The Annual General Meeting for 2005 will be held on 18 May 2005 at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. The notice of meeting and a proxy card are enclosed.

The Company will again be making use of the electronic voting facility provided by its registrars, Capita Registrars. The facility has now been extended to include CREST voting for members holding their shares in uncertificated form. For further information please refer to the section in Online Services and Electronic Voting set out on page 72.

The business of the Annual General Meeting will include the consideration by shareholders of the report and accounts for the year ended 31 December 2004, the Remuneration Report, the proposed dividend, election of a director, re-election of two directors, the re-election of the auditors and the following further items of business.

A resolution to revise the Company's Articles of Association to reflect the changes in the law affecting the capacity of a company to provide indemnities to its directors. The changes to the Articles are set out in the notice of meeting.

Resolutions to approve two new share incentive plans. Further details are set out in the Remuneration Report and in the notice of meeting.

A resolution renewing the directors' authority to allot shares for cash, as if the pre-emption provisions of Section 89 of the Companies Act 1985 did not apply, is set out in the notice of meeting. The first part of the resolution deals with the allotment of shares for cash under a rights issue, giving power to make adjustments to deal with overseas shareholders, fractions of shares and similar matters. The second part renews the power of the directors to allot shares for cash, limited to 5% of the issued share capital at 7 March 2005. The authority will expire at the end of the Company's next Annual General Meeting or, if earlier, on 18 August 2006.

Your directors have no present intention of issuing or granting rights over the unissued share capital, except in relation to the Company's adopted employee share incentive arrangements and no share issue will be made which will effectively alter the control of the Company without prior approval of the shareholders in general meeting.

Any shares held in treasury and used by the Company for the purposes of or pursuant to the employee share schemes operated by the Company will, so long as required under institutional guidelines, count towards the limits on the number of new shares that may be issued under the rules of such employee share schemes.

A resolution for a general authority for the Company to make market purchases of its own shares was first passed at the 1998 Annual General Meeting and has been renewed by shareholders at subsequent annual general meetings. The directors believe it is desirable to have the power to make market purchases in the event of suitable opportunities arising. Accordingly, a resolution to again renew the authority will be proposed at the Annual General Meeting. The authority to purchase shares would only be exercised if there was a resultant increase in earnings per share, and it would be in the best interests of the Company. Should the directors exercise such authority, any shares so purchased may be placed in treasury in accordance with The Companies (Acquisition of Own Shares)(Treasury Shares) Regulations 2003, as amended and subsequently cancelled or transferred to satisfy awards arising under the Company's employee share schemes or issued for cash as provided for by the Regulations.

The Chairmen of the Board and of its Committees will be in attendance at the Annual General Meeting to answer questions from shareholders.

Auditors

The auditors, KPMG Audit Plc, are willing to continue in office. A resolution will be put to the Annual General Meeting to re-appoint the auditors and to authorise the Board to agree their remuneration.

By order of the Board

Roland Peate
Secretary
7 March 2005

Remuneration Report

This Report contains the information required under the Code on Corporate Governance and under the Directors' Remuneration Report Regulations 2002. A resolution to approve the Report will be proposed at the 2005 Annual General Meeting. The Chairman of the Remuneration Committee will be available to answer questions about directors' remuneration at the Annual General Meeting.

Remuneration Committee

At the commencement of 2004, the Remuneration Committee comprised David Bell (Chairman of the Committee), Alison Carnwath and John Potter. During the year Alison Carnwath left the Committee and Michael Harper, Nigel Moore and Will Wyatt joined the Committee.

Under its terms of reference, the Committee, on behalf of the Board, determines the remuneration packages including bonus arrangements, participation in incentive schemes, pension contributions and all other benefits received by the executive directors. In the event of the termination of employment of those directors, the Committee would also determine any compensation payments, after taking appropriate legal advice. The Committee also makes recommendations to the Board, within its terms of reference, on the framework of senior executive remuneration including terms of service, pay structure, bonus and share incentive arrangements and other benefits.

The Chief Executive, Gareth Rhys Williams, attends meetings by invitation of the Committee but is not present when his remuneration is being considered. The remuneration of the non-executive directors is determined by the Board as a whole with the relevant non-executive director abstaining when his or her remuneration is considered.

Remuneration policy

The executive directors' remuneration comprises a basic salary plus, under the Executive Bonus Scheme, company and/or individual performance-related elements of up to 100% of salary. Therefore, if they achieve maximum performance in relation to the performance-related elements of their remuneration, these elements would, in total, account for 50% of their total cash remuneration.

Remuneration packages are formulated to attract, retain and motivate executive directors and senior executives of the quality required, without being excessive, by reference to salary and benefit surveys supplied by one or more external sources. They take into account the responsibilities involved, remuneration packages in comparable companies that have similar international operations, relative performance and both internal and external advice. Remuneration and benefits reflect responsibility and market comparisons.

The notice period by the Company under the service contracts of the executive directors is 12 months. The normal retirement age of executive directors is 60. Executive directors' service contracts do not provide for pre-determined amounts of compensation in the event of early termination by the Company. The Committee's policy in the event of early termination of employment is to mitigate compensation to the fullest extent practicable.

The Committee believes that it is beneficial for an executive director to take up one external, non-executive appointment. Remuneration received by a director in respect of such an external appointment would be retained by the director.

The Committee currently has no intention of amending the above stated policy for 2005 and future years, although it will be reviewed from time to time.

When reviewing and determining executive and non-executive directors' and senior management's remuneration, advice is sought and received from one or more external remuneration and benefit consultants and their various surveys of remuneration and fees and also internally from the Chief Executive, Gareth Rhys Williams, and the Company Secretary, Roland Peate. Towers Perrin, which was formally appointed in early 2003, has, during the year, provided independent advice to the Committee. The Committee has also received external advice from Monks Partnership and Deloitte & Touche.

Chairman and the other non-executive directors

The Chairman and the other non-executive directors do not have service contracts but have letters of appointment. The initial period of their appointments is normally three years but may, by mutual consent and with the approval of the Nominations Committee and the Board, be extended for a further three years. In exceptional circumstances appointments may be extended beyond six years, by mutual consent and with the approval of the Nominations Committee and the Board, if it is in the interests of the Group to do so.

Executive directors

Executive directors' remuneration comprises basic salary, bonus, share incentives, company vehicle or cash allowance, fuel where a company vehicle is provided, medical health insurance, membership of the Group's Executive Pension Scheme, life assurance and additionally, for Gareth Rhys Williams, contributions towards a permanent health arrangement. Contributions are also paid by the Company to a funded unapproved retirement benefits scheme for Gareth Rhys Williams of an amount equal to the difference between the Inland Revenue earnings cap and his basic salary.

It is the Company's policy to make provision for pensions for executive directors through funded retirement benefit schemes. Up to the maximum level permitted by Inland Revenue rules, retirement benefits are provided through an approved retirement benefit scheme. For further information, see the table entitled Pensions Related Remuneration on page 28.

Gareth Rhys Williams, Chief Executive, aged 43, is employed under a service contract dated 23 November 2001. The notice period by the Company under his contract is 12 months; notice by the employee is six months. The Company may, in the event of termination of employment, pay a sum in lieu of notice equal to 12 months' gross basic salary together with the gross value of the other benefits that he is entitled to receive under his service contract, but excluding pension contributions and any bonus. The bonus arrangements for 2005 will be calculated on the basis that 75% relates to the achievement of operating profit targets and 25% relates to specific personal objectives. The unexpired term of Gareth Rhys Williams' service contract, to his normal retirement date, is 17 years.

Alastair Hewgill, Finance Director, aged 50, is employed under a service contract dated 17 April 2002. The notice period by the Company under his contract is 12 months; notice by the employee is six months. The Company may, in the event of termination of employment, pay a sum in lieu of notice equal to 12 months' gross basic salary together with the gross value of the other benefits that he is entitled to receive under his service contract, but excluding pension contributions and any bonus. The bonus arrangements for 2005 will also be calculated on the basis that 75% relates to the achievement of operating profit targets and 25% relates to specific personal objectives. The unexpired term of Alastair Hewgill's contract, to his normal retirement date, is 10 years.

Incentive arrangements

The policy of the Remuneration Committee over the last few years has been to make annual awards under the Long Term Incentive Plan to the executive directors and the other members of the Executive Board. Such awards were based on a proportion of salary. Grants of conventional share options were also made annually to the Group's senior management immediately below the level of the Executive Board. Participation in the Deferred Bonus Plan was open to those employees who were members of the Group's Executive Bonus Scheme and who received a bonus.

An in-depth review of the Group's incentive arrangements for executive directors, other members of the Executive Board and all other participants in the Group's incentive arrangements has been carried out by Deloitte and Touche. That review has resulted in the overall package of incentives, including salary, bonus scheme and share incentive arrangements being restructured. The new arrangements, agreed by the Remuneration Committee, have resulted in a new Deferred Bonus Plan and a new Long Term Incentive Plan. Approval by shareholders of these new plans will be sought at the 2005 Annual General Meeting.

The new Deferred Bonus Plan will replace the current Deferred Bonus Plan and will be used in conjunction with bonuses arising from the Executive Bonus Scheme for 2005 and future years. The new Long Term Incentive Plan will replace the current Long Term Incentive Plan and will be used to make annual awards to the executive directors and the other members of the Executive Board, as at present, but also to the Group's senior management immediately below the level of the Executive Board.

It is planned to make a grant of share options to the executive directors and the other members of the Executive Board every three years, starting in 2005.

Executive directors and the other members of the Executive Board will now be required to build up, over a period, a meaningful holding of shares in the Company.

There are currently no plans to make any further grants under the Premium Option Plan. This policy is reviewed at least annually and may be revised from time to time. Invitations under the Group's Sharesave arrangements are usually made annually and these are planned to continue. Such awards and grants take into account the overall and flow limits advised by the Association of British Insurers.

The performance conditions applicable to the Group's new Long Term Incentive Plan and to the matching element of the Deferred Bonus Plan will relate to total shareholder return against a comparator group (awards under the previous Deferred Bonus Plan were not subject to any performance targets). The performance conditions under the Group's share option schemes will continue to relate to increases in earnings per share. The performance condition applicable to the Premium Option Plan relates to a significant increase in the Company's share price.

The combination of awards with performance conditions using total shareholder return and grants using increases in earnings per share is considered the most appropriate way of aligning the interests of senior management with those of shareholders.

There is no re-testing of performance in respect of grants or awards. Monitoring and measuring of the performance conditions take place following the end of each year when the Company's results have been audited and again at the time of exercise of options and awards.

Remuneration Report continued

The Group currently has the following incentive schemes and plans in place. For further details of the proposed new Long Term Incentive Plan and Deferred Bonus Plan, refer to the notice of meeting which contains a summary of the main terms.

2002 Executive Share Option Scheme
This is an Inland Revenue approved scheme. Executive directors and other senior employees are selected to receive options over shares. Exercise of an option is subject to growth in the Company's earnings per share, excluding exceptional or extraordinary items, exceeding the growth in the retail prices index over a performance period. The percentage growth over the retail prices index determines the proportion of the award that may be exercised. Options are exercisable between the third and the tenth anniversaries of their dates of grant.

Performance condition: If the percentage growth in the adjusted earnings per share of the Company exceeds the percentage growth in the retail prices index over the three year performance period by 3.0301% (the base target threshold), an option will become exercisable in respect of one-third of the shares over which it is held. Full vesting takes place when such growth over the performance period is 9.2727% or greater. A sliding scale operates for performance between the lower and upper thresholds. Options lapse if the base target threshold is not achieved. There is no re-testing of performance.

2002 Unapproved Executive Share Option Scheme
Executive directors and other senior employees are selected to receive options over shares. As with the 2002 Executive Share Option Scheme, exercise of an option is subject to growth in the Company's earnings per share, excluding exceptional or extraordinary items, exceeding the growth in the retail prices index over a performance period. Options are exercisable between the third and the tenth anniversaries of their dates of grant.

Performance condition: The performance condition is identical in all respects to the performance condition of the 2002 Executive Share Option Scheme set out above. There is no re-testing of performance.

Long Term Incentive Plan
Under this plan, executive directors and other senior employees are selected to receive awards over shares that vest in whole or in part depending on the satisfaction of a performance condition related to the growth in earnings per share compared to the retail prices index over a performance period.

Performance condition: The performance condition attaching to awards under the plan relate to increase in earnings per share. For an award to vest in its entirety, the increase in earnings per share over the performance period of three years must be not less than the increase in the retail prices index plus 36% or more. For an award to vest at its lowest level of 25%, the growth in earnings per share over the performance period must be equal to the increase in the retail prices index plus 9%. Awards lapse if the performance is below 9%. Where growth is between 9% and 36% awards are realisable on a straight-line basis.

Premium Option Plan
Under this plan, selected executive directors and other senior employees receive options over shares that are granted in the form of two tiers. The exercise price of the first tier is set at 25% in excess of the share price immediately prior to the date of grant; the exercise price of the second tier is set at 50% in excess of that same share price.

Performance condition: First tier options are only exercisable if the average middle market price of the Company's shares increases to, and remains in excess of, the option exercise price for a minimum of 20 consecutive dealing days within three years of the date of grant. Second tier options are only exercisable if the average middle market price of the Company's shares increases to, and remains in excess of, the option exercise price for a minimum of 20 consecutive dealing days within five years of the date of grant. Each tier of options lapses if the share price does not achieve the required threshold within the relevant performance period. Subject to the share price reaching the required threshold, options are exercisable between the third and the tenth anniversaries of their dates of grant.

Deferred Bonus Plan
Under the plan, an eligible executive may defer between 10% and 50% of his or her cash bonus in exchange for receiving a basic award over shares in the Company with a value equivalent, at the date of award, to the amount of the deferred bonus. A basic award may, in normal circumstances, be exercised by a participant after two years. However, if exercise is deferred until after three years and the executive remains employed by the Group, the participant is entitled to receive a matching award of additional shares equal in number to those comprised in the basic award. Shares comprising basic awards are purchased in the market and held in trust by Mourant & Co Trustees Limited until exercise. Dividends are not paid on shares until their exercise by participants.

Performance conditions: Bonuses received by participants, and which may be deferred under the plan, are themselves subject to demanding performance conditions linked to Company and/or individual performance. The awards under the plan are not subject to any further performance targets.

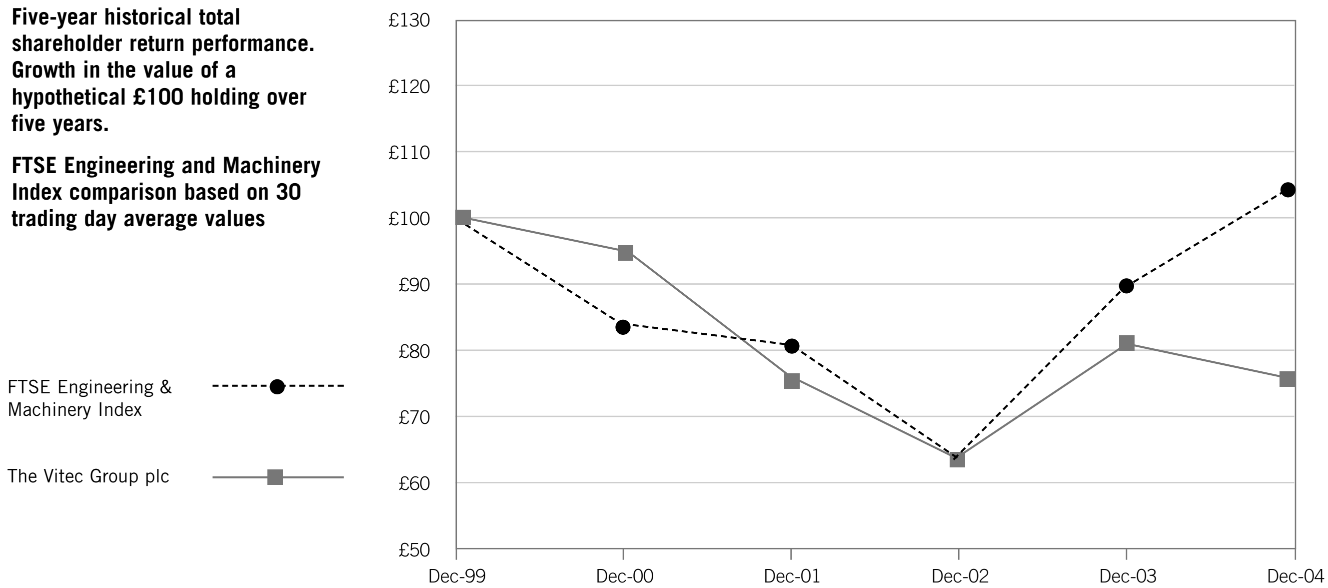
2002 Sharesave Scheme and International Plan
The Group also operates a savings related share option scheme in the UK and a similar international plan in respect of overseas employees in certain countries. The scheme and plan are open to all the Group's employees in those geographical areas who have the necessary length of service. Under the scheme and plan participants contract to save a set amount each month in return for which they receive an option over a specified number of shares. At the end of the savings period participants may exercise their options to buy shares in the Company using their savings. Exercise is not subject to any performance condition.

Five-year share price performance 2000-2004

Under the requirements of the Directors' Remuneration Report Regulations 2002, the Company is required to include a graph showing the Company's performance compared to an appropriate index. Set out below, the graph illustrates the Company's annual total shareholder return (share price growth plus dividends that have been declared, paid and reinvested in the Company's shares) relative to the FTSE Engineering and Machinery Index for the five year period 2000-2004, assuming an initial investment of £100. The Engineering and Machinery Index is the broad market index that includes the Company and comprises comparable companies.

Five-year historical total shareholder return performance. Growth in the value of a hypothetical £100 holding over five years.

FTSE Engineering and Machinery Index comparison based on 30 trading day average values



The following information has been audited.

Directors' emoluments and compensation

For her non-executive duties as Chairman, Alison Carnwath received a fee at the rate of £78,000 per annum. Michael Harper, who assumed the Chair on 1 November 2004, following the stepping down by Alison Carnwath, is paid a fee at the rate of £85,000 per annum. From his appointment on 14 June 2004 until his appointment as Chairman he was paid a fee at the rate of £30,000 per annum. On 1 July 2004, the fee payable to the other non-executive directors was increased from £25,000 per annum to £27,500 per annum. The previous increase, from £20,000 per annum to £25,000 per annum, was on 1 April 2002. The chairmen of the Remuneration Committee and of the Audit Committee, David Bell and Nigel Moore respectively, each receive an additional fee for their services as chairmen of those Committees. David Bell receives an additional £2,500 per annum and Nigel Moore receives £5,000 per annum. A one-off fee of £2,000 was paid to Will Wyatt in view of the additional work in respect of the selection and appointment process of the two new non-executive directors he had undertaken during the year as Chairman of the Nominations Committee. No additional fee is paid to David Bell for his duties as Senior Independent Director. The non-executive directors do not receive any other benefits from the Company.

Gareth Rhys Williams, Chief Executive, currently receives an annual salary of £285,000, increased from £267,800 with effect from 1 January 2005. Mr Rhys Williams is a member of the Vitec Group Executive Pension Scheme and contributes 9% (increased from 7%) of his salary on the amount of the earnings cap. That pension scheme is a defined benefit scheme, the accrual rate for which is one fortieth of his pensionable salary for each year of pensionable service. In accordance with his service contract, the Company makes contributions of 24% of his annual salary in excess of the earnings cap to his funded unapproved retirement benefits scheme.

In addition, a guaranteed pension-related bonus of 16% of his annual salary in excess of the earnings cap is paid to him. He is eligible for a performance-related bonus, based on Company performance and, if or when determined by the Remuneration Committee, individual performance, of up to 100% of base salary each year. In respect of 2004, all of his bonus was calculated upon the Group's financial performance. Mr Rhys Williams received a bonus of £120,510 in respect of 2004 and of £52,000 for 2003.

Alastair Hewgill, Finance Director, currently receives an annual salary of £190,000, increased from £180,000 with effect from 1 January 2005. Mr Hewgill is a member of the Vitec Group

Remuneration Report continued

Executive Pension Scheme and contributes 9% (increased from 7%) of his salary. That pension scheme is a defined benefit scheme, the accrual rate for which is one fortieth of his pensionable salary for each year of pensionable service. Mr Hewgill is eligible for a performance-related bonus, based on Company performance and, if or when determined by the Remuneration Committee, individual performance, of up to 100% of annual salary each year.

In respect of 2004 all of his bonus was calculated upon the Group's financial performance. Mr Hewgill received a bonus of £81,000 in respect of 2004 and £31,000 for his 2003 bonus.

During the year the highest paid director was Gareth Rhys Williams who received £435,648 (2003: £359,033).

Details of the directors' emoluments and compensation for 2004 with comparatives for 2003 are set out in the table below:

Director's name	Salaries and fees 2004 £	Salaries and fees 2003 £	Benefits 2004 £	Benefits 2003 £	Performance related annual bonus 2004 £	Performance related annual bonus 2003 £	Pension related remuneration 2004 £	Pension related remuneration 2003 £	Total 2004 £	Total 2003 £
Chairman										
Michael Harper	**25,644**	-	-	-	-	-	-	-	**25,644**	-
Alison Carnwath	**69,583**	78,000	**343**	428	-	-	-	-	**69,926**	78,428
Executive Directors										
Gareth Rhys Williams	**267,800**	260,000	**20,685**	21,198	**120,510**	52,000	**26,653**	25,835	**435,648**	359,033
Alastair Hewgill	**180,000**	155,000	**11,412**	11,068	**81,000**	31,000	-	-	**272,412**	197,068
Non-executive Directors										
David Bell	**28,750**	27,500	-	-	-	-	-	-	**28,750**	27,500
Nigel Moore	**23,750**	-	-	-	-	-	-	-	**23,750**	-
John Potter	**27,500**	27,500	-	-	-	-	-	-	**27,500**	27,500
Will Wyatt	**28,250**	25,000	-	-	-	-	-	-	**28,250**	25,000
	651,277	573,000	**32,440**	32,694	**201,510**	83,000	**26,653**	25,835	**911,880**	714,529

Notes
1. The principal benefits are a company car, fuel, medical insurance and life assurance. In respect of Gareth Rhys Williams only, a cash payment of £1,200 per month in lieu of a company car and a contribution of £400 per month to a permanent health arrangement are included in the figures shown for benefits.
2. Gareth Rhys Williams receives a pension-related bonus calculated at 16% of his annual salary in excess of the pensions earnings cap.
3. Michael Harper's remuneration for 2004 was for the period 14 June 2004, the date of his appointment as a director, to 31 December 2004.
4. Alison Carnwath's remuneration for 2004 was for the period 1 January 2004 to 30 December 2004, the date of her resignation as a director.
5. Nigel Moore's remuneration for 2004 was for the period 1 March 2004, the date of his appointment as a director, to 31 December 2004.

Directors' share options	Date of grant	At 1 January 2004 (shares)	Options exercised or lapsed during year (shares)	Options granted during year (shares)	At 31 December 2004 (shares)	Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
Gareth Rhys Williams									
Executive share options									
1996 Unapproved	Sep 2002	142,857	-	-	142,857	350	-	Sep 2005	Sep 2012
SAYE options	Nov 2002	2,451	-	-	2,451	268	-	Jan 2008	Jun 2008
	May 2003	4,266	-	-	4,266	231	-	Jul 2008	Dec 2008
Alastair Hewgill									
SAYE options	May 2003	7,110	-	-	7,110	231	-	Jul 2008	Dec 2008
		156,684	-	-	156,684				

Notes
1. In November 2001, a share price related cash bonus scheme was adopted under which an award equivalent to an option over 142,857 shares, at a price of £3.50 per share, was made to Gareth Rhys Williams. This was replaced on 19 September 2002 by an equivalent option over 142,857 shares at the same exercise price of £3.50 per share under the Rules of the (1996) Unapproved Executive Share Option Scheme, the Scheme used as the comparable for the cash bonus scheme. The total number of shares comprising the award were purchased in the market in September 2002. These shares are being held in trust by Mourant & Co Trustees Limited. There is a transitional arrangement for the cash bonus scheme to run in tandem with the share option. If, and to the extent that, the cash bonus is not triggered by Mr Rhys Williams prior to the first occasion upon which he becomes entitled to exercise the share option granted on 19 September 2002, the cash bonus scheme will lapse and will be replaced by the share option.
2. Non-executive directors are not eligible to participate in the Company's share option or share incentive schemes and consequently they do not hold any share options or other share incentives.
3. The total gain on the exercise of options by the directors during 2004 was nil (2003: Nil) as no options were exercised.
4. The share price at the end of the year and the highest and lowest prices during the year are shown on page 72.

Directors' long term incentives

Awards under the Long Term Incentive Plan	Date of award	Market price of a share at the date of award (pence)	Awards at 1 January 2004 (shares)	Awards exercised or lapsed during the year (shares)	Awards made during the year (shares)	At 31 December 2004 (shares)
Gareth Rhys Williams	Mar 2002	442.5	28,248	-	-	28,248
	Mar 2003	257.5	50,485	-	-	50,485
	Mar 2004	357.5	-	-	37,455	37,455
Alastair Hewgill	Sep 2002	342.5	21,898	-	-	21,898
	Mar 2003	257.5	30,097	-	-	30,097
	Mar 2004	357.5	-	-	25,175	25,175

Remuneration Report continued

Awards under the Deferred Bonus Plan	Date of award	Market price of a share at the date of award (pence)	Awards at 1 January 2004 (shares)	Awards exercised or lapsed during the year (shares)	Awards made during the year (shares)	At 31 December 2004 (shares)
Gareth Rhys Williams	Jun 2003	345	7,705	-	-	7,705 Basic
	Jun 2003	345	13,755	-	-	13,755 Matching
Alastair Hewgill	Jun 2003	345	1,651	-	-	1,651 Basic
	Jun 2003	345	2,947	-	-	2,947 Matching

Pensions related remuneration

	Accrued pension at 31 December		Increase in accrued pension (in excess of price inflation) during		Member contributions towards pension		Transfer value of the increase in accrued pension net of member contributions		Transfer value of accrued pension at 31 December		Increase in transfer value over year to 31 December net of member contributions
	2004 £	2003 £	2004 £	2003 £	2004 £	2003 £	2004 £	2003 £	2004 £	2003 £	2004 £
Gareth Rhys Williams	7,863	5,156	2,563	2,478	7,088	6,899	13,655	9,058	61,248	33,874	20,466
Alastair Hewgill	8,783	5,225	3,412	3,303	12,163	10,763	28,508	20,458	102,215	50,321	39,731

Beyond the earnings cap, the cost of pensions comprised defined contribution payments to a funded unapproved retirement benefit scheme (FURBS) in respect of Gareth Rhys Williams of £39,972 (2003: £38,748).

Approved by the Board of Directors on 7 March 2005 and signed on its behalf by:

Roland Peate
Secretary

Corporate Social Responsibility Report

The Group published its first detailed Corporate Social Responsibility Report in 2002 although it had been including an environmental policy statement in its annual report for some years. During 2004 the Group has further developed its social responsibility awareness and internal reporting of statistics. We plan to continue development, and the inclusion of an environmental report, in the future.

The Group has for many years taken a caring and considerate approach to social, environmental and ethical matters throughout its operations worldwide and this has continued, and will continue, into the future. The Group regards compliance with all relevant laws and guidelines as important and socially responsible. During the year a number of enhancements were made to the Group's website to ensure compliance with Part III of the Disability Discrimination Act 1995, which covers access to goods and services. For full details of the enhancements, please see the Accessibility Statement on the website (http://www.vitecgroup.com/accessibility.aspx).

The Group's current system of risk management and control, which includes social responsibility matters, is led by the heads of each of the Group's operations. Those people are responsible at local level for complying with the relevant environmental regulations in all the geographical areas in which they operate. They report to the Board on such issues through the Group's Finance Director, who has ultimate responsibility for such matters, as part of the Group's system of internal control and risk management reporting.

Overall the Group continues to believe that it has limited environmental impact. However, we recognise that we continue to have a responsibility to understand the impact that our activities have at local, national and global level. These have been monitored and assessed locally and solutions have been implemented as appropriate according to best practice, local legal and other requirements. Over the last few years we have developed and implemented a more consistent approach to adopt sound policies throughout all our operations. As part of the implementation programme, we have put in place more formal systems and procedures for identifying, measuring, reviewing and reporting on social, environmental and ethical matters. Group policies are in place in the key areas of employment, environment, human rights, community impact and involvement and relationships with suppliers, customers and other stakeholders. These policies have been implemented at the centre and within each operating entity. Specific responsibility for such matters has been assigned to designated employees. Reviews by local management take place at each Group location and reports are made of the major risks in these areas. These reports identify risks, the current measures being taken to control them and the steps being taken to eradicate or minimise their effect in the future. The compilation of statistics commenced in 2002 and they are being used for reporting purposes and to monitor improvements.

1. Employment

Policy
To comply with all relevant legislation and codes of practice relating to employment, health and safety and equal opportunities. To provide good quality working environments and facilities for employees and training and development appropriate to each of their roles; not to discriminate in any way; to take a flexible approach towards family responsibilities to assist them in establishing an appropriate work/life balance; to provide a competitive range of quality employee benefits. To keep the workforce informed of major events and developments within the Group.

Actions
Employment policies throughout the Group already reflect the policy set out above.

We continue to recognise the importance of involvement, motivation, training and development of our employees at all levels. The importance of good communication and working relationships is actively encouraged. During 2004 the Group's website was significantly enhanced by the inclusion of a microsite containing the annual report. It also provides a gallery containing photographs of Group products. Other enhancements to the website are also currently being considered. The aim is to help investors, potential investors and employees alike to better understand the Group and view the wide variety of products available from Group companies.

Our policy is to keep employees informed on matters relating to their employment and on financial and economic factors affecting the Group through management briefings, via the Group's website and by internal distribution of press releases and internal announcements. This enables our employees to gain a better understanding of our business objectives and their roles in achieving them. Building and developing the skills, competencies, motivation and teamwork of our people is key to achieving our business objectives and to ensuring best practices throughout the Group.

The Executive Board, the other senior executives of the Group, the Chief Executive and the Finance Director, meet on a regular basis. In addition, the managements of the operating units employ a wide variety of consultation and briefing methods, including conferences, joint committees, specific project teams and briefing groups.

The Group operates in many countries and our employment policies, which are designed to meet local conditions and requirements, are established on the basis of the best practices in each country in which we operate. The Group's wide geographical spread provides some opportunities for employees to work either short term or on secondment for longer periods of time at the Group's various locations.

Corporate Social Responsibility Report continued

Encouragement is given to all employees both in the UK and overseas to participate in the Group's savings related share option schemes under which options over the Company's shares are granted to employees who enter into contracts to save agreed amounts each month. Invitations under the UK and the International schemes have been made each year since the schemes were first introduced in 1984.

Ability and aptitude are the determining factors in the selection, training, career development and promotion of all employees. We understand our responsibility as employers under the Disability Discrimination Act 1995 and we do not discriminate against disabled people. If an employee is, or becomes, disabled during his or her period of employment, we will, if necessary and to the extent possible, adapt the work environment to enable the employee to continue in his or her current position or retrain the employee for duties suited to that employee's abilities following disablement. It continues to be the Group's policy to consider applications for employment from disabled people on the same basis as other potential employees.

Health and safety
Health and safety training is part of the induction process for new employees. Specific training is given, where relevant, for forklift truck, crane and hoist operation and bottle gas usage as well as fire safety and first aid training.

Risk assessments were introduced during 2003 in various parts of the Group and these have now been phased into the other parts of the Group. Assessments are carried out on a regular basis and also when new equipment or machinery is acquired or new processes are introduced.

During 2003 the recording and reporting of accidents and related lost time statistics became more formalised and now forms the basis of regular reporting to the Executive Board. In 2004 the gathering and reporting of accident statistics was further refined and continues to be reported to, and monitored by, the Executive Board.

Workplace injuries and fatalities in 2004

Rate of non-fatal over 3-day workplace injuries (Notes 1 and 2)	1,335*
Rate of fatal workplace injuries (Note 2)	nil

*The rate in 2003 was 1,333. The rate for 2004 includes the statistics in respect of the two acquisitions in the year.

Notes
1. Over 3-day workplace injury means an injury at work leading to an absence from work of more than 3 days.
2. The above rates are expressed per 100,000 employees per year, in line with the normal reporting standard by the Health & Safety Executive.

2. Environment

Policy
To promote and improve throughout the Group the benefits of efficient usage of energy and water.

Actions
Recycling processes have been in use in the Group for many years. Recycled materials and those that minimise negative environmental impacts are used wherever possible. A steadily increasing proportion of the packaging, paper, toner cartridges and cartons used by the Group's operations is recycled after use and in many cases biodegradable packaging is used.

It is in the interests of the environment and in the financial interests of the Group to make the most efficient and responsible use of energy. The practice of responsible resource and energy management through reduced consumption and the encouragement of energy and water efficiency is widespread throughout the Group's operations world-wide.

Developments during 2004 include:
Vinten continues to refine and develop its Environmental Management System, taking into account appropriate best practices. Vinten strives to improve consumption of materials in all operations and to reduce, rather than have to dispose of, waste wherever possible and to promote recycling and the use of recycled materials. Vinten works in partnership with its suppliers to minimise the impact of operations through a quality purchasing policy and recycling through suppliers. They also use a recycling system that covers paper, cans and plastic cups and have an on-going water-efficiency programme.

Vinten has changed the protective finish on fasteners and screws from zinc plate to an organic protective finish. Soldering fume extraction has been improved in robotics assembly areas and trials in the use of lead free solder have been successfully completed. Waste paper recycling has been extended to the whole of the Bury St Edmunds, Suffolk site and printer cartridges are also recycled. The viewing windows on machine tools have been replaced to comply with imminent safety regulations. Vinten has also implemented a system of controlled disposal of used electrical equipment.

In 2005 Vinten intends to maximise recycling opportunities via an agreement with an external supplier who will manage all waste disposal at the Bury St Edmunds site. A documented, and audited, Broadcast Camera Support 'Environmental Management System' will be implemented at both the Bury St Edmunds and the Costa Rica manufacturing sites.

In 2003 Drake introduced the use of standard thickness packaging by switching from tri-wall to double-wall packing to reduce cardboard use. The use of bespoke packaging also reduced the use of bubble wrap and polystyrene chippings. Drake has now further reduced the use of bubble wrap and polystyrene chippings by increasing their use of bespoke packaging. Cardboard, paper and toner cartridges are each separately recycled. The building in Cambridge is generally more energy efficient than its previous premises.

During 2004, Drake and Vinten in the UK commenced the implementation of the EU Directives on Waste Electrical and Electronic Equipment (WEEE), which must be in place by the end of July 2005, and on the Restriction of Use of Certain Hazardous Substances (ROHS), which comes into effect on 1 July 2006. This has involved analysing in-house and third party supplied components to ensure they contain increased use of lead-free solder with the aim of phasing out, as quickly as possible, the use of lead in solder and other components. Clear-Com in the USA, although not covered by EU legislation, is taking the same responsible approach to waste electrical and electronic equipment and to restricting its use of certain hazardous substances such as solder containing lead. Cardboard and toner cartridges are also recycled by Clear-Com.

A cardboard only skip has been installed for cardboard recycling. Paper is recycled separately to cardboard. Toner cartridges are recycled either by The Roy Castle Lung Cancer Foundation, a charity wholly dedicated to defeating lung cancer, or through local vendors. Further improvements necessary to comply with WEEE and ROHS are planned for 2005. There is a continued reduction by Vitec Group Communications in the use of bubble wrap and polystyrene chippings facilitated by the increased use of bespoke packaging.

Anton/Bauer, Inc. continues to be an active member of the battery recycling scheme in conjunction with the Rechargeable Battery Recycling Corporation (RBRC). Anton/Bauer pays licensing fees to the RBRC, a non-profit public service organization created to promote the recycling of portable batteries, and places the RBRC seal on its products. In 2004 Anton/Bauer forwarded more than 35,000 pounds in weight of nickel cadmium, lithium ion and nickel metal hydride batteries returned to the company for recycling. Anton/Bauer also is a member of the PRBA (Portable Recharging Battery Association) whose mission is to provide leadership in obtaining consistent domestic and international solutions to environmental and other selected issues affecting the use, recycling and disposal of small sealed rechargeable batteries.

OConnor continues to recycle the remnant ink from its printers and photocopier, use energy saving light bulbs, use electronic timers for heating and air conditioning units, and to recycle all of its machine cutting chips and scrap metal. OConnor's hazardous waste materials and liquids are collected by a waste management company for disposal. Deburr particles are separated from process liquid by a cyclonic separator and properly disposed of; the liquid is then reused. All of OConnor's product packaging is made of recycled materials.

At the manufacturing operation in Costa Rica we now use a high proportion of bio-degradable packaging and have reduced the use of cardboard.

Energy usage in 2004	Electricity usage (in kilowatt hours)	Gas usage (in kilowatt hours)	Water usage (in cubic metres)
	8,344,586	6,587,924	39,982

Compared to 2003, the figures show an increase in the use of electricity, gas and water. This is due to three factors; one, as a result of increased activity levels by the Group, two, the improved gathering process referred to earlier, particularly in respect of overseas operating units, and three, the inclusion of the energy consumed by the two businesses acquired in the year.

3. Human rights

Policy
To comply with the laws and customs of each country in which we operate. Not to use child labour. Not to discriminate in any way and to give equal opportunities to all workers.

Actions
The above policy has been part of the Group's approach for many years. The Group's operating companies are required to include it as part of their employee policies and to comply.

Corporate Social Responsibility Report continued

4. Community impact and involvement

Policy
To contribute to local worthwhile causes and charities and to ensure that the Group's operations cause minimal negative impact within the community.

Actions
For many years the Group has contributed to worthwhile causes. Donations are usually, and have been in the past, made primarily to children's, cancer, police, fire brigade, drug rehabilitation and other similar charities. The Group's charity committee reviews all written requests for donations and decides on the level of donation and the charities to which donations are made whilst taking into account its limited resources.

During 2004 donations were made to 22 charities. The amount donated by the charity committee, from the Company's Charities Aid Foundation account, totalled £3,700 (2003: £7,000). In addition, the Company took part in the Christmas Carol Concert at St Paul's Cathedral held every two years in support of Cancer Research UK for which the donation, including the advertisement in the souvenir programme, totalled £4,000. Like all companies, the Group has limited resources and the amount of money available for charitable purposes varies from time to time.

5. Relationships with suppliers, customers and other stakeholders

Policy
The Group recognises the obligations it has towards the parties with whom it has business and other dealings such as its customers, shareholders, employees, suppliers and advisers. Dealings with those groups of people depend upon the honesty, integrity and enthusiasm of its employees and every effort is made to ensure that a high standard of expertise and business principles is maintained in such dealings. Where appropriate, training is given to maintain and to raise the standards.

Actions
As stated in the Directors' Report, the Group's policy with suppliers is that individual subsidiary companies are responsible for negotiating terms and conditions under which suppliers operate. Once agreed, payments to suppliers are made in accordance with those terms and conditions, subject always to the supplier having complied with them. That policy has been in place for a number of years and will continue for the financial year ending 31 December 2005. We continue to review and take action where appropriate to ensure the reliable and consistent sources of quality materials from which our products are made.

In all our dealings, honesty and integrity continue to be paramount. The Group's brands are a highly valuable asset and every effort is made to enhance their reputation for high quality, service and reliability. In 2005 we will have a common approach to auditing ethical trading standards with suppliers.

The Listing Rules require a company to include in its annual report and accounts a statement of how it has applied the main and supporting principles set out in the Code of Best Practice (the "Code") The Listing Rules also require a company to include a statement as to whether or not it has complied throughout the accounting period with the Code provisions. A company that has not complied with the Code provisions, or complied with only some of the Code provisions or (in the case of provisions whose requirements are of a continuing nature) complied for only part of an accounting period, must specify the Code provisions with which it has not complied, and (where relevant) for what part of the period such non-compliance continued, and give reasons for such non-compliance.

Statement of compliance

The Board considers that it has complied with the Code throughout the year ended 31 December 2004. The Company regularly reviews and revises its procedures, as necessary, to take account of the requirements of the Code.

The Board

The Board met six times during the year and there is a formal schedule of matters and levels of authority which are delegated to the executive directors, all other matters and powers being reserved to the Board or to its Committees.

Throughout the year the Board comprised two executive directors and four, and at certain times of the year five, non-executive directors. All the non-executive directors are considered to be independent. Gareth Rhys Williams was a director and the Chief Executive throughout the year. Alastair Hewgill was the Finance Director throughout the year. During 2004 all the directors attended all the Board meetings except for Alison Carnwath who was unable to attend the December Board meeting.

The directors bring independent character and judgement to bear on strategic matters, the performance of the Group, the adequacy of resources and standards of conduct. The roles of the Chairman (who is non-executive) and of the Chief Executive are separate and they each have a clear written division of responsibilities approved by the Board. David Bell is the Senior Independent Director. Outside of Board meetings, the non-executive directors maintain regular contact with each other by telephone and usually meet prior to Board meetings. The same pattern of contact between Board meetings is planned to continue throughout 2005.

Directors, having notified the Chairman, are able to take independent professional advice at the Company's expense in furtherance of their duties. All new directors are given an extensive introduction to the Group, including meeting with senior executives and visiting the Group's principal operations both in the UK and overseas. All directors have access to the advice and services of the Group Company Secretary.

The papers supplied for consideration by the Board are provided on a timely basis and include budgets, strategy papers, reviews of the Group's financial position and operating performance and annual and interim reports and accounts. Further information is supplied from time to time as and when requested by the Board.

The Board has an Audit Committee, a Remuneration Committee and a Nominations Committee. Each Committee has formal terms of reference which are available by request from the Company Secretary or can be viewed on the Company's website.

The terms of reference and the effectiveness of the Board and of each Committee are regularly reviewed and changes made where necessary. During 2004, the points raised by the members of each Committee were summarised and tabled at a Board meeting at which they were discussed and an action plan agreed.

Individual director performance evaluation has also taken place. In the case of the executive directors this evaluation takes place regularly throughout the year against achievement of specific objectives. Evaluation of the Chairman was carried out by the Senior Independent Director in 2003. Alison Carnwath stepped down as Chairman at the end of October 2004. Michael Harper, the new Chairman, had just two months in the role by the end of the year and, therefore, only a brief evaluation of the Chairman was carried out by the Senior Independent Director at the end of 2004. Evaluation of each of the other non-executive directors was carried out by the Chairman prior to her stepping down at the end of October 2004. Each evaluation has been carried out by using written questionnaires and has been discussed individually with each of the relevant non-executive directors. Similar evaluations will take place each year in the future.

Audit Committee

The Committee is chaired by Nigel Moore. The other members of the Committee are David Bell, Michael Harper, John Potter and Will Wyatt. Each member of the Committee is required to be, and is, independent. The Company's external auditors are invited to attend meetings of the Committee on a regular basis. During 2004 the Committee met three times. At two of those meetings the executive directors were not present for part of the meeting so that members of the Committee could meet with the auditors. The practice of the Committee meeting alone with the auditors will continue in the future.

Duties of the Committee:

Financial Reporting

Monitoring the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.

Reviewing the annual financial statements of the pension funds where not reviewed by the Board as a whole.

Corporate Governance continued

Internal Controls and Risk Management Systems
Keeping under review the effectiveness of the Company's internal controls and risk management systems; and reviewing and approving the statements to be included in the annual report concerning internal controls and risk management.

Whistleblowing
Reviewing the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee ensures that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

Internal Audit
The Company does not have an internal audit function. However, the need for such a function is regularly reviewed and considered by the Committee. (Refer to the final paragraph of Internal Control and Risk Management).

External Audit
Considering and making recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditors. The Committee oversees the selection process for new auditors and, if the auditors resign, the Committee is required to investigate the issues leading to this and decide whether any action is required.

Overseeing the relationship with the external auditors including, but not limited to:

- approving its remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
- approving its terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- assessing annually its independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non audit services;
- satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditors and the Company (other than in the ordinary course of business);
- agreeing with the Board a policy on the employment of former employees of the Company's auditors, then monitoring the implementation of this policy;
- monitoring the auditors' compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- assessing annually its qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures;
- meeting regularly with the external auditors, including at the planning stage before the audit and after the audit at the reporting stage. The Committee meets the external auditors at least once a year, without executive directors being present, to discuss their remit and any issues arising from the audit;
- reviewing and approving the annual audit plan and ensuring that it is consistent with the scope of the audit engagement;
- reviewing the findings of the audit with the external auditors. This includes but is not limited to the following;
  - a discussion of any major issues that arose during the audit,
  - any accounting and audit judgements, and
  - levels of errors identified during the audit.
- reviewing the effectiveness of the audit and reviewing any representation letter requested by the external auditors before it is signed by management;
- reviewing the management letter and management's response to the auditors' findings and recommendations;
- developing and implementing a policy on the supply of non audit services by the external auditors, taking into account any relevant ethical guidance on the matter.

Reporting Responsibilities

- The Committee Chairman reports to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- The Committee makes whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Other Matters
The Committee has access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;

The Committee members are provided with training as and when required, both in the form of an induction programme for new members and on an ongoing basis for all members;

The Committee may oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and

At least once a year, reviewing its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommending any changes it considers necessary to the Board for approval.

Authority
The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties and to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference. It is also authorised to call any employee to be questioned at a meeting of the Committee as and when required.

Remuneration Committee

The Committee is chaired by David Bell. The other members of the Committee are Michael Harper, Nigel Moore, John Potter and Will Wyatt. Each member of the Committee is independent. During 2004, the Committee met four times.

Duties of the Committee:

- determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chairman, the executive directors, the Company Secretary and such other members of the executive management as it is designated to consider. No director or manager may be involved in any decisions as to their own remuneration;
- in determining such policy, taking into account all factors which it deems necessary. The objective of such policy is to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;
- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- approving the design of, and determining targets for, any performance related pay schemes operated by the Company and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determining each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used;
- determining the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- ensuring that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive as appropriate, determining the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments and share options or other share awards;
- in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the Code and the UK Listing Authority's Listing Rules and associated guidance;
- reviewing and noting annually the remuneration trends across the Company or Group;
- overseeing any major changes in employee benefits structures throughout the Company or Group;
- agreeing the policy for authorising claims for expenses from the Chief Executive and Chairman;
- ensuring that all provisions regarding disclosure of remuneration including pensions, as set out in the Directors' Remuneration Report Regulations 2002 and the Code are fulfilled; and
- be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee: and to obtain reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys that it deems necessary to help it fulfil its obligations.

Reporting Responsibilities

- The Committee Chairman reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- The Committee makes whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Other Responsibilities

- The Committee, at least once a year, reviews its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommends any changes it considers necessary to the Board for approval.

Authority

The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties. The Committee is also authorised by the Board, in connection with the Committee's duties, to obtain, at the Company's expense, any outside legal or other professional advice.

Nominations Committee

The Committee is chaired by Will Wyatt. The other members of the Committee are David Bell, Michael Harper, Nigel Moore and John Potter. The Committee is delegated authority by the Board to deal with succession planning and making recommendations to the Board on all new Board appointments. During 2004, the Committee met formally on one occasion but also met by conference telephone and with the executive directors in attendance on a number of occasions to consider and discuss the process and progress on the appointments of Mr Harper and Mr Moore as non-executive directors.

Corporate Governance continued

Duties of the Committee:

- regularly reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board in the future compared to its current position and making recommendations to the Board with regard to any changes;
- giving full consideration to succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the company, and the skills and expertise needed on the Board in the future;
- being responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise;
- before appointment is made by the Board, evaluating the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation preparing a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee:
  - uses open advertising or the services of external advisers to facilitate the search;
  - considers candidates from a wide range of backgrounds; and
  - considers candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position;
- keeping under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continuing ability of the Company to compete effectively in the marketplace;
- keeping up to date and fully informed about strategic issues and commercial changes affecting the company and the market in which it operates;
- reviewing annually the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties; and
- ensuring that on appointment to the Board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

The Committee also makes recommendations to the Board concerning:

- formulating plans for succession for both executive and non-executive directors and in particular for the key roles of Chairman and Chief Executive;
- suitable candidates for the role of Senior Independent Director;
- membership of the Audit and of the Remuneration Committees, in consultation with the Chairmen of those Committees;
- the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- the continuation (or not) in service of any director who has reached the age of 70;
- the re-election by shareholders of any director under the 'retirement by rotation' provisions in the Company's articles of association having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- any matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Company subject to the provisions of the law and their service contract; and
- the appointment of any director to executive or other office other than to the positions of Chairman and Chief Executive, the recommendation for which would be considered at a meeting of the full Board.

Reporting Responsibilities

- The Committee Chairman reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- The Committee makes whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Other Responsibilities

The Committee, at least once a year, reviews its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommends any changes it considers necessary to the Board for approval.

Authority

The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties. The Committee is also authorised by the Board, in connection with the Committee's duties, to obtain, at the Company's expense, any outside legal or other professional advice.

Appointments and re-elections to the Board

The Chairman and the other non-executive directors are appointed for an initial period of three years which, with the approval of the Nominations Committee and the Board, would normally be extended for a further three years. In exceptional circumstances, appointments of non-executive directors may be extended beyond six years, with the approval of the Nominations Committee, the Board and the individual director concerned, if it is in the interests of the Group to do so.

Under the Company's Articles of Association, each director is required to be re-elected at the third Annual General Meeting following that at which he or she was last elected or re-elected. John Potter and Gareth Rhys Williams will retire and will be proposed for re-election at the 2005 Annual General Meeting.

Two new non-executive directors were appointed during the year, Nigel Moore, on 1 March 2004 and Michael Harper on 14 June 2004. Mr Moore was appointed as a member of the Audit Committee and he took over the chairmanship of that Committee on 31 August 2004. Mr Harper took over as Chairman when Alison Carnwath stepped down at the end of October 2004. Mr Moore's appointment was approved by shareholders at the 2004 Annual General Meeting. Mr Harper will be proposed for election at the 2005 Annual General Meeting.

Mr Potter has now completed six years service as a non-executive director. He has significant business experience and detailed knowledge of the Group and has been asked, and has agreed, to continue in his current role for a further period. At the appropriate time, the Nominations Committee will undertake a search for his successor.

Relations with Shareholders

The Board recognises the importance of maintaining regular contact with its shareholders to ensure that its businesses, strategy and remuneration policies are understood and that any concerns are addressed in a constructive way. The Board communicates with its shareholders through a combination of public announcements through the Stock Exchange, analyst briefings and press interviews at the time of the announcements of the interim and the full year results and, when appropriate, at other times in the year. The executive directors and the Chairman also meet with investors from time to time during the year. The annual general meeting offers a further opportunity for the directors to meet with shareholders.

At meetings of shareholders, the level of proxy votes received, together with the numbers of votes in favour, against and withheld, is announced after each resolution has been dealt with on a show of hands. Separate resolutions are proposed for each issue upon which shareholders are asked to vote. The Group's website is being expanded to contain details of the resolutions and the voting thereon.

The Company has complied with the requirement set out in the Code in respect of shareholders' meetings to send the notice of annual general meeting and related papers at least 20 working days before the meeting. It will continue to comply with the requirement.

Internal control and risk management

The Board is responsible for the Group's system of internal control to safeguard shareholders' investment and the Company's assets. As part of its responsibility, the Board regularly, and at least annually, reviews the effectiveness of its internal controls. The Group has systems and procedures for internal control that are designed to provide reasonable control over the activities of the Group and to enable the Board to fulfil its legal responsibility for the keeping of proper accounting records, safeguarding the assets of the Group and detecting fraud and other irregularities. However, it is recognised that it is in the nature of any business that business and commercial risks must be taken and that for a business to succeed, enterprise, initiative and the motivation of employees are key elements that must not be unduly stifled. It is not the intention of the Group to avoid all commercial risks and commercial judgements will have to be made in the course of the management of the business.

The Board has adopted a risk-based approach to establishing the system of internal control. The application, and the process, followed by the Board in reviewing the effectiveness of the system of internal control during the year are as follows:

- operating company management is charged with the ongoing responsibility for identifying risks facing each of the businesses and for putting in place procedures to monitor and manage risks.
- the responsibilities of the chief executive officer and chief financial officer at each operating unit to manage risks within their businesses are periodically reinforced by Group executive management.
- major commercial, technological and financial risks to the Group are formally assessed during the annual long-term business planning process around mid-year. These plans and the attendant risks to the Group are reviewed and considered by the Board.
- large capital projects, product development projects and acquisitions and disposals require Board approval.
- the process by which the Board reviews the effectiveness of internal control has been agreed by the Board and documented. This involves regular reviews by the Board, of the major business risks of the Group together with the controls in place to manage those risks as reported to the Board by the chief executives of each division. In addition, each year businesses formally review, in detail, all of their business risks and their internal controls, including finance, cash, IT, sales, purchasing and logistics. They then prepare statements that describe the extent of their compliance with control objectives. These statements are approved by the chief executive officer and chief financial officer of each operating unit and submitted to Group executive management for review. Any significant matters arising from this review are formally reported to the Board by the Finance Director. The risk and control identification and certification process is monitored and periodically reviewed by Group financial management.

Corporate Governance continued

- A centralised database of risks facing the Group, as well as each individual business, and an evaluation of the impact and likelihood of those risks is maintained and updated regularly.
- The Board has established a control framework within which the Group operates. This contains the following key elements:
  - organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements.
  - defined expenditure authorisation levels.
  - on-site and telephone conferencing operations reviews covering all aspects of each business are conducted by Group executive management on a regular basis throughout the year.
  - comprehensive system of financial reporting. The annual budget and long term plan of each operating company are reviewed in detail and approved by the executive directors. The Board approves the overall Group's budget and plans. Monthly actual results are reported against prior year and monthly budgets. Forecasts are revised where necessary but formally at least once every quarter. Any significant changes and adverse variances are questioned by the Group executive directors and remedial action is taken where appropriate. Group tax and treasury is co-ordinated centrally. There is weekly cash and treasury reporting to Group financial management and periodic reporting to the Board on the Group's tax and treasury position.

The Board considers that it has fully complied with the Code during the year and up to the date of approval of the annual report and accounts and that it accords with Turnbull guidance.

The Group does not have an internal audit function. However, the need for such a function is regularly reviewed. The current conclusion of the Board is that an internal audit function is not required given the scale, diversity and complexity of the Group's activities. Where required, third party audit consultants, independent from the companies' external auditors, are used on specific assignments. The Company believes it can access professional internal audit support in the relevant country more effectively than by having an internal department. Three such outsourced audits took place in 2004.

Going concern
The directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the accounts.

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the members of The Vitec Group plc

We have audited the financial statements on pages 40 to 70. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 38, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on pages 33 to 38 reflects the company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
7 March 2005

Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Notes	Before exceptional items, goodwill amortisation & impairment £m	Exceptional items £m	Goodwill amortisation & impairment £m	2004 Total £m	2003 Total £m
Turnover	3					
Existing operations		180.1			180.1	170.4
Acquisitions		5.3			5.3	-
Continuing operations		185.4			185.4	170.4
Discontinued operation		-			-	22.4
		185.4			**185.4**	**192.8**
Cost of sales	4	(108.9)			(108.9)	(111.4)
Gross profit		**76.5**			**76.5**	**81.4**
Net operating expenses	4/5	(58.7)	(2.1)	(1.8)	(62.6)	(68.9) [1]
Operating profit	3/6					
Existing operations		17.1	(2.1)	(1.8)	13.2	12.5
Acquisitions		0.7			0.7	-
Continuing operations		**17.8**	**(2.1)**	**(1.8)**	**13.9**	**12.5**
Loss on disposal of discontinued operation					-	(3.0)
Profit on ordinary activities before interest		**17.8**	**(2.1)**	**(1.8)**	**13.9**	**9.5**
Net interest payable	23	(1.6)			(1.6)	(1.7)
Profit on ordinary activities before tax		16.2	(2.1)	(1.8)	12.3	7.8
Tax on profit on ordinary activities	9	(6.8)	0.9		(5.9)	(2.3) [2]
Profit on ordinary activities after tax and for the financial year		9.4	(1.2)	(1.8)	6.4	5.5
Dividends	10				(6.1)	(9.3)
Retained profit/(loss) for the year transferred to reserves	22				0.3	(3.8)
Basic earnings per share	11				15.6p	13.6p
Diluted earnings per share	11				15.5p	13.5p
Adjusted basic earnings per share [3]	11				22.9p	23.9p

[1] Net operating expenses in the year ended 31 December 2003 included £1.0 million of exceptional restructuring costs relating to the closure of Radamec Broadcast Systems' manufacturing facility at Chertsey, UK, £0.9 million of exceptional costs relating to the unsuccessful acquisition of EVS Broadcast Systems, and £3.4 million of goodwill amortisation & impairment. No related tax credit was recognised on these costs.

[2] Includes a tax credit of £4.1 million in respect of the loss on sale of discontinued operation.

[3] Adjusted basic earnings per share is presented as the Directors consider that this gives valuable additional information about the ongoing earnings performance of the Group.

There is no material difference between the Group's profit and loss account and the historical cost profit and loss account. Accordingly, no note of the historical cost profit and loss for the period has been presented.

Balance Sheets

As at 31 December 2004

	Notes	Group 2004 £m	Group Restated [1] 2003 £m	Company 2004 £m	Company Restated [1] 2003 £m
Fixed assets					
Intangible assets	12	8.2	10.1	-	-
Tangible assets	13	33.9	34.5	1.9	2.0
Investments	14	-	-	206.5	154.7
		42.1	44.6	208.4	156.7
Current assets					
Stocks	15	32.6	33.2	-	-
Debtors	16	38.5	42.2	3.2	2.8
Cash at bank and in hand	23	14.4	15.6	17.5	4.0
		85.5	91.0	20.7	6.8
Creditors - due within one year	17	(59.4)	(37.3)	(148.8)	(52.6)
Net current assets/(liabilities)		26.1	53.7	(128.1)	(45.8)
Total assets less current liabilities		68.2	98.3	80.3	110.9
Creditors - due after more than one year	17	(0.1)	(26.1)	-	(26.0)
Provisions for liabilities and charges	19	(11.4)	(12.4)	(0.1)	(0.1)
Net assets		56.7	59.8	80.2	84.8
Capital and reserves					
Called up share capital	21	8.2	8.2	8.2	8.2
Share premium account	22	2.7	2.6	2.7	2.6
Capital redemption reserve	22	1.6	1.6	1.6	1.6
Revaluation reserve	22	1.4	1.5	0.9	0.9
Other reserves	22	-	-	53.7	53.7
Profit and loss account	22	42.8	45.9	13.1	17.8
Shareholders' funds - equity		56.7	59.8	80.2	84.8

[1] Shareholders' funds have been restated to show the investment held in respect of grants under share option schemes as a deduction (see Note 1).

Approved by the Board on 7 March 2005 and signed on its behalf

Alastair Hewgill
Director

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2004

	2004 £m	2003 £m
Profit for the financial year	6.4	5.5
Exchange rate movements on foreign net investments	(3.5)	(0.9)
Total recognised gains and losses relating to the year	**2.9**	**4.6**
Prior year adjustment for ESOP accounting (see Note 1)	(0.5)	-
Total recognised gains and losses since last annual report	**2.4**	**4.6**

Reconciliation of Movements in Consolidated Shareholders' Funds

For the year ended 31 December 2004

	2004 £m	2003 £m
Profit for the financial year	6.4	5.5
Dividends	(6.1)	(9.3)
Retained profit/(loss) for the year	0.3	(3.8)
Exchange rate movements on foreign net investments	(3.5)	(0.9)
Goodwill previously written off included in profit for the financial year		2.1
New share capital subscribed	0.1	-
Net decrease in shareholders' funds	(3.1)	(2.6)
Opening shareholders' funds (originally £62.9 million before deducting prior year adjustment of £0.5 million - see Note 1)	59.8	62.4
Closing shareholders' funds	56.7	59.8

Consolidated Cashflow Statement

For the year ended 31 December 2004

	Notes	2004 £m	2003 £m
Net cash inflow from operating activities	6	22.5	28.7
Returns on investments and servicing of finance			
Interest received		0.1	0.2
Interest paid		(1.7)	(2.0)
Net cash outflow from returns on investments and servicing of finance		(1.6)	(1.8)
Tax Paid		(1.4)	(10.8)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(10.0)	(10.2)
Sale of tangible fixed assets		1.6	2.4
Net cash outflow from capital expenditure and financial investments		(8.4)	(7.8)
Acquisitions & disposals			
Purchase of subsidiary undertakings		(1.5)	(6.4)
Disposal of subsidiary undertakings		-	2.6
Net cash outflow from acquisitions and disposals		(1.5)	(3.8)
Equity dividends paid		(9.3)	(9.3)
Net cash inflow before financing		0.3	(4.8)
Financing			
Issue of shares		0.1	-
Repayment of loans		(1.6)	(1.9)
New unsecured loan (1)		-	5.4
Net cash (outflow)/inflow from financing		(1.5)	3.5
Decrease in cash in the year	23	(1.2)	(1.3)

(1) In 2003, new unsecured loans of £5.4 million were obtained by ALU srl prior to its sale and were transferred as part of the disposal of that business.

Notes to the Accounts

1 Basis of presentation

The consolidated profit and loss account and balance sheets include the accounts of the Company and its subsidiary undertakings made up to 31 December 2004. The accounts have been prepared in accordance with all applicable accounting standards under the historical cost convention modified to include the revaluation of certain land and buildings.

The Urgent Issues Task Force (UITF) Abstract 38 changes the presentation of an entity's own shares held in an Employee Share Ownership Plan (ESOP) Trust by requiring them to be deducted in arriving at the shareholders' funds instead of showing them as an asset. Accordingly, the prior periods' balance sheets have been restated to show shares held in respect of grants under share option schemes of £0.5 million as at 31 December 2004 and as at 31 December 2003 as a deduction from shareholders' funds instead of as a fixed asset investment.

2 Accounting policies

Basis of consolidation
The results of subsidiaries sold or acquired during the year are included in the accounts up to, or from, the date that control passes, unless otherwise stated.

For acquisitions made prior to 1 January 1998, the differences between the fair value of the consideration paid for investments in subsidiaries or businesses and the fair value of their net assets at the date of acquisition is treated as purchased goodwill and is written off directly against reserves.

For acquisitions made on or after 1 January 1998, purchased goodwill arising from the differences between the fair value of the consideration paid and the fair value of the net assets acquired as at the date of acquisition is capitalised in the balance sheet as an intangible asset. Positive goodwill is being charged to the profit and loss account through amortisation on a straight-line basis over its estimated useful life up to a maximum of 20 years. Negative goodwill is being recognised in the profit and loss account in the periods in which the non-monetary assets are recovered, through depreciation or sale.

Impairment tests are carried out on the purchased goodwill arising on acquisitions that occurred in the preceding year or when a triggering event occurs. Where necessary, provision is made for any impairment that has arisen.

Turnover
Turnover, which excludes value added tax and sales between Group companies, represents the value of products and services sold. Other than for long term contracts, the treatment of which is set out separately below, revenue arising from product sales is recognised when title passes to the customer.

Revenue arising from asset rental is recognised over the duration of the rental contract at the gross amount billed to the customer, where we act as the principal in the rental transaction.

Long term contracts
The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be forseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to the stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are forseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting forseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments received on account.

Foreign currencies
Transactions in foreign currencies with overseas customers and suppliers are converted at the average rates for the months in which transactions occur. Profits and losses arising from the difference between these rates and contracted rates on forward exchange contracts, which are set up as hedges against such sales and purchases, are recorded in cost of sales. Foreign trading profits and cash flows are translated at the average rates for the year. Monetary assets and liabilities are translated at the year-end rates and the gains or losses on translation are included in the profit and loss account. Differences on translation of investments in overseas companies are taken directly to reserves.

Research and development

Expenditure on the Group's research and development projects is generally charged to the profit and loss account in the year in which it is incurred. In certain specialised cases where a development project meets clearly defined criteria and the commercial outcome can be assessed with reasonable certainty, development expenditure is capitalised. Such capitalised expenditure is amortised over the life of the project.

Investments
Fixed asset investments are stated individually at cost less, where appropriate, provision for impairment in value. Current asset investments are stated at the lower of cost and net realisable value. Cost includes, where appropriate, accrued interest.

Fixed assets and depreciation
Depreciation is provided at rates estimated to write off the cost or valuation of the relevant assets less their estimated residual values by equal annual amounts over their expected useful lives. No depreciation is provided on freehold land. Other fixed assets are depreciated at the rates indicated below:

Freehold and long leasehold buildings	2½% – 5% on cost or valuation
Short leasehold property	over the remaining period of the lease
Plant and machinery	12½% – 25% on cost
Motor vehicles	25% – 33 ⅓% on cost
Equipment, fixtures & fittings	10% – 33 ⅓% on cost
IT development costs	20% on cost
Rental equipment	20% on cost

Fixed assets are stated at cost except that, as allowed FRS 15 'Tangible Fixed Assets', on adoption of that standard in the year ending 31 December 2000 when the book amounts of revalued land and buildings were retained. These book values are based on the previous revaluation on 31 March 1989 and have not been subsequently revalued.

Stock and work in progress
Stock and work in progress is valued at the lower of cost and net realisable value, less progress payments. Cost includes materials, direct labour and production overheads incurred in bringing stocks and work in progress to their present location and condition.

Capital instruments
Capital instruments are stated in the balance sheet after the deduction of issue costs, which are charged to the profit and loss account over the term of the debt.

Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Cash flows associated with derivative financial instruments are classified in the cash flow statement in a manner consistent with those of the transactions being hedged.

Deferred tax
The charge for taxation is based on the profit for the year and takes into account tax deferred because of timing differences between the treatment of certain items for tax and accounting purposes. Full provision for deferred tax is made, on an un-discounted basis, where there is an obligation to pay more tax, or a right to pay less tax, in the future. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Pension costs
The costs of providing pensions for employees under defined benefit pension schemes are charged to the profit and loss account over the working lives of the employees in accordance with the recommendations of qualified actuaries. Any funding surpluses or deficits that may arise are amortised over the average working life of the employees but surpluses may first be used to improve members' benefits. The costs of providing pensions for employees under state and other defined contribution schemes are expensed as incurred.

FRS 17 'Retirement Benefits'. This Standard replaces use of actuarial values for assets in a pension scheme in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the Standard requires that the profit and loss account shows the relatively stable ongoing service cost, interest cost and expected return on assets. Fluctuations in market values and changes in actuarial assumptions are reflected in the statement of total recognised gains and losses. The Group has continued to account for pensions and other post employment benefits in accordance with SSAP 24 but has complied with the transitional disclosure requirements of FRS 17.

Employee share schemes
The costs of awards to employees that take the form of shares or rights to shares (including conditional rights) are recognised over the periods to which the employees' performance relates. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

Leases
Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

Assets held for short-term rental are recorded as plant and machinery within fixed assets and depreciated over their estimated useful lives. Rental income from these assets is recognised as earned on a straight-line basis over the rental period.

Notes to the Accounts continued

3 Activity analysis

	Profit before interest and tax 2004 £m	Profit before interest and tax 2003 £m	Turnover 2004 £m	Turnover 2003 £m	Net assets 2004 £m	Net assets Restated [5] 2003 £m
3.1 Class of business						
Broadcast Systems	3.9	3.9	86.9	81.9	38.2	35.9
Photographic	12.3	13.9	68.7	61.5	26.3	29.4
Broadcast Services	1.6	-	29.8	27.0	12.3	15.7
	17.8	17.8	185.4	170.4	76.8	81.0
Goodwill amortisation and impairment [1]	(1.8)	(3.4)				
Exceptional items [2]	(2.1)	(1.9)				
	13.9	12.5	185.4	170.4	76.8	81.0
Discontinued operation [3]		(3.0)		22.4		-
	13.9	9.5	185.4	192.8	76.8	81.0
Group net liabilities [4]					(20.1)	(21.2)
					56.7	59.8

[1] Goodwill amortisation relates to Broadcast Systems - £0.8 million (2003: £0.7 million), Photographic - £0.2 million (2003: £0.1 million) and Broadcast Services - £0.4 million (2003: £0.5 million). Impairment losses of £0.4 million (2003: £nil) relate to Broadcast Systems and £nil (2003: £2.1 million) relate to Broadcast Services.

The net book value of goodwill relates to Broadcast Systems - £3.3 million (2003: £4.6 million), Photographic - £2.6 million (2003: £1.8 million) and Broadcast Services - £2.0 million (2003: £3.2 million).

[2] Exceptional items relate to restructuring costs in Broadcast Systems (primarily severence in connection with the actions taken to enable the business to operate in a more integrated manner) - £2.2 million (2003: £1.9 million) and a gain in Photographic relating to restructuring - £0.1 million (2003: £nil).

[3] The discontinued operation relates to the Retail Display business which was sold on 30 December 2003.

[4] Group net liabilities include net borrowings, capitalised goodwill, Group dividends payable and central creditors and provisions.

[5] Net assets have been restated to show the investment held in respect of grants under share option schemes as a reduction from shareholders' funds (see Note 1).

	Profit before interest and tax 2004 £m	Profit before interest and tax 2003 £m	Turnover 2004 £m	Turnover 2003 £m	Net assets 2004 £m	Net assets Restated [5] 2003 £m
3.2 Geographic area by origin						
United Kingdom	(2.9)	(2.8)	40.5	31.0	17.6	14.6
The rest of Europe	12.7	13.7	66.8	56.4	26.6	29.2
The Americas	7.8	6.7	78.1	83.0	31.5	35.9
Asia and Australasia	0.2	0.2	-	-	1.1	1.3
	17.8	17.8	185.4	170.4	76.8	81.0
Goodwill amortisation and impairment [1]	(1.8)	(3.4)				
Exceptional items [2]	(2.1)	(1.9)				
	13.9	12.5	185.4	170.4	76.8	81.0
Discontinued operation [3]		(3.0)		22.4		-
	13.9	9.5	185.4	192.8	76.8	81.0
Group net liabilities [4]					(20.1)	(21.2)
					56.7	59.8

[1] Goodwill amortisation relates to the United Kingdom - £0.3 million (2003: £0.3 million), The rest of Europe - £0.2 million (2003: £0.1 million) and The Americas - £0.9 million (2003: £0.9 million) and impairment losses relate to the United Kingdom - £0.4 million (2003: £nil) and The Americas - £nil (2003: £2.1 million).

The net book value of goodwill relates to the United Kingdom - £2.0 million (2003: £2.7 million), The rest of Europe - £2.5 million (2003: £1.8 million) and The Americas - £3.4 million (2003: £5.1 million).

[2] Exceptional items relate to United Kingdom - £0.7 million (2003: £1.9 million), The rest of Europe - £0.5 million (2003: £nil) and The Americas - £0.9 million (2003: £nil).

[3] The discontinued operation is the Retail Display business which was sold on 30 December 2003. Operating profit, Turnover and Net assets in the Retail Display business relate principally to The rest of Europe and The Americas.

[4] Group net liabilities include net borrowings, capitalised goodwill, Group dividends payable and central creditors and provisions.

[5] Net assets have been restated to show the investment held in respect of grants under share option schemes as a reduction from shareholders' funds (see Note 1).

Notes to the Accounts continued

3 Activity analysis (continued)

	2004 £m	Turnover 2003 £m
3.3 Turnover by destination		
United Kingdom	9.9	9.1
The rest of Europe	52.6	44.7
The Americas	94.3	91.1
Asia and Australasia	22.9	21.5
Africa and Middle East	5.7	4.0
	185.4	170.4
Discontinued operation [1]		22.4
	185.4	192.8

[1] The discontinued operation relates to the Retail Display business which was sold on 30 December 2003. In 2003, Turnover in this business related to the United Kingdom - £1.2 million, The rest of Europe - £8.0 million, The Americas - £11.9 million, Asia and Australasia - £0.8 million and Africa and Middle East - £0.5 million.

4 Cost of sales and operating expenses

	2004 Total £m	Continuing £m	Discontinued £m	2003 Total £m
Cost of sales	108.9	96.1	15.3	111.4
Gross profit	76.5	74.3	7.1	81.4
Analysis of operating expenses				
Distribution costs				
– marketing, selling and distribution costs	26.3	27.5	3.0	30.5
– research, development and engineering costs	7.9	8.0	0.8	8.8
– amortisation of capitalised reasearch & development expenditure	0.2	0.2	-	0.2
	34.4	35.7	3.8	39.5
Administrative expenses				
– unsuccessful acquisition costs relating to EVS Broadcast Systems	-	0.9	-	0.9
– exceptional restructuring costs	2.1	1.0	-	1.0
– goodwill amortisation and impairment	1.8	3.4	-	3.4
– other administrative expenses	24.3	20.8	3.3	24.1
	28.2	26.1	3.3	29.4
Operating expenses	62.6	61.8	7.1	68.9

5 Exceptional items

Exceptional items included in profit on ordinary activities before interest of £2.2 million relate primarily to severance in connection with actions taken to enable the Camera Support and Communications businesses to operate in a more integrated manner within the Broadcast Systems Division, and £0.1 million of profit relating to restructuring plans in Photographic. A tax credit of £0.9 million was recognised on these costs.

Prior year exceptional items included in profit on ordinary activities before interest were £1.0 million relating to the closure of Radamec Broadcast Systems' manufacturing factory at Chertsey, UK and £0.9 million of costs relating to the unsuccessful acquisition of EVS Broadcast Systems. No related tax credit was recognised on these costs.

6 Operating profit

	2004 £m	2003 £m
The following items are included in operating profit		
Operating lease rental income on owned broadcast equipment	21.0	17.8
Goodwill amortisation and impairment	1.8	3.4
Depreciation	10.2	11.3
Profit on sale of fixed assets	(1.0)	(1.2)
Operating lease rental expense		
Plant, machinery and vehicles	-	0.1
Property	3.5	4.6
Auditors' remuneration		
Audit fees (company £0.2 million - 2003: £0.1 million)	0.3	0.4
Other fees paid to the auditors and its associates	0.5	1.6

Other fees paid to the auditors comprise tax advice £0.3 million (2003: £0.5 million); due diligence assistance on acquisitions £0.1 million (2003: £0.4 million); acting as the Group's reporting accountant £nil (2003: £0.4 million) and other (including a review of the interim accounts) £0.1 million (2003: £0.3 million)

Reconciliation of operating profit to net cash flow from operating activities

	2004 £m	2003 £m
The following items are included in operating profit		
Operating profit	13.9	12.5
Development costs amortisation	0.2	0.2
Goodwill amortisation and impairment	1.8	3.4
Depreciation	10.2	11.3
Profit on sale of fixed assets	(1.0)	(1.2)
Increase in stocks	(0.1)	(3.4)
Increase in debtors	(0.1)	(0.4)
(Decrease)/increase in creditors	(1.2)	7.8
Decrease in provisions	(1.2)	(1.5)
Net cash inflow from operating activities	22.5	28.7

Notes to the Accounts continued

7 Employees

	2004 Total £m	Continuing £m	Discontinued £m	2003 Total £m
Aggregate remuneration of all employees during the year				
Wages and salaries	42.7	43.1	3.7	46.8
Employers' social security costs	6.1	5.9	0.6	6.5
Employers' pension costs	2.3	1.9	0.1	2.0
	51.1	50.9	4.4	55.3

	2004 Total	Continuing	Discontinued	2003 Restated [1] Total
Average number of employees during the year				
Broadcast Systems	734	748	-	748
Photographic	639	609	-	609
Broadcast Services	165	156	-	156
Head office	12	12	-	12
Discontinued business - Retail Display	-	-	121	121
	1,550	1,525	121	1,646

(1) The average number of employees for 2003 have been restated to include temporary workers in Photographic.

8 Directors' remuneration

The emoluments, share options, awards under incentive schemes and pension entitlements of the directors are disclosed in the Remuneration Report on pages 22 to 28.

The combined remuneration of the directors of the Group is set out below

	2004 £m	2003 £m
Fees for non-executive duties	0.2	0.2
Remuneration for executive duties	0.7	0.5
	0.9	0.7

9 Tax

(a) Analysis of taxation charge in the year

	Before exceptional items, goodwill amortisation and impairment £m	Exceptional items, goodwill amortisation and impairment £m	2004 Total £m	Before exceptional items, goodwill amortisation and impairment £m	Exceptional items, goodwill amortisation and impairment £m	2003 Total £m
UK corporation tax payable at 30% (2003: 30%)	0.1	-	0.1	-	-	-
Overseas corporate tax	5.7	(0.9)	4.8	6.9	(4.1)	2.8
Adjustments in respect of prior years	(0.6)	-	(0.6)	(0.2)	-	(0.2)
Total current tax	5.2	(0.9)	4.3	6.7	(4.1)	2.6
Overseas deferred taxation	1.6	-	1.6	(0.3)	-	(0.3)
Taxation on profit on ordinary activities	6.8	(0.9)	5.9	6.4	(4.1)	2.3

(b) Factors affecting the current tax charge

	Before exceptional items, goodwill amortisation and impairment £m	Exceptional items, goodwill amortisation and impairment £m	2004 Total £m	Before exceptional items, goodwill amortisation and impairment £m	Exceptional items, goodwill amortisation and impairment £m	2003 Total £m
Current tax						
Profit on ordinary activities before taxation	16.2	(3.9)	12.3	16.1	(8.3)	7.8
Notional charge/(credit) at UK corporation tax rate of 30%	4.9	(1.2)	3.7	4.8	(2.5)	2.3
Profits in tax free and low tax areas	(0.3)	-	(0.3)	(0.5)	-	(0.5)
Amortisation of intangible assets	(0.7)	0.6	(0.1)	(0.7)	1.0	0.3
Higher overseas tax rates	1.7	(0.3)	1.4	1.9	-	1.9
Timing differences	(1.3)	-	(1.3)	(0.2)	-	(0.2)
Tax losses not recognised	1.5	-	1.5	1.6	0.6	2.2
Tax loss on disposal of business	-	-	-	-	(3.2)	(3.2)
Adjustments in respect of prior years	(0.6)	-	(0.6)	(0.2)	-	(0.2)
Current ordinary tax charge for the year	5.2	(0.9)	4.3	6.7	(4.1)	2.6

(c) Factors that may affect future tax charges

A significant proportion of the Group's operating profits will continue to be earned in countries with a higher rate of tax than in the UK.

No deferred tax has been recognised on tax losses of £16.0 million (2003: £11.2 million) as these are not expected to be utilised in the forseeable future.

Notes to the Accounts continued

10 Dividends

	2004 £m	2003 £m
Interim paid of 6.1p per share (2003: 6.1p)	2.5	2.5
Final proposed 8.9p per share (2003: 16.6p)	3.6	6.8
Total dividends 15.0p per share (2003: 22.7p)	6.1	9.3

11 Earnings per ordinary share

The calculation of basic earnings per share is based on profit after tax of £6.4 million (2003: £5.5 million) and on the weighted average number of shares in issue during the year of 41,062,429 (2003: 41,034,098).

Adjusted basic earnings per share is presented as the directors consider that this gives a useful additional indication of the ongoing earnings performance of the Group.

This calculation is based on profit after tax but before exceptional items and amortisation and impairment of goodwill. In 2004 this profit was £9.4 million (2003: £9.7 million).

Reconciliation of earnings and its effect on basic earnings per share and adjusted basic earnings per share

	Profit		Earnings per share	
	2004 £m	2003 £m	2004 pence	2003 pence
Profit for the financial year	6.4	5.5	15.6	13.6
Add back: exceptional items	1.2	0.8	2.9	2.0
Add back: goodwill amortisation and impairment	1.8	3.4	4.4	8.3
Earnings before exceptional items and goodwill amortisation and impairment	9.4	9.7	22.9	23.9

The calculation of diluted earnings per share is based on profit after tax of £6.4 million (2003: £5.5 million) and on 41,236,750 (2003: 41,198,148) ordinary shares, calculated as follows:

	2004	2003
Basic weighted average number of shares	41,062,429	41,034,098
Dilutive potential ordinary shares:		
Employee share options	143,894	126,558
Deferred Bonus Plan	30,427	37,492
Diluted weighted average number of shares	41,236,750	41,198,148

12 Intangible fixed assets

	Total £m	Development Costs £m	Total Goodwill £m	Positive Goodwill £m	Negative Goodwill £m
Cost					
At 1 January 2004	16.2	0.7	15.5	15.7	(0.2)
Currency translation adjustment	(0.6)	-	(0.6)	(0.7)	0.1
Additions[1]	0.4	-	0.4	1.0	(0.6)
At 31 December 2004	16.0	0.7	15.3	16.0	(0.7)
Amortisation					
At 1 January 2004	6.1	0.2	5.9	6.0	(0.1)
Currency translation adjustment	(0.3)	-	(0.3)	(0.3)	-
Impairment charge[2]	0.4	-	0.4	0.4	-
Charge for the year	1.8	0.2	1.6	1.6	-
Negative goodwill written back	(0.2)	-	(0.2)	-	(0.2)
At 31 December 2004	7.8	0.4	7.4	7.7	(0.3)
Net book value					
At 31 December 2004	8.2	0.3	7.9	8.3	(0.4)
At 1 January 2004	10.1	0.5	9.6	9.7	(0.1)

[1] Additions of £0.4 million in goodwill represent £1.0 million of goodwill arising on the acquisition of the domestic distribution activity of Multiblitz (Dr. Ing. D.A. Mannesmann GmbH & Co), a distributor of the Group's Manfrotto products in Germany, on 8 January 2004, and negative goodwill of £0.6 million on acquiring the operating assets and certain liabilities of Charter Broadcast North America Inc., a provider of broadcast rental equipment in the United States and Canada, on 30 March 2004.

The results of Multiblitz have been included in the Photographic Division (see Note 20). The goodwill is being amortised over a period of 10 years.

The results of Charter Broadcast North America Inc. have been included in the Broadcast Services Division (see Note 20). The negative goodwill is being recognised in the profit and loss account in the periods in which the non-monetary assets are recovered, through depreciation or sale.

[2] The impairment charge is in respect of goodwill that arose on the acquisition of Drake Electronics Limited, in 1998. The impairment review was performed using a discount rate of 10%.

Notes to the Accounts continued

13 Tangible fixed assets

	Total £m	Land and buildings £m	Plant machinery and vehicles £m	Equipment fixtures and fittings £m
Group				
Cost or valuation				
At 1 January 2004	95.0	19.2	58.4	17.4
Currency translation adjustments	(2.7)	(0.1)	(2.4)	(0.2)
Acquisitions	0.9	-	0.9	-
Additions	10.0	0.6	7.2	2.2
Disposals	(2.6)	-	(2.1)	(0.5)
At 31 December 2004	100.6	19.7	62.0	18.9
Depreciation				
At 1 January 2004	60.5	7.3	42.0	11.2
Currency translation adjustments	(1.9)	-	(1.7)	(0.2)
Charge for the year	10.2	0.9	7.1	2.2
Disposals	(2.1)	-	(1.8)	(0.3)
At 31 December 2004	66.7	8.2	45.6	12.9
Net book value				
At 31 December 2004	33.9	11.5	16.4	6.0
At 1 January 2004	34.5	11.9	16.4	6.2

Plant, machinery and vehicles includes broadcast equipment rental assets with an original cost of £32.1 million (2003: £27.8 million) and accumulated depreciation of £25.5 million (2003: £17.9 million).

The fixed assets of the Company, comprising principally of land and buildings, at a cost of £3.4 million (2003: £3.3 million) and with accumulated depreciation of £1.5 million (2003: £1.3 million) and net book value of £1.9 million (2003: £2.0 million) are included above. During the year additions at cost were £0.1 million and the depreciation charge was £0.2 million.

		Group		Company
	2004 £m	2003 £m	2004 £m	2003 £m
Net book value of land and buildings at cost or valuation comprise the following				
Carried at cost	9.8	10.2	0.1	0.3
Carried at valuation (open market basis - 31 March 1989)	1.7	1.7	1.7	1.7
	11.5	11.9	1.8	2.0
Freehold	11.0	11.2	1.7	1.7
Long Leasehold	0.1	-	-	-
Short Leasehold	0.4	0.7	0.1	0.3
	11.5	11.9	1.8	2.0

The Group's land and buildings shown above at a re-valued net book value of £1.7 million would have been stated under historical cost at £0.7 million and a net book value of £0.2 million.

The revalued amount of the Group's land and buildings has been retained as allowed for by the transitional provisions set out in FRS 15 'Tangible Fixed Assets'.

Capital commitments for which no provision has been made in the accounts amount to £0.1 million (2003: £0.4 million) for the Group and £nil (2003: £nil) for the Company.

14 Fixed asset investments

Investments at cost or written down value	Total £m	Investment in other shares £m	Loans £m
Group			
Cost			
At 1 January 2004 (restated[1])	2.9	2.9	-
Additions	-	-	-
Currency translation adjustments	(0.2)	(0.2)	-
At 31 December 2004	2.7	2.7	-
Provision			
At 1 January 2004	(2.9)	(2.9)	-
Currency translation adjustments	0.2	0.2	-
At 31 December 2004	(2.7)	(2.7)	-
Net book value			
At 31 December 2004	-	-	-
At 1 January 2004 (restated[1])	-	-	-
Company			
At 1 January 2004 (restated[1])	154.7	89.0	65.7
Additions - long term intergroup loans	75.3	-	75.3
Disposals	(4.4)	(4.4)	-
Provision against carrying value of intergroup loan	(19.1)	-	(19.1)
At 31 December 2004	206.5	84.6	121.9

[1] Investments have been restated to show the investment held in respect of grants under share option schemes as a deduction (see Note 1).

The Group's investment in other shares represents a 10.3% investment in Intersense Inc. Full impairment provision has been made against this investment.

Notes to the Accounts continued

Principal subsidiaries

The Group's principal subsidiaries at 31 December 2004 are listed below.

	Country of incorporation
Vitec Group US Holdings Inc	USA
Vitec Luxembourg Holdings Sarl	Luxembourg
Broadcast Systems	
Anton/Bauer Inc	USA
Centro de Produccion Profesional CPP Limitada	Costa Rica
Radamec Broadcast Systems Limited	UK
Sachtler Corporation of America	USA
Sachtler GmbH & Co. KG	Germany
Vinten Broadcast Limited	England and Wales*
Vinten Inc	USA
Vitec Group Communications Inc (formerly Vitec CC Inc trading as Clear-Com)	USA
Vitec Group Communications Limited (formerly Drake Electronics Limited)	England and Wales*
Photographic	
Bogen Imaging Inc	USA
Gitzo SA	France
Gruppo Manfrotto Srl	Italy
Lino Manfrotto & Co SpA	Italy
Broadcast Services	
Vitec Broadcast Services Inc	USA

* Indicates companies directly owned by the parent company

A complete list of subsidiary companies will be included in the next annual return.

15 Stocks

		Group
	2004 £m	2003 £m
Raw materials and components	10.0	11.1
Work in progress	7.3	8.8
Finished goods	15.3	13.3
	32.6	33.2

16 Debtors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due within one year				
Trade debtors	26.2	28.2	-	-
Amounts recoverable on long term contracts	2.1	1.0	-	-
Amounts owed by subsidiaries	-	-	2.6	0.1
Other debtors	3.8	3.3	0.4	0.6
Tax recoverable	2.3	5.6	0.1	2.0
Prepayments and accrued income	2.2	2.1	0.1	0.1
	36.6	40.2	3.2	2.8
Amounts falling due after one year				
Prepayments and accrued income	0.6	1.0	-	-
Other debtors	1.3	1.0	-	-
	1.9	2.0	-	-
Total debtors	38.5	42.2	3.2	2.8

17 Creditors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due within one year				
Bank loans and overdrafts (unsecured)	25.7	-	24.7	-
Payments received on account	0.4	0.5	-	-
Trade creditors	15.7	15.0	-	-
Amounts owed to subsidiaries	-	-	119.1	43.0
Dividends	3.7	6.8	3.7	6.8
Corporation tax	2.6	1.7	-	-
Other tax and social security costs	1.8	1.9	-	-
Other creditors	3.8	5.4	0.1	0.8
Accruals and deferred income	5.7	6.0	1.2	2.0
	59.4	37.3	148.8	52.6
Amounts falling due after more than one year				
Bank loans (unsecured)	-	26.0	-	26.0
Accruals and deferred income	0.1	0.1	-	-
	0.1	26.1	-	26.0

Notes to the Accounts continued

18 Financial instruments

An explanation of the Group's treasury policy and controls is included in the Financial Review on page 17. Short term debtors and creditors have been omitted from all disclosures other than the currency profile.

a) Financial liabilities

i) Analysis of borrowings

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank loans and overdrafts	25.7	26.0	24.7	26.0
Senior notes	-	-	-	-
Other loans	-	-	-	-
Swaps	-	-	-	-
Gross financial liabilities	25.7	26.0	24.7	26.0

ii) Maturity profile

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Within one year or less	25.7	-	24.7	-
More than one year but not more than two years	-	26.0	-	26.0
More than two years but not more than five years	-	-	-	-
	25.7	26.0	24.7	26.0

The total amount of bank loans and overdrafts any part of which fall due after five years is £nil (2003: £nil).

The Group had the following undrawn borrowing facilities at the end of the period

	2004 £m	2003 £m
Expiring in one year or less		
– committed facilities	30.3	-
– uncommitted facilities	13.5	8.0
More than one year but not more than two years		
– committed facilities	-	29.0
More than two years but not more than three years		
– committed facilities	-	-
Total	43.8	37.0

On 25 January 2005 the Group signed a five year £100 million Multicurrency Revolving Credit Facility Agreement to replace the two existing Multicurrency Revolving Credit Facility Agreements which had termination dates of 28 October 2005. The first draw down on this Facility was made on 31 January 2005.

iii) Interest rate profile

Currency	Total £m	Floating rate borrowings £m	Fixed rate borrowings £m
Sterling	13.0	13.0	-
US$	4.2	4.2	-
Euro	8.5	8.5	-
At 31 December 2004	25.7	25.7	-
Sterling	26.0	26.0	-
US$	-	-	-
Euro	-	-	-
At 31 December 2003	26.0	26.0	-

The floating rate borrowings comprise bank loans and overdrafts bearing interest at rates based on LIBOR.

b) Financial assets

Currency	Floating rate 2004 £m	Floating rate 2003 £m
Sterling	-	(5.5)
US$	7.1	10.2
Euro	6.4	10.2
Other	0.9	0.7
	14.4	15.6

The floating rate financial assets comprise bank deposits bearing interest at rates based on local money market rates.

Sterling, US$, Euro and Yen balances within the UK can be offset. At December 2003 Euro balances of £3.1 million and US$ balances of £4.0 million could be offset.

Notes to the Accounts continued

18 Financial instruments (continued)

c) Fair value of financial assets and liabilities

	2004 Book value £m	2004 Fair value £m	2003 Book value £m	2003 Fair value £m
Cash at bank and in hand	14.4	14.4	15.6	15.6
Bank overdraft	(1.0)	(1.0)	-	-
Floating rate borrowings	(24.7)	(24.7)	(26.0)	(26.0)
Fixed rate borrowings	-	-	-	-
Swaps	-	-	-	-
	(11.3)	(11.3)	(10.4)	(10.4)

Market rates have been used to determine fair values.

d) Foreign exchange hedging

Cost of sales include net gains of £1.5 million (2003: £2.9 million) arising from the difference between the exchange rates at which foreign currency transactions are converted and the contracted rates on the forward exchange rate contracts set up as hedges against such transactions. When compared with their values at the exchange rates on the forward contracts in effect on 31 December 2004, the cumulative unrecognised aggregate gain on the forward exchange contracts as of 31 December 2004 is £0.3 million (2003: £1.6 million). All of these unrecognised gains relate to the year 2005. Because these contracts are put in place to hedge a portion of the underlying transactions, any net gain or loss that may arise on these contracts over the forthcoming year will be more than compensated by the corresponding transactional gains or losses.

During 2003 and 2004 forward option contracts selling US Dollars and purchasing Euros were taken out to cover anticipated US Dollar currency receipts covering the period January 2005 to December 2005. These forward option contracts totalled £9.3 million (2003: £8.4 million) and the unrecognised gains on all these options at 31 December 2004, based on the exchange rates on that date, were £1.1 million (2003: £0.7 million). The Group's foreign exchange hedging policy is set out in the Financial Review.

During the year forward option contracts selling US Dollars and purchasing Sterling were taken out to cover anticipated US Dollar currency receipts covering the period January 2005 to August 2005. These totalled £0.9 million and the unrecognised gains on these options at 31 December 2004, based on the exchange rates on that date, were £nil.

e) Currency profile

The main functional (or "operating") currencies of the Group are Sterling, US$ and Euro. The following analysis of net monetary assets and liabilities, excluding cash and borrowings, shows the Group's currency exposures after applying the effects of forward contracts used to manage currency exposure. Such net positions comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating units involved.

Functional currency of group operation

	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Sterling	-	1.4	2.9	0.4	4.7
Euro	-	0.9	-	-	0.9
US$	-	-	(0.4)	-	(0.4)
At 31 December 2004	-	2.3	2.5	0.4	5.2
Sterling	-	1.4	0.8	(0.2)	2.0
Euro	-	0.8	(0.3)	0.5	1.0
At 31 December 2003	-	2.2	0.5	0.3	3.0

19 Provisions for liabilities and charges

	Group					Company	
	Total £m	Deferred tax £m	Exceptional restructuring £m	Pensions £m	Other provisions £m	Total £m	Deferred tax £m
At 1 January 2004	12.4	3.7	2.1	4.4	2.2	0.1	0.1
Currency translation adjustments	(0.3)	(0.3)	-	-	-	-	-
Transfers from current tax	(0.9)	(0.9)	-	-	-	-	-
Profit and loss account	3.4	1.6	2.1	0.4	(0.7)	-	-
Utilised in year	(3.2)	-	(2.7)	(0.4)	(0.1)	-	-
At 31 December 2004	11.4	4.1	1.5	4.4	1.4	0.1	0.1

The pension provision of £4.4 million (2003: £4.4 million) is to cover accrued statutory entitlements that will be paid to employees in Italy, Germany and Japan when they leave employment of the Group.

The remaining other provisions comprise warranty provisions of £1.0 million (2003: £0.7 million) and the provision for the upgrade of retail units of £0.4million (2003: £1.5 million).

The exceptional restructuring provision will be utilised in 2005.

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Composition of deferred tax provision				
Accelerated tax depreciation allowances	3.2	2.4	0.1	0.1
Other timing differences	0.9	1.3	-	-
	4.1	3.7	0.1	0.1

Notes to the Accounts continued

20 Acquisitions of businesses

On 30 March 2004 the Group acquired the operating assets and certain liabilities of Charter Broadcast North America Inc., a provider of broadcast rental equipment in the United States and Canada, for a nominal sum which, with transaction costs, brought the total acquisition cost to US$0.1 million cash (£0.1 million). Based on a provisional assessment of fair values, negative goodwill of £0.6 million arose on acquisition.

The acquisition was funded from existing cash resources and has been accounted for using the acquisition method of accounting.

	Book value £m	Policy alignment £m	Fair value adjustments £m	As adjusted £m
Net Assets acquired				
Intangible fixed assets	-	-	-	-
Tangible fixed assets	0.8	-	0.1	0.9
Stocks	-	-	-	-
Debtors	-	-	-	-
Creditors	-	-	(0.2)	(0.2)
	0.8	-	(0.1)	0.7
Negative goodwill [1]				(0.6)
Total cost of acquisition, including expenses, satisfied by cash				0.1

[1] Negative goodwill is recognised in the profit and loss account in the periods in which the non-monetary assets are recovered, through depreciation or sale.

	£m
Net outflow of cash in respect of acquisitions	
Total cost of acquisitions including expenses	0.1
Net cash acquired	-
Total outflow of cash from Group	0.1

The results of Charter Broadcast North America Inc. have been included in the Broadcast Services Division and comprise

	£m
Turnover	1.8
Cost of sales	(1.0)
Operating expenses	(0.2)
Operating profit before goodwill amortisation	0.6

The fair value adjustments represent an increase in book value of rental assets following an appraisal exercise and a recognition of liabilities in respect of refurbishment costs.

On 8 January 2004 the Group acquired the domestic distribution activity of Multiblitz (Dr. Ing. D.A. Mannesmann GmbH & Co), a distributor of the Group's Manfrotto products in Germany, for €2.0 million cash (£1.4 million). Based on a provisional assessment of fair values, goodwill of £1.0 million arose on acquisition.

The acquisition was funded from existing cash resources and has been accounted for using the acquisition method of accounting.

	Book value £m	Policy alignment £m	Fair value adjustments £m	As adjusted £m
Net Assets acquired				
Intangible fixed assets	-	-	-	-
Tangible fixed assets	-	-	-	-
Stocks	0.3	-	-	0.3
Debtors	0.2	-	-	0.2
Creditors	(0.1)	-	-	(0.1)
	0.4	-	-	0.4
Purchased goodwill (being amortised over 10 years)				1.0
Total cost of acquisition, including expenses, satisfied by cash				1.4

	£m
Net outflow of cash in respect of acquisitions	
Total cost of acquisitions including expenses	1.4
Net cash acquired	-
Total outflow of cash from Group	1.4

The results of Multiblitz have been included in the Photographic Division and comprise

	£m
Turnover	3.5
Cost of sales	(2.4)
Operating expenses	(1.0)
Operating profit before goodwill amortisation	0.1

Notes to the Accounts continued

21 Share capital

The authorised share capital at 31 December 2004 consisted of 65,000,000 (2003: 65,000,000) shares of 20p each, of which 41,081,105 were allotted and fully paid. The movement during the year was:

	Shares	Issued share capital £m
At 1 January 2004	41,037,301	8.2
Exercise of share options	43,804	-
At 31 December 2004	41,081,105	8.2

At 31 December 2004 the following options had been granted and remained outstanding under the Company's share option schemes:

	Number of shares	Exercise prices	Dates normally exercisable
United Kingdom SAYE schemes	288,474	231p - 595p	2005 - 2011
International SAYE schemes	284,314	231p - 492p	2005 - 2009
Executive schemes	1,322,394	257.5p - 653p	2005 - 2014
Premium Option Plan	335,910	793p - 819p	2005 - 2010
	2,231,092		

On 23 March 2004, awards over an aggregate of 160,537 shares in the Company were made to six senior Group executives under the Company's Long Term Incentive Plan. The total number of shares outstanding at 31 December 2004 under the Company's Long Term Incentive Plan was 476,283 (2003: 447,209). The terms of the awards and the related performance conditions are described in the Remuneration Report.

On 25 May 2004, awards over an aggregate of 20,203 shares in the Company were made to five senior Group executives under the Company's Deferred Bonus Plan. The total number of shares outstanding at 31 December 2004 under the Company's Deferred Bonus Plan was 47,295 (2003: 63,709). The terms of the awards and the related performance conditions are described in the Remuneration Report.

22 Reserves

	Share Premium account £m	Capital Redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Other reserves £m	Profit and loss account £m
Group						
At 1 January 2004 (as previously reported)	2.6	1.6	1.5	-	-	46.4
Prior year adjustment for ESOP accounting (see Note 1)	-	-	-	-	-	(0.5)
At 1 January 2004 (restated[(1)])	2.6	1.6	1.5	-	-	45.9
Retained profit for the year						0.3
Premium on new shares issued	0.1					
Transfers			(0.1)			0.1
Exchange rate movement on foreign net investments	-	-	-	-	-	(3.5)
31 December 2004	2.7	1.6	1.4	-	-	42.8

At 31 December 2004 the cumulative goodwill written off on acquisitions prior to 1 January 1998 amounted to £126.2 million (2003: £126.2 million).

	Share Premium account £m	Capital Redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Other reserves £m	Profit and loss account £m
Company						
At 1 January 2004 (as previously reported)	2.6	1.6	0.9	9.7	44.0	18.3
Prior year adjustment for ESOP accounting (see Note 1)	-	-	-	-	-	(0.5)
At 1 January 2004 (restated[(1)])	2.6	1.6	0.9	9.7	44.0	17.8
Retained loss for the year						(4.3)
Exchange rate movement on foreign net investments	-	-	-	-	-	(0.4)
Premium on new shares issued	0.1					
31 December 2004	2.7	1.6	0.9	9.7	44.0	13.1

[(1)] Shareholders funds have been restated to show the investment held in respect of grants under share option schemes as a deduction (see Note 1).

At 31 December 2004, this investment represents 142,857 (2003: 142,857) ordinary shares with a market vaue of £408,571 (2003: £494,285).

As permitted by Section 230 (4) of the Companies Act 1985 the Company has not presented its own profit and loss account. The amount of the Group result for the financial year dealt with in the accounts of the Company was a profit after tax of £1.8 million (2003: £16.2 million).

Notes to the Accounts continued

23 Cash and financing

	2004 £m	2003 £m
Reconciliation of net cash flow to movement in net debt		
Decrease in cash in the year	(1.2)	(1.3)
Net repayment/(receipt) of loans	1.6	(3.5)
Reduction/(increase) in net debt resulting from cash flows	0.4	(4.8)
Loan transfer on disposal of business		5.4
Exchange rate movements	(1.3)	0.9
Movement in net debt in the period	(0.9)	1.5
Net debt at 1 January	(10.4)	(11.9)
Net debt at 31 December	(11.3)	(10.4)

	1 January 2004 £m	Cash flow £m	Other non - cash movements £m	Exchange rate movements[1] £m	31 December 2004 £m
Analysis of net debt					
Cash at bank and in hand	15.6	(0.2)	-	(1.0)	14.4
Overdrafts	-	(1.0)	-	-	(1.0)
	15.6	(1.2)	-	(1.0)	13.4
Debt due after one year	(26.0)	1.6	24.7	(0.3)	-
Debt due within one year	-	-	(24.7)	-	(24.7)
	(26.0)	1.6	-	(0.3)	(24.7)
Total	(10.4)	0.4	-	(1.3)	(11.3)

(1) Exchange rate movements result from the adjustment of opening balances and cash flows in the year to closing exchange rates.

	2004 £m	2003 £m
Interest		
Interest payable on bank loans and overdrafts	1.7	1.9
Interest receivable	(0.1)	(0.2)
Net interest payable	1.6	1.7

24 Leasing commitments

At 31 December 2004 the Group had the following annual commitments under operating leases

	Land and buildings £m	Other £m	Total £m	2003 [1] £m
Expiring within one year	1.1	-	1.1	0.8
Expiring two to five years	1.6	0.2	1.8	1.5
Expiring after five years	0.7	-	0.7	0.2
	3.4	0.2	3.6	2.5

[1] Leasing commitments at 31 December 2003 comprised £2.5 million of land and buildings.

25 Pension commitments

During the year, the Group operated two funded defined benefit pension schemes set up under separate trusts. The Group pays contributions to the funds in order to provide security for existing pensions and the accrued benefits of current and former employees. At the end of 2003 the Group closed both schemes to new members, and pension provision for new employees is via a defined contribution plan. The disclosures below relate to the defined benefit schemes only.

SSAP24

The adequacy of the schemes to meet the projected benefits is assessed by independent qualified actuaries at regular intervals. The most recent actuarial valuations of the schemes, based on the projected unit method, were as at 5 April 2004. The schemes had assets with a combined market value (excluding the value of insurance policies) of £28.3 million at that date. On the assumptions adopted, the value of the schemes' assets was equal to 94% of the value placed on the accrued benefits assessed on an ongoing basis allowing for expected future increases in salaries. Under SSAP24 the deficits arising are being spread over 14 years by way of variation from regular cost using the straight-line method.

The most significant actuarial assumptions were: investment return of 7.5% per annum in respect of the period pre-retirement, and 5.0-5.5% per annum in respect of the period post-retirement; price inflation of 3.0% per annum; general salary inflation of 5.0% per annum and pension increases of 3.0-3.25% per annum.

Company contributions to the schemes amounted to £1.0 million (2003: £0.8 million) for the year. The pension charge for 2004 in respect of these defined benefit schemes is £1.5 million (2003: £0.9 million). There is a prepayment of £0.3 million (2003: £0.8 million) included in the balance sheet being the excess of the accumulated company pension contributions paid to the schemes over the amount charged to the profit and loss account.

FRS 17

The disclosures required in relation to the transitional arrangements within FRS 17 'Retirement Benefits' have been based on the most recent formal actuarial valuation as at 5 April 2004 updated to 31 December 2004, but using the following financial assumptions for the purpose of FRS 17:

	2004 % per annum	2003 % per annum	2002 % per annum
Price inflation	2.8	2.75	2.25
General salary and wage inflation	4.8	4.75	4.25
Increases to pensions in payment (in excess of GMPs)	2.8	2.75	2.25
Increases to deferred pensions	2.8	2.75	2.25
Discount rate	5.3	5.4	5.5

Notes to the Accounts continued

25 Pension commitments (continued)

Scheme assets and expected rate of return

	2004 Fair value £m	2004 Expected rate of return %pa	2003 Fair value £m	2003 Expected rate of return %pa	2002 Fair value £m	2002 Expected rate of return %pa
Equities	21.5	7.9	19.3	8.2	16.3	8.2
Bonds	7.4	4.8	6.5	5.0	5.6	4.8
Property	1.4	6.8	1.2	7.1	1.4	6.9
Cash and net current assets	-	3.8	0.3	3.8	0.1	4.0
Total	30.3	7.1	27.3	7.3	23.4	7.3

The investment return assumptions used by the actuary are the best estimates chosen from a range of possible assumptions, and will not necessarily be borne out in practice. The schemes' assets are not intended to be realised in the short term and their fair value may be subject to significant change before they are realised.

Profit and loss charge for the year 2004 (based on 31 December 2003 assumptions)

Analysis of amounts charged to operating profit:	Vitec Group Pension Scheme £m	Vitec Group Executive Pension Scheme £m	2004 Total £m	Vitec Group Pension Scheme £m	Vitec Group Executive Pension Scheme £m	2003 Total £m
Current service cost	1.4	0.3	1.7	0.8	0.4	1.2
Past service costs	-	-	-	-	-	-
Total charged to operating profit	1.4	0.3	1.7	0.8	0.4	1.2
Analysis of the amount charged to other finance income:						
Interest on pension scheme liabilities	1.2	0.5	1.7	1.0	0.5	1.5
Expected return on assets in the pension scheme	(1.5)	(0.6)	(2.1)	(1.2)	(0.5)	(1.7)
Net credit to other finance income	(0.3)	(0.1)	(0.4)	(0.2)	-	(0.2)
Total profit and loss charge before deduction for tax	1.1	0.2	1.3	0.6	0.4	1.0

Analysis of amounts recognised in the Statement of total recognised gains and losses	2004 £m	2003 £m
Actual return less expected return on pension scheme assets	0.7	2.1
Experience gains and losses arising on the scheme liabilities	1.3	-
Changes in assumptions underlying the present value of the scheme liabilities	(2.3)	(2.9)
Actuarial loss recognised in Statement of total recognised gains and losses before adjustment for tax	(0.3)	(0.8)

History of experience gains and losses

	2004	2003	2002
a. Gain/(loss) on plan assets			
amount (£ million)	0.7	2.1	(5.6)
% of plan assets at end of year	2.3%	7.6%	-23.4%
b. Experience gain on plan liabilities			
amount (£ million)	1.3	-	0.1
% of plan liabilities at end of year	3.6%	0.0%	0.4%
c. Total actuarial loss recognised in Statement of total recognised gains and losses			
amount (£ million)	(0.3)	(0.8)	(5.7)
% of plan liabilities at end of year	0.8%	2.4%	20.4%

Reconciliation to the balance sheets

	Vitec Group Pension Scheme £m	Vitec Group Executive Pension Scheme £m	2004 Total £m	Vitec Group Pension Scheme £m	Group Executive Pension Scheme £m	2003 Total £m
Fair value of scheme assets	21.9	9.0	30.9	19.9	7.9	27.8
Actuarial value of scheme liabilities	(25.3)	(11.2)	(36.5)	(23.0)	(9.8)	(32.8)
Deficit in the scheme	(3.4)	(2.2)	(5.6)	(3.1)	(1.9)	(5.0)
Related deferred tax asset	1.0	0.7	1.7	0.9	0.6	1.5
Pension liability recognised in balance sheet	(2.4)	(1.5)	(3.9)	(2.2)	(1.3)	(3.5)

The amount of the net pension liability would have a consequential effect on reserves. The assets and liabilities shown for the Vitec Group Executive Pension Scheme include an amount of £0.6 million (2003: £0.5 million) in respect of certain insurance policies which meet part of the benefit entitlement for some pensioners of the Scheme. The value placed on these insurance policies is in addition to the value of the Scheme's investments. The present value of the schemes' liabilities are derived from cash flow projections over long time periods and thus are inherently uncertain.

Movement in scheme deficit

	2004 £m	2003 £m
Deficit in schemes at beginning of year	(5.0)	(4.0)
Movement over year:		
Current service cost	(1.7)	(1.2)
Employer contributions	1.0	0.8
Other finance income	0.4	0.2
Actuarial loss recognised in Statement of total recognised gains and losses before adjustment for tax	(0.3)	(0.8)
Deficit in schemes at end of year	(5.6)	(5.0)

Notes to the Accounts continued

26 Related party transactions

During the year the following related party transactions took place.

Lino Manfrotto, a director of Lino Manfrotto & Co Spa, is president and shareholder of Mancor Spa, a company from which Gruppo Manfrotto rents properties used in its business under operating leases that expire at the end of 2006. Rents paid to Mancor in 2004 totalled €210,027, £142,985 (2003: €247,634, £171,000). At 31 December 2004, there were no outstanding amounts payable to Mancor (2003: Nil).

Abramo Manfrotto is a director of Gruppo Manfrotto Srl. He is also sole administrator of Antide Srl, a company specialising in world-wide web sites and e-mail services. Group companies paid Antide a total of €60,950, £41,468 during the year (2003: €100,944, £70,000) for products and services. At 31 December 2004, there was €16,894, £11,494 outstanding and payable to Antide Srl.

Abramo Manfrotto is also Managing Director of ALU Spa. Sales of Gruppo Manfrotto products and services to ALU in 2004 totalled €3,902,994, £2,655,459. At 31 December 2004, there was €151,111, £102,811 outstanding, payable by ALU Spa. Sales of ALU products and services to Gruppo Manfrotto companies in 2004 totalled €82,202, £55,927. At 31 December 2004, there was €10,291, £7,002 outstanding, payable to ALU Spa.

Five Year Financial Summary

Year ended 31 December

	2004 £m	2003 (Restated)[4] £m	2002 (Restated)[4] £m	2001 (Restated)[1] £m	2000 £m
Turnover	185.4	192.8	182.2	190.4	200.0
Operating profit before exceptional items, goodwill amortisation and impairment	17.8	17.8	24.7	30.6	40.1
Interest	(1.6)	(1.7)	(1.6)	(2.6)	(2.9)
Profit before tax, exceptional items, goodwill amortisation and impairment	16.2	16.1	23.1	28.0	37.2
Operating cash flow	22.5	28.7	35.4	42.1	45.8
Free cash flow[2]	11.1	8.3	20.7	18.0	17.6
Capital employed					
Intangible fixed assets	8.2	10.1	11.0	10.8	10.9
Tangible fixed assets	33.9	34.5	42.7	48.5	47.0
Other net assets	30.1	29.3	24.4	34.5	38.5
	72.2	73.9	78.1	93.8	96.4
Financed by					
Shareholders' funds - equity	56.7	59.8	62.4	67.1	63.7
Net debt	11.3	10.4	11.9	22.5	31.0
Deferred tax	4.1	3.7	3.8	4.2	1.7
	72.2	73.9	78.1	93.8	96.4
Statistics					
Operating profit (%) before exceptional items, goodwill amortisation and impairment	9.6	9.3	13.6	16.1	20.1
Effective tax rate (%) before exceptional items, goodwill amortisation and impairment	42.0	39.8	39.4	37.1	30.9
Adjusted basic earnings per share (p)[3]	22.9	23.9	34.1	42.9	62.8
Basic earnings per share (p)	15.6	13.6	18.3	32.9	56.7
Dividends per share (p)	15.0	22.7	22.7	22.7	21.2
Year-end mid-market share price (p)	286.0	346.0	277.5	425.0	498.0

(1) On adoption of FRS 19 'Deferred Taxation' in 2002, it was not practical to restate 2000.

(2) Free cash flow is the cash inflow from operating activities after deducting interest, tax and capital expenditure on tangible fixed assets.

(3) Differences between Adjusted basic and Basic earnings per share arise from exceptional items in the years in question and the amortisation of goodwill.

(4) Shareholders' funds have been restated to show the investment held in respect of grants under share option schemes as a deduction (see Note 1). No such investments were held in 2001 and 2000.

Shareholder Information and Financial Calendar

Shareholder enquiries
For enquiries about your shareholding, such as dividends or loss of share certificate, please contact the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, telephone 0870 162 3100 (UK only) or +44 (0)20 8639 2157 (Overseas only).

Online services and electronic voting
Vitec has arranged with Capita Registrars to use its online services. By logging on to www.capitaregistrars.com and selecting Shareholder Services you can make a transaction or dividend payment enquiry, add or change a dividend mandate or change your registered address.

The Company will again be making use of Capita Registrars' electronic voting facility. By logging on to www.capitaregistrars.com and selecting Shareholder Services you will find details of the Annual General Meeting including the venue and text of resolutions. Shareholders have the facility to vote for, against or withhold and can split or restrict votes, appoint the Chairman of the meeting or a third party as their proxy and include any instruction text. The facility has now been extended to include CREST voting for members holding their shares in uncertificated form. To use the above facilities, shareholders will need to input a unique User ID that can be applied for on your first visit to the site. To be allocated a User ID you will need your Investor Code, which can be found on your dividend stationery and share certificates. User IDs previously issued will still be valid.

Should you experience any difficulties using these facilities please contact the Capita Registrars helpline on the numbers given above.

Share price information
The middle market price of a share of The Vitec Group plc share on 31 December 2004, the last dealing day of 2004, was 286p. During the year the share price fluctuated between 282.5p and 365p. The Company's share price is available from the Group's website www.vitecgroup.com, with a 15 minute delay, and from the Financial Times web site www.ft.com with a similar delay. Up-to-date market information and the Company's share price are available from the Cityline service operated by the Financial Times by telephoning 0906 8434404.

Financial calendar	
Annual General Meeting	18 May 2005
Ex-dividend date for 2004 final dividend	20 April 2005
Record date for 2004 final dividend	22 April 2005
Proposed 2004 final dividend payment date	20 May 2005
Announcement of 2005 interim results	September 2005
Proposed 2005 interim dividend payment date	November 2005

Analysis of shareholdings as at 31 December 2004

Shares held	Number of holders	% of holders	Number of shares	% of shares
Up to 1,000	790	55.83	329,539	0.80
1,001 to 5,000	369	26.08	869,564	2.12
5,001 to 10,000	77	5.44	533,074	1.30
10,001 to 50,000	78	5.51	1,827,705	4.45
50,001 to 100,000	27	1.91	2,095,850	5.10
100,001 and over	74	5.23	35,425,373	86.23
		100.00		100.00
Institutions and companies	471	33.29	38,265,937	93.15
Individuals including directors and their families	944	66.71	2,815,168	6.85
	1,415	100.00	41,081,105	100.00

Group Directory

Main offices

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Intercom Specialties (ICS) - Systems Wireless (SWL)
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Alastair Hewgill BSc ACMA Finance Director
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