



Contents

The Year In Review	01
Directors' Report	
Chairman's & Chief Executive's Statement	02
Business Review	04
Divisional Reports	
Imaging & Staging Systems	06
Broadcast Systems	08
Broadcast Services	10
Financial Review	12
Key Performance Indicators and Other Measures	15
Board of Directors	17
Remuneration Report	
21	
Corporate Social Responsibility Report	28
Corporate Governance	32
Independent Auditors' Report	39
Consolidated Accounts 2006	
Consolidated Income Statement	40
Consolidated Statement of Recognised Income and Expense	41
Consolidated Balance Sheet	42
Consolidated Cash Flow Statement	43
Notes to the Consolidated Accounts	44
Company Accounts 2006	
Company Balance Sheet	87
Reconciliation of Movements in Shareholders' Funds	88
Notes to the Company Accounts	89
Five Year Financial Summary	97
Shareholder Information and Financial Calendar	98
Group Directory	Inside Back Cover

Front cover pictures: Robbie Williams starts his Closer Encounter tour in Dublin with one of Brilliant Stages' largest touring sets – Photo courtesy of Kevin Edwards.
Vinten products being used 'on location' in Tibet - Photo courtesy of Martin Gremmelspacher.

Back cover pictures: IFF supplied their top lift hoist, rail and control systems to Lumiq Studios School in Turin, Italy.
Bexel rent video broadcast equipment to many major sporting events – seen here at the State Farm US Figure Skating Championships.

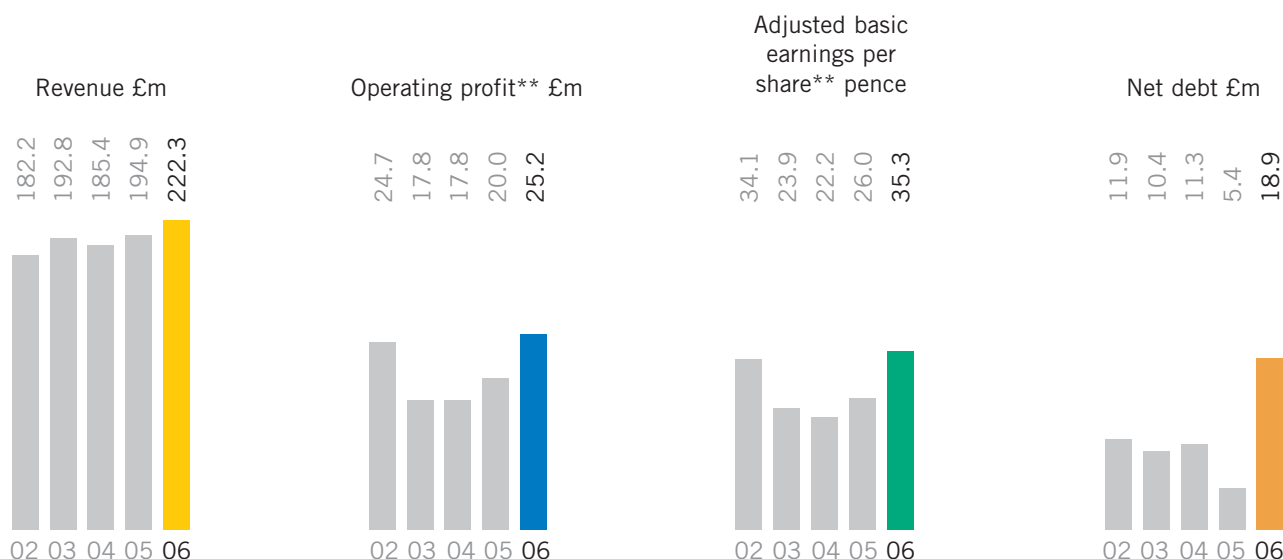
The Year in Review

The Vitec Group made very good progress in 2006, with strong revenue and profit growth. We have launched exciting new products into growing markets and are seeing the benefits of our consolidated operational structure.

2007 will not see any benefit from major events for our broadcast businesses. However, given the increasing importance of Vitec's photographic and live entertainment businesses, combined with the contribution from acquisitions made in 2006 and further operational improvements within Broadcast Systems, the Board looks forward to further growth in 2007.

- Revenue growth of 15% in constant currency, of which 12% was organic
- Profit before tax* of £24.1 million, an increase of 35% in constant currency, 31% as reported
- Basic earnings per share* of 35.3p, up 36%
- Cash generated from operations of £28.7 million
- Imaging & Staging division sales up 24%
- Two further significant acquisitions: Autoscript prompters and Tomcat Global staging systems, both performing to plan
- Total dividend recommended of 16.5p per share, up 6%

* from continuing operations and before significant items (see Note 5 to the Consolidated Accounts on page 52).



** For 2002 and 2003, before exceptional items, goodwill amortisation and impairment. For 2004, 2005 and 2006 before significant items (see Note 5).

2002 and 2003 figures include results for Alu which was sold in 2003.

Accounts for 2006, 2005 and comparable figures for 2004 were prepared in accordance with IFRS as adopted for use in the EU. Accounts for 2003 and 2002 were prepared in accordance with UK GAAP accounting policies.

Directors' Report

The directors present their report and the audited accounts of the Group for the year ended 31 December 2006.

Chairman's & Chief Executive's Statement

We are delighted to report another year of strong progress for The Vitec Group in revenue, profits and earnings per share due to underlying growth in our markets and continued operational improvements. Our efforts to find attractive acquisitions were also successful, with four businesses joining the Group during 2006.

Results

2006 revenue grew 14%, to £222.3 million (2005: £194.9 million) of which around 11% was organic, reflecting Vitec's strong positions in markets that are growing well and the continued emphasis placed on new product development. Constant currency organic growth was higher, at 12%, as the lower US Dollar reduced reported figures. While the first half saw particularly good progress, partly due to the rental contracts for the Winter Olympics, it was pleasing that the second half also showed significant growth over what had been a very good second half in 2005.

Imaging & Staging (previously Photographic) grew 24%, of which 18% was organic, with constant currency organic growth even stronger at 19%. This was driven by a buoyant market for accessories for professional photographers and cinematographers, with sales of lighting stands and bags also performing well. We saw continued benefits from the significant and ongoing growth in sales of digital SLR cameras to the keen amateur segment, which generates sales of our accessory products. Our distribution arm, Bogen Imaging, which sells both Group and other premium third party products, had a good year and was augmented in June by bringing our Japanese distribution in-house. The Staging Systems business continued to expand and in November acquired Tomcat Global, bringing significant scale and international reach to this part of the Company.

Broadcast Systems saw revenues increase at each business unit. The ongoing investment by broadcasters in High Definition TV is proving of benefit to us. Following an excellent finish to 2005, overall sales growth in 2006 was 10%, of which 8% was organic (10% in constant currency), with particularly good results in Camera Dynamics. Petrol, acquired in January, performed very well during the year. At the end of October we acquired Autoscript, whose advanced teleprompting products we had already been distributing to several countries.

Broadcast Services, operating principally in the USA, saw revenue growth in US Dollars of some 1%, but flat revenue on translation to pounds Sterling. This division benefited from a successful set of contracts for the Winter Olympics and FIFA World Cup.

With the further increase in revenue and continued progress on operational improvement, Group profit before tax and significant items* increased 31% to £24.1 million (2005:

£18.4 million). In constant currency terms profit before tax and significant items* grew 35% and, excluding acquisitions, the reported growth was 28% in pounds Sterling and 32% in constant currency.

The reported tax rate for the Group fell again by 2% to 40% and as a result basic earnings per share before significant items* rose to 35.3p (2005: 26.0p), an improvement of 36%.

After significant items* profit before tax was up 32% to £22.6 million (2005: £17.1 million) and earnings per share rose to 32.6p (2005: 22.9p before discontinued operations).

Cash generated from operations of £28.7 million (2005: £29.8 million) remains strong. While working capital control remains good, 2006 saw increased expenditure on acquisitions and on capital projects, including the expansion of Camera Dynamics' Costa Rican facility.

Strategy update and future development

The Group's strategy is summarised in the phrase 'Consolidate – Leverage – Grow'. After an initial phase, during which multiple locations and smaller business units were consolidated into a divisional structure to give economies of scale, the focus shifted to leveraging our skills and exploiting our routes to market in pursuit of growth. While continuous improvement activities are ongoing, the emphasis is on generating growth through ongoing research and development. We continue to review a number of potential acquisition opportunities, some of which are material and would hope that, as in the recent past, a number would complete in the coming year.

We believe the consolidation of our individual brands into stronger businesses provides a sound platform for future growth - each of them has the scale to develop innovative products and services and to deliver them effectively worldwide.

We aim to grow ever closer to our end customer, providing them with better tools and services to do their jobs, while at the same time looking for complementary areas into which the Group can expand and utilise its industry-leading expertise.

Research, development & engineering

An ongoing part of our success is due to continuous innovation by Vitec's staff, developing both new products and new services.

Within Imaging & Staging and Broadcast Systems the Group spends approximately 4.5% of revenue on new product development, £8.7 million in 2006 (2005: £7.8 million). Vitec's businesses are known for the quality and reliability of their products and there is an exciting pipeline of new ideas for the future. During the year our businesses won a number of awards for innovation, a sign that the Group's products remain very relevant to our customers and a testament to the strength

*Significant items are those items of financial performance that the directors consider should be separately disclosed to assist in the understanding of the underlying trading and financial performance achieved by the Group and in making projections of future results. These items are quantified and explained in the Financial Review and in Note 5.

of our R&D capability. Around 25% of sales in 2006 (2005: 19%) were derived from products launched in the last three years.

Within Broadcast Services, continued innovation of its video and audio services is as important. 2006 saw the launch of the 'LTR' programme in the US. Bexel has traditionally offered rentals – this Long Term Rental programme offers our customers the advantages of a lease from a bank, but with the benefits of additional service options from Bexel.

Acquisitions

During the year we made four acquisitions: Petrol broadcast camera bags in January; Bogen Imaging Japan, a photographic distribution business, trading from June; Autoscript prompting systems in October; and in November Tomcat Global, the leading manufacturer of aluminium truss and staging systems, perhaps best known for their projects for the Rolling Stones and U2 tours. These businesses are all complementary to the existing activities of the Group and increase the range of exciting products we can sell to our customers, often through in-house distribution. We also acquired a minority stake in Media Numerics Ltd, which has launched a revolutionary digital audio network for use at live events.

Post balance sheet events

There have been no significant post balance sheet events.

2006 dividend

With improved results and positive trends in our markets the Board is proposing a final dividend of 10.1p per share, resulting in a full year total of 16.5p (2005: 15.5p), an increase of 6.5%. Subject to approval by shareholders, the final dividend will be paid on 31 May 2007 to shareholders on the register on 4 May 2007.

Using adjusted earnings per share before significant items* the dividend is covered 2.1 times (2005: 1.7 times), whilst after significant items* it is covered 2.0 times (2005: 1.5 times).

Board changes

As previously announced, Sir David Bell will step down from the Board following the Annual General Meeting in May 2007. David joined the Board as a non-executive director in 1997 and has provided us with ten years of excellent service and wise counsel, helping us navigate the Group through a period of considerable change.

We are delighted that Maria Richter joined the Board as a non-executive director on 28 February 2007. Maria's background is in corporate finance in the US and she has significant experience with deals involving companies, both in the US and South America, which complements the skills of the Board and will be of use as the Group expands.

Our thanks

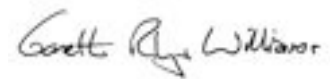
The continued success of Vitec is due primarily to the dedication and skill of all of our colleagues throughout the world – the Group is now seeing the fruits of the efforts they have expended over the past years, for which we thank them.

Outlook for 2007

2007 will not see any benefit from major events for our broadcast businesses. However, given the increasing importance of Vitec's photographic and live entertainment businesses, combined with the contribution from the acquisitions made in 2006 and further operational improvements within Broadcast Systems, the Board looks forward to further growth in 2007.



Michael Harper
Chairman



Gareth Rhys Williams
Chief Executive

Directors' Report continued

Business Review

Overview

Vitec is an international Group, principally serving customers in the worldwide media sector with products and services designed to facilitate the production of video programmes or still images. Vitec is based on strong, well known, premium brands that professionals rely on. Vitec is organised in three divisions: Imaging & Staging, Broadcast Systems and Broadcast Services.

Imaging & Staging - Products for the photographic, video and live event markets



Activities

Design and manufacture of high quality equipment principally for photography, video, cinematography and live events professionals. Distribution of in-house and third party photographic accessories.

Products

Photographic and video camera tripods and heads. Lighting stands, grips and accessories. Lighting and scenery suspension equipment. Camera bags. Live entertainment and exhibition lighting suspension structures and staging systems. Third party products distributed include flash units, light meters and filters.

Locations: France, Germany, Hong Kong, Israel, Italy, Japan, Mexico, Slovakia, UK, USA

Broadcast Systems – Products and systems primarily for broadcast applications



Activities

Design and manufacture of high quality equipment used principally by broadcast and live entertainment professionals. Focused on studio and outside broadcast and film production markets with applications in the air traffic control and government markets.

Products

Manual and remotely controlled camera support pedestals, tripods and heads. Camera and equipment bags. Studio and portable lighting. Scenery hoists and pantographs. Prompting products and services. Microprocessor-controlled batteries and chargers for video cameras. Multi-locational wired and wireless intercom systems.

Locations: China, Costa Rica, France, Germany, Israel, Japan, The Netherlands, Singapore, UK, USA

Broadcast Services – Rental and technical support services, mainly for the broadcast market



Activities

Rental services and selected sales of camera, video, wireless communication and audio equipment, including engineering support for the film and TV programme production markets.

Products

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.

Location: USA

Strategy: 'Consolidate - Leverage - Grow'

Vitec's strategy is to grow ever closer to its end customer, providing them with better tools and services to do their job, while at the same time looking for complementary areas into which the Group can expand and utilise its industry-leading expertise. After an initial phase which yielded economies of scale, during which multiple locations and smaller business units were consolidated into a divisional structure, the focus has shifted to leveraging our skills to develop new products and exploit our routes to market. This phase of the strategy is delivering meaningful growth.

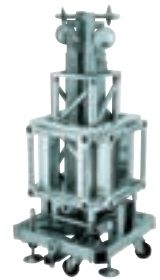
AVENGER



Manfrotto



LITEC



O'Connor

Petrol



sachtler

Vinten RADAMEC



Directors' Report continued

Imaging & Staging (formerly Photographic) Division

Products for the photographic, video and live event markets

Overview

The Imaging & Staging division operates in two main markets: manufacturing and distributing products for the professional and keen amateur photographer and videographer, such as camera supports and bags, and manufacturing lighting and staging systems for the live entertainment market. Lighting supports ('grip') are manufactured for both these markets and for cinematographers. It is organised in three units: Imaging Accessories, Imaging Distribution and Staging Systems.

Strategy

The division's operations are highly interrelated – strengths in photographic accessories and in their distribution are mutually supportive. A focus on constant innovation in product development as well as the control of their distribution in the key markets of the world, which allows us to work more closely with the end-customer, is proving to be a winning combination. Innovation is as important in Staging Systems, where the businesses erecting the stage or lighting systems are looking for ever lighter, easier to use and more elegant solutions to make their event look as good as possible.

2006 performance

2006 was another successful year for this division with revenue of £94.6 million (2005: £76.2 million) up 24.1%, and operating profit before significant items* rising to £16.6 million (2005: £13.6 million), up 22.1%. Constant currency sales and profit growth were £19.1 million and £3.5 million respectively. As in 2005, each part of the business saw revenue growth.

Imaging Accessories continued to benefit from the continued uptake of digital SLR cameras by keen amateur photographers, who also buy the Group's accessory products. 2006 also saw a resurgence of sales of lighting stands to professional photographers. The range of camera supports and bags sold under the National Geographic brand (under licence

from the National Geographic Society) has been well accepted, as has the new Crosspole lighting suspension system, the new 501 HD video head and the new 190 series professional tripod. Continuous improvement activities during the year included the relocation of lighting stand manufacture, part of which was outsourced to China with the rest being consolidated into the existing site at Feltre in Italy.

Imaging Distribution also had a good year – those customers who buy camera supports and bags that are manufactured by the Group also buy other professional products that we distribute to the retailer through Bogen Imaging, our in-house distributor. Bogen is one of the largest photographic and video accessory distributors operating internationally and has strengthened its position through the creation of Bogen Imaging KK, which is based in Tokyo.

Litec and IFF, brought together in 2005, focus on the market for lighting trusses and control systems. That area grew organically but the biggest step forward was the acquisition of Tomcat Global, the worldwide leader in temporary staging for live events, to create a new unit, Staging Systems. We believe the combination of Litec's standard trusses and Tomcat's custom designs and reputation for innovation will be very positive.

As a result of this acquisition, reflecting the increased importance of live events in this division and that we now sell to a wider customer base than purely "photographers", we have renamed the division 'Imaging & Staging'.

	2006	2005
Revenue	£94.6m	£76.2m
Operating profit*	£16.6m	£13.6m
Operating margin*	17.5%	17.8%

*Before significant items. Significant items are amortisation of intangible assets of £0.5 million (2005: £0.2 million) and profit on sale of property of £nil (2005: £0.3 million).

TV Broadcast/Videography Magazine's Vidy Top Innovation Award and Videomaker Editors Most Innovative Product of the Year award for Manfrotto's 560B Fluid Monopod, a product distributed by Bogen Imaging

Technical Image Press Association's Award for Best Innovative Design for Kata bags

Digital Photographer magazine Best Tripod of 2006 for Manfrotto's Mag Fiber 190MF4 Tripod

Digital Photo Gold Award for Manfrotto's 055MF4 and 458B

Gitzo received the DiGi Annual Award for Best Tripod Brand in 2006



Rolling Stones A Bigger Bang tour - Photo courtesy of Mark Fisher

Tomcat Global Corporation was acquired in November 2006. Tomcat Global comprises Tomcat and Brilliant Stages. Tomcat supplies both premium standard and custom aluminium truss systems, principally for the entertainment and exhibition industries. Brilliant Stages is a leading supplier of custom effects and accessories for staged events. Tomcat and Brilliant Stages have undertaken projects for a wide variety of live events for customers such as the Rolling Stones, Pink Floyd, Robbie Williams and U2.

Directors' Report continued

Broadcast Systems Division

Products and systems primarily for broadcast applications

Overview

The Broadcast Systems division provides equipment principally for professionals engaged in producing live events or video content, frequently for subsequent broadcast. The business units, Camera Dynamics, Communications and Mobile Power, sell their products worldwide, either direct to the end-customer or through a network of professional dealers. The division's brands are frequently the acknowledged leaders in their fields.

Strategy

The broadcast market has changed considerably in recent years with a dramatic decline post-9/11. In the production area the market has recently been invigorated by the move to make programmes in 'High Definition' (HD). This involves the upgrading of cameras and the associated ancillary equipment, much of which is provided by Vitec Group companies. We have responded to the changed needs of the marketplace by managing the brands in groupings of similar businesses, enabling us to achieve economies of scale in manufacturing and distribution and to develop exciting new product ranges.

2006 performance

2006 saw a further significant improvement in the underlying result for this division, with revenue of £100.5 million (2005: £91.5 million), up 9.8% and operating profit before significant items* rising to £6.9 million (2005: £5.2 million), up 32.7%. After a very strong first half, all business units showed a year-on-year increase in revenue.

Volumes in Camera Dynamics continued strongly as we benefited from our customers' increased expenditure on production equipment. Revenue growth was particularly good in the US, Middle East and Russia and we have seen further significant interest in our robotic camera control products, particularly following the launch of the new Fusion system. During the year the acquisition and integration of the Petrol bag business was completed and in November we were delighted to acquire Autoscript, the leading manufacturer and

provider of prompting systems and services, which are sold to customers Vitec knows well. Like our existing businesses, Autoscript has a history of product innovation and won several awards during the year. During 2006 we expanded the assembly facility in Costa Rica to include the machining of key components; we believe this will both reduce costs and ease the introduction of new products.

In Communications, the market remained the toughest area for this division. Clear-Com is the brand of choice for many of the outside broadcast vans being built for the Beijing Olympics and Clear-Com systems were used successfully at the Asian Games, seen by many as a test for Beijing. During the year considerable effort was spent updating the product range to comply with new EU lead-free regulations, which have also generated issues for many of our electronics suppliers. With this now done, many new products will be launched in early 2007 which will provide for increased networking, user flexibility and ergonomics. The margins in this unit were unsatisfactory in 2006 and we expect them to improve in 2007; some local management has been changed and we will benefit from the outsourcing of some production to the Far East.

The Mobile Power business had a good year, one of record sales (in US Dollars, where the business is based). The ElipZ system, consisting of camera battery, on-board light, innovative grip and charger, has been well received. It takes the Company's products into a new segment, that of the smaller, handheld cameras often used by the professional news gatherers who have long been used to the quality and service Anton/Bauer provides.

	2006	2005
Revenue	£100.5m	£91.5m
Operating profit*	£6.9m	£5.2m
Operating margin*	6.9%	5.7%

*Before significant items. Significant items are restructuring costs of £1.5 million (2005: £0.9 million), amortisation of intangible assets of £0.1 million (2005: £nil) and profit on sale of property of £0.4 million (2005: £nil).

TV Technology's Superior Technology Star Award and the 4 EVER Group Award for product innovation for Anton/Bauer's ElipZ

Broadcast Engineering's Pick Hit Award for Autoscript's GoPrompt 15

Best of IBC Editors' Awards – TVBEurope, TV Technology's Superior Technology Star Award, Broadcast Engineering's Pick Hit Award and Vidy Top Innovation Award for Autoscript's +Voice-Plus+

TV Technology's Europe Star Award for Autoscript and Vinten's iScript



ALC Broadcast Limited, which is the holding company for the Autoscript prompting businesses, was acquired in October 2006. Autoscript is one of the leading providers of prompting hardware and software to the broadcast industry, with subsidiaries in the UK and USA. Vitec acts as distributor for Autoscript in Germany and Italy. Vinten and Autoscript recently co-developed an innovative prompting system (iScript) which gained one of a number of industry awards recently received by Autoscript.

Directors' Report continued

Broadcast Services Division

Rental and technical support services, mainly for the broadcast market

Overview

The Broadcast Services division provides rental equipment and technical support for demanding outside broadcast events, mostly in the USA, from a network of ten depots. Bexel people have a reputation for solving the most complex problems that arise when these events are broadcast. The division also acts as an integrator for sophisticated audio equipment and resells used equipment into the aftermarket.

Strategy

Customers choose ASG and Bexel because of their reputation for designing creative solutions, providing service excellence and their nationwide footprint. With the most relevant equipment and the best technical back-up, Bexel will continue to target contracts from customers looking for more than simple equipment hire.

2006 performance

Revenue in 2006 of £27.2 million (2005: £27.2 million) was boosted by successful contracts for the Winter Olympics and FIFA World Cup in the first half. In constant currency revenue was up 1.1%, but was unchanged when translated into pounds Sterling. Operating profit before significant items* at £1.7 million (2005: £1.2 million) was up 41.7% due to the Winter Olympics contract, better equipment utilisation and continued good cost control.

With HD technology becoming widely accepted, the capital spending on new equipment which resulted in the successful Winter Olympics contracts has also led to significant customer

commitments for the summer games in Beijing. In turn this will enable Bexel to explore other contracts using similar equipment that would not otherwise have been viable.

With the core US market relatively flat, the emphasis has been on finding innovative new service niches to exploit. In the second half we were delighted to announce that a joint marketing effort to promote longer term contracts has been launched in conjunction with the commercial arm of a Cleveland-based bank, National City Commercial Credit Corporation (NC4). They normally arrange financing leases for their broadcast clients; the 'LTR' programme of long term rental will prove useful for those clients who are looking for more flexible arrangements to acquire assets that need upgrading or other technical services during the life of the lease. NC4 will provide the lease, with Bexel providing the service and a route to market for the equipment at the end of the lease. The first of these deals has been entered into in 2007 and we look forward to finding more.

During the year it was determined that the Irvine facility was no longer viable and it was relocated to the growing rental market in Las Vegas in mid-year. That office has just supported the very successful NBA All-Star games.

	2006	2005
Revenue	£27.2m	£27.2m
Operating profit*	£1.7m	£1.2m
Operating margin*	6.3%	4.4%

*Before significant items. Significant items are £nil (2005: £nil).

- 1 New Fiber Service Vehicle** Supports major live events and fiber construction projects (stadiums, OB trucks, live events).
- 2 OSCARS Awards Show** Fiber infrastructure for worldwide distribution of all TV signals; audio, video and editing equipment for "Red Carpet" coverage.
- 3 NBC Today Show** Portable control room, cameras, audio, video and signal conversion products for all of NBC News Olympic Games coverage.
- 4 Breeders' Cup Racing**
BBS One edit truck with EVS-AVID server tapeless edit workflow; HD super slo-mo cameras; specialty lenses; general audio and video support packages.
- 5 NBA All-Star Game** HD Flypack for 3D camera trials; BBS One edit truck with EVS-Avid server tapeless edit workflow; other audio and video support.
- 6 Hell's Kitchen III Reality Show** On-site control room and audio, with over 85 cameras in use, 24 hours a day for six weeks.
- 7 FIFA World Cup** EVS server systems; telephoto and wide angle lenses; audio and video infrastructure support equipment.
- 8 NFL Super Bowl** BBS One edit truck; Fiber Optic infrastructure; HD specialty lenses; VTR's and monitors; audio and video processing equipment.



5

1



6

2



7

3



4



8

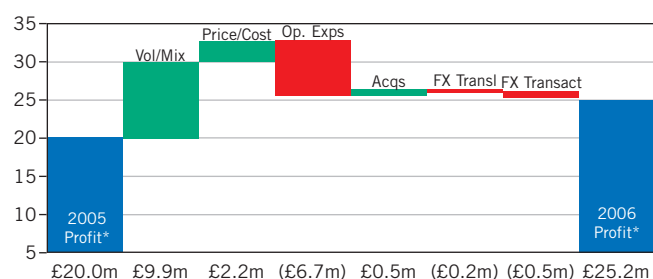
Directors' Report continued

Financial Review

Revenue increased by £27.4 million to £222.3 million, or 14.1% in the year. Of this, £23.3 million (12.1%) was like-for-like, £2.1 million (1.2%) was due to adverse foreign exchange and £6.2 million (3.2%) due to acquisitions (including £1.2 million due to the Kata acquisition part way through 2005). Revenue growth was particularly strong in the UK and the rest of Europe.

Operating profit The table below sets out an analysis of the causes of movements in operating profit before significant items* between 2005 and 2006 and helps to explain the underlying changes in the business during the year. The variances are based on management's best estimates and are not a statutory presentation.

Operating profit before significant items* 2005-06 Variance Analysis (£m)



Operating profit before significant items* was £25.2 million, £5.2 million or 26.0% greater than 2005. The Group's operating profit* margin increased from 10.3% to 11.3%. Despite hedging its foreign exchange transaction exposure, the Group suffered from the weaker US Dollar in the second half of the year. Before adverse foreign currency effects of £0.7 million, the increase in profit was £5.9 million or 29.8%.

Restructuring costs of £1.5 million (2005: £0.9 million) are included in significant items*. This is the last part of the previously announced restructuring plans within the Broadcast Systems division. No further costs will be charged and the cumulative total cost is £4.5 million, within the £4.0-5.0 million originally forecast. There was an operating profit on the sale of a building of £0.4 million (2005: £0.3 million).

Amortisation of acquired intangibles increased to £0.6 million (2005: £0.2 million) due to the recent acquisitions and has been included in significant items*.

Net financial expense before significant items* totalled £1.1 million (2005: £1.6 million) and reduced principally because of an increase in the IAS 19 pension credit to £0.5 million (2005: £0.2 million). Finance expenses included in significant items* consisted of a £0.2 million gain (2005: £0.2 million loss) due to currency movements on loans not accounted for as net investment hedges and £nil (2005: £0.3 million loss) arising from a reduction in the value of foreign exchange options due to foreign exchange market volatility.

* Significant items comprise restructuring costs, goodwill impairment and negative goodwill, amortisation of acquired intangibles, profit on sale of property and fair value adjustments relating to volatile financial instruments.

Taxation The effective taxation rate on operating profit after net finance expense but before significant items* was 40% (2005: 42%). The reduction in the tax rate is due principally to progress made in rationalising the Group's legal structure. The Group's tax charge is relatively high because the significant majority of its profits arise in overseas high tax jurisdictions. We are targeting a rate of 38% in 2007.

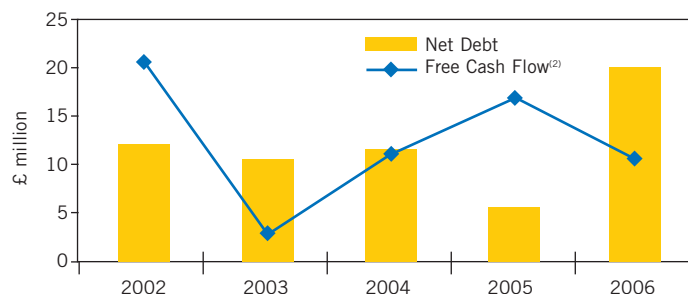
Acquisitions totalled £15.8 million (2005: £4.6 million). The Group completed four acquisitions in 2006: Petrol, a manufacturer of high-end broadcast camera bags; ALC Broadcast Ltd (Autoscript), a leading provider of prompting hardware and software to the broadcast industry; Tomcat Global Corporation, a leading US manufacturer of aluminium trusses for live events; and Bogen Imaging KK, which acquired the businesses of Imaging's two Japanese distributors.

Business	Division	Acq date	Acq ⁽¹⁾ consideration £m	Max potential earnout £m	Max potential consideration £m	Earnout period
2006 acquisitions						
Petrol	Broadcast Systems	16/01/06	1.8	1.8	3.6	06
Bogen Imaging KK	Imaging & Staging	01/06/06	0.9	-	0.9	-
ALC Broadcast Ltd	Broadcast Systems	31/10/06	5.0	2.0	7.0	07-09
Tomcat Global Corp	Imaging & Staging	07/11/06	7.1	3.6	10.7	07-08
Earnout payments for previous acquisitions						
Kata (re 2005)	Imaging & Staging	31/05/05	1.0	n/a	n/a	05-07
Total acquisition cost in 2006			15.8	n/a	n/a	

⁽¹⁾ Including acquisition expenses and net cash acquired.

In addition, in May a minority stake was acquired in Media Numerics Ltd, a company that has developed a digital network product targeted at the live entertainment industry. The planned investment is £1.0 million, with £0.7 million invested in 2006.

Cash flow and net debt



⁽²⁾ Free cash flow is the cash generated from operations less interest, tax and capital expenditure on property, plant & equipment and capitalised IT costs.

Net debt increased to £18.9 million (2005: £5.4 million) mainly because of the two acquisitions we made towards the end of the year.

Despite higher profits, free cash flow reduced to £10.5 million (2005: £17.3 million) as a result of higher capital expenditure, increased working capital and higher tax payments.

Cash generated from operations was £28.7 million (2005: £29.8 million). Capital expenditure and financial investments totalled £13.9 million (2005: £11.7 million), of which £4.1 million (2005: £5.4 million) related to rental assets, partly financed by the proceeds from rental asset disposals of £1.4 million (2005: £1.2 million).

Whilst working capital increased, as a percentage of revenue (before acquisitions) it was 22.0% (2005: 23.1%) at the year end and averaged 23.1% in 2006 (2005: 25.9%). Inventory increased by £9.8 million to £41.1 million, reflecting higher revenue, the new acquisitions and deliberately increased inventory levels in Imaging and Camera Dynamics in order to reduce delivery lead times. As a result, inventory days increased to 116 (2005: 99 days). Trade receivables were only slightly higher than 2005 at £31.2 million (2005: £30.5 million), despite higher revenue, which lowered debtor days to 51 (2005: 57 days).

Tax paid in 2006 of £5.5 million was significantly greater than 2005 (£1.6 million). 2005 benefited from Italian tax credits arising from the sale of the Alu business in 2003, as well as a £0.7 million UK tax rebate, whereas 2006 payments returned to more normal levels.

Treasury 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.

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

As in previous years, a portion of the transactions of subsidiaries in foreign currencies is hedged 12 months forward, as set out below. Some cover was also taken out for the first quarter of 2008.

Currency millions	December 2006	Average Rate	December 2005	Average Rate
US Dollars sold for Euros				
Forward contracts	\$9.6	1.23	\$22.9	1.22
Options ⁽³⁾	\$23.6	1.25	\$17.7	1.24
US Dollars sold for Sterling				
Forward contracts	\$17.3	1.85	\$15.5	1.78

⁽³⁾ Includes cylinder options, where the mid-point of range is taken.

The Group does not hedge its foreign currency profits. A proportion of the Group's foreign currency net assets are hedged using normal Group borrowings and forward contracts.

Financing activities The Group's principal financing facility is a five year £100 million committed multicurrency revolving loan agreement involving five banks, expiring on 24 January 2010. At the end of December, £26.3 million (2005: £17.2 million) of the facility was utilised.

The average cost of borrowing for the year was 5.4% (2005: 4.6%) reflecting the worldwide upward trend in interest rates. Net interest cost (consisting of net interest payable and commitment fees) was £1.4 million (2005: £1.3 million). Net interest cover (using operating profit before significant items*) remained high at 18 times (2005: 15 times).

UK pensions At the end of 2003 the Group closed both of its UK defined benefit schemes to new members. Since 2004 a Group personal pension plan has been made available for new employees with Standard Life. In November 2005 the defined benefit schemes were merged. As at 31 December 2006 the number of active members in the merged scheme had reduced by 7% to 192 (2005: 206). Total scheme members are 662 (2005: 662).

A triennial actuarial valuation was undertaken as at 5 April 2004. On the basis of the assumptions adopted, the value of the schemes' assets (£28.3 million) 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, employers' and employees' contributions were increased. In November 2005 the Group contributed £2.1 million to fund the deficit highlighted by the 2004 triennial valuation and, also, to facilitate the merger of the two schemes.

Following the funding actions set out above, the Group's UK defined benefit pension liabilities under IAS 19 (amended) as at 31 December 2006 were estimated by the Group's actuaries to be £43.5 million (2005: £42.0 million) and the deficit £1.0 million (2005: £3.1 million). The deficit has reduced principally because of an increase in the corporate bond interest rate used to calculate the present value of future liabilities, partially offset by an increase in liabilities arising from an assumption of greater longevity for scheme members. The principal assumptions used for recent valuations are set out below.

	2006	2005	2004
Inflation rate	3.0%	2.8%	2.8%
Expected rate of increase in:			
Salaries	5.0%	4.8%	4.8%
Pensions and deferred pensions	3.0%	2.8%	2.8%
Discount rate	5.2%	4.8%	5.3%
Long term rates of return			
Equities	7.8%	7.8%	7.9%
Bonds	4.7%	4.3%	4.8%
Property	6.2%	6.3%	6.8%
Longevity			
Pensioners currently aged 65	86/89 ⁽⁴⁾	84/87 ⁽⁴⁾	84/87 ⁽⁴⁾
Non-pensioners currently aged 45	88/91 ⁽⁴⁾	86/89 ⁽⁴⁾	86/89 ⁽⁴⁾

⁽⁴⁾ Male/female.

Principal risks and uncertainties

US market Forty eight per cent of the Group's 2006 revenue was from the Americas, principally the USA. This percentage has reduced in recent years, mainly due to the weakness of the US Dollar, but the Group remains very susceptible to any major deterioration in demand for its products and services from US customers. It is difficult to mitigate this risk but the

Directors' Report continued

Group is seeking to reduce its dependence on the US by actively widening its sales and distribution activities, particularly into Asia.

Foreign exchange The great majority of the Group's profits is earned in overseas currencies and is therefore subject to translation risk if Sterling strengthens. To mitigate this, a proportion of the Group's foreign currency net assets are hedged using normal Group borrowings and forward contracts.

Also, as many of the Group's businesses sell worldwide from various countries of manufacture, so the Group is subject to transaction risk, particularly that of a weaker US Dollar. The Group partially hedges its major foreign exchange receipts by selling currency 12-18 months forward on a rolling basis. In addition the Group seeks to outsource parts, where appropriate, to low-cost countries, which are frequently Dollar-denominated.

Broadcast market The Group's two broadcast divisions are at risk from a reduction in the capital expenditure requirements of its broadcast customers and, in the US, their rental requirements. This dependence is changing as broadcasting moves from TV to delivery by other modes such as internet and mobile services. To mitigate this, the Group markets its products and services to all of these producers of broadcast video material, as well as to the religious, corporate and government sectors.

Low-cost competition The Group is at risk from low-cost competitors who may sell similar products at lower prices, particularly for higher volume items such as photographic tripods. While the Group also sources those cheaper products from lower-cost countries, it combats this threat by patenting its technologies wherever possible and taking action against any infringement, continuously innovating its products and employing its significant marketing and distribution capabilities.



Alastair Hewgill

Alastair Hewgill
Finance Director

Key Performance Indicators (KPIs) and Other Measures

KPI/Measure	Purpose	Definition/ Calculation	Unit	Data Source	Target ongoing average	Value	
						2006	2005
Delivering value to shareholders							
Adjusted basic earnings per share	Monitor an indicator of earnings performance	Profit for the financial year after tax, before discontinued operations and significant items <i>divided by</i> weighted average number of shares in issue during the financial year	pence per share	Audited accounts	n/a	35.3p	26.0p
Return on sales	Provide a measure of overall operational efficiency	Operating profit before significant items for the financial year <i>divided by</i> total revenue for the financial year	% of revenue	Audited accounts	n/a	11.3%	10.3%
Total shareholder return (TSR)	Monitor a measure of investment return for shareholders	Share price growth plus dividends that have been declared, paid and reinvested in Vitec's shares over the three year period ended on 31 December 2006 or 2005 Share price: 30 trading day average, over the preceding 30 days	average compound annual growth %	Data-stream	n/a	20.4%	14.8%
Free cash flow	Measure cash flow generated before "corporate" actions (M&A, share issues, dividends, share buy-backs etc)	Cash generated from operations in the financial year <i>after</i> net capital expenditure, net interest and tax paid in the financial year	£m	Audited accounts	n/a	10.5	17.3
Controlling our working capital							
Working capital %	Provide an indication of the efficient utilisation of working capital resources	Year end: Net inventory plus trade receivables less trade payables at the end of the financial year <i>divided by</i> total revenue of the financial year	% of revenue	Audited accounts	25%	22.0%	23.1%
		Average: Average of net inventory <i>plus</i> trade receivables <i>less</i> trade payables at the end of each month of the financial year <i>divided by</i> total revenue of the financial year Exclude acquisitions in the financial year	% of revenue	Monthly management accounts	25%	23.1%	25.9%
Inventory days	Provide an indication of how long it takes on average for Vitec to turn its inventory into revenue and how ready we are to supply customers	Net inventory at the end of the financial year <i>divided by</i> total cost of sales of the financial year <i>times</i> number of days in the financial year	days	Audited accounts	110	116	99
Debtor days	Provide an indication of how long it takes on average for Vitec to receive payment on accounts receivable	Trade receivables at the end of the financial year <i>divided by</i> total revenue of the financial year <i>times</i> number of days in the financial year	days	Audited accounts	55	51	57

Directors' Report continued

Key Performance Indicators (KPIs) and Other Measures continued

KPI/Measure	Purpose	Definition/ Calculation	Unit	Data Source	Target ongoing average	2006	Value 2005
Innovation and growth							
Like-for-like revenue growth	Monitor volume growth excluding effects of acquisitions and divestments	Total revenue of the current financial year excluding external revenue from acquired businesses <i>divided by</i> total revenue of the prior financial year <i>less 1 times</i> 100% Acquired businesses: exclude external revenue for each month in the current financial year with no comparative amount in the same month of the prior financial year	%	Audited accounts and, for acquired businesses, monthly management accounts	n/a	10.9%	3.9%
Revenue from new products	Measures Vitec's ability to grow by innovation	Revenue for each month of the financial year from products launched in the previous 36 months <i>divided by</i> total product revenue of the financial year <i>times</i> 100% Products launched: includes new products and re-launched modified existing products New products: includes brand new products and major upgrades, but not restyling or replacements Launch date: date first external revenue achieved Total product revenue: total Vitec revenue excluding the Broadcast Services division Exclude acquisitions in the current financial year	% of revenue	Audited accounts and internal reports from Vitec Business Units	20%	24.9%	19.0%
Monitoring our environmental impact							
Usage of electricity	Monitor electricity, gas and water consumption	Amount of electricity consumed in the financial year	megawatt hours	Internal reports from Vitec Business Units	n/a	10,180	9,125
Usage of gas		Amount of gas consumed in the financial year	megawatt hours			6,919	7,092
Usage of water		Amount of water consumed in the financial year Exclude consumption from acquisitions in the financial year; prior year amounts adjusted from previous Annual Report to include acquisitions in that year	'000 cubic metres			28.2	27.5 ⁽¹⁾
Number of employee accidents ⁽²⁾	Track changes in health and safety performance as it directly impacts hours worked per employee	Rate of non-fatal workplace injuries leading to absences from work of more than three days in the financial year	rate per 100,000 employees per year	Internal reports from Vitec Business Units	10% reduction pa	835	1,040

The Group believes that its Key Performance Indicators and Other Measures must remain relevant to the needs of the business and they will therefore be subject to refinement and change from time to time in accordance with the needs of the business.

⁽¹⁾ Restated to reflect more accurate information gathering.

⁽²⁾ Note: there were no fatal workplace injuries in 2006 or 2005.

Board of Directors



Michael Harper BSc Eng, MSc

Chairman, non-executive, British, aged 62, appointed to the Board on 14 June 2004, became Chairman on 1 November 2004; Chairman of the Nominations Committee. Currently non-executive director of Ricardo plc, Umeco plc, BBA Group plc and Hamilton, Bermuda-Catlin Group Ltd. Formerly Chief Executive of Kidde plc and held senior roles with Vickers plc.



Gareth Rhys Williams BSc, MBA

Chief Executive, British, aged 45, 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 52, 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. Prior to that he was a management consultant with Coopers & Lybrand Deloitte, specialising in the industry and commerce sector.



Sir David Bell MA

Non-executive, British, aged 60, appointed to the Board on 12 March 1997; member of the Nominations 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.



Simon Beresford-Wylie BA

Non-executive, independent, dual British and Australian, aged 47, appointed to the Board on 1 March 2006; member of the Audit Committee, the Nominations Committee and the Remuneration Committee. Currently Executive Vice President and General Manager of Networks at Nokia having joined in 1998 from Indian mobile operator Modi Telstra (Pte Ltd) where he was Chief Executive Officer. Prior to that he held various management positions within Telstra's Corporate and Government Business Unit.



Nigel Moore FCA

Non-executive, independent, British, aged 62, appointed to the Board on 1 March 2004; Chairman of the Audit Committee, member of the Nominations Committee and of the Remuneration Committee. Formerly a London based partner of Ernst & Young. Currently Chairman of The TEG Group plc, a director of IntelligentComms Ltd, Ascent Resources plc, Hochschild Mining plc and Production Services Network Ltd and a Trustee of the Butten Trust.



Maria Richter BA, JD

Non-executive, independent, dual American and Panamanian, aged 52, appointed to the Board on 28 February 2007; member of the Audit Committee, the Nominations Committee and the Remuneration Committee. Currently a director of Pro Mujer International, a non-executive director of The Pantry Inc and National Grid plc and on the Private Equity Advisory Board of Republic Financial Corporation. Previously with Morgan Stanley for nine years, most recently as Managing Director of the Corporate Finance Retail Group. Prior to that she held senior positions with Salomon Brothers, Prudential Capital Corporation and Power Funding Associates.



Will Wyatt CBE, BA

Non-executive, independent, British, aged 65, appointed to the Board on 10 June 2002; Senior Independent Director; member of the Audit Committee and the Nominations Committee and Chairman of the Remuneration Committee. Currently Chairman of Human Capital Ltd, Chairman of the University of the Arts London and director of Racing UK Ltd, Racing UK Holdings Ltd and Racecourse Media Services Ltd. Formerly Chief Executive, BBC Broadcast. Other posts within the BBC included Managing Director of Network Television.

Roland Peate FCIS, ACMA Secretary

Directors' Report continued

Directors

The directors during the whole of the year were Gareth Rhys Williams, Alastair Hewgill, Michael Harper, Sir David Bell, Nigel Moore and Will Wyatt. Simon Beresford-Wyllie was appointed to the Board on 1 March 2006. John Potter, who in 2006 completed just over seven years as a non-executive director, stood down following the Annual General Meeting in 2006.

Maria Richter was appointed to the Board on 28 February 2007. She was also appointed to the Audit Committee, the Nominations Committee and the Remuneration Committee on the same date.

The remuneration of the directors is set out in the Remuneration Report on pages 21 to 27. Photographs and biographies of the current directors are set out on page 17.

Directors' shareholdings

Executive directors are required to build up, over a period, a meaningful holding of shares in the Company. Other members of the Executive Board are encouraged to do so. The value of holdings by the executive directors at the end of 2006 represented 107% and 85% (2005: 57% and 49% respectively) of the base salaries of Gareth Rhys Williams and Alastair Hewgill respectively (calculated by reference to the middle market price of a share of The Vitec Group plc on 29 December 2006, the last dealing day of 2006, which was 528.5p).

The table opposite 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 2006 and 1 January 2006 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 21 to 27.

Substantial shareholdings

As at 20 March 2007, the Company had been notified of the following interests of 3% or more of the voting rights of its issued share capital:

	Number of voting rights	%
Harris Associates	4,657,562	11.28
Barclays PLC	3,781,542	9.16
Prudential plc	3,098,275	7.50
Baring Trustees (Guernsey) Limited	2,698,374	6.58
Manfrotto SA	2,478,374	6.05
Artisan Partners Limited Partnership	2,272,587	5.51
Aberforth Partners LLP	2,228,069	5.40
Hermes UK Small Companies Focus Fund ^{(1),(2)}	2,056,234	4.98
AXA SA	2,054,689	4.98
Legal & General Group plc	1,241,155	3.00

⁽¹⁾ Hermes Investment Management Limited notified the interest as agent for Hermes UK Small Companies Focus Fund. BT Pension Scheme Trustees Limited is the parent undertaking of Britel Fund Trustees Limited, which is the parent undertaking of Hermes Pensions Management Limited. Hermes Pensions Management is the parent undertaking of Hermes Investment Management Limited (holding 0.91% of the Company's voting rights) and of Hermes Focus Asset Management Limited (holding 4.98% of the Company's voting rights). Hermes Investment Management Limited hold the voting rights under a standing proxy contained in investment management agreements with various underlying clients, which includes all the shares owned directly by BT Pension Scheme. Hermes Focus Asset Management Limited hold the voting rights as General Partner under a standing proxy contained in limited partnership agreements with various limited partnerships.

⁽²⁾ Each of the following has an interest in the Company's shares by virtue of an interest in Hermes UK Small Companies Focus Fund: BT Pension Scheme Trustees Limited, The Trustee of BT Pension Scheme⁽³⁾; Royal Mail Pensions Trustees Limited and Possfund Custodian Trustee Limited; Devon County Council; The Essex County Council Pension Fund; Nottinghamshire County Council; Ram Trust Services Inc.

⁽³⁾ Has also disclosed interests totalling a further 377,370 shares in the Company; the aggregate interest is 5.90%.

Directors' shareholdings	31 December 2006	1 January 2006 or subsequent date of appointment
Chairman		
Michael Harper	30,000	30,000
Executive Directors		
Gareth Rhys Williams	60,632 ⁽¹⁾	43,202 ⁽²⁾
Alastair Hewgill	32,002 ⁽¹⁾	24,607 ⁽²⁾
Non-executive Directors		
Sir David Bell	-	-
Simon Beresford-Wyllie	2,000	-
Nigel Moore	9,395	5,695
Will Wyatt	675	675
	134,704	104,179

⁽¹⁾ Includes interests of 14,172 shares by Gareth Rhys Williams and 10,004 shares by Alastair Hewgill purchased in the market using funds supplied by the two directors and held by Halifax EES Trustees International Ltd, the trustee used to hold shares in respect of awards made under the Deferred Bonus Plan.

⁽²⁾ Includes interests of 18,202 shares by Gareth Rhys Williams and 8,707 shares by Alastair Hewgill purchased in the market, in respect of awards made under the Deferred Bonus Plan, using funds supplied by the two directors and held by Halifax EES Trustees International Ltd.

Share capital

Details of shares issued during the year are set out in Note 25 to the Consolidated Accounts on page 70. An analysis of shareholdings is shown on page 98. The middle market price of a share of the Company on 29 December 2006, the last day of dealing in 2006, together with the range during the year, is also shown on page 98. For details of own shares held see Note m to the Company Accounts on page 94.

Committees of the Board

The Board has an Audit Committee, a Nominations Committee and a Remuneration Committee. Details of those Committees are contained in the Corporate Governance section of this Annual Report and in the Remuneration Report.

Remuneration Report

The Group's Remuneration Report is set out on pages 21 to 27.

Corporate Social Responsibility Report

The Group's report on social, environmental and ethical matters is set out on pages 28 to 31. The Group has policies in respect of the following key areas: risk and fraud, employment, whistleblowing, environment, human rights, community impact and involvement and relationships with suppliers and customers and other stakeholders. It regularly reviews those policies and revises them as and when necessary.

Corporate Governance

The Group's report on corporate governance is on pages 32 to 38.

Donations

During 2006 donations totalling £68,539 (2005: £52,896) were made by Group companies. In common with most companies, the Group has limited resources and the amount of money available for charitable purposes varies from time to time. 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 page 31.

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 2007. For the financial year ended 31 December 2006, the Group (including the acquisitions made during the year) paid its suppliers on average within 67 days (2005: 62 days (restated to reflect more accurate information gathering)) of date of invoice.

Annual General Meeting

The Annual General Meeting for 2007 will be held on Tuesday 29 May 2007 at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB.

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

The Company will again be making use of the electronic voting facility provided by its registrars, Capita Registrars. The facility has been extended to include CREST voting for members holding their shares in uncertificated form. For further information please refer to the section on Online services and electronic voting set out on page 98.

The business of the Annual General Meeting will include the consideration by shareholders of the report and accounts for the year ended 31 December 2006, the Remuneration Report, the proposed dividend, election of a director, re-election of a director, the re-election of the auditors and the following further items of business.

Resolutions to reflect a number of changes in the law resulting from the Companies Act 2006. Details are set out 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. 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 5 March 2007. The authority will expire at the end of the Company's next Annual General Meeting or, if earlier, on 29 August 2008.

The 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. Such a resolution was first passed at the 1998 Annual General Meeting and has been renewed by shareholders at each subsequent Annual General Meeting. 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.

Directors' Report continued

Auditors

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

By order of the Board

Roland Peate

Secretary

5 March 2007

Cautionary statement Statements made in the Directors' Report contain forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Remuneration Report

This Report contains the information required under the 2003 Combined Code on Corporate Governance and under the Directors' Remuneration Report Regulations 2002. A resolution to approve the Report will be proposed at the 2007 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 beginning of 2006, the Remuneration Committee comprised Will Wyatt (Chairman of the Committee), Nigel Moore and John Potter. On 1 March 2006 Mr Beresford-Wylie was appointed a member of the Committee. On 24 May 2006 John Potter retired as a director and member of the Committee. Maria Richter became a member of the Committee on her appointment to the Board on 28 February 2007.

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 Chairman, Michael Harper, the Chief Executive, Gareth Rhys Williams, and Sir David Bell attend meetings by invitation of the Committee. The executive directors are not present when their 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

Remuneration packages are formulated to attract, retain and motivate 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. During the year, the Committee received external advice from Watson Wyatt Remuneration Consultants. Watson Wyatt also provides pensions advice and services to the Company. They take into account the responsibilities involved and remuneration packages in comparable companies that have similar international operations.

It is the Company's policy to make provision for pensions for executive directors through funded retirement benefit schemes. Up to the pensions earnings cap, retirement benefits are provided through an approved retirement benefit scheme. In the light of the introduction of new pensions regulations that came into force on 6 April 2006 (known as A-day), the pension arrangements for the executive directors were reviewed and revised. For further information, see page 24 and the table entitled Pensions related remuneration on page 25.

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 2007 and future years although it will be reviewed from time to time.

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 three years but their appointments 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

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. If they achieve maximum performance in relation to the performance-related elements of their remuneration, those elements would, in total, account for 50% of their total cash remuneration. Executive directors are required to defer a proportion of any annual bonus. The deferred bonus is held in the form of shares in the Company.

Executive directors also receive share incentives, company vehicle or cash allowance, fuel where a company vehicle is provided, medical health insurance, membership of the Group's Pension Scheme, life assurance and additionally, for Gareth Rhys Williams, contributions towards a permanent health arrangement.

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.

Gareth Rhys Williams, Chief Executive, aged 45, 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 2007 will be calculated on the basis that up to 75% of his base salary relates to the achievement of operating profit targets and up to 25% of his base salary relates to specific personal objectives. The unexpired term of Gareth Rhys Williams' service contract, to his normal retirement date, is 15 years.

Remuneration Report continued

Alastair Hewgill, Finance Director, aged 52, 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 2007 will also be calculated on the basis that up to 75% of his base salary relates to the achievement of operating profit targets and up to 25% of his base salary relates to specific personal objectives. The unexpired term of Alastair Hewgill's contract, to his normal retirement date, is eight years.

Incentive arrangements

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 was carried out by Deloitte and Touche in early 2004. That review 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 at the time, include the requirement for executive directors to build up, over a period, a meaningful holding of shares in the Company (see page 18 for further details), and also resulted in a new Long Term Incentive Plan and a new Deferred Bonus Plan which were approved by shareholders at the Annual General Meeting in 2005. These new schemes replaced the previous Long Term Incentive Plan and Deferred Bonus Plan.

The 2005 Long Term Incentive Plan was implemented and was used in June 2005 and April 2006 to make awards to the executive directors and the other members of the Executive Board and also to the Group's key senior management below the level of the Executive Board as envisaged when shareholder approval was received. The 2005 Deferred Bonus Plan has been used in connection with bonuses paid in 2006 arising from the Executive Bonus Scheme for 2005 and will be used for future years.

The performance conditions applicable to the Group's 2005 Long Term Incentive Plan and to the matching element of the 2005 Deferred Bonus Plan relate to total shareholder return against a comparator group of companies of a similar size and with similar geographical spread. Awards under the previous Deferred Bonus Plan were not subject to any performance targets. The performance conditions under the Group's 2002 Share Option Plans are expected to continue to relate to increases in earnings per share.

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

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 exercises of options and awards.

In line with the advice from Deloitte and Touche, a grant of share options was made in June 2005 under the 2002 Unapproved Share Option Plan to the executive directors and the other members of the Executive Board.

A grant was made to one new member of the Executive Board in April 2006. Further grants are planned to be made to that group of executives every three years. The next grant is expected to be in 2008.

Non-executive directors are not eligible to participate in the Company's share incentive schemes and consequently they do not hold any share options or other share incentives.

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. Awards and grants take into account the overall and flow limits advised by the Association of British Insurers.

The Group currently has the following incentive schemes and plans under which awards are outstanding and further awards are proposed.

2002 Unapproved Share Option Plan

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 earnings per share of the Company, after adjustments for exceptional or extraordinary items, exceeds the percentage growth in the retail prices index over the three year performance period by 2% per annum (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 4% per annum 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 Approved Share Option Plan

This plan is the same as the 2002 Unapproved Share Option Plan and has the same performance condition. It is approved by HM Revenue and Customs.

2005 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 Vitec's total shareholder return (TSR) over a period of three years, relative to a comparator group of other companies.

Performance condition: If Vitec's TSR performance is at the median of the comparator group, 35% of an award may vest. The full award may vest if Vitec's TSR performance is in the top 20% of the comparator group. There is pro-rata straight line vesting between these two points. The Remuneration Committee will also consider the underlying financial performance of the Company before it confirms vesting.

2005 Deferred Bonus Plan

Executive directors are required to defer a proportion (currently 20%) of any cash bonuses 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.

However, subject to the discretion of the Remuneration Committee, the executive may voluntarily decide to defer a higher proportion up to a maximum of 100% of any bonus paid under the annual bonus scheme. 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, and subject to the performance condition, 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 Halifax EES Trustees International Ltd until exercise. Dividends that would have accrued to the deferred shares and the matching shares over the three years will be taken into account when calculating the final number of shares to vest.

Performance conditions: If the executive remains in employment for three years and if in that period the Company's TSR relative to a comparator group of other companies is at median, or above, of the comparator group, the deferred shares will be matched at the rate of:

- one share for every three shares at median performance
- one share for every one share within the top 20% performance

There will be pro-rata straight line vesting between these points.

Sharesave Scheme and International Sharesave Plan

The Group 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, including the executive directors, 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.

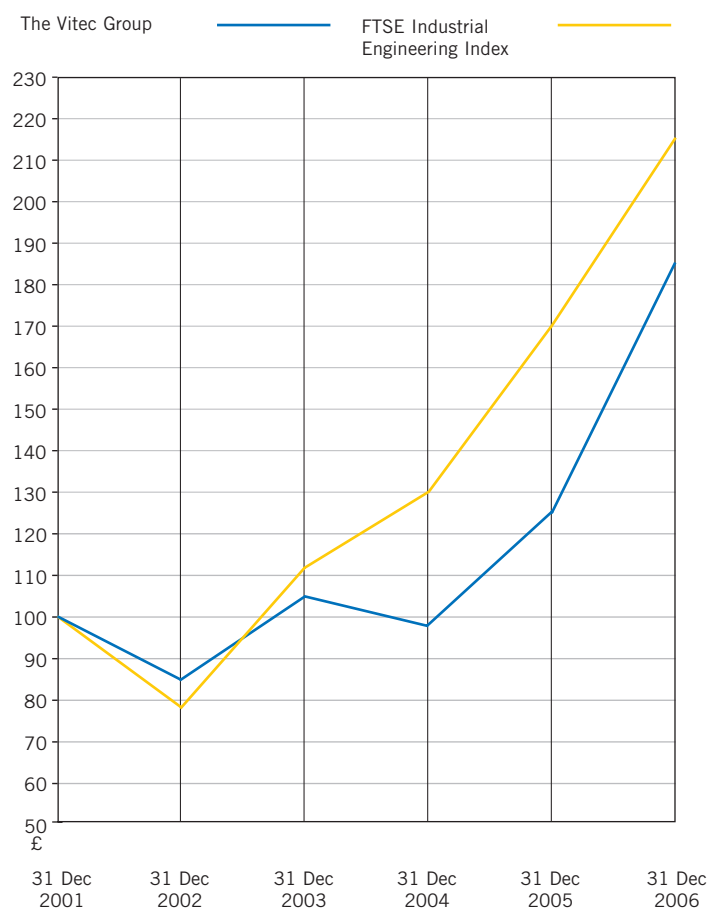
Five year share price performance 2002-2006

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 Industrial Engineering Index for the five year period 2002-2006, assuming an initial investment of £100. The Industrial Engineering 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.

Comparison based on 30 trading day average values for both FTSE Industrial Engineering Index and Vitec Group shares



The following information has been audited.

Directors' remuneration

Michael Harper, Chairman, is currently paid a fee at the rate of £95,000 per annum. This was increased from £85,000 per annum on 1 July 2006. This fee is fixed for two years. On 1 July 2006, the fee payable to the other non-executive directors was increased from £27,500 per annum to £30,000 per annum. These fees are also fixed for two years. The previous increase, from £25,000 per annum to £27,500 per annum, was on 1 July 2004. The next fee review for the non-executive directors will be on 1 July 2008. The chairmen of the Remuneration Committee and of the Audit Committee, Will Wyatt and Nigel Moore respectively, receive an additional fee for their services as chairmen of those Committees. Will Wyatt receives an additional £4,000 per annum and Nigel Moore receives £6,500 per annum. A fee of £2,000 is paid to the Senior Independent Director, Will Wyatt. The non-executive directors do not receive any other benefits from the Company.

Remuneration Report continued

Gareth Rhys Williams, Chief Executive, currently receives an annual salary of £321,000, increased from £300,000 with effect from 1 January 2007. Mr Rhys Williams is a member of the Vitec Group Pension Scheme and contributes 9% of his pensionable salary under that scheme. The accrual rate is one fortieth of the pensions earnings cap for each year of pensionable service. Commencing on 6 April 2006 (A-day), Mr Rhys Williams was paid, with his salary, 40% of the amount by which his base salary exceeds the Company's notional pensions earnings cap. Prior to this new arrangement the Company made a contribution of 24% of his annual salary in excess of the pensions earnings cap to his funded unapproved retirement benefits scheme, in addition to a guaranteed pension related bonus of 16% of his annual salary in excess of the pensions earnings cap also paid to him.

Gareth Rhys Williams is eligible for a performance-related bonus, based on Company performance and, when determined by the Remuneration Committee, individual performance, of up to 100% of base salary each year. In respect of 2006, his bonus was calculated upon the Group's financial performance and the achievement of personal objectives. Mr Rhys Williams was paid a bonus of £281,250 in respect of 2006 (2005: £158,496).

Alastair Hewgill, Finance Director, currently receives an annual salary of £212,000, increased from £200,000 with effect from 1 January 2007. Mr Hewgill is a member of the Vitec Group Pension Scheme and contributes at the rate of 9% of his pensionable salary. Additionally, payments at the rate of 25% of the difference between the amount of his base salary and the pensions earnings cap are paid monthly by the Company into Mr Hewgill's Group Personal Pension Plan. Mr Hewgill is eligible for a performance-related bonus based on Company performance and, when determined by the Remuneration Committee, individual performance, of up to 100% of base salary each year. Mr Hewgill was paid a bonus of £187,500 in respect of 2006 (2005: £108,039).

During the year the highest paid director was Gareth Rhys Williams who received £680,941 (2005: £538,118⁽³⁾).

Details of the directors' remuneration for 2006 with comparatives for 2005 are set out in the following tables:

Director's name	Salaries and fees		Benefits ⁽¹⁾		Performance related annual bonus		Pension related remuneration ⁽²⁾		2006 £	Total 2005 £
	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £		
Chairman										
Michael Harper	90,000	85,000	-	-	-	-	-	-	90,000	85,000
Executive Directors										
Gareth Rhys Williams	300,000	285,000	22,511	22,496	281,250	158,496	77,180	72,126	680,941	538,118 ⁽³⁾
Alastair Hewgill	200,000	190,000	13,586	12,434	187,500	108,039	23,769	15,825	424,855	326,298
Non-executive Directors										
Sir David Bell	28,750	28,542	-	-	-	-	-	-	28,750	28,542
Simon Beresford-Wylie	24,167	-	-	-	-	-	-	-	24,167	-
Nigel Moore	34,500	32,500	-	-	-	-	-	-	34,500	32,500
John Potter	13,750	27,500	-	-	-	-	-	-	13,750	27,500
Will Wyatt	33,000	29,063	-	-	-	-	-	-	33,000	29,063
	724,167	677,605	36,097	34,930	468,750	266,535	100,949	87,951	1,329,963	1,067,021

⁽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 £16,408 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 2006 benefits.

⁽²⁾ For the year 2005 Gareth Rhys Williams was paid a pension-related bonus of £28,854 calculated at 16% of his annual salary in excess of the pensions earnings cap. During that year the Company made a contribution of 24% of his annual salary in excess of the pensions earnings cap to his funded unapproved retirement benefits scheme (FURBS) (£43,272). That arrangement continued up to 5 April 2006. Commencing 6 April 2006 (A-day) contributions to Mr Rhys Williams' FURBS and his pension-related bonus both ceased and a salary supplement was paid to him instead - see page 24.

For Alastair Hewgill, contributions beyond the earnings cap were made to a group personal pension plan. For 2006 those contributions totalled £23,769 (2005: £15,825).

⁽³⁾ Gareth Rhys Williams' total for 2005 has been restated to reflect the change in pension arrangements as described more fully in Note 2 above.

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
	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £	2006 £
Gareth Rhys Williams	13,801	10,780	2,730	2,673	9,707	9,423	16,992	14,690	124,433	90,904	23,822
Alastair Hewgill	15,008	11,953	2,732	2,898	4,955	10,953	37,257	29,124	210,199	153,681	51,563

This table should be read in conjunction with the information given on page 24.

Remuneration Report continued

Directors' share options		At 1 January 2006 (shares)	Options exercised during year (shares)	Options lapsed during year (shares)	Options granted during year (shares)	At 31 December 2006 (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	-	See Note 2	Sep 2012
2002 Unapproved	Jun 2005	95,000	-	-	-	95,000	300	-	Jun 2008	Jun 2015
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										
2002 Unapproved	Jun 2005	63,333	-	-	-	63,333	300	-	Jun 2008	Jun 2015
SAYE options	May 2003	7,110	-	-	-	7,110	231	-	Jul 2008	Dec 2008
		315,017	-	-	-	315,017				

⁽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, representing 0.3% (2004: 0.3%) of the called up share capital of the Company, 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 Halifax EES Trustees International Ltd. Under the transitional arrangement, the cash bonus scheme ran in tandem with the share option and to the extent that the cash bonus was not triggered by Mr Rhys Williams prior to the first occasion upon which he became entitled to exercise the share option granted on 19 September 2002, the cash bonus scheme would lapse and would be replaced by the share option. The cash bonus was not triggered and therefore the share option granted on 19 September 2002 has now replaced the share price related cash bonus award.

⁽²⁾ The performance condition having been satisfied, this option is now exercisable.

Directors' long term incentives		Awards at 1 January 2006 (shares)	Awards exercised during the year (shares)	Awards lapsed during the year (shares)	Awards made during the year (shares)	At 31 December 2006 (shares)	Market price of a share at the date of award (pence)
Awards under the Long Term Incentive Plans		Date of award					
Gareth Rhys Williams	Mar 2003	50,485	-	50,485	-	-	257.5
	Mar 2004	37,455	-	-	-	37,455	357.5
	Jun 2005	95,000	-	-	-	95,000	300.0
	Apr 2006	-	-	-	57,143	57,143	525.0
Alastair Hewgill	Mar 2003	30,097	-	30,097	-	-	257.5
	Mar 2004	25,175	-	-	-	25,175	357.5
	Jun 2005	63,333	-	-	-	63,333	300.0
	Apr 2006	-	-	-	38,095	38,095	525.0
		301,545	-	80,582	95,238	316,201	

Awards under the Deferred Bonus Plans	Date of award	Awards at 1 January 2006 (shares)	Awards exercised during the year (shares)	Awards lapsed during the year (shares)	Awards made during the year (shares)	At 31 December 2006 (shares)	Market price of a share at the date of award (pence)	Market price at exercise date (pence)
Gareth Rhys Williams	June 2003							
	Basic	7,705	7,705	-	-	-	345	437
	Matching	13,755	13,755	-	-	-	345	437
	June 2005							
	Basic	10,497	-	-	-	10,497	336	
	Matching	17,886	-	-	-	17,886	336	
	May 2006							
	Core	-	-	-	3,675	3,675	505	
Alastair Hewgill	June 2003							
	Basic	1,651	1,651	-	-	-	345	437
	Matching	2,947	2,947	-	-	-	345	437
	June 2005							
	Basic	7,056	-	-	-	7,056	336	
	Matching	12,022	-	-	-	12,022	336	
	May 2006							
	Core	-	-	-	2,948	2,948	505	
		73,519	26,058	-	6,623	54,084		

⁽¹⁾ The share price at the end of the year and the highest and lowest prices during the year are shown in Shareholder Information and Financial Calendar on page 98.

⁽²⁾ Gareth Rhys Williams made a gain of £19,744 on the exercise of his June 2003 Deferred Bonus Plan Basic and Matching awards. The gain comprised £7,089 on the Basic award, calculated as the difference between the market price at the date of award and the market price at the date of exercise, and a gain of £12,655 on the Matching award, calculated at the market price on the whole award at the date of exercise.

Alastair Hewgill made a gain of £4,230 on the exercise of his June 2003 Deferred Bonus Plan Basic and Matching awards. The gain comprised £1,519 on the Basic award, calculated as the difference between the market price at the date of award and the market price at the date of exercise, and a gain of £2,711 on the Matching award, calculated at the market price on the whole award at the date of exercise.

The 21,460 and 4,598 shares were retained by Gareth Rhys Williams and Alastair Hewgill respectively and form part of their holdings shown in the Directors' shareholdings table on page 18.

Approved by the Board of Directors on 5 March 2007
and signed on its behalf by:

Roland Peate
Secretary

Corporate Social Responsibility Report

This is the Group's fifth Corporate Social Responsibility Report, the first was in the Report and Accounts for 2002.

Although no corporate social responsibility report was published for the years prior to 2002, the Group has always 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. The Group's website is compliant with Part III of the Disability Discrimination Act 1995, which covers access to goods and services. For full details refer to the Accessibility Statement on the website (<http://www.vitecgroup.com/accessibility.aspx>). It is planned to continue the development and promotion throughout the Group of its social responsibility and the inclusion of an environmental report in the future.

The heads of each of the Group's operations are responsible at local level for complying with the relevant environmental regulations in all the geographical areas in which they operate. As part of the Group's system of internal control and risk management process, reporting to the Board takes place through the Group's Chief Executive who has ultimate responsibility for such matters.

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 this implementation programme we continue to put in place more 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.

The Group's website continues to include microsites containing annual reports and accounts. It also provides a gallery containing photographs of Group products and a Factsheet giving key information about the Group. The aim of the website as a whole is to help investors, potential investors and employees 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. We do this through management briefings by the Group Chief Executive, the Group Finance Director and divisional heads, management conferences, through the Group's website and by internal distribution of press releases and internal announcements. A number of parts of the Group each have their own intranets and work is taking place to create an intranet for the whole Group. Combining the various intranets will enable our employees to gain better access to information and an improved understanding of our Group and individual 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.

Pensions briefings, consultations and, for 2007, a pre-retirement seminar are given to employees in the UK by the Group Company Secretary and by the pensions administrators, Watson Wyatt, usually in conjunction with an external independent financial adviser.

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 senior managements of the Group's operating units employ a wide variety of consultation and briefing methods, including conferences, joint committees, project-specific 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 practice 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.

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 with an external regulated savings carrier to save agreed amounts

each month. Presentations are made by the Group Company Secretary to employees both in the UK and overseas on the Group's Sharesave Scheme and International Sharesave Plan. Invitations under the UK and the International schemes have been made each year since the schemes were first introduced in 1984.

Ability and aptitude continue to be 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.

In the UK we have recently adopted the ACAS disciplinary and grievance code of practice. Where relevant to the employment relationship we comply with the Human Rights Act in the UK which includes such matters as the right to a fair hearing, the right to respect for private and family life, the right of freedom of thought, conscience and religion, to freedom of expression, to assembly and association and to prohibition of discrimination.

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. Additional training is given where an employee has a specific role such as responsibility for administering first aid.

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

Our operations in Italy and Camera Dynamics, Communications and Anton/Bauer have Safety Committees with the aim of identifying potential risks facing employees and developing solutions to mitigate risks, including training employees to deal with and avoid risks. They have strong safety records.

Following the formalisation of the recording and reporting of accidents and related lost time statistics in 2003, these procedures form the basis of monthly reporting to the Executive Board and to the Board. The refinement of the gathering and reporting of accident statistics by each operating unit is an ongoing process. Accident statistics continue to be reported to, and monitored by, the Executive Board and the Board. For information on the Group's workplace injuries and any fatalities please refer to the Key Performance Indicators and Other Measures on page 16 of this Annual Report.

2. Environment

Policy

To promote the reduction of the use of energy and water throughout the Group with the aim of reducing the environmental impacts of its operations, activities, products and services. The approach taken to achieve this common aim varies throughout the Group depending on the nature of the work carried out at the business unit and the stage of development of a business unit's energy and environmental management systems. Water, gas and electricity usage is set out on page 16 under Key Performance Indicators and Other Measures.

Within the framework of an environmental management system at each location there are three main principles:

- To identify materials, processes, products and wastes that cause or may cause pollution and to implement measures to avoid, reduce or control pollution where technically and economically viable.
- To comply with applicable environmental laws, regulations, codes of practice and other environmental requirements. To achieve such compliance we develop and maintain management systems for identifying relevant requirements and for monitoring the performance of related activities.
- To continually enhance and improve our environmental management systems to ensure they are appropriate and effective.

Actions

The recent key environmental actions taken are as follows:

Imaging & Staging

The major improvement during 2005 was the introduction in our Italian subsidiary, Manfrotto, of environmentally friendly de-greasing of components by using automatic washing with hot water in place of using compressed air to clean components prior to assembly. This reduced repetitive operator actions and noise levels. The water used in the process has no detergent added. The metal filings cleaned from the components fall away by means of gravity and are collected and recycled. The oil cleaned from the components is also collected and recycled. The water is used for a number of cleaning cycles until it becomes dirty and it is then disposed of by an approved disposal organisation.

During 2006 a variety of environmental activities took place. These included:

- Training. Internal campaign to reduce emissions and waste by signage in the offices and factories. Environmental awareness training also took place. In addition, a waste management compliance course was attended by relevant employees.
- Wider use of outsourced advisers and services. Certification in environment and safety to ISO 14001 standards in seven plants is being sought. Further activities being undertaken are oil tank testing in five plants, analysis for atmospheric emissions in two plants, Waste Electrical and Electronic Equipment (WEEE) and Restriction of Use of Certain

Corporate Social Responsibility Report continued

Hazardous Substances (RoHS) compliance in ten plants, washing machine to reduce compressed air cleaning and tube cleaning equipment in one plant.

- Improved dust collection in production areas in two plants, outdoor disposal area in accordance with ISO 14001 in five plants, commencement of environmental analysis in two plants and waste disposal in accordance with ISO 14001 in ten plants.

Tomcat and Brilliant Stages. During the latter part of 2006 the Vitec Group acquired Tomcat Global Corporation. Information about its businesses is being gathered and will be available for the next annual report.

Broadcast Systems

Within Camera Dynamics the following action has been taken:

- **Waste.** All waste contracts have been migrated to a single waste management provider. All waste is segregated in accordance with ISO 14001 recommendations. Camera Dynamics is a government registered waste producer managing waste through fully traceable and auditable routes to government registered disposal sites. This has resulted in renovation of the waste collection area and receptacles, optimising segregation and environmental benefits whilst minimising cost through effective waste segregation and handling.
- **Energy.** An assessment of initial energy saving opportunities at Camera Dynamics was undertaken by the Carbon Trust. The purpose of the assessment was to form the foundation of a building energy management system. The assessment covered gas and electricity consumption, energy performance indicators and energy management diagnostics. It made financial calculations of the cost of heating in the production and assembly areas and the cost of lighting in the offices including the likely cost savings if specific action was taken. The report arising from the assessment was used to target areas where improvements could be made. Energy saving improvements have now been made in lighting by the use of passive infrared detectors and in heating by installing more efficient gas-fired boilers.
- **Drinking water.** Moved from the use of bottle-fed to mains-fed systems thereby reducing the cost and need for weekly delivery and collection of bottles.
- **Packaging.** The packaging for a number of companies within Camera Dynamics has been merged and standardised. This has reduced the wide variety of packaging and its overall cost.
- **Regulatory.** During 2005, Drake and Vinten in the UK continued implementation of the EU Directive on WEEE started during 2004. The UK manufacturing facilities are now compliant in the control and management of waste arising from the production process and facilities waste. Management of disposal of electrical and electronic waste is now WEEE compliant.

During 2006 work took place to ensure compliance with RoHS by the due date. This involved analysing in-house and third party supplied components to ensure they did not

contain restricted levels of specified materials harmful to the environment. Close monitoring took place to ensure compliance with the directive by the appropriate implementation dates, depending on the categorisation of the products.

In addition, Green Procurement, a standard more extensive than RoHS specified by a number of major electronics groups, is being introduced. Communications 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.

- **Travel.** The improvement of communications links across the Group is taking place with the aim of reducing the amount of travel between locations.

Anton/Bauer 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 organisation created to promote the recycling of portable batteries, and places the RBRC seal on its products. In 2006 Anton/Bauer forwarded to RBRC more than 44,000 (up from 31,000 in 2005) pounds of nickel cadmium, lithium ion and nickel metal hydride batteries returned to the company for recycling. Anton/Bauer is also 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. Anton/Bauer uses energy saving light bulbs in all areas and lead free bulbs with low mercury content. They also continue to recycle cardboard and toner cartridges, and all heating systems use timers for energy saving during non-working hours.

The Communications companies are aware of their environmental responsibility. They encourage and have put into action a number of initiatives including recycling of toner cartridges, cardboard, paper, printed circuit boards and redundant electronic equipment. They are now RoHS compliant and, consequently, all lead solder has been removed from their processes. The quantity of packaging used by the businesses has been reduced by consolidating shipments wherever possible into single boxes rather than a number of separate boxes within a larger box. In the USA based part of the operation there is a planned change of location from an energy inefficient building to one that is more energy efficient. It is expected that one result of this relocation will be a reduction in energy usage.

Autoscript. During the latter part of 2006 the Vitec Group acquired ALC Broadcast Limited. Information about its sites is being gathered and will be available for the next annual report.

Broadcast Services

The Broadcast Services division is a rental operation with its main office in Burbank, California. As a rental business its scope for reducing emissions and usage of scarce resources that are already low is very limited. However, it participates in local printer and toner cartridge recycling programmes. It also

participates in a programme for the controlled disposal of used electronic equipment containing hazardous materials such as computers and computer screens. Obsolete mobile phones are donated to school recycling programmes.

During 2006, a facility efficiency consultant assessed the Broadcast Services division's head office in Burbank to give advice on reducing electricity, gas and water usage. The result was that the consultant had no substantive cost effective suggestions and commented that they seemed to have things in order.

During 2006, the division began a programme of replacing its fleet of 28 delivery vehicles much more often than in past years. The benefits of this programme are reduced fuel and maintenance costs and improved fuel efficiency.

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 with it and with the Human Rights Act in the UK.

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

The Vitec Group and divisional charity committees review all written requests for donations and decide on the level of donations and the charities to which donations are made.

This policy was reviewed by the Board during the year and new initiatives geared more towards helping local communities and projects were implemented in the UK, Italy and the USA.

Staff at many of the Group's locations spend time on fundraising events, raffles etc to raise money for Macmillan and other worthwhile organisations. They are also encouraged to spend time working for their local communities.

During 2006 donations totalling £68,539 (2005: £52,896) were made by Group companies. These were again made primarily to children's, cancer, police, fire brigade, drug rehabilitation and other similar charities.

Two major projects sponsored by Manfrotto (and included in the donations stated above) were the National Geographic All Roads Photography Program and the Children Project 2006.

The National Geographic All Roads Photography Program, of which Manfrotto is the main sponsor, recognises and supports talented photographic storytellers from around the world who

are documenting their changing cultures and communities through photography. The program provides a forum for photographers to showcase their work to a global audience. Awardees have received cash from the All Roads Photography Program and equipment from Manfrotto. For more information and to see the 2006 awardees visit www.nationalgeographic.com/allroads/photography.html.

The Children Project 2006 aims to improve the education and self sufficiency of underprivileged children around the world. In Ethiopia, eight physiotherapists for children with mobility problems were financed by Manfrotto's donation. In Senegal there have been donations towards the rebuilding of a school which was damaged by fire. In Tanzania, donations have been made towards the building of a well. In Ecuador, donations went towards the building of four houses, two school classrooms and the purchase of a minibus and some sewing machines so that a trade can be learned. In Kazakhstan, donations went towards the building of a new dormitory in the Arca village orphanage. In Angola, a donation was made to the mission of the Capuchin friars who operate a welcome centre. In Romania, donations were made to the priest of Santa Croce of Bassano del Grappa who runs a welcome centre for children living on the streets.

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 foreseeable future. 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.

Corporate Governance

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 2003 Combined Code (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 2006. 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 a minimum of five non-executive directors. The number of non-executive directors increased to six for a short time as a result of the appointment of Mr Beresford-Wyllie on 1 March 2006 but reduced to five following the retirement of John Potter immediately after the Annual General Meeting. Gareth Rhys Williams was a director and the Chief Executive throughout the year. Alastair Hewgill was the Finance Director throughout the year. During 2006 all the directors attended all the Board meetings except for Sir David Bell and Mr Beresford-Wyllie. Sir David Bell was unable to attend the August and November Board meetings due to unavoidable absences, one of which was to attend a funeral. Mr Beresford-Wyllie was unable to attend the December meeting due to urgent business commitments.

Maria Richter was appointed a director on 28 February 2007. She was also appointed to the Audit Committee, Nominations Committee and Remuneration Committee.

Sir David Bell, who completes ten years as a non-executive director in March 2007, has indicated that he will stand down as a director immediately following the Annual General Meeting in May 2007.

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.

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.

Ongoing training for new directors and existing directors is available at the request of the director. Each director receives details of relevant training and development courses from both the Secretary and from external bodies such as KPMG and Watson Wyatt. The requirement for training is regularly discussed at meetings of the Board and of its Committees.

The papers supplied for consideration by the Board are provided on the basis that it gives all Board members adequate time to read and, where appropriate, ask questions prior to the meeting about the information supplied. The information includes 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 Nominations Committee and a Remuneration Committee. Each Committee has formal terms of reference which may be viewed on the Company's website and are available by request from the Company Secretary. The terms of reference and the effectiveness of the Board and of each Committee are regularly reviewed and changes made where necessary. Any issues arising from the reviews of effectiveness are summarised and tabled at subsequent Board meetings at which they are discussed and action plans agreed.

Performance evaluations of each of the directors took place during the year. In the case of the executive directors this evaluation takes place by the non-executive directors regularly throughout the year against achievement of specific objectives. Evaluation of the Chairman was carried out by the Senior Independent Director. Evaluation of each of the other non-executive directors was carried out by the Chairman. Each evaluation was carried out by using written questionnaires and the results were discussed individually with each of the relevant non-executive directors. Evaluations of the effectiveness of each of the Committees was also carried out by the relevant Committee members. Issues arising from the evaluations were discussed and, where relevant, action was taken. Similar evaluations are planned to take place each year in the future.

Audit Committee

The Committee is chaired by Nigel Moore. The other members of the Committee are Simon Beresford-Wyllie, Maria Richter and Will Wyatt. During the year the following changes took place. Simon Beresford-Wyllie became a member of the Committee on 1 March 2006, the same day he was appointed a director. Sir David Bell stepped down as a member of the Committee also on 1 March 2006. John Potter retired as a director and member of the Committee on 24 May 2006. Maria Richter became a member of the Committee on her appointment to the Board on 28 February 2007. Each member of the Committee is independent. During 2006 the Committee met three times and all the members attended all the Committee meetings. The Company's external auditors KPMG are invited to attend meetings of the Committee on a

regular basis and during 2006 they attended all three meetings; two in part and one for the whole of the meeting. At two of the meetings the executive directors were not present for part of the meeting so that members of the Committee could meet with the external auditors in private. The practice of the Committee meeting in private with the external 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. The annual financial statements of the pension funds were not reviewed by the Board as a whole.

Internal Controls and Risk Management Systems

Keeping under review the effectiveness of the Company's internal financial controls and risk management systems; and reviewing 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 its own internal audit function. However, the need for such a function is regularly reviewed and considered by the Committee. (The use of third party audit consultants is explained more fully in the final paragraph of Internal Control and Risk Management).

External Audit

Considering and making recommendations to the Board 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 checking 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 the external auditors' 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,
 - 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;
- reviewing and approving the policy on the supply of non-audit services by the external auditors, taking into account any relevant ethical guidance on the matter.

A policy on the use of the external auditors for non-audit services has been in place for a number of years. The use of the external auditors is subject generally to competitiveness and demonstrable competence in the relevant areas. The policy is divided into three parts:

- Work where use of the external auditors is deemed appropriate. This type of work includes corporate tax advice and planning, tax compliance, accounting advice in relation to acquisitions, dividend planning, divestments, corporate

Corporate Governance continued

governance/risk management advice and defined audit-related work and regulatory reporting.

- Work requiring Audit Committee clearance or refinement of Vitec policy. The type of work includes reporting accounting services, compliance services (including fraud and money laundering), transaction work, valuation and actuarial services, fairness opinions and contribution in kind reports, personal tax services, management consultancy, HR or recruitment services, remuneration consultancy and legal or other professional services relating to an audit.
- Work from which the external auditors are excluded. This includes internal accounting or other internal financial services, design development or implementation of financial information or internal control systems, internal audit services or their outsourcing, forensic accounting services, executive or management roles and functions, IT consultancy, litigation support services and other financial services such as broker, financial adviser or investment banking services.

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 Responsibilities

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 Will Wyatt. The other current

members of the Committee are Simon Beresford-Wyllie, Nigel Moore and Maria Richter. During the year the following changes took place. Simon Beresford-Wyllie became a member of the Committee on 1 March 2006, the same day he was appointed a director. Sir David Bell stepped down as a member of the Committee on 1 March 2006. John Potter retired as a director and member of the Committee on 24 May 2006. Maria Richter became a member of the Committee on her appointment to the Board on 28 February 2007. Each member of the Committee is independent. During 2006, the Committee met three times and, apart from Simon Beresford-Wyllie who was unable to attend the December meeting due to urgent business commitments, all the members attended all the Committee meetings.

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
- being 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 Michael Harper. The other members of the Committee are currently Sir David Bell, Simon Beresford-Wylie, Nigel Moore, Maria Richter and Will Wyatt. Simon Beresford-Wylie became a member of the Committee on 1 March 2006, the same day he was appointed a director. John Potter retired as a director and member of the Committee on 24 May 2006. Maria Richter became a member of the Committee on her appointment to the Board on 28 February 2007.

During 2006, the Committee met on four occasions but also met by conference telephone and with the executive directors in attendance on a number of occasions to consider and discuss progress on the appointment of an additional non-executive director. All the members attended all the Committee meetings except for Sir David Bell who was unable to attend the August and November Committee meetings due to unavoidable absences, one of which was to attend a funeral, and Simon Beresford-Wylie who was unable to attend the December meeting due to urgent business commitments.

The Committee is delegated authority by the Board to deal with succession planning and making recommendations to the Board on all new Board appointments.

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

Corporate Governance continued

- 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. Maria Richter will be proposed for election at the Annual General Meeting for 2007. Nigel Moore will retire and will be proposed for re-election at that meeting.

Sir David Bell, who will have completed ten years as a non-executive director on 12 March 2007, will be standing down following the Annual General Meeting for 2007.

Relations with Shareholders

The Board continues to recognise 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, road shows 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, the Chairman and the Senior Independent Director 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 contains 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. However, any system can only provide reasonable assurance against material misstatement or loss. 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.
- this system has been in place for the year under review and up to the date of approval of the annual report and accounts.
- 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.

- 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 2006.

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 in respect of the directors' report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the parent Company.

In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;

- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its 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.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

We have audited the group and parent company financial statements (the "financial statements") of the Vitec Group plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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 auditors' 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' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 38.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants
London
Registered Auditor

5 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006			2005			Total £m
		Before significant items £m	Significant items ⁽¹⁾		Before significant items £m	Significant items ⁽¹⁾		
			Amortisation of acquired intangibles and Other Restructuring financial expense items £m	costs and Property profits £m		Amortisation of acquired intangibles and Other Restructuring financial expense items £m	costs and Property profits £m	
Revenue	3							
Existing operations		217.3			193.2		193.2	
Acquisitions		5.0			1.7		1.7	
Continuing operations		222.3			194.9		194.9	
Cost of sales		(129.1)			(115.6)		(115.6)	
Gross profit		93.2			79.3		79.3	
Other operating income	5	-	-	0.4	-	-	0.3	
Operating expenses	4/5	(68.0)	(0.6)	(1.5)	(59.3)	(0.2)	(0.9)	
Operating profit	3/6							
Existing operations		25.1	(0.3)	(1.1)	19.8	-	(0.6)	
Acquisitions		0.1	(0.3)	-	0.2	(0.2)	-	
Continuing operations		25.2	(0.6)	(1.1)	20.0	(0.2)	(0.6)	
<i>Interest payable on bank borrowings</i>		(1.5)			(1.5)		(1.5)	
<i>Interest income</i>		0.1			0.2		0.2	
<i>Pension scheme:</i>								
<i>Interest charge</i>		(2.1)			(2.0)		(2.0)	
<i>Expected return on assets</i>		2.6			2.2		2.2	
<i>Other financial income/(expense)</i>		(0.2)	0.2		(0.5)	(0.5)	(1.0)	
Net financial expense	5/9	(1.1)	0.2		(1.6)	(0.5)	(2.1)	
Profit before tax		24.1	(0.4)	(1.1)	18.4	(0.7)	(0.6)	
Taxation	11	(9.6)		0.4	(7.7)	-	(7.7)	
Profit from continuing operations		14.5	(0.4)	(0.7)	10.7	(0.7)	(0.6)	
Profit from discontinued operation	3	-			0.4		0.4	
Profit for the year (attributable to Equity Shareholders)		14.5	(0.4)	(0.7)	13.4	(0.7)	(0.6)	
Earnings per share	12							
Continuing operations:								
Basic earnings per share					32.6p		22.9p	
Diluted earnings per share					32.2p		22.7p	
Discontinued operation:								
Basic earnings per share					nil p		1.0p	
Diluted earnings per share					nil p		1.0p	
Total:								
Basic earnings per share					32.6p		23.9p	
Diluted earnings per share					32.2p		23.7p	

⁽¹⁾ See Note 5.

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2006

	2006 £m	2005 £m
Actuarial gain on pension obligations	2.2	0.5
Currency translation differences on foreign net investments	(7.0)	2.4
Net gain/(loss) on hedge of net investment in foreign subsidiaries	1.3	(0.2)
Cash flow hedging reserve:		
Amounts released to income statement	0.6	(0.8)
Effective portion of changes in fair value	1.4	(0.7)
Net (expense)/income recognised directly in equity	(1.5)	1.2
Profit for the year	13.4	9.8
Total recognised income for the year	11.9	11.0

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 £m	2005 £m
Assets			
Non-current assets			
Property, plant and equipment	13	35.1	33.6
Intangible assets	14	34.1	19.9
Investments	15	0.7	-
Deferred tax assets	16	4.7	5.8
		74.6	59.3
Current assets			
Inventories	17	41.1	31.3
Trade and other receivables	18	38.6	37.0
Derivative financial instruments	19	2.3	0.2
Current tax assets	20	-	0.9
Cash and cash equivalents	21	9.4	12.7
		91.4	82.1
Total assets		166.0	141.4
Liabilities			
Current liabilities			
Bank overdrafts	21	1.9	0.9
Bank loans	19	0.1	-
Trade and other payables	23	37.1	31.5
Derivative financial instruments	19	-	0.9
Current tax liabilities	20	9.9	7.6
Provisions	24	5.0	1.2
		54.0	42.1
Non-current liabilities			
Bank loans	19	26.3	17.2
Other payables	23	0.2	0.2
Post-employment obligations	28	5.0	7.5
Provisions	24	3.0	2.7
Deferred tax liabilities	16	0.7	1.1
		35.2	28.7
Total liabilities		89.2	70.8
Net assets		76.8	70.6
Equity			
Share capital		8.2	8.2
Share premium		3.2	2.7
Translation reserve		(7.5)	(1.8)
Other reserves		2.9	0.9
Retained earnings		70.0	60.6
Total equity	25	76.8	70.6

Approved by the Board on 5 March 2007 and signed on its behalf

Alastair Hewgill
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Cash flows from operating activities:			
Profit for the year		13.4	9.8
Adjustments for:			
Taxation		9.2	7.7
Depreciation		8.9	8.9
Amortisation of intangibles		1.7	1.2
Net gain on disposal of property, plant and equipment		(1.5)	(1.6)
Fair value losses on derivative financial instruments		(0.2)	(0.4)
Cost of equity-settled employee share schemes		1.2	0.3
Financial income		(2.7)	(2.4)
Financial expense		3.6	4.5
Operating profit before changes in working capital and provisions:		33.6	28.0
(Increase)/decrease in inventories		(9.2)	3.0
Increase in receivables		(2.1)	(0.8)
Increase in payables		4.4	3.1
Increase/(decrease) in provisions		2.1	(3.4)
Adjustments for foreign exchange losses		(0.1)	(0.1)
Cash generated from operations:		28.7	29.8
Interest paid		(1.7)	(1.8)
Tax paid		(5.5)	(1.6)
Net cash flow from operating activities		21.5	26.4
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		2.0	2.1
Purchase of property, plant and equipment		(12.0)	(11.1)
Software costs capitalised as intangible assets		(1.2)	(0.6)
Interest received		0.2	0.5
Acquisition of investment		(0.7)	-
Acquisition of subsidiaries, net of cash acquired		(15.8)	(4.6)
Net cash flow from investing activities		(27.5)	(13.7)
Cash flows from financing activities:			
Proceeds from the issue of shares		0.5	-
Purchase of own shares		(0.9)	-
Borrowing/(repayment) of bank loans		9.1	(8.2)
Dividends paid		(6.5)	(6.1)
Net cash flow from financing activities		2.2	(14.3)
Decrease in cash and cash equivalents	22	(3.8)	(1.6)
Cash and cash equivalents at 1 January		11.8	13.4
Exchange rate movements ⁽¹⁾		(0.5)	-
Cash and cash equivalents at 31 December	21	7.5	11.8

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

Notes to the Consolidated Accounts

The Vitec Group Accounting Policies Under IFRS

1a Reporting Entity The Vitec Group plc (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements of the Company as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

1b Basis of Preparation The financial statements are presented in Sterling. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value:

- Derivative financial instruments
- Share options as part of employee share schemes
- Financial assets used to fund the Group's defined benefit pension obligations (this fair value is stated net of the actuarial value of the associated pension obligations)

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Those judgements made by management in the application of IFRS that have significant effect on the financial statements and the estimates that are considered by the directors to have a significant risk of material adjustment in the next year are discussed in Note 30.

1c Statement of Compliance The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP.

2 Accounting Policies The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of Consolidation Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries sold or acquired during the year are included in the accounts up to, or from, the date that control passes.

Intra-Group balances, and any unrealised gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

Business Combinations All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount previously recorded under UK GAAP.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is de-recognised, the cumulative gain or loss in equity is transferred to profit or loss.

Impairment The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Once recognised, an impairment loss is not reversed.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

Revenue Revenue, which excludes value added tax and sales between Group companies, represents the value of products and services sold. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Other than for long term contracts, the treatment of which is set out separately below, revenue arising from product sales is recognised when the significant risks and rewards of ownership have been transferred to the buyer, which is normally 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.

No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods and continuing management involvement with the goods.

Long Term Contracts Contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract, to the extent that the contract outcome can be estimated reliably. The stage of completion is assessed by reference to surveys of work performed. An expected loss on a contract is recognised immediately in the income statement.

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

Amounts recoverable on contracts are included in receivables and represent revenue recognised in excess of payments on account.

Foreign Currency Transactions in foreign currencies with overseas customers and suppliers are converted at the date at which transactions occur.

Monetary assets and liabilities are translated at the period-end rates and the gains or losses on translation are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using exchange rates ruling at the date the fair value was determined.

Foreign currency gains and losses on inter-company loans are recorded directly in reserves if they form part of a net investment and repayment is neither planned nor likely to occur in the foreseeable future.

Foreign trading profits and cash flows are translated at a weighted average rate for the period. The assets and liabilities of overseas companies, including goodwill and fair value adjustments arising on consolidation, are translated using foreign exchange rates ruling at the balance sheet date.

Differences on translation of net investments in overseas companies, and of related hedges, are taken directly to the translation reserve. They are released to the income statement on disposal.

Notes to the Consolidated Accounts continued

Pension Costs The costs of providing pensions for employees under defined contribution schemes are expensed as incurred.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate for UK schemes has been derived based on redemption yields on appropriate British Government bonds, plus a margin representing the yield premium on long-dated AA corporate bonds over British Government bonds. The calculation is performed by a qualified actuary using the projected unit credit method. The Group recognises the ongoing service cost in the income statement as part of operating profit. The Group recognises the net of the unwinding of the discount (above) and the return on plan assets in the income statement as part of net financial expense. All actuarial gains and losses are recognised in the Statement of Recognised Income and Expense. The Group's net obligations in respect of overseas defined benefit pension plans are estimated by qualified actuaries using appropriate methodologies.

Past-service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Property, Plant and Equipment 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. Residual values and expected useful lives are reassessed annually. 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
Leasehold improvements	over the remaining period of the lease
Plant and machinery	12½% – 25% on cost
Motor vehicles	25% – 33⅓% on cost
Equipment, fixtures & fittings	10% – 33⅓% on cost
Rental equipment	20% – on cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. In accordance with IFRS 1, certain land and buildings that had been revalued to fair value prior to 1 January 2004 are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Research and Development The Group incurs expenditure on research projects and on projects to apply research findings to gain new scientific or technical knowledge and understanding. This expenditure is recognised in the income statement as incurred.

Once detailed criteria have been met that confirm that the product or process is both technically and commercially feasible and the Group has sufficient resources to complete the project, any material further expenditure incurred on the project is capitalised. The capitalised expenditure includes the cost of materials, direct labour and an appropriate portion of overheads.

Capitalised expenditure is amortised over the life of the project and is stated at cost less accumulated amortisation and impairment losses.

Other Intangible Assets Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives.

Intangible assets arising on acquisition are amortised at the rates indicated below:

Backlog	100% in first year
Brand	6.7% – 20% on cost
Customer relationships	6.7% – 20% on cost
Technology	6.7% – 20% on cost

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are capitalised and recognised as intangible assets.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives not exceeding five years.

Inventories Inventories are valued at the lower of cost and net realisable value, less progress payments. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is based on the first-in first-out principle and includes the cost of materials, direct labour and production overheads (based on normal operating capacity) incurred in bringing stocks and work in progress to their present location and condition. Provisions for inventories are recognised when the book value exceeds its net realisable value.

Derivatives and Hedge Accounting The Group uses derivative financial instruments ('derivatives') to hedge its exposure to foreign exchange risks arising from operational activities. The Group does not hold or issue derivatives for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are recognised initially at fair value and, subsequent to initial recognition, are measured at fair value. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The fair value of 'simple' option contracts is their quoted market price at the balance sheet date.

Derivatives are de-recognised when they mature or are sold.

The gain or loss on re-measurement to fair value is recognised immediately in the income statement unless the derivatives qualify for hedge accounting.

Cash Flow Hedges

Where a derivative is designated as a hedge of the variability in cash flows of a highly probable forecast transaction ('a hedging instrument'), the effective part of any gain or loss on the hedging instrument is recognised directly in equity. This gain or loss is removed from equity and recognised in the income statement in the same period during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

If a hedging instrument expires or is sold but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Hedge of Monetary Assets and Liabilities

Where a derivative is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedge of a Net Investment in a Foreign Operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the income statement. The effective portion will be recycled into the income statement on the sale of the foreign operation.

Interest Bearing Borrowings Interest bearing borrowings are stated in the balance sheet at cost, being the fair value of consideration, after the deduction of issue costs, which are recognised in the income statement over the term of the related borrowings.

Income Tax The tax expense in the income statement represents the sum of tax currently payable and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

Notes to the Consolidated Accounts continued

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, where deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit would be available to allow all or part of the deferred income tax assets to be utilised.

Deferred tax liabilities are not recognised for the following temporary differences:

- Goodwill not deductible for tax purposes or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- Differences relating to investments in subsidiaries to the extent that the timing of the reversal is controlled by the Company and they will probably not reverse in the foreseeable future.

IAS 12 requires deferred tax to be provided in respect of undistributed profits of overseas subsidiaries unless the parent is able to control the timing of remittances and it is probable that such remittances will not be made in the foreseeable future. As the Group is able to control the timing of remittances from overseas subsidiaries, no provision has been made for any tax on undistributed profits of overseas subsidiaries. Similarly, no deferred tax assets or liabilities have been recognised in respect of temporary differences associated with investments in subsidiaries.

Employee Share Schemes The Group operates a number of share based incentive schemes, some of which entitle the beneficiary to shares (equity-settled) and others that entitle the beneficiary to cash (cash-settled). The schemes in place prior to 2005 were based on share price movements. A new equity-settled scheme was set up in 2005 that is based on Total Shareholder Returns (TSR).

The fair values of options are calculated using Black-Scholes or Monte Carlo simulation models.

For equity-settled options, income statement charges are made based on the fair value of these options at the date of grant and on the estimated number of options expected to vest after adjusting for lapses due to leavers during the life of the scheme and achievement of any non-market-based vesting conditions (for example, profitability and sales growth targets). Subsequently, at each balance sheet date prior to vesting of the relevant awards, the Group revises the estimates of the number of options that are expected to vest after adjusting for expected leavers and estimated achievement of non-market-based vesting conditions. The Group recognises the expense in the income statement and a corresponding adjustment to equity.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

The Group makes charges to the income statement for any potential employer's National Insurance liability on options granted, based on an estimate of the fair value of the option. The charge is spread over the vesting period of the option.

Leases Payments made under operating leases are charged to the income statement on a straight-line basis. The Group does not have any finance leases.

Assets held for short term rental are recorded as plant and machinery within property, plant and equipment 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.

Trade and Other Receivables Trade and other receivables are stated at their cost less provision for doubtful debts.

Dividends Dividends are recognised as a liability in the period in which they are declared.

Provisions Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate.

Provisions for warranties, based on historical warranty data, are recognised when the underlying products or services are sold. Provisions for restructuring are recognised when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced. Provisions for onerous contracts are recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Segmental Reporting A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group reports separate information on its material operations for each of the Group's segments. The Group's primary segment is the business sector and its secondary segment is geographical area.

Net Financial Expense Net financial expense comprises interest payable on borrowings, interest receivable on funds invested, the amortisation of loan costs, non-utilisation fees on the Group's loan facilities, foreign exchange gains and losses on external or inter-company loans or investments to the extent that they are recognised in the income statement, the finance element of the charge or credit relating to defined benefit pension schemes and the costs of derivatives to the extent that they are recognised in the income statement.

Cash and Cash Equivalents Cash and Cash equivalents represent cash on hand and demand deposits at banks. Demand deposits are short term highly liquid investments that are readily convertible to known amounts of cash without penalty and that are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

New Standards and Interpretations Not Yet Adopted A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006 and have not been applied in preparing these consolidated financial statements:

IFRS 7 – Financial Instruments: Disclosures and the Amendment to IAS 1 – Presentation of Financial Statements: Capital Disclosures requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require additional disclosures with respect to the Group's financial instruments and share capital.

IFRS 8 – Operating Segments: Implementation of this standard is not expected to have a material impact on the Group's results, assets or liabilities.

IFRIC 9 – Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

Notes to the Consolidated Accounts continued

3 Segment Reporting Primary format - by business segments	Imaging & Staging		Broadcast Systems		Broadcast Services		Corporate and Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers:										
Sales	94.6	76.2	100.5	91.5	4.0	7.8	-	-	199.1	175.5
Services	-	-	-	-	23.2	19.4	-	-	23.2	19.4
Total revenue from external customers	94.6	76.2	100.5	91.5	27.2	27.2	-	-	222.3	194.9
Inter-segment revenue ⁽¹⁾	1.1	1.3	1.7	1.2	-	-	(2.8)	(2.5)	-	-
Total revenue	95.7	77.5	102.2	92.7	27.2	27.2	(2.8)	(2.5)	222.3	194.9
Operating profit before significant items	16.6	13.6	6.9	5.2	1.7	1.2	-	-	25.2	20.0
Amortisation of acquired intangibles	(0.5)	(0.2)	(0.1)	-	-	-	-	-	(0.6)	(0.2)
Profit on the sale of property	-	0.3	0.4	-	-	-	-	-	0.4	0.3
Restructuring costs	-	-	(1.5)	(0.9)	-	-	-	-	(1.5)	(0.9)
Segment result	16.1	13.7	5.7	4.3	1.7	1.2	-	-	23.5	19.2
Net financial expense									(0.9)	(2.1)
Taxation									(9.2)	(7.7)
Profit for the period										
Continuing operations									13.4	9.4
Discontinued operation ⁽²⁾									-	0.4
									13.4	9.8
Segment assets	67.6	48.6	63.3	52.1	18.1	20.3	2.9	1.0	151.9	122.0
Unallocated assets										
Cash and cash equivalents							9.4	12.7	9.4	12.7
Current tax assets							-	0.9	-	0.9
Deferred tax assets							4.7	5.8	4.7	5.8
Total assets									166.0	141.4
Segment liabilities	24.2	19.4	19.2	16.4	3.7	4.6	3.2	3.6	50.3	44.0
Unallocated assets										
Bank overdrafts							1.9	0.9	1.9	0.9
Bank loans							26.4	17.2	26.4	17.2
Current tax liabilities							9.9	7.6	9.9	7.6
Deferred tax liabilities							0.7	1.1	0.7	1.1
Total liabilities									89.2	70.8
Cash flows from operating activities	13.9	17.9	6.3	9.2	3.8	6.6	(2.5)	(7.3)	21.5	26.4
Cash flows from investing activities	(6.1)	(7.6)	(4.0)	(2.2)	(2.6)	(4.0)	(14.8)	0.1	(27.5)	(13.7)
Cash flows from financing activities	(0.7)	-	-	-	-	-	2.9	(14.3)	2.2	(14.3)
Capital expenditure (including assets acquired within acquisitions)										
Property, plant and equipment	5.8	3.3	3.0	2.4	4.0	5.4	0.1	0.1	12.9	11.2
Intangible assets	4.2	2.0	2.2	-	0.1	-	-	-	6.5	2.0

⁽¹⁾ Inter-segment pricing is determined on an arm's length basis.

⁽²⁾ In 2005, income from discontinued operation of £0.4 million arose on the release of a previous provision of £0.4 million for the upgrade of retail units relating to the Retail Display segment that was divested in 2003.

**Secondary format -
by geographical segments**

	United Kingdom		The Rest of Europe		The Americas		The Rest of the World		Corporate and Unallocated		Consolidated	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Revenue from external customers: by location of customer	13.1	9.7	69.6	56.9	107.0	98.1	32.6	30.2	-	-	222.3	194.9
Segment assets	30.6	23.5	45.8	40.4	55.9	47.2	15.1	9.9	4.5	1.0	151.9	122.0
Unallocated assets												
Cash and cash equivalents									9.4	12.7	9.4	12.7
Current tax assets									-	0.9	-	0.9
Deferred tax assets									4.7	5.8	4.7	5.8
Total assets											166.0	141.4
Cash flows from operating activities	2.3	1.5	15.3	17.3	7.6	14.6	(1.2)	0.3	(2.5)	(7.3)	21.5	26.4
Cash flows from investing activities	0.1	(1.6)	(4.9)	(3.2)	(3.7)	(4.3)	(4.2)	(4.7)	(14.8)	0.1	(27.5)	(13.7)
Cash flows from financing activities	(0.2)	-	-	-	(0.5)	-	-	-	2.9	(14.3)	2.2	(14.3)
Capital expenditure (including assets acquired within acquisitions)												
Property, plant and equipment	2.9	1.7	4.8	3.3	4.8	5.8	0.3	0.3	0.1	0.1	12.9	11.2
Intangible assets	2.0	-	0.4	0.5	3.0	0.1	1.1	1.4	-	-	6.5	2.0

4 Analysis of Net Operating Expenses

	2006 £m	2005 £m
Analysis of net operating expenses		
Marketing, selling and distribution costs	29.2	27.0
Research, development and engineering costs ⁽¹⁾	8.7	7.8
Administrative expenses		
- restructuring costs	1.5	0.9
- amortisation of acquired intangible assets	0.6	0.2
- other administrative expenses	30.1	24.5
	32.2	25.6
Net operating expenses	70.1	60.4

⁽¹⁾ No development costs have been capitalised in accordance with the Group accounting policies. Engineering costs are incurred as part of active product development programmes in the manufacturing companies.

Notes to the Consolidated Accounts continued

5 Significant Items

Significant items are those items of financial performance that the directors consider should be separately disclosed to assist in the understanding of the underlying trading and financial performance achieved by the Group and in making projections of future results.

Other operating income

Other operating income of £0.4 million relates to profit on the sale of property fixed assets (Broadcast Systems division).

Prior year other operating income of £0.3 million relates to profit on the sale of property fixed assets (Imaging & Staging division).

Operating expenses

Of the significant items included in net operating expenses, £0.6 million relates to the amortisation of intangible assets acquired as part of the acquisitions, and £1.5 million relates to the ongoing restructuring costs in Broadcast Systems (primarily inventory write off, relocation and severance in connection with the actions taken to enable the business to operate in a more integrated manner).

Prior year significant items included £0.2 million of amortisation of intangible assets acquired as part of the Kata acquisition, and £0.9 million of ongoing restructuring costs in Broadcast Systems (primarily severance in connection with the actions taken to enable the business to operate in a more integrated manner).

Other financial income/(expense)

Significant items included in other financial expense comprise the following items:

The Group uses options as part of its hedging of future foreign exchange cash flows. As such options are held to maturity, the ultimate net amount charged to the income statement in respect of any option will always equate to the initial premium paid for that option. However, as a result of the time value of such options being marked-to-market at each balance sheet date, volatile income and expenses can be introduced between periods and such amounts are therefore identified as significant other financial expense. A £nil amount (2005: £0.3 million loss) relating to this volatile premium on options was recorded in significant items within other financial expense. An expense of £0.2 million (2005: £0.5 million) relating to the amortisation of options was recorded as a non-significant item within other financial expense.

Currency translation differences arising on long term intra-Group funding loans that are similar in nature to equity are charged/credited to reserves. Currency translation gain of £0.2 million (2005: £0.2 million loss) arising on certain other intra-Group funding balances that do not meet this strict criteria but are very similar in nature are recorded in significant items within other financial expense.

6 Operating Profit

	2006 £m	2005 £m
The following items are included in operating profit		
Amortisation of acquired intangible assets	0.6	0.2
Amortisation of capitalised software and development costs	1.1	1.0
Depreciation	8.9	8.9
Net gain on disposal of property, plant and equipment	(1.5)	(1.6)
Employee share based incentive schemes	1.5	0.3
Operating lease rental expense		
Plant, machinery and vehicles	0.3	0.3
Property	3.5	3.1
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	0.1	0.1
Fees payable to the Company's auditors and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	0.4	0.3
Other services relating to taxation	0.2	0.2
Other services relating to corporate financial transactions	0.1	0.1
All other services	-	0.1

7 Employees

	2006 £m	2005 £m
Aggregate remuneration of all employees during the year		
Wages and salaries	50.4	45.2
Employers' social security costs	6.7	6.2
Employers' pension costs - defined benefit schemes	2.2	2.2
Employers' pension costs - defined contribution schemes	0.4	0.4
Other employment benefits	1.6	1.1
Cost of equity-settled employee share schemes	1.2	0.3
Cost of cash-settled employee share schemes	0.3	-
	62.8	55.4

	2006 £m	2005 £m
Average number of employees during the year		
Imaging & Staging	751	650
Broadcast Systems	746	704
Broadcast Services	166	171
Head Office	13	13
	1,676	1,538

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 21 to 27.

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

	2006 £m	2005 £m
Fees for non-executive duties	0.2	0.2
Remuneration for executive duties	1.1	0.8
	1.3	1.0

Notes to the Consolidated Accounts continued

9 Net Financial Expense

	2006 £m	2005 £m
Financial expenses		
Interest payable on bank borrowings	(1.5)	(1.5)
Interest charge on pension scheme liabilities	(2.1)	(2.0)
Other financial expense:		
Net fair value losses in financial instruments ⁽¹⁾	(0.2)	(0.8)
Net foreign exchange losses ⁽²⁾	0.2	(0.2)
Other financial expense	-	(1.0)
	(3.6)	(4.5)
Financial income		
Interest income	0.1	0.2
Expected return on assets in the pension scheme	2.6	2.2
	2.7	2.4
Net financial expense	(0.9)	(2.1)

⁽¹⁾ The Group uses options as part of its hedging of future foreign exchange cash flows. As such options are held to maturity, the ultimate net amount charged to the income statement in respect of any option will always equate to the initial premium paid for that option. However, as a result of the time value of such options being marked-to-market at each balance sheet date, volatile income and expenses can be introduced between periods and such amounts are therefore identified as significant other financial expense. A £nil amount (2005: £0.3 million loss) relating to this volatile premium on options was recorded in significant items within other financial expense. An expense of £0.2 million (2005: £0.5 million) relating to the amortisation of options was recorded as a non-significant item within other financial expense.

⁽²⁾ Currency translation differences arising on long term intra-Group funding loans that are similar in nature to equity are charged/credited to reserves. Currency translation gain of £0.2 million (2005: £0.2 million loss) arising on certain other intra-Group funding balances that do not meet this strict criteria but are very similar in nature are recorded in significant items within other financial expense.

10 Net Foreign Exchange Gains/(Losses)

The exchange gains/(losses) charged to the income statement are included as follows:

	2006 £m	2005 £m
Cost of goods sold	0.2	(0.8)
Net financial gain/(loss)	0.2	(0.2)
Total net foreign exchange gains/(losses)	0.4	(1.0)

11 Tax

Recognised in the income statement

	2006 £m	2005 £m
Current tax expense		
Current year before significant items	9.3	6.4
Adjustment for prior years	-	0.2
	9.3	6.6
Tax credit relating to significant items	(0.4)	-
Current tax expense after significant items	8.9	6.6
Deferred tax expense		
Origination and reversal of temporary differences	(0.3)	0.1
Amortisation of permanent differences	0.3	0.3
Benefit of tax losses recognised	0.3	1.4
Adjustment for prior years	-	(0.7)
	0.3	1.1
Total income tax expense in income statement	9.2	7.7

	2006 %	2006 £m	2005 %	2005 £m
Reconciliation of effective tax rate				
Profit before tax and significant items		24.1		18.4
Income tax using the domestic corporation rate	30%	7.3	30%	5.4
Effect of tax rates in foreign jurisdictions	14%	3.4	14%	2.6
Prior year adjustment	-	-	1%	0.2
Non-deductible expenses	3%	0.7	4%	0.7
Tax-deductible expenses not recognised in the income statement	-	-	-3%	(0.6)
Tax-exempt revenues	-5%	(1.3)	-3%	(0.6)
Tax effect of profit elimination on intra-Group inventory	-2%	(0.4)	-1%	(0.1)
Other	-	(0.1)	-	0.1
	40%	9.6	42%	7.7
Tax credit relating to significant items		(0.4)		-
Tax charge before significant items		9.2		7.7

All of the income tax relates to overseas tax. There is no income tax expense relating to the UK as a result of UK losses.

Associated with the restructuring costs of £1.5 million in significant items is a tax credit of £0.4 million relating to restructuring costs incurred in Germany.

Notes to the Consolidated Accounts continued

12 Earnings Per Ordinary Share

The calculation of basic earnings per share is based on profit after tax of £13.4 million (2005: £9.8 million) and on the weighted average number of shares in issue during the year of 41,107,593 (2005: 41,084,054).

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 significant items and discontinued operations. In 2006 this profit was £14.9 million (2005: £10.7 million).

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

	2006 £m	Profit 2005 £m	Earnings per share 2006 pence	2005 pence
Profit for the financial year	13.4	9.8	32.6	23.9
Less: discontinued operations	-	(0.4)	-	(1.0)
	13.4	9.4	32.6	22.9
Add back: significant items	1.1	1.3	2.7	3.1
Earnings before significant items and discontinued operations	14.5	10.7	35.3	26.0

Reconciliation of shares and its effect on basic earnings per share and diluted earnings per share

The calculation of diluted earnings per share of 32.2 pence (2005: 23.7 pence) is based on profit after tax of £13.4 million (2005: £9.8 million) and on 41,581,157 (2005: 41,352,795) ordinary shares, calculated as follows:

	2006	Number of shares 2005	Earnings per share 2006 pence	2005 pence
Basic weighted average number of shares	41,107,593	41,084,054	32.6	23.9
Dilutive potential ordinary shares:				
Employee share options	391,459	179,712	(0.3)	(0.1)
Deferred bonus plan	82,105	89,029	(0.1)	(0.1)
Diluted weighted average number of shares	41,581,157	41,352,795	32.2	23.7

13 Property, Plant and Equipment

	Total £m	Land and buildings £m	Plant machinery and vehicles ⁽¹⁾ £m	Equipment fixtures and fittings £m
Cost				
At 1 January 2005	95.0	19.7	60.1	15.2
Currency translation adjustments	3.7	(0.2)	3.8	0.1
Acquisitions	0.1	-	-	0.1
Additions	11.1	0.6	8.7	1.8
Disposals	(5.3)	(1.9)	(2.5)	(0.9)
At 31 December 2005	104.6	18.2	70.1	16.3
At 1 January 2006	104.6	18.2	70.1	16.3
Currency translation adjustments	(6.6)	(0.4)	(5.6)	(0.6)
Acquisitions	0.9	0.8	0.1	-
Additions	12.0	2.8	8.1	1.1
Disposals	(6.8)	(0.3)	(5.1)	(1.4)
At 31 December 2006	104.1	21.1	67.6	15.4
Depreciation				
At 1 January 2005	64.3	8.2	45.3	10.8
Currency translation adjustments	2.6	-	2.5	0.1
Depreciation charge for the year	8.9	0.7	6.9	1.3
Disposals	(4.8)	(1.7)	(2.3)	(0.8)
At 31 December 2005	71.0	7.2	52.4	11.4
At 1 January 2006	71.0	7.2	52.4	11.4
Currency translation adjustments	(4.6)	(0.2)	(4.0)	(0.4)
Depreciation charge for the year	8.9	0.9	6.9	1.1
Disposals	(6.3)	(0.2)	(4.8)	(1.3)
At 31 December 2006	69.0	7.7	50.5	10.8
Carrying amounts				
At 1 January 2005	30.7	11.5	14.8	4.4
At 31 December 2005 and 1 January 2006	33.6	11.0	17.7	4.9
At 31 December 2006	35.1	13.4	17.1	4.6

⁽¹⁾ Plant, machinery and vehicles includes broadcast equipment rental assets with an original cost of £34.4 million (2005: £40.0 million) and accumulated depreciation of £24.6 million (2005: £28.2 million).

Capital commitments at 31 December 2006 for which no provision has been made in the accounts amount to £0.1 million (2005: £0.1 million).

Notes to the Consolidated Accounts continued

14 Intangible Assets

	Total £m	Acquired intangible assets £m	Goodwill £m	Capitalised software £m
Cost				
At 1 January 2005	21.6	-	16.0	5.6
Currency translation adjustment	1.4	-	1.3	0.1
Additions	0.6	-	-	0.6
Acquisitions	6.8	1.4	5.4	-
At 31 December 2005	30.4	1.4	22.7	6.3
At 1 January 2006	30.4	1.4	22.7	6.3
Currency translation adjustment	(3.0)	(0.3)	(2.4)	(0.3)
Additions	1.2	-	-	1.2
Acquisitions	16.7	5.3 ⁽¹⁾	11.4 ⁽²⁾	-
At 31 December 2006	45.3	6.4	31.7	7.2
Amortisation and impairment losses				
At 1 January 2005	8.8	-	6.4	2.4
Currency translation adjustment	0.5	-	0.5	-
Amortisation in the year	1.2	0.2	-	1.0
At 31 December 2005	10.5	0.2	6.9	3.4
At 1 January 2006	10.5	0.2	6.9	3.4
Currency translation adjustment	(1.0)	-	(0.9)	(0.1)
Impairment charge	-	-	-	-
Amortisation in the year	1.7	0.6	-	1.1
At 31 December 2006	11.2	0.8	6.0	4.4
Carrying amounts				
At 1 January 2005	12.8	-	9.6	3.2
At 31 December 2005 and 1 January 2006	19.9	1.2	15.8	2.9
At 31 December 2006	34.1	5.6	25.7	2.8

⁽¹⁾ Acquired intangible assets of £5.3 million arose on the acquisition of Bogen Imaging KK, Petrol, Autoscript, and Tomcat. These are amortised using the straight-line method over their estimated useful lives (see Note 26).

⁽²⁾ £11.4 million represents goodwill arising on the acquisitions of Petrol (£2.3 million), Autoscript (£4.4 million) and Tomcat (£4.7 million) in 2006 (see Note 26).

Impairment tests for cash-generating units containing goodwill

Goodwill is analysed as follows:

Unit	2006 £m	2005 £m
Imaging & Staging	13.1	8.5
Broadcast Services	2.9	3.2
Broadcast Systems	9.7	4.1
Total	25.7	15.8

The impairment tests for all the above units are based on value in use calculations. These calculations use cash flow projections based on actual operating results and five year projections. Cash flows thereafter are extrapolated using a one to two percent growth rate and are appropriate because these businesses are long term in nature. These growth rates are consistent with the long term average growth rates for these industries. A pre-tax discount rate of 13 to 15% has been used in discounting the project cash flows for all the above units.

The calculations demonstrated that no impairment had arisen in respect of goodwill.

15 Fixed Asset Investments

During the year, the Group acquired a minority shareholding in Media Numerics Ltd at a cost of £0.7 million. The investment is stated at cost as it is a non-quoted investment whose fair value cannot be reliably measured.

Notes to the Consolidated Accounts continued

15 Fixed Asset Investments continued

Principal subsidiaries

The Group's principal subsidiaries at 31 December 2006 are listed below. All subsidiaries are 100% owned within the Group.

	Country of incorporation
Vitec Group US Holdings Inc	USA
Vitec Holdings Limited (changed from Vitec Luxembourg Holdings Sarl in May 2006)	Guernsey
Vitec Investments Limited	UK*
Broadcast Systems	
ALC Broadcast Limited	UK
Anton/Bauer Inc	USA
Camera Dynamics Limited (name changed from Vinten Broadcast Limited in December 2006)	UK*
Centro de Produccion Profesional CPP Limitada (name changed to Camera Dynamics Limitada in February 2007)	Costa Rica
Sachtler Corporation of America (name changed to Camera Dynamics Inc in January 2007)	USA
Sachtler GmbH & Co KG (name changed to Camera Dynamics GmbH & Co KG in January 2007)	Germany
Vinten Inc (merged into Sachtler Corporation of America (now called Camera Dynamics Inc) in January 2007)	USA
Vitec Group Communications Inc	USA
Vitec Group Communications Limited	UK*
Imaging & Staging	
Bogen Imaging Inc	USA
Gitzo SA	France
Gruppo Manfrotto Srl	Italy
Kata Vitec I Limited	Israel
Lino Manfrotto & Co SpA	Italy
Litec Srl	Italy
Tomcat Global Corporation	USA
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 to the Registrar of Companies.

16 Deferred Tax Assets and Liabilities

	2006 £m	Recognised in income £m	Recognised in reserves £m	2005 £m
Assets				
Inventories	1.2	0.4	(0.1)	0.9
Intangible assets	1.7	(1.0)	(0.3)	3.0
Tax value of loss carry-forwards recognised	0.3	0.1	-	0.2
Property, plant and equipment	1.5	(0.2)	-	1.7
	4.7	(0.7)	(0.4)	5.8
Liabilities				
Intangible assets	(0.4)	-	(0.1)	(0.3)
Property, plant and equipment	-	0.6	-	(0.6)
Tax value of loss carry-forwards recognised	(0.2)	(0.2)	-	-
Inventories	(0.1)	-	0.1	(0.2)
	(0.7)	0.4	-	(1.1)
Net	4.0	(0.3)	(0.4)	4.7

	2005 £m	Recognised in income £m	Recognised in reserves £m	2004 £m
Assets				
Inventories	0.9	0.1	-	0.8
Intangible assets	3.0	(0.7)	0.3	3.4
Tax value of loss carry-forwards recognised	0.2	(1.4)	-	1.6
Property, plant and equipment	1.7	0.4	(0.1)	1.4
	5.8	(1.6)	0.2	7.2
Liabilities				
Intangible assets	(0.3)	-	(0.3)	-
Property, plant and equipment	(0.6)	0.5	(0.1)	(1.0)
Inventories	(0.2)	-	1.2	(1.4)
	(1.1)	0.5	0.8	(2.4)
Net	4.7	(1.1)	1.0	4.8

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:	2006 £m	2005 £m
UK tax losses	25.4	25.4

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

No taxes have been provided for liabilities which may arise on the distribution of unremitted earnings of subsidiaries on the basis of control, except where distributions of such profits are planned. Cumulative unremitted earnings of overseas subsidiaries and associates totalled approximately £58.0 million at 31 December 2006 (2005: £55.0 million). It is not practicable to calculate the tax which would arise on remittance of these amounts: it would be substantially lower than statutory rates after giving effect to foreign tax credits.

Notes to the Consolidated Accounts continued

17 Inventories

	2006 £m	2005 £m
Raw materials and components	12.7	9.9
Work in progress	8.6	5.9
Finished goods	19.8	15.5
	41.1	31.3

See Note 30, Accounting Estimates and Judgements, for details of the provision held against inventory.

18 Trade and Other Receivables

	2006 £m	2005 £m
Current receivables		
Trade receivables	31.2	30.5
Amounts recoverable on long term contracts	0.2	0.7
Other receivables	4.7	4.3
Prepayments and accrued income	1.4	1.2
	37.5	36.7
Non-current receivables		
Prepayments and accrued income	0.1	-
Other receivables	1.0	0.3
	1.1	0.3
Total receivables	38.6	37.0

19 Derivative Financial Instruments

An explanation of the Group's treasury policy and controls is included in the Financial Review on page 13.

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates only.

Credit Risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group. Transactions involving derivative financial instruments are with counterparties with whom the Group has a signed netting agreement as well as sound credit ratings. Given their high credit ratings management does not expect any counterparty to fail to meet its obligations.

At the balance sheet there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest Rate Risk

All the Group's borrowings and investments are at floating rates. Given the Group's low net debt, management believes that the benefits of fixing a proportion of its interest costs are outweighed by the costs.

Foreign Currency Risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the business unit. The currencies giving rise to this risk are primarily US\$, Euros and Japanese Yen.

The Group aims to hedge 75 per cent of its forecasted foreign currency exposure in respect of forecasted sales and purchases for the following 12 months and up to 50 per cent of the exposure for between 12 months and 18 months. The Group uses forward exchange contracts ("forwards"), simple options and "cylinders" (a combination of two offsetting simple options at different rates) to hedge its foreign currency risk. The majority of these contracts have maturities of less than one year at the balance sheet date.

In respect of other monetary assets and liabilities held in currencies other than Sterling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

Forecasted Transactions

The Group classifies its derivatives hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of these derivatives as 1 January 2006 was adjusted against the opening balance of the hedging reserve at that date.

Recognised Assets and Liabilities

Changes in the fair value of derivatives that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the derivatives and the foreign exchange gains and losses relating to the monetary items are recognised as part of "Cost of Sales".

Hedge of net investment in foreign subsidiary

The Group's US\$, Euro and Yen loans and certain forward contracts are designated as a hedge of the Group's investment in subsidiaries overseas. Inter-company loans for which payment is not planned in the foreseeable future are classified as net investments and so are taken to reserves.

Sensitivity Analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 31 December 2006, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £0.2 million. This reflects increased interest costs on the Group's borrowings and increased interest income on the Group's investments.

Notes to the Consolidated Accounts continued

19 Derivative Financial Instruments continued

Fair Value

The fair values together with the carrying amounts shown in the balance sheet are as follows:

a) Fair value of financial assets and liabilities	2006	2005
	Fair value and book value £m	Fair value and book value £m
Forward exchange contracts - Assets	1.6	0.1
Forward exchange contracts - Liabilities	-	(0.9)
Option exchange contracts - Assets	0.7	0.1
Cash at bank and in hand	9.4	12.7
Trade receivables	31.2	30.5
Trade payables	(20.3)	(16.6)
Bank overdraft	(1.9)	(0.9)
Other borrowings	(0.1)	-
Floating rate borrowings ⁽¹⁾	(26.3)	(17.2)
	(5.7)	7.8

Market rates have been used to determine fair values.

⁽¹⁾ Floating rate borrowings are used for the purpose of net investment hedging.

Estimation of Fair Values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

Derivatives

Forwards are marked-to-market by calculating the contractual forward price and deducting the current spot rate. Options and cylinders are marked-to-market by obtaining quotes from banks of their market value as at the 31 December.

(i) Maturity profile of Derivatives

	Total	Within	More than
	2006	one year	one year
	£m	or less	but not more
		£m	than two
			years
			£m
Forward exchange contracts - Assets	1.6	1.6	-
Option exchange contracts - Assets	0.7	0.7	-
	2.3	2.3	-
	2005		
	£m	£m	£m
Forward exchange contracts - Assets	0.1	0.1	-
Forward exchange contracts - Liabilities	(1.1)	(1.0)	(0.1)
Option exchange contracts - Assets	0.1	0.1	-
	(0.9)	(0.8)	(0.1)

All the options are to sell US Dollars for Euro and have an exercise price between US\$1.15 = €1 and US\$1.31 = €1.

Interest bearing loans and borrowings All interest bearing loans and borrowings are at floating rates. Therefore, the fair value of these loans and borrowings is their carrying value.

Trade and other receivables/payables For trade receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other trade receivables and payables are discounted to determine the fair value.

b) Financial liabilities

i) Analysis of borrowings	2006 £m	Group 2005 £m
Other borrowings	0.1	-
Overdrafts	1.9	0.9
Bank loans	26.3	17.2
Total borrowings	28.3	18.1
Forward exchange contracts	-	0.9
Gross financial liabilities	28.3	19.0

ii) Maturity profile

	2006 £m	Group 2005 £m
Within one year or less	2.0	1.7
More than one year but not more than two years	-	0.1
More than two years but not more than five years	26.3	17.2
	28.3	19.0

On 25 January 2005 the Group signed a five year £100 million Multicurrency Revolving Credit Facility Agreement with a syndicate of UK banks.

The total amount of bank loans and overdrafts any part of which falls due after five years is £nil (2005: £nil).

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

	2006 £m	2005 £m
Expiring in one year or less		
- uncommitted facilities	13.1	8.6
More than two years but not more than three years		
- committed facilities	73.7	82.8
Total	86.8	91.4

Notes to the Consolidated Accounts continued

19 Derivative Financial Instruments continued

iii) Interest rate profile

Currency	Total £m	Floating rate borrowings £m
Yen	1.0	1.0
Sterling	2.0	2.0
US\$	5.1	5.1
Euro	20.2	20.2
At 31 December 2006	28.3	28.3
Sterling	0.9	0.9
US\$	3.5	3.5
Euro	13.7	13.7
At 31 December 2005	18.1	18.1

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

c) Financial assets

Currency	Floating rate 2006 £m	Floating rate 2005 £m
Sterling	-	0.2
US\$	4.8	6.3
Euro	3.8	5.4
Other	0.8	0.8
Total cash balances	9.4	12.7
Forward exchange contracts	1.6	0.1
Option contracts	0.7	0.1
Gross financial assets	11.7	12.9

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.

The forward exchange and option contracts all mature within 18 months.

20 Current Tax

The current net tax liability of £9.9 million (2005: £6.7 million) represents the amount of income taxes payable in respect of current and prior periods.

21 Cash and Cash Equivalents

	2006 £m	2005 £m
Cash and cash equivalents	9.4	12.7
Bank overdrafts	(1.9)	(0.9)
Cash and cash equivalents in the cash flow statement	7.5	11.8

22 Reconciliation of Decrease in Cash and Cash Equivalents to Movement in Net Debt ⁽¹⁾

	2006 £m	2005 £m
Decrease in cash and cash equivalents	(3.8)	(1.6)
Loan taken over on acquisition of businesses	(0.9)	-
Net (borrowing)/repayment of loans	(9.1)	8.2
(Increase)/reduction in net debt resulting from cash flows	(13.8)	6.6
Exchange on cash movements	(0.5)	-
Exchange on loan movements	0.8	(0.7)
Exchange rate movements	0.3	(0.7)
Movements in net debt in the period	(13.5)	5.9
Net debt at 1 January	(5.4)	(11.3)
Net debt at 31 December	(18.9)	(5.4)

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

⁽¹⁾ Net debt constitutes cash and cash equivalents, bank overdrafts and bank loans.

23 Trade and Other Payables

	2006 £m	2005 £m
Current trade and other payables		
Payments received on account	0.1	0.3
Trade payables	20.3	16.6
Other tax and social security costs	2.0	1.9
Other payables	7.2	5.8
Accruals and deferred income	7.5	6.9
	37.1	31.5
Non-current trade and other payables		
Other payables	0.1	0.1
Accruals and deferred income	0.1	0.1
	0.2	0.2

Notes to the Consolidated Accounts continued

24 Provisions

	Total £m	Restructuring £m	Warranty £m	Contingent consideration on acquisition of subsidiaries £m	Other £m
At 1 January 2006	3.9	0.2	1.0	2.7	-
Provisions utilised during the year	(2.4)	(0.8)	(0.3)	(1.0)	(0.3)
Charged to the income statement	3.2	1.5	0.5	-	1.2
Acquisition of subsidiary undertaking	3.9	-	-	3.9	-
Currency translation adjustments	(0.6)	(0.1)	(0.1)	(0.4)	-
At 31 December 2006	8.0	0.8	1.1	5.2	0.9
Non-current	3.0	-	-	3.0	-
Current	5.0	0.8	1.1	2.2	0.9
	8.0	0.8	1.1	5.2	0.9

The contingent consideration on acquisition of subsidiaries of £5.2 million relates to the following acquisitions:

- Kata – As at 31 December 2005, management's estimate of the realistic actual payout was US\$4.6 million (£2.7 million). In 2006 consideration of US\$2.0 million (£1.0 million) was paid out. As at the end of 2006, the maximum remaining contingent consideration payable is US\$7.1 million (£3.6 million) conditional upon its future sales and profitability in 2006 and 2007. Management's estimate at 31 December 2006 of a realistic actual payout is US\$2.6 million (£1.3 million).
- Petrol – The maximum potential contingent consideration payable is US\$3.4 million (£1.8 million), conditional upon the achievement of profitability targets in 2006. Management's estimate at 31 December 2006 of a realistic actual payout is US\$3.1 million (£1.7 million).
- Autoscript – The maximum potential contingent consideration payable is £2.0 million, conditional on the achievement of profitability targets for 2007 and 2008. Management's estimate at 31 December 2006 of a realistic actual payout is £1.5 million.
- Tomcat – The maximum potential contingent consideration payable is US\$7.0 million (£3.6 million), conditional on the achievement of profitability targets in 2007 to 2009. Management's estimate at 31 December 2006 of a realistic actual payout is US\$1.4 million (£0.7 million).

The remaining provisions comprise warranty provisions of £1.1 million (2005: £1.0 million), other provision for the early termination of property lease of £0.9 million, and the provision for restructuring of £0.8 million (2005: £0.2 million). The warranty provision is calculated based on the sale of products under warranty and is consistent with previous years. The provision is expected to be utilised over the warranty period (up to five years). The restructuring and early termination of property lease provision will be utilised during 2007.

25 Capital and Reserves

	Share Capital £m	Share Premium £m	Translation reserve £m	Capital Redemption reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total Equity £m
At 1 January 2005	8.2	2.7	(4.0)	1.6	0.8	56.1	65.4
Total recognised income for the year			2.2		(1.5)	10.3	11.0
Dividends paid						(6.1)	(6.1)
Equity-settled transactions, net of tax						0.3	0.3
At 31 December 2005	8.2	2.7	(1.8)	1.6	(0.7)	60.6	70.6
At 1 January 2006	8.2	2.7	(1.8)	1.6	(0.7)	60.6	70.6
Total recognised income for the year			(5.7)		2.0	15.6	11.9
Purchase of own shares						(0.9)	(0.9)
Dividends paid						(6.5)	(6.5)
Equity-settled transactions, net of tax						1.2	1.2
Premium on new shares issued	-	0.5					0.5
At 31 December 2006	8.2	3.2	(7.5)	1.6	1.3	70.0	76.8

Translation reserve

The translation reserve comprises all currency translation differences arising from the translation of the financial statements of foreign operations, as well as from the translation of monetary items designated as foreign net investments and hedges of net investment in foreign subsidiaries.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

During the year, the £0.6 million relating to derivatives in cash flow hedging relationships was released to the income statement in 'Cost of sales'. Also, further derivatives were acquired for cash flow hedging relationships which were valued at £1.4 million at the end of the year. The total movement in the cash flow hedging reserve during the year was therefore £2.0 million.

Capital redemption reserve

This reserve was created in 1999 when the Company purchased, and subsequently cancelled, 885,000 ordinary shares.

Purchase of own shares

Own shares held are recognised as a deduction from retained earnings. In 2002 the Company purchased 142,857 own shares, representing 0.3% (2005: 0.3%) of the called up share capital of the Company at an average price of 314.26p per share in connection with a share option made to the Chief Executive. In 2006 the Company purchased 189,210 own shares, representing 0.4% of the called up share capital of the Company at an average price of 482.80p per share in connection with share incentive awards made by the Company in previous years. These shares are being held in trust by Halifax EES Trustees International Ltd.

Dividends

After the balance sheet date the following dividend was recommended by the directors. The dividend has not been provided for at the year end and there are no tax consequences.

	2006 £m	2005 £m
10.1p per share (2005: 9.4p)	4.2	3.9

Notes to the Consolidated Accounts continued

25 Capital and Reserves continued

The authorised share capital at 31 December 2006 consisted of 65,000,000 (2005: 65,000,000) ordinary shares of 20p each, of which 41,277,250 were allotted and fully paid. The movement during the year was:

	Shares	Issued share capital £m
At 1 January 2006	41,086,719	8.2
Exercise of share options	190,531	-
At 31 December 2006	41,277,250	8.2

At 31 December 2006 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	232,241	231p-492p	2007-2013
International SAYE schemes	141,266	231p-436p	2007-2011
Executive schemes	1,214,944	298p-653p	2007-2012
	1,588,451		

On 19 April 2006, awards over an aggregate of 364,649 shares in the Company were made to 71 senior Group executives under the Company's 2005 Long Term Incentive Plan. The total number of shares outstanding at 31 December 2006 under the Company's Long Term Incentive Plan and 2005 Long Term Incentive Plan was 1,027,705 (2005: 914,279). The terms of the awards and the related performance conditions are described in the Remuneration Report.

On 17 May 2006, Basic awards over an aggregate of 11,715 shares in the Company were made to six senior Group executives under the Company's 2005 Deferred Bonus Plan (any Matching Award will be calculated on vesting). The total number of shares outstanding at 31 December 2006 under the Company's Deferred Bonus Plan was 122,834 (2005: 140,161). The terms of the awards and the related performance conditions are described in the Remuneration Report.

26 Acquisitions of Businesses

Due to the number of acquisitions and the complexity of the pre-acquisition structures of certain businesses, management consider that it is impracticable to disclose the results of the combined entity as though all the acquisitions were effected at 1 January 2006.

Goodwill is calculated as the excess of purchase consideration over the fair value of those intangible and tangible net assets acquired that can be separately identified in accordance with IFRS. It therefore represents assets that do not meet the recognition criteria as separable assets in accordance with IFRS.

Petrol Bags On 16 January 2006 the Group acquired the net assets of Petrol Bags, the designer and manufacturer of broadcast video bags and accessories. The cash consideration including acquisition expenses amounted to US\$3.1 million (£1.8 million) and there is an estimated contingent consideration of US\$3.1 million (£1.7 million) conditional upon future profitability targets. Based on an assessment of the fair values of the tangible and intangible assets, goodwill of £2.3 million arose on acquisition.

As part of the fair value exercise, intangible fixed assets comprising brand name (£0.1 million) and customer relationships (£0.1 million) were identified.

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

	Book value £m	Fair value adjustments £m	As adjusted £m
Net assets acquired			
Intangible assets	-	0.2	0.2
Deferred tax on intangible assets	-	0.3	0.3
Inventories	0.3	0.2	0.5
Trade and other receivables	0.2	-	0.2
	0.5	0.7	1.2
Purchased goodwill			2.3
Total purchase consideration, including expenses and contingent consideration			3.5

	£m
Net outflow of cash in respect of acquisitions	
Total purchase consideration, including expenses	3.5
Contingent consideration	(1.7)
Cash paid for acquisition, including expenses	1.8
Cash acquired	-
Total outflow of cash from Group	1.8

The results of Petrol have been included in the Broadcast Systems division and comprise:

	£m
External revenue	0.7
Inter-segment revenue	0.8
Total revenue	1.5
Cost of sales	(1.0)
Operating expenses	(0.3) ⁽¹⁾
Operating profit	0.2

⁽¹⁾ Operating expenses include £0.1 million of amortisation of intangible assets.

Notes to the Consolidated Accounts continued

26 Acquisitions of Businesses continued

Bogen Imaging KK On 5 May 2006 the Group acquired the Japanese photographic distribution activities for its Manfrotto photographic and video camera and lighting supports and its Kata photographic bags, from Honjo & Co in Kobe, and for its Gitzo photographic and video camera supports, from KFC Ltd in Tokyo. The cash consideration including acquisition expenses amounted to Yen191.5 million (£0.9 million). Based on an assessment of the fair values of the tangible and intangible assets, goodwill of £nil arose on acquisition.

As part of the fair value exercise, intangible fixed assets comprising customer relationships (£0.8 million) were identified.

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

	Book value £m	Fair value adjustments £m	As adjusted £m
Net assets acquired			
Intangible assets	-	0.8	0.8
Inventories	0.2	-	0.2
Trade and other payables	(0.1)	-	(0.1)
	0.1	0.8	0.9
Purchased goodwill			-
Total purchase consideration, including expenses			0.9

	£m
Net outflow of cash in respect of acquisitions	
Total purchase consideration, including expenses	0.9
Contingent consideration	-
Cash paid for acquisition, including expenses	0.9
Cash acquired	-
Total outflow of cash from Group	0.9

The results of Bogen Imaging KK, a new Vitec Group company that commenced trading on 1 June 2006, have been included in the Imaging & Staging division and comprise:

	£m
External revenue	2.1
Inter-segment revenue	-
Total revenue	2.1
Cost of sales	(1.3)
Operating expenses	(1.1) ⁽¹⁾
Operating loss	(0.3)

⁽¹⁾ Operating expenses include £0.1 million of amortisation of intangible assets.

Autoscript On 31 October 2006 the Group acquired all the issued share capital of ALC Broadcast Ltd, the holding company of 'Autoscript', the leading providers of prompting hardware and software to the broadcast industry. The net cash consideration (after taking account of £0.2 million cash in the business at acquisition date and including acquisition expenses) amounted to £5.0 million and there is an estimated contingent consideration of £1.5 million conditional upon future profitability targets. Based on an assessment of the fair values of the tangible and intangible assets, goodwill of £4.4 million arose on acquisition.

As part of the fair value exercise, intangible fixed assets comprising brand name (£0.5 million), brand technology (£0.2 million) and customer relationships (£1.0 million) were identified.

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

	Book value £m	Fair value adjustments £m	As adjusted £m
Net assets acquired			
Intangible assets	0.7	1.0	1.7
Property, plant and equipment	0.1	-	0.1
Inventories	0.4	0.1	0.5
Trade and other receivables	0.8	-	0.8
Loan	(0.2)	-	(0.2)
Cash and cash equivalents	0.2	-	0.2
Trade and other payables	(0.8)	-	(0.8)
	1.2	1.1	2.3
Purchased goodwill			4.4
Total purchase consideration, including expenses			6.7

	£m
Net outflow of cash in respect of acquisitions	
Total purchase consideration, including expenses	6.7
Contingent consideration	(1.5)
Cash paid for acquisition, including expenses	5.2
Net cash acquired	(0.2)
Total outflow of cash from Group	5.0

The results of Autoscript have been included in the Broadcast Systems division and comprise:

	£m
External revenue	0.7
Inter-segment revenue	-
Total revenue	0.7
Cost of sales	(0.5)
Operating expenses	(0.3)
Operating profit	(0.1) ⁽¹⁾

⁽¹⁾ Operating expenses include £0.1 million of amortisation of intangible assets.

Notes to the Consolidated Accounts continued

26 Acquisitions of Businesses continued

Tomcat On 7 November 2006 the Group acquired all the issued share capital of Tomcat Global Corporation (Tomcat), a leading US manufacturer of aluminium structures for live events. The net cash consideration (after taking account of £1.0 million cash in the business at acquisition date and including acquisition expenses) amounted to US\$13.5 million (£7.1 million) and there is an estimated contingent consideration of US\$1.4 million (£0.7 million) conditional upon future profitability targets. Based on an assessment of the fair values of the tangible and intangible assets, goodwill of US\$9.0 million (£4.7 million) arose on acquisition.

As part of the fair value exercise, intangible fixed assets comprising brand name (£0.8 million) and customer relationships (£1.8 million) were identified.

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

	Book value £m	Fair value adjustments £m	As adjusted £m
Net assets acquired			
Intangible assets	-	2.6	2.6
Deferred tax on intangible assets	-	(0.4)	(0.4)
Property, plant and equipment	1.0	-	1.0
Inventories	1.9	-	1.9
Trade and other receivables	0.7	-	0.7
Bank loan	(0.7)	-	(0.7)
Cash and cash equivalents	1.0	-	1.0
Tax payable	0.1	-	0.1
Trade and other payables	(2.1)	-	(2.1)
	1.9	2.2	4.1
Purchased goodwill			4.7
Total purchase consideration, including expenses and contingent consideration			8.8

	£m
Net outflow of cash in respect of acquisitions	
Total purchase consideration, including expenses	8.8
Contingent consideration	(0.7)
Cash paid for acquisition, including expenses	8.1
Cash acquired	(1.0)
Total outflow of cash from Group (excluding bank loan acquired)	7.1

The results of Tomcat have been included in the Imaging & Staging division and comprise:

	£m
External revenue	1.5
Inter-segment revenue	-
Total revenue	1.5
Cost of sales	(1.1)
Operating expenses	(0.4) ⁽¹⁾
Operating profit	-

⁽¹⁾ Operating expenses include £nil of amortisation of intangible assets.

On 31 May 2005 the Group acquired the business and assets of Kata International Limited and Kata Professional (Kimchi and Tishler) Limited (Kata), the designer and manufacturer of premium protective carrying bags for cameras and accessories in the photographic and broadcast markets. The net cash consideration (after taking account of £0.1 million cash in the business at acquisition date and including acquisition expenses) amounted to US\$8.3 million (£4.6 million) and there is an estimated contingent consideration of US\$4.6 million (£2.5 million) conditional upon future sales and profitability targets. Based on an assessment of the fair values of the tangible and intangible assets, goodwill of £5.4m arose on acquisition.

As part of the fair value exercise, intangible fixed assets comprising sales order backlog (£0.1 million), brand name (£0.3 million) and customer relationships (£1.0 million) were identified.

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

	Book value £m	Fair value adjustments £m	As adjusted £m
Net Assets acquired			
Intangible assets	-	1.4	1.4
Deferred tax on intangible assets		(0.3)	(0.3)
Property, plant and equipment	0.1	-	0.1
Inventories	0.4	0.2	0.6
Trade and other Receivables	0.7	-	0.7
Cash and cash equivalents	0.1	-	0.1
Trade and other Payables	(0.8)	-	(0.8)
	0.5	1.3	1.8
Purchased goodwill			5.4
Total purchase consideration, including expenses			7.2

	£m
Net outflow of cash in respect of acquisitions	
Total purchase consideration, including expenses	7.2
Contingent consideration	(2.5)
Cash paid for acquisition, including expenses	4.7
Net cash acquired	(0.1)
Total outflow of cash from Group	4.6

The results of Kata for the seven months ending 31 December 2005 have been included in the Imaging & Staging division and comprise:

	£m
External revenue	1.7
Inter-segment revenue	0.9
Total revenue	2.6
Cost of sales	(1.6)
Operating expenses	(1.0) ⁽¹⁾
Operating profit	-

Management has taken the option under IFRS 3 not to disclose the full year results because of the complexity of the pre-acquisition structure of the business.

⁽¹⁾ Operating expenses include £0.2 million of amortisation of intangible assets.

Notes to the Consolidated Accounts continued

27 Operating Leases

Gross leasing commitments	Land and buildings £m	Other £m	Total 2006 £m	2005 ⁽¹⁾ £m
Expiring within one year	2.9	0.3	3.2	0.6
Expiring two to five years	6.2	0.2	6.4	4.6
Expiring after five years	3.6	-	3.6	9.5
	12.7	0.5	13.2	14.7

⁽¹⁾ Leasing commitments at 31 December 2005 comprised £13.7 million of land and buildings and £1.0 million of other commitments.

Leasing income	Land and buildings £m	Other £m	Total 2006 £m	2005 £m
Expiring within one year	-	-	-	-
Expiring two to five years	-	0.2	0.2	0.5
Expiring after five years	-	-	-	-
	-	0.2	0.2	0.5

The Group leases a number of office, warehouse and factory facilities under operating leases. None of the leases include contingent rentals. During the year ended 31 December 2006, £3.8 million (2005: £3.4 million) was recognised as an expense in respect of operating leases and £0.2 million (2005: £0.2 million) was recognised as income in respect of subleases in the income statement.

28 Employee Benefits

28a Share Based Payments

Group employees participate in a number of employee incentive schemes including a sharesave plan, an unapproved share option plan, a long term incentive plan and a deferred bonus plan. The recognition and measurement principles in IFRS 2 have not been applied to awards granted before 7 November 2002 in accordance with the transitional provisions in IFRS 1 and IFRS 2.

Share option plans

The share option plans currently operated by the Group are:

2002 Sharesave and International Sharesave Plan ("SAYE")

This is a share option plan. Employees can elect at the outset to save a fixed amount per month into the Sharesave Plan. The vesting period is either three, five or seven years. At the vesting date, the employees have the option to use the savings to purchase shares at a discount to the share price (determined at the date of grant). The option expires six months after vesting.

2002 Approved Share Option Plan

This plan is approved by HM Revenue and Customs. 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 price 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.

2002 Unapproved Share Option Plan ("USOP")

The USOP is a share option plan. Options are granted with a vesting period of three years. There is an Earnings Per Share ("EPS") performance condition attached to the awards. If this performance condition is met, exercise is possible after the third anniversary of date of grant but before the tenth anniversary.

For awards granted prior to 2005, 100% of awards vest if the EPS growth over three years increases by more than cumulative RPI + 9.30%. If the EPS growth is lower than this, but more than cumulative RPI + 3.03%, then between 33.3% and 100% of the awards will vest. If the EPS growth is less than cumulative RPI + 3.03%, then no awards will vest.

For awards granted in 2005 and subsequent years (until replaced or varied by the Committee), 100% of the awards vest if the EPS growth over three years increases by more than cumulative RPI + 12%. If the EPS growth is lower than this, but more than cumulative RPI + 6%, then between 33% and 100% of the awards will vest. If the EPS growth is less than cumulative RPI + 6%, no awards will vest.

Awards are settled with shares.

Options outstanding under the 2002 Sharesave Plan and 2002 Unapproved Share Option Plan as at 31 December 2006 together with their exercise prices and vesting periods, are as follows:

Range of exercise prices £	Number outstanding	Weighted average exercise price £	Weighted average remaining contractual life (years)
£2.21 to £2.40	66,824	2.31	1.9
£2.61 to £2.80	176,016	2.70	2.1
£2.81 to £3.00	446,875	2.98	7.6
£3.41 to £3.60	369,857	3.55	6.6
£4.01 to £4.20	64,964	4.11	3.6
£4.21 to £4.40	12,871	4.36	3.2
£4.81 to £5.00	596	4.92	-
£5.01 to £5.20	140,138	5.10	4.3
£5.21 to £5.40	37,367	5.32	5.9
£5.41 to £5.60	238,249	5.49	3.8
£5.61 to £5.80	19,100	5.76	2.4
£6.21 to £6.40	11,000	6.25	0.4
£6.41 to £6.60	4,594	6.53	1.3
Total	1,588,451	3.80	5.3

Options granted, exercised and lapsed during the years ended 31 December 2006 and 2005 under these share option plans were as follows:

	Sharesave	Weighted average exercise price £	USOP	Weighted average exercise price £
Awards @ 31/12/2004	552,591	2.92	1,322,394	4.28
Exercised	5,614	2.51	-	-
Lapsed	52,007	3.06	264,443	4.93
Expired	35,696	4.92	-	-
Granted	74,303	2.73	358,639	3.00
Awards @ 31/12/2005	533,577	2.75	1,416,590	3.84
Awards exercisable @ 31/12/2005	143,722	2.99	572,734	4.93
Exercised	171,548	2.67	-	-
Lapsed	36,679	2.91	222,217	2.78
Expired	24,893	4.20	-	-
Granted	73,050	4.16	20,571	5.25
Awards @ 31/12/2006	373,507	2.95	1,214,944	4.05
Awards exercisable @ 31/12/2006	4,656	4.23	572,734	4.93

The weighted average share price at the date of exercise for share options exercised during the year was £4.42 (2005: £3.31).

Notes to the Consolidated Accounts continued

28 Employee Benefits continued

Share award plans

Long Term Incentive Plan ("LTIP")

The LTIP are subject to the similar performance conditions as the USOP, with the target for all of the shares to vest being EPS growth over the vesting period of at least cumulative RPI + 36%. If the EPS growth is lower than this, but more than cumulative RPI + 9%, then between 25% and 100% of the awards will vest. If the EPS growth is less than cumulative RPI +9%, no awards will vest. Employees are not entitled to dividends on the awarded shares until they vest.

Awards are settled with shares.

2005 Long Term Incentive Plan ("2005 LTIP")

The 2005 LTIP are also subject to performance conditions but these conditions are market related, based on the Total Shareholder Return (TSR) of the Company over a three year period compared to the TSR of comparator companies over a similar period. At the end of the performance period, the TSR of the Company and the comparator companies shall be calculated and ranked from highest to lowest. All awards will vest if the Company's TSR growth is in or above the 20th percentile. If the Company's TSR performance lies between the 50th and 20th percentile, between 35% and 100% of the awards will vest. For the 2006 awards, the performance period commences on 1 January 2006.

Employees are entitled to dividends on the awarded shares that are paid over the performance period - these are paid either as cash or the equivalent number of shares at the vesting date. Awards are settled with shares.

2005 Deferred Bonus Plan ("DBP")

Under the 2005 DBP, employees can exchange up to 100% of their bonus in a financial period for shares of the same value. These awards will vest three years after the date of grant (or immediately if the employee leaves the Company). Awards, in any form other than an option, can be exercised within a period of one year (or an alternative period as determined by the Company for leavers).

The employee may also receive matching shares at the end of the vesting period. The number of matching shares is dependent on the outcome of a market performance condition. At the end of the performance period, the TSR of the Company and the comparator companies are calculated and ranked from highest to lowest. All awards will vest if the Company's TSR growth is in the top 20%. No awards will vest if the Company's TSR performance is below the median. Where the Company's TSR growth is between the median and the 20th percentile, awards will vest on a straight line basis between 0% and 100%. For the 2006 awards, the performance period commences on 1 January 2006.

For share options and share awards granted during the year the following information is provided:

Arrangement	2002 UK and International Sharesave Plan three year	2002 UK and International Sharesave Plan five year	2002 UK and International Sharesave Plan seven year	2002 Unapproved Share Option Plan	2005 Long Term Incentive Plan	2005 Deferred Bonus Plan
Nature of Arrangement	"Save as you earn" scheme	"Save as you earn" scheme	"Save as you earn" scheme	Share option plan	Share award plan	Share award plan
Date of Grant	2 May 2006	2 May 2006	2 May 2006	19 April 2006	19 April 2006	17 May 2006
Number of instruments granted	43,154	25,736	4,160	20,571	364,649	11,715 Basic/ 11,715 Matching ^{(3), (5)}
Exercise Price	£4.11/£4.36 ⁽¹⁾	£4.11/£4.36 ⁽¹⁾	£4.11	£5.25	n/a	n/a
Share price at date of grant	£5.04	£5.04	£5.04	£5.02	£5.02	£5.05
Contractual Life (years)	3.5	5.5	7.5	10	3	4
Vesting conditions	Three year service period and savings requirement	Five year service period and savings requirement	Seven year service period and savings requirement	EPS growth relative to RPI and three year service period	Relative TSR performance against comparator group and three year service period	Exchange of cash bonus for shares and three year service period
Settlement	Shares	Shares	Shares	Shares	Shares	Shares
Expected volatility ⁽²⁾	19.8%	26.7%	25.0%	27.0%	18.3%	17.5%
Expected option life at grant date (years)	3.25	5.25	7.25	3.5	n/a	n/a
Risk free interest rate	4.7%	4.7%	4.7%	4.6%	n/a	n/a
Expected dividend (dividend yield)	3.1%	3.1%	3.1%	3.1%	n/a	n/a
Expected departures (per annum from grant date)	5%	5%	5%	5%	5%	0%
Expected outcome of meeting non-market related performance criteria (at the grant date)	n/a	n/a	n/a	100%	n/a	n/a
Fair value per granted instrument determined at the grant date	£1.23/£1.09 ⁽¹⁾	£1.53/£1.42 ⁽¹⁾	£1.56	£1.09	£4.13	£5.05/£4.10 ⁽⁴⁾
Valuation model	Black Scholes	Black Scholes	Black Scholes	Black Scholes	Monte Carlo ⁽³⁾	Black Scholes/ Monte Carlo ⁽³⁾

⁽¹⁾ For the Sharesave three year and five year awards, the exercise price for awards made to US employees was different from those granted to European employees. The first figure represents awards granted to European employees while the second figure relates to awards granted to employees in the US.

⁽²⁾ The expected volatility is based on historical volatility determined by the analysis of daily share price over a period commensurate with the expected lifetime of the award and ending on the date of grant of the award.

⁽³⁾ For the LTIP 2005 and the DBP matching award, a Monte Carlo valuation methodology has been used. Under this valuation method, the share price for Vitec is projected to the end of the performance period as is the Total Shareholder Return for Vitec and the companies in the comparator group. Based on these projections, the number of awards that will vest is determined and then the present value of this outcome is calculated. Thousands of simulations are run and the fair value of the award is calculated as the average present value of these outcomes.

⁽⁴⁾ Represents fair value for basic and matching award respectively.

⁽⁵⁾ Assumed 100% vesting. See page 78 for relative performance condition.

Notes to the Consolidated Accounts continued

28 Employee Benefits continued

The amounts recognised in the income statement for share based payment transactions with employees for the year ended 31 December 2006 was £1,500,000 (2005: £328,000), of this £1,283,000 (2005: £300,000) related to equity-settled share based payment transactions.

The liability recognised in the balance sheet for cash-settled awards as at 31 December 2006 was £246,000 (2005: £29,000).

The total intrinsic value as at 31 December 2006 for cash-settled awards which had vested by this date was £36,000.

28b Post-employment Obligations

Defined benefit plans - pensions and other post-retirement plan disclosures

Amounts recognised on the Group balance sheet

	2006 £m	2005 £m
Plan assets		
Equities	29.6	27.3
Bonds	10.3	9.2
Other	2.6	2.4
Total fair value of plan assets	42.5	38.9
Present value of defined benefit obligation	(47.5)	(46.4)
Net (deficit) recognised in the Group balance sheet	(5.0)	(7.5)
Analysis of net recognised deficit		
UK pension fund	(1.0)	(3.1)
Total funded plans	(1.0)	(3.1)
Italian pension scheme	(3.0)	(3.2)
Other unfunded plans	(1.0)	(1.2)
Total unfunded plans	(4.0)	(4.4)
Liability recognised in the Group balance sheet	(5.0)	(7.5)

Amounts recognised in the Group income statement

	2006 £m	2005 £m
Amounts in net operating costs		
Current service costs - defined benefit schemes	2.2	2.2
Employers' pension costs - defined contribution schemes	0.4	0.4
	2.6	2.6
Amounts in net financial expense		
Expected return on plan assets	(2.6)	(2.2)
Interest cost	2.1	2.0
	(0.5)	(0.2)
Total amounts charged to the income statement	2.1	2.4

UK Pension Scheme

The nature of the scheme is a funded final salary scheme, closed to new entrants.

i) Assumptions used to determine defined benefit obligation	31 December 2006 % pa	31 December 2005 % pa	31 December 2004 % pa
Inflation rate	3.0	2.8	2.8
Expected rate of salary increases ⁽¹⁾	5.0	4.8	4.8
Rate of increase of pensions in payment ⁽²⁾	3.0	2.8	2.8
Rate of increase for deferred pensions	3.0	2.8	2.8
Discount rate	5.2	4.8	5.3

⁽¹⁾ These exclude an age-related allowance for promotional and merit awards.

⁽²⁾ In addition, we have made allowance for the special pension increase guarantees applying to certain executive members of the Scheme.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expected longevity at age 65 for members in normal health approximately as follows:

- pensioners currently aged 65: ranging from 19 years to 22 years
- non-pensioners currently aged 45: ranging from 21 years to 24 years

ii) Scheme assets and expected rate of return

A summary of the assets of the scheme, classified into the major asset classes, is shown below, together with the expected return on each major asset class.

	Fair value at 31 December 2006 £m	Expected long term rate of return at 31 December 2006 % pa	Fair value at 31 December 2005 £m	Expected long term rate of return at 31 December 2005 % pa	Fair value at 31 December 2004 £m	Expected long term rate of return at 31 December 2004 % pa
Equities	29.6	7.8	27.3	7.8	21.3	7.9
Bonds	10.3	4.7	9.2	4.3	7.4	4.8
Property	2.1	6.2	1.2	6.3	1.4	6.8
Cash/net current assets	-	4.8	0.6	3.8	-	3.8
Insurance policies	0.5	5.2	0.6	4.8	0.6	5.3
Total value of assets	42.5		38.9		30.7	

Note: the asset values shown are, where relevant, estimated bid values of market securities.

iii) Reconciliation of funded status at 31 December 2006	31 December 2006 £m	31 December 2005 £m	31 December 2004 £m
Present value of defined benefit obligation	(43.5)	(42.0)	(36.5)
Assets at fair value	42.5	38.9	30.7
Funded status	(1.0)	(3.1)	(5.8)
Unrecognised past service cost	-	-	-
Unrecognised net gain/(loss)	-	-	-
Effect of asset ceiling	-	-	-
Defined benefit asset/(liability)	(1.0)	(3.1)	(5.8)

Notes to the Consolidated Accounts continued

28 Employee Benefits continued

	Year ending 31 December 2006 £m	Year ending 31 December 2005 £m
iv) Pension expense for year to 31 December 2006		
a) Components of pension expense		
Group service cost	1.5	1.5
Interest cost	2.0	1.9
Expected return on assets	(2.6)	(2.2)
Past service costs	-	-
Curtailments	-	-
Settlements	-	-
Total pension expense/(income)	0.9	1.2

b) Statement of Recognised Income and Expense (SORIE)

	Year ending 31 December 2006 £m	Year ending 31 December 2005 £m	Year ending 31 December 2004 £m
Actuarial gain/(loss) recognised in SORIE during the period	2.0	0.5	(0.3)

v) Return on assets for year to 31 December 2006

	Year ending 31 December 2006 £m	Year ending 31 December 2005 £m
Expected return on assets	2.6	2.2
Actuarial gain/(loss) on assets	1.0	4.0
Actual return on assets	3.6	6.2

vi) Reconciliation of present value of defined benefit obligation (DBO) for the year to 31 December 2006

	Year ending 31 December 2006 £m	Year ending 31 December 2005 £m
Present value of DBO at start of year	42.0	36.5
Group service cost	1.5	1.5
Interest cost	2.0	1.9
Employee contributions	0.4	0.4
Actuarial (gain)/loss on change of assumptions	(1.0)	3.6
Experience (gain)/loss	-	(0.1)
Actual benefit payments and expenses	(1.4)	(1.8)
Past service costs	-	-
Curtailments	-	-
Settlements	-	-
Present value of DBO at end of year	43.5	42.0

vii) Reconciliation of the fair value of assets for the year to 31 December 2006

	31 December 2006 £m	31 December 2005 £m
Fair value of assets at start of year	38.9	30.7
Expected return on assets	2.6	2.2
Actuarial gain/(loss) on plan assets	1.0	4.0
Group contributions	1.0	3.4
Employee contributions	0.4	0.4
Actual benefit payments	(1.2)	(1.5)
Administration expenses paid	(0.2)	(0.3)
Curtailments	-	-
Settlements	-	-
Fair value of assets at end of year	42.5	38.9

viii) Reconciliation of change in funded status for the year to 31 December 2006

	Year to 31 December 2006 £m	Year to 31 December 2005 £m
Defined benefit asset/(liability) at start of year	(3.1)	(5.8)
Total pension (expense)/income	(0.9)	(1.2)
Employer contributions actually paid	1.0	3.4
Benefits paid directly by Group	-	-
Gain/(loss) recognised in SORIE	2.0	0.5
Gain/(loss) due to exchange rate movements	-	-
Defined benefit asset/(liability) at end of year	(1.0)	(3.1)

ix) Expected 2007 contributions

	Year commencing 1 January 2007 £m
Group Contributions	1.0
Employee Contributions	0.4

Italian pension provision

In accordance with Italian law, Italian employees are entitled to a lump sum payment ("TFR") from their employers when they resign or retire.

The TFR is accrued over the years in which the employee is in service. In each year, the accrued amount is increased by 6.91% of the employee's gross annual salary. At the end of each year, the employee's TFRs are revalued by 1.5% plus 75% of the national increase in the consumer price index (as published by the Italian National Statistical Institute "ISTAT").

After eight years of service, an employee can ask his employer to advance up to 70% of his total TSR. Once the employee has left the Company and received the balance of his TSR, the Company is not liable for any further pension obligations in respect of that employee.

The International Financial Reporting Interpretations Committee (IFRIC) of IASB (International Accounting Standard Bureau) has established that, in accordance with IAS 19, TFRs must be accounted for as defined benefit pension schemes and the present value of the TFRs must be computed using actuarial assumptions.

Notes to the Consolidated Accounts continued

28 Employee Benefits continued

Assumptions used to determine defined benefit obligation	31 December 2006 %pa	31 December 2005 %pa
Inflation rate	2%	2%
Expected rate of salary increases	2%	2%
Expected salary increase on promotion	10.54%	10.54%
Discount rate	4.33%	4.33%

Pension expense for the year to 31 December 2006

	2006 £m	2005 £m
Group service cost	0.5	0.5
Interest cost	0.1	0.1
Total pension expense	0.6	0.6

Statement of Recognised Income and Expense (SORIE)

	2006 £m	2005 £m
Actuarial gain/(loss) recognised in SORIE during the period	0.2	-

Reconciliation of present value of defined benefit obligation (DBO) for the year to 31 December 2006

	2006 £m	2005 £m
Present value of DBO at start of year	(3.2)	(2.9)
Group service cost	(0.5)	(0.5)
Interest cost	(0.1)	(0.1)
Actuarial gain/(loss)	0.2	-
Contributions paid	0.6	0.3
Present value of DBO at end of year	(3.0)	(3.2)

29 Post balance sheet events

There are no post balance sheet events to report.

30 Accounting Estimates and Judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

Note 14 contains information about the assumptions and their risk factors relating to goodwill impairment. In Note 19 detailed analysis is given of the foreign exchange exposure of the Group and risks in relation to foreign exchange movements.

Provisions for bad debts

The carrying amount of receivables at the year end was £32.7 million (2005: £32.0 million). The provision for bad debt as at 1 January 2006 was £1.5 million (2005: £1.6 million). During the year, £0.2 million (2005: £0.4 million) of this provision was utilised to write off bad debts and the provision was increased by £0.3 million (2005: £0.3 million) as part of the normal trade receivable ageing assessments, with the charge going to "administrative costs" in the income statement. Effects of translation reduced the provision by £0.1 million (2005: £nil). The trade receivables impairment provision as at 31 December 2006 was £1.5 million (2005: £1.5 million). Management believe that this provision is adequate to cover the risk of bad debts.

Provisions for inventory obsolescence

The carrying amount of inventory at the year end was £48.6 million (2005: £37.6 million). The provision for inventory obsolescence as at 1 January 2006 was £6.3 million (2005: £6.3 million). During the year, £0.9 million (2005: £0.9 million) of this prior year provision was utilised to scrap obsolete inventory. The provision was increased by £1.9 million (2005: £0.7 million) as part of normal inventory provisioning assessments with the charge going to "cost of sales" in the income statement, and £0.6 million (2005: £nil) for inventory write off relating to restructuring at Broadcast Systems with the charge going to "operating expenses" in the income statement. Effects of translation reduced the provision by £0.4 million (2005: (£0.2 million)). The provision for inventory obsolescence as at 31 December 2006 was £7.5 million (2005: £6.3 million).

Warranty Provisions

Included within provisions is an amount of £1.1 million for warranty provisions. Management believe that these provisions are adequate to cover the risk of warranty claims against the Group.

Post-employment obligations

A number of accounting estimates and judgements are incorporated within the provisions for post-employment obligations. These are described in more detail in Note 28.

Share based payments

A number of accounting estimates and judgements are incorporated within the provisions for share based payments. These are described in more detail in Note 28.

Notes to the Consolidated Accounts continued

31 Related Party Transactions

Identity of related parties

The Group has a related party relationship with its subsidiaries (these are listed in Note 15 on page 60), with its key management personnel and directors of subsidiary entities.

Transactions with directors of subsidiaries

Lino Manfrotto, a director (until 30 April 2006) of Feltre Stampi, a subsidiary of Gruppo Manfrotto Srl, is president and shareholder of Mancor Spa, a company from which Gruppo Manfrotto rents properties used in its business under operating leases that expired at the end of 2006. Abramo Manfrotto, a non-executive director of Gruppo Manfrotto Srl, is also director of Mancor Spa. Rents paid to Mancor Spa in 2006 totalled €216,273, £147,425 (2005: €212,958, £145,702). At 31 December 2006, there were no outstanding amounts payable to Mancor Spa (2005: nil).

Abramo Manfrotto 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 €67,914, £46,295 during the year (2005: €45,081, £30,844) for products and services. At 31 December 2006, there was €14,184, £9,669 outstanding and payable to Antide Srl (2005: €8,653, £5,920).

Abramo Manfrotto is also Managing Director of Alu Spa (disposed of by the Group in December 2003). Sales of Gruppo Manfrotto products and services to Alu in 2006 totalled €848,317, £578,266 (2005: €1,144,460, £783,019). At 31 December 2006, there was €277,045, £188,851 outstanding, payable by Alu Spa (2005: €863,782, £590,984). Sales of Alu products and services to Gruppo Manfrotto companies in 2006 were US\$65,120, £35,399 and €44,950, £30,641 (2005: €72,198, £49,397). At 31 December 2006, there was €3,428, £2,337 outstanding and payable to Alu Spa (2005: €2,430, £1,663).

Mitchell Clark, President of Tomcat Global Inc, is the owner of Bobawaba Ltd, a company from which Tomcat UK and Brilliant Stages rents properties. Rents paid to Bobawaba Ltd since the acquisition of Tomcat by the Vitec Group totalled £3,700. Mitchell Clark also owns 50% of MRC/EC LLC, a company from which Tomcat USA rents properties. Rents paid to MRC/EC LLC since the acquisition of Tomcat by the Vitec Group totalled US\$20,830, £11,323. At 31 December 2006, there were no outstanding amounts payable to Bobawaba Ltd or MRC/EC LLC.

Mitchell Clark is also the owner of Logic Productions Inc. The company car used by Mitchell Clark is owned by Logic Productions Inc and leased to Tomcat USA. Lease payments made to Logic Productions Inc since the acquisition of Tomcat by the Vitec Group totalled US\$2,780, £1,511.

John James is Chief Executive Officer of Tomcat USA. He is also owner of LCOAT GP, Inc a company which sells powdercoating services to Tomcat USA. Sales of LCOAT services to Tomcat USA since the acquisition of Tomcat USA by Vitec Group were US\$79,383, £43,152. At 31 December 2006, there was US\$45,000, £24,462 outstanding and payable to LCOAT.

Transactions with key management personnel

Key management personnel are classed as the directors (including the non-executive directors) and the members of the Executive Board. The Chief Executive, Gareth Rhys Williams, and the Finance Director, Alastair Hewgill, are directors of the Company and are also members of the Executive Board. However, for the purposes of the following paragraphs and to avoid double counting, their interests and remuneration have been excluded from the information relating to the Executive Board.

Executive directors of the Company and their immediate relatives control 0.224% (2005: 0.165%) of the shares of the Company. Non-executive directors control 0.102% (2005: 0.096%). Members of the Executive Board control 0.070% (2005: 0.058%) of the shares of the Company.

The remuneration of the directors is set out on pages 21 to 27. The remuneration of the members of the Executive Board in 2006 was: salaries £743,979 (2005: £706,091); performance-related bonuses £646,009 (2005: £347,528); short term employee benefits (company car and medical insurance) £55,235 (2005: £43,279).

In addition to their salaries, the aggregate of which is set out below, the Group also contributes to a number of pension arrangements, each one specific to the country in which the individual member of the Executive Board is based. Members of the Executive Board and the executive directors are eligible to participate in the Group's executive bonus scheme and its share incentive arrangements. The cost to the Company in 2006 arising from share incentive awards was £1,037,000 (2005: £135,000).

Company Balance Sheet

As at 31 December 2006

	Notes	2006 £m	2005 £m
Fixed assets			
Tangible assets	g	1.7	1.8
Investments	h	228.1	236.6
		229.8	238.4
Current assets			
Debtors	i	4.2	4.2
Cash at bank and in hand		1.4	5.3
		5.6	9.5
Creditors - due within one year	j	(112.8)	(154.0)
Net current liabilities		(107.2)	(144.5)
Total assets less current liabilities		122.6	93.9
Creditors - due after more than one year	j	(26.3)	(17.2)
Provisions for liabilities and charges	k	-	(0.1)
Net assets		96.3	76.6
Capital and reserves			
Called up share capital	l	8.2	8.2
Share premium account	m	3.2	2.7
Capital redemption reserve	m	1.6	1.6
Revaluation reserve	m	0.9	0.9
Other reserves	m	53.7	53.7
Profit and loss account	m	28.7	9.5
Shareholders' funds - equity		96.3	76.6

Approved by the Board on 5 March 2007 and signed on its behalf

Alastair Hewgill

Director

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2006

	2006 £m	2005 £m
Profit/(loss) for the financial year	25.4	(1.2)
Dividends	(6.5)	(6.1)
Retained profit/(loss) for the year	18.9	(7.3)
Equity-settled transactions	1.2	-
Reserve for own shares	(0.9)	-
Premium on new shares issued	0.5	-
Net increase/(decrease) in shareholders' funds	19.7	(7.3)
Opening shareholders' funds	76.6	83.9
Closing shareholders' funds	96.3	76.6

Notes to the Company Accounts

a Basis of Presentation

The accounts have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules modified to include the revaluation of certain land and buildings.

Under Section 230 (4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 the Company is exempt from the requirement to present a cash flow statement on the grounds that this is included in the Group consolidated accounts.

b Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Fixed assets and depreciation

Depreciation is provided to write off the cost or valuation of the relevant assets less the estimated residual value of tangible fixed assets by equal annual amounts over their expected useful economic lives. No depreciation is provided on freehold land. Other fixed assets are depreciated as follows:

Freehold buildings	2½% – 5% on cost or valuation
Short leasehold property	over the remaining period of the lease
Motor vehicles	25% – 33⅓% on cost
Equipment, fixtures & fittings	10% – 33⅓% on cost

Fixed assets are stated at cost except that, as allowed under 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.

Foreign currencies

Transactions in foreign currencies are recorded using the monthly average rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

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

Post-retirement benefits

The Company participates in a UK group pension scheme providing benefits based on both final pensionable salary and on contributions paid. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement Benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss accounts represents the contributions payable to the scheme in the year.

Taxation

The charge for taxation is based on the profit/(loss) for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Employee share schemes

The share option programme allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options.

For cash-settled share based payment transactions the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. Where the expense of the option relates to an employee of another Group entity, this cost is recharged to that entity.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes to the Company Accounts continued

Investments

Fixed asset investments are stated individually at cost less, where appropriate, provision for impairment in value.

Financial Instruments

Financial instruments have been recognised in accordance with Group accounting policies. Derivative financial instruments have had no financial impact on these accounts due to equal and opposite internal instruments written with certain of the Company's operating subsidiaries.

Derivatives are recognised initially at fair value, and subsequent to initial recognition at fair value. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted fair price. The fair value of option contracts is their quoted market price at the balance sheet date.

Derivatives are de-recognised when they mature or are sold.

The gain or loss on re-measurement to fair value is recognised immediately in the profit and loss account unless the derivatives qualify for hedge accounting.

Hedge of Monetary Assets and Liabilities

Where a derivative is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the profit and loss account.

Hedge of a Net Investment in a Foreign Operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the profit and loss account. The effective portion will be recycled into the income statement when the foreign operation will be sold.

c Employees

Aggregate remuneration of all employees during the year

	2006 £m	2005 £m
Wages and salaries	1.5	1.5
Employers' social security costs	0.2	0.2
Employers' pension costs	0.2	0.2
	1.9	1.9

Average number of employees during the year

	2006	2005
Head Office	13	13

d Directors' Remuneration

The emoluments, share options, awards under incentive schemes and pension entitlements of the directors are disclosed in the Remuneration Report (see pages 21 to 27).

e Dividends

The aggregate amount of dividends comprises:

	2006 £m	2005 £m
Final dividends paid in respect of prior year but not recognised as liabilities in that year	3.9	3.6
Interim dividends paid in respect of the current year	2.6	2.5
Aggregate amount of dividends paid in the financial year	6.5	6.1

A final 2006 dividend of 10.1p per share, which will absorb £4.2 million (2005: 9.4p absorbing £3.9 million) has been recommended by the Board.

f Pensions

The Company is a member of a larger UK Group wide pension scheme providing benefits based both on final pensionable pay and on contributions. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as required by FRS17 Retirement Benefits, the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme. At 31 December 2006, the UK scheme had a deficit of £1.0 million (2005: £3.1 million).

The contributions paid by the Company in the year amounted to £0.2 million (2005: £0.2 million). The expected Company contributions in 2007 are £0.2 million.

Further details of the UK pension scheme are disclosed on pages 80 to 84.

g Tangible Fixed Assets

	Total £m	Land and buildings £m	Motor vehicles £m	Equipment fixtures and fittings £m
Cost or valuation				
At 1 January 2006 and at 31 December 2006	3.4	3.0	0.1	0.3
Depreciation				
At 1 January 2006	1.6	1.3	-	0.3
Charge for the year	0.1	0.1	-	-
At 1 January 2006	1.8	1.7	0.1	-
At 31 December 2006	1.7	1.4	-	0.3
Net book value				
At 1 January 2006	1.8	1.7	0.1	-
At 31 December 2006	1.7	1.6	0.1	-

	2006 £m	2005 £m
Net book value of land and buildings at cost or valuation comprise the following		
Carried at valuation (open market basis - 31 March 1989)	1.6	1.7
Freehold	1.6	1.7

The land and buildings shown above at a revalued net book value of £1.6 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 land and buildings has been retained as allowed for by the transitional provisions set out in FRS 15 Tangible Fixed Assets.

	Land and buildings 2006 £m	2005 £m
The Company had the following annual commitments under operating leases:		
Expiring two to five years	0.1	0.1

Notes to the Company Accounts continued

h Fixed Asset Investments

Investments at cost or written down value

	Total £m	Investments in other shares £m	Loans £m
Cost			
At 1 January 2006	262.9	103.1	159.8
Repayment of loans	(29.1)	-	(29.1)
At 31 December 2006	233.8	103.1	130.7
Provision			
At 1 January 2006	26.3	5.7	20.6
Reversal of impairment	(20.6)	-	(20.6)
At 31 December 2006	5.7	5.7	-
Net Book Value			
At 1 January 2006	236.6	97.4	139.2
At 31 December 2006	228.1	97.4	130.7

i Debtors

	2006 £m	2005 £m
Amounts falling due within one year		
Amounts owed by subsidiaries	1.0	1.5
Other debtors	0.5	1.1
Derivative financial instruments - forward exchange contracts	1.6	1.1
Derivative financial instruments - option exchange contracts	0.7	0.1
Tax recoverable	0.2	0.3
Prepayments and accrued income	0.2	0.1
	4.2	4.2

j Creditors

	2006 £m	2005 £m
Amounts falling due within one year		
Bank overdrafts (unsecured)	42.7	-
Amounts owed to subsidiaries	65.8	151.0
Derivative financial instruments - forward exchange contracts	1.6	1.1
Derivative financial instruments - option exchange contracts	0.7	0.1
Other creditors	0.4	0.1
Accruals and deferred income	1.6	1.7
	112.8	154.0
Amounts falling due after more than one year		
Bank loans (unsecured)	26.3	17.2
	26.3	17.2

In order to eliminate foreign currency gains or losses on the Company's external borrowings in foreign currency equal and opposite foreign currency loans have been made to the Company's principal subsidiary, Vitec Investments Limited. These inter-company loans are repayable on demand.

The inter-company loans have decreased the Company's cash balances resulting in an overdraft at 31 December 2006. This cash has not left the Group and as a result of the Group's Balance Offset Agreement with HSBC Bank plc, interest is only charged on the Group's overall net UK cash position. The Company's overdraft was eliminated in February 2007 by the receipt of a £45.0 million loan from Vitec Investments Limited.

k Provisions for Liabilities and Charges

	Deferred tax £m
At 1 January 2006	0.1
Profit and loss account	(0.1)
At 31 December 2006	-

	2006 £m	2005 £m
Composition of deferred tax provision		
Accelerated tax depreciation allowances	-	0.1
	-	0.1

The deferred tax provision was released in 2006 as it was no longer required.

I Share Capital

The authorised share capital at 31 December 2006 consisted of 65,000,000 (2005: 65,000,000) shares of 20p each, of which 41,277,250 were allotted and fully paid. The movement during the year was:

	Shares	Issued share capital £m
At 1 January 2006	41,086,719	8.2
Exercise of share options	190,531	-
At 31 December 2006	41,277,250	8.2

la Share based payments

Details of the share based payments can be found on page 76.

lb Share option schemes

Details of the share option schemes can be found on page 76.

Notes to the Company Accounts continued

m Reserves	Share Premium account £m	Capital Redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Other reserves £m	Profit and loss account £m
At 1 January 2006	2.7	1.6	0.9	9.7	44.0	9.5
Premium on new shares issued	0.5	-	-	-	-	-
Profit for the year	-	-	-	-	-	25.4
Dividends paid	-	-	-	-	-	(6.5)
Equity-settled transactions	-	-	-	-	-	1.2
Own shares purchased	-	-	-	-	-	(0.9)
At 31 December 2006	3.2	1.6	0.9	9.7	44.0	28.7

Other reserves represents the capitalisation of the share premium account, £22.7 million in 1989 and £37.3 million in 1995, less £16.0 million of share repurchases in 1995.

In 2002 the Company purchased 142,857 own shares, representing 0.3% (2005: 0.3%) of the called up share capital of the Company at an average price of 314.26p per share in connection with a share option made to the Chief Executive. In 2006 the Company purchased 189,210 own shares, representing 0.4% of the called up share capital of the Company at an average price of 482.80p per share in connection with share incentive awards made by the Company in previous years. These shares are being held in trust by Halifax EES International Ltd.

n Financial Instruments

a) Financial liabilities

i) Analysis of borrowings

	2006 £m	2005 £m
Bank overdrafts	42.7	-
Bank loans	26.3	17.2
Gross financial liabilities	69.0	17.2

ii) Maturity profile

	2006 £m	2005 £m
Within one year or less	42.7	-
More than two years but not more than five years	26.3	17.2
	69.0	17.2

The total amount of bank loans and overdrafts any part of which falls due after five years is £nil (2005: £nil).

The Company had the following undrawn borrowing facilities at the end of the period:

	2006 £m	2005 £m
Expiring in one year or less		
- uncommitted facilities	13.1	8.6
More than two years but not more than five years		
- committed facilities	73.7	82.8
Total	86.8	91.4

On 25 January 2005 the Company signed a five year £100 million Multicurrency Revolving Credit Facility Agreement with a syndicate of UK banks.

iii) Interest rate profile

Currency	Total £m	Floating rate borrowings £m
Yen	1.0	1.0
US\$	5.1	5.1
Euro	21.6	21.6
Sterling	41.3	41.3
At 31 December 2006	69.0	69.0
US\$	3.5	3.5
Euro	13.7	13.7
At 31 December 2005	17.2	17.2

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

b) Financial assets

Currency	Floating rate 2006 £m	Floating rate 2005 £m
Sterling	-	5.6
US\$	1.4	-
Euro	-	(0.3)
	1.4	5.3

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 as a result of the Group's Balance Offset Agreement with HSBC Bank plc.

c) Fair value of financial assets and liabilities

	Fair value and Book value 2006 £m	Fair value and Book value 2005 £m
Cash at bank and in hand	1.4	5.3
Bank overdraft	(42.7)	-
Floating rate borrowings	(26.3)	(17.2)
Forward exchange contracts - Assets	1.6	1.1
Forward exchange contracts - Liabilities	(1.6)	(1.1)
Option exchange contracts - Assets	0.7	0.1
Option exchange contracts - Liabilities	(0.7)	(0.1)
	(67.6)	(11.9)

Notes to the Company Accounts continued

n Financial Instruments continued

Market rates have been used to determine fair values.

The Company has equal and opposite internal foreign exchange contracts matching the external foreign exchange contracts the Company has taken out with financial institutions.

Estimation of Fair Values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

Derivatives

Forwards are marked-to-market by calculating the contractual forward price and deducting the current spot rate. Options and cylinders are marked-to-market by obtaining quotes from banks of their market value as at 31 December.

(i) Maturity profile of Derivatives	Within one	2006
	year or less	More than one year but not more than two years
	£m	£m
Forward exchange contracts - Assets	1.6	-
Option exchange contracts - Assets	0.7	-
	2.3	-
	£m	2005 £m
Forward exchange contracts - Assets	0.1	-
Forward exchange contracts - Liabilities	(0.9)	0.1
Option exchange contracts - Assets	0.1	-
	(0.7)	0.1

In 2006 forward option contracts selling US Dollars and purchasing Euros, totalling US\$23.6 million (2005: US\$21.9 million), were taken out to cover anticipated US Dollar currency receipts within the Group covering the period January 2007 to March 2008 and the unrecognised gains on all these options at 31 December 2006, based on the exchange rates on that date, were £0.7 million (2005: £nil). The Group's foreign exchange hedging policy is set out in the Financial Review.

Interest bearing loans and borrowings

All interest bearing loans and borrowings are at floating rates. Therefore, the fair value of these loans and borrowings is their carrying value.

o Related Party Transactions

As the results of the Company are being presented together with its consolidated financial statements, the Company has taken advantage of the exemption contained in FRS 8 and has, therefore, not disclosed transactions or balances with entities which form part of the Group.

p Post Balance Sheet Events

There are no post balance sheet events to report.

Five Year Financial Summary

Year ended 31 December	IFRS			UK GAAP	
	2006	2005	2004	2003	2002
	£m	£m	£m	(Restated) ⁽³⁾ £m	(Restated) ⁽³⁾ £m
Revenue	222.3	194.9	185.4	192.8	182.2
Operating profit before significant items	25.2	20.0	17.8	17.8	24.7
Net interest on bank borrowings	(1.4)	(1.3)	(1.6)	(1.7)	(1.6)
Other financial income/(expense)	0.3	(0.3)	0.3	-	-
Profit before tax and significant items	24.1	18.4	16.5	16.1	23.1
Cash generated from operations	28.7	29.8	22.5	28.7	35.4
Net interest paid	(1.5)	(1.3)	(1.6)		
Tax paid	(5.5)	(1.6)	(1.4)		
Operating cash flow	21.7	26.9	19.5		
Net capital expenditure on property, plant and equipment and software and development costs capitalised as intangible assets	(11.2)	(9.6)	(8.4)		
Free cash flow⁽¹⁾	10.5	17.3	11.1	2.9	21.1
Capital employed					
Intangible fixed assets	34.1	19.9	12.8	10.1	11.0
Tangible fixed assets	35.1	33.6	30.7	34.5	42.7
Other net assets	22.5	17.8	27.2	29.3	24.4
	91.7	71.3	70.7	73.9	78.1
Financed by					
Shareholders' funds - equity	76.8	70.6	64.2	59.8	62.4
Net debt	18.9	5.4	11.3	10.4	11.9
Deferred tax	(4.0)	(4.7)	(4.8)	3.7	3.8
	91.7	71.3	70.7	73.9	78.1
Statistics					
Operating profit (%) before significant items	11.3	10.2	9.6	9.3	13.6
Effective tax rate (%) before significant items	40.0	42.0	45.0	39.8	39.4
Adjusted basic earnings per share (p) ⁽²⁾	35.3	26.0	22.2	23.9	34.1
Basic earnings per share (p)	32.6	23.9	18.8	13.6	18.3
Dividends per share (p)	16.5	15.5	15.0	22.7	22.7
Year end mid-market share price (p)	528.5	375.0	286.0	346.0	277.5

⁽¹⁾ Free cash flow is the cash generated from operations less interest, tax and capital expenditure on property, plant and equipment and capitalised IT costs.

⁽²⁾ Differences between Adjusted basic and Basic earnings per share arise from significant items in the years in question.

⁽³⁾ Shareholders' funds have been restated to show the investment held in respect of grants under share option schemes as a deduction.

⁽⁴⁾ A full explanation of the transition from UK GAAP to IFRS is provided in the prior year financial statements.

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, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA, 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 Portal (Shareholders) 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 Portal (Shareholders) 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 includes 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 29 December 2006, the last dealing day of 2006, was 528.5p. During the year the share price fluctuated between 375p and 565p. 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 843 0000, keying 2 for share prices and entering Vitec's share code 4404.

Financial calendar

Annual General Meeting	29 May 2007
Ex-dividend date for 2006 final dividend	2 May 2007
Record date for 2006 final dividend	4 May 2007
Proposed 2006 final dividend payment date	31 May 2007
Announcement of 2007 interim results	September 2007
Proposed 2007 interim dividend payment date	November 2007

Analysis of shareholdings as at 31 December 2006

Shares held	Number of holders	% of holders	Number of shares	% of shares
Up to 1,000	628	53.04	253,469	0.61
1,001 to 5,000	331	27.96	805,426	1.95
5,001 to 10,000	71	5.99	513,368	1.24
10,001 to 50,000	62	5.24	1,498,121	3.63
50,001 to 100,000	30	2.53	2,312,596	5.60
100,001 and over	62	5.24	35,894,270	86.97
	1,184	100.00	41,277,250	100.00
Institutions and companies	410	34.63	39,115,474	94.76
Individuals including directors and their families	774	65.37	2,161,776	5.24
	1,184	100.00	41,277,250	100.00

Group Directory

Imaging & Staging

Bogen Imaging

565 East Crescent Avenue
PO Box 506
Ramsey
NJ 07446-0506
USA
Tel: +1 (201) 818 9500
Fax: +1 (201) 818 9177
www.bogenimaging.us

IFF and Litec

Via Raffaello 31
31021 Mogliano Veneto (TV)
Italy
Tel: +39 (041) 596 0000
Fax: +39 (041) 597 0186
www.litetruss.com

Brilliant Stages

2 Hillgate
Hitchin
Hertfordshire
SG4 0RY
UK
Tel: +44 (0)1462 455366
Fax: +44 (0)1462 436219
www.brilliantstages.com

Manfrotto and Avenger

Via Sasso Rosso 19
PO Box 216
I-36061 Bassano del Grappa
Italy
Tel: +39 (0424) 555855
Fax: +39 (0424) 808999
www.manfrotto.com

Gitzo

ZA de Mondetour RN 10
Le Bois Paris
28630 Nogent Le Phaye
France
Tel: +33 (1) 4 397 6065
Fax: +33 (1) 4 397 6064
www.gitzo.com

Tomcat

2160 Commerce
Midland
Texas 79703
USA
Tel: +1 (432) 694 7070
Fax: +1 (432) 689 3805
www.tomcatglobal.com

Kata

PO Box 45078
8 Hartom Street
Beck-Tech Science Building
Har Hotzvim
Jerusalem
91450 Israel
Tel: +972 2 5911000
Fax: +972 2 5400504
www.kata-bags.com

Broadcast Systems

Anton/Bauer

14 Progress Drive
Shelton
CT 06484
USA
Tel: +1 (203) 929 1100
Fax: +1 (203) 925 4988
www.antonbauer.com

Autoscript

Unit A8
Poplar Business Park
10 Prestons Road
London
E14 9RL
UK
Tel: +44 (0)20 7588 1427
Fax: +44 (0)20 7515 9529
www.autoscript.tv

Camera Dynamics - OConnor

100 Kalmus Drive
Costa Mesa
CA 92626
USA
Tel: +1 (714) 979 3993
Fax: +1 (714) 957 8138
www.ocon.com

Camera Dynamics - Sachtler

Erfurter Strasse 16
D-85386 Eching
Germany
Tel: +49 (89) 3215 8200
Fax: +49 (89) 3215 8227
www.sachtler.com

Camera Dynamics - Vinten and Vinten Radamec

William Vinten Building
Western Way
Bury St Edmunds
Suffolk
IP33 3TB
UK
Tel: +44 (0)1284 752121
Fax: +44 (0)1284 750560
www.vinten.com
www.vintenradamec.com

Petrol Bags

3 Hasolelim Street
Tel-Aviv 67897
Israel
Tel: +972 3 5621631
Fax: +972 3 5621632
www.petrolbags.com

Vitec Group Communications - Clear-Com and Drake Americas and Asia

4065 Hollis Street
Emeryville
CA 94608
USA
Tel: +1 (510) 496 6600
Fax: +1 (510) 496 6699
www.vitecgroupcomms.com

Vitec Group Communications - Clear-Com and Drake Europe, Middle East and Africa

7400 Beach Drive
Cambridge Research Park
Waterbeach
Cambridge
CB5 9TP
UK
Tel: +44 (0)1223 815000
Fax: +44 (0)1223 815099
www.vitecgroupcomms.com

Broadcast Services

Audio Specialties Group / Bexel

Bexel Broadcast Services (BBS) – Bexel Fiber Optic Solutions (BFS)

Bexel Technical Services (BTS) – Broadcast Video Gear (BVG)

Intercom Specialties (ICS) - Systems Wireless (SWL)

2701 North Ontario Street
Burbank, CA 91504
USA
Tel: +1 (818) 841 5051
Fax: +1 (818) 841 1572
www.a-s-group.com
www.bexel.com

The Vitec Group plc

Directors

Michael Harper BSc Eng, MSc Chairman*
Gareth Rhys Williams BSc, MBA Chief Executive
Alastair Hewgill BSc, ACMA Finance Director
Sir David Bell MA*
Simon Beresford-Wylie BA*
Nigel Moore FCA*
Maria Richter BA, JD*
Will Wyatt CBE, BA*

*Non-executive

Secretary

Roland Peate FCIS, ACMA

Group head office

One Wheatfield Way
Kingston Upon Thames
Surrey KT1 2TU
United Kingdom
tel: +44 (0)20 8939 4650
fax: +44 (0)20 8939 4680
email: info@vitecgroup.com
web: www.vitecgroup.com

Registered office

William Vinten Building
Western Way
Bury St Edmunds
Suffolk IP33 3TB
United Kingdom
Registered in England
No 227691

