



The Vitec Group Annual Report 2000

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Vitec Group supplies a wide range of equipment and services to the broadcasting and entertainment industries, and the photographic, retail, communications and corporate sectors on an international basis.

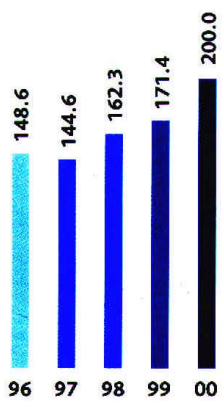
Manufacturing in six countries and distributing its products to nearly 100 countries, Vitec is a major force in its chosen specialised fields.

Financial highlights		3
Group overview		4
Group chairman's statement		6
Group chief executive's review		7
Divisional reports	Broadcast camera systems	9
	Photographic and retail display	10
	Communications and audio	11
	Broadcast services	12
Financial review		13
Directors and advisors		15
Directors' report		17
Corporate governance		25
Statement of directors' responsibilities		29
Auditors' report		29
Accounts 2000	Consolidated profit and loss account	31
	Balance sheets	32
	Consolidated statement of total recognised gains and losses	33
	Reconciliation of movements in shareholders' funds	33
	Consolidated cash flow statement	34
	Notes to the accounts	35
	Five-year financial summary	57
Group directory		58
Shareholder information and financial calendar		59

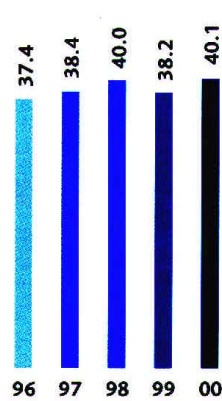
Financial highlights

- Strong organic growth in core markets
- Turnover up 17%
- Operating profit* up 5%
- Strong cash flow from operations
- Earnings per share up 16%

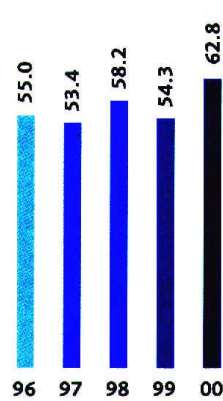
Turnover
(£million)



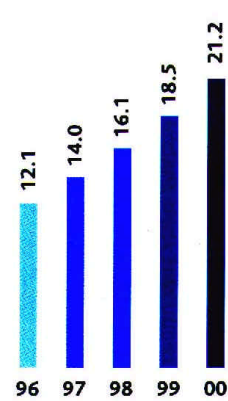
Operating profit*
(£million)



Headline earnings per share*
(pence)



Dividend per share
(pence)



*before exceptional items and goodwill amortisation

Group overview

Vitec is organised into four divisions, specialising in particular products or technologies or focused on particular market sectors. Each division is headed by a Divisional chief executive, who reports to the Group chief executive.

Activities	Locations	Products
Broadcast camera systems Design and manufacture of remote-controlled pan and tilt camera systems, studio and outside broadcast pedestals and heads, lightweight tripods and heads, and batteries and chargers. Focused on studio broadcast, outside broadcast, electronic news gathering and electronic film gathering markets.	Costa Rica France Germany Japan Singapore UK USA	Autocam remote-controlled camera systems Pedestals for TV production Video tripods and heads for ENG and EFP applications Portable lights Studio lighting and scenery hoists and pantographs Microprocessor-controlled batteries and chargers for video cameras Life support portable power systems
Photographic and retail display Design and manufacture of photographic, video and lighting support and suspension equipment and self-standing retail display products. Distribution of photographic accessories.	France Italy UK USA	Photographic and video heads and tripods Lighting stands, grips, clamps and accessories Lighting and scenery suspension equipment Photographic accessories Live entertainment and exhibition lighting suspension structures Modular metal-based retail display systems
Communications and audio Design and manufacture of wired intercom systems, wireless intercom equipment and wireless microphones for broadcast, live entertainment, air traffic control, aerospace and defence markets.	UK USA	Multi locational intercom systems Party line intercom systems Wireless intercom Wireless microphones
Broadcast services Rental services and selected sales of camera, video, wireless communication and audio equipment, including engineering support for film and TV programme production.	USA	Rental of broadcast video equipment Rental of audio equipment High definition TV production support Webcasting solutions Major event broadcasting support Communications and audio equipment sales Used video equipment sales

The Olympics
Australia

The highly acclaimed 2000 Sydney Olympics relied on Vitec Group companies to deliver one of the most ambitious live performance events ever broadcast. The heart of the communications system was provided by Clear-Com. Panasonic, as at the Nagano Olympics in 1998 and Atlanta in 1996, again used Vinten to supply their camera support systems. Anton/Bauer provided the battery support centre and many of the press images were captured by cameras mounted on Manfrotto and Gitzo tripods.

KBS Television
Korea

Vinten won the contract to supply, in 2000, the Korean Broadcast Television Systems in Seoul with Quattro pedestals and pan and tilt heads for use in all their news, drama and entertainment productions. The highest rating drama series in Korea tells the story of the country's history and is entirely filmed using these Vinten products.

TV2 Television
Denmark

Drake completed, in 2000, an installation to link 10 regional studios of the TV2 television news broadcast company in Denmark. An ISDN linked communications network uses Drake's leading edge equipment which, being highly adaptable, can be customised to the needs of each client. The busy TV2 live news studios demanded a fast, reliable and easy to use system. The contract, worth £1.2 million, was won against two other world class competitors.

The Oscars
USA

Bexel continued, in 2000, its relationship with America's Academy of Motion Picture Arts and Sciences to provide broadcast services for its most famous activity: the presentation of the Oscars". Oscars" have been awarded for nearly three-quarters of a century to honour achievement in the film industry and the ceremony has been televised since 1953. An audience of hundreds of millions of cinema lovers around the world now watch the ceremony every year through the medium of television.

Group chairman's statement

Overview In the Interim Statement we reported that, after a good first half, the second half had begun well. This trend continued and most of our companies have enjoyed record years.

Group turnover increased by 17% from £171 million to £200 million. Excluding the impact of acquisitions and currency translation, organic growth in turnover was 10% compared with 2% in 1999. Operating profit before exceptional items and goodwill amortisation was £40 million (1999: £38 million), an increase of 5% on 1999. Profit before tax, exceptional items and goodwill amortisation was £37 million, almost unchanged from 1999 and affected by the higher interest charge of £3 million (1999: £1 million), arising from share buy-backs in the previous year.

Headline earnings per share increased by 16% from 54.3p to 62.8p. The share buy-backs, which took place in 1999, contributed 4.9p (9%) to this increase.

Operating cash flow remained strong at £46 million (1999: £51 million). Free cash flow was £8 million (1999: £21 million) and £11 million was spent on acquisitions and investments, leaving net debt of £31 million (1999: £28 million) at the year end.

Dividend The Board recommends a final dividend of 15.6p per share (1999: 13.6p), making a total dividend of 21.2p for the year (1999: 18.5p), an increase of 15%.

Acquisitions In January 2000, the acquisition of the assets of Duke City Video was completed for a cash consideration of \$12 million. The acquisition made an important contribution to Bexel's major events business during the year.

In September, the Group acquired a minority interest in Intersense Inc, a US-based high technology start-up company in the virtual reality marketplace, for a cash consideration of \$5 million.

People The year witnessed a number of senior appointments in the Group. As previously reported, Philip Cushing was appointed Group chief executive at the last annual general meeting. In July, Andy Crist joined the Group as Chief executive of the Broadcast services division and Andrew Jones joined the Group as Director for Strategy and Development. In October, Simon Derry was promoted to Chief executive of the Communications and audio division.

In order to align more closely the interests of senior management with shareholders, the Group restructured and enhanced its long-term equity-based incentive compensation arrangements, full details of which are in the Directors' report on page 21.

The total number of employees in the Group rose during the year by 8% to nearly 1,600 people in eight countries and I wish to thank them all for their considerable efforts during the year. Many of our businesses have had record years and it is a tribute to our staff that we are able to deliver these results to the shareholders.

Future prospects We saw good growth in the Group's core markets in the year. These robust conditions have continued into 2001 in Europe and Asia. During the last quarter of 2000 some Group companies saw a softening of demand in the USA, which has continued into the current year. It is too early to know how this slowdown will affect us, but we are monitoring the situation very closely. However, we believe that the investments which we are making in our businesses will strengthen the Group and provide the basis for good long term growth.

Alison Carnwath
Chairman

Group chief executive's review

It is almost a year since I joined the Group, a year in which we experienced generally good market conditions and in which organic growth was strong.

The Group is a world leader in providing products, services and solutions to the broadcast, entertainment and media industries. To reinforce and strengthen this position, we have begun a number of internal initiatives and identified that our future success will depend upon:

- articulating a clear strategy for growth
- exploiting developments in our chosen markets
- and executing our strategy faultlessly.

Our Group values provide a strong platform and culture to build on our success.

The market We define our market as broadcasting, entertainment and media. We are principally concerned with the capture of content, through photography, video, film and audio. Therefore, our customers are professionals involved in creating, recording or processing visual and audio information and also high-end consumers.

There are a number of different drivers affecting our growth, such as advertising expenditure and consumer demand, as well as digitisation, high definition camera technology and web-streaming. The year was one in which market conditions were generally favourable. There was strong demand for all forms of equipment and services from the US broadcasting industry and Asian markets rebounded. Small but important developments emerged from the introduction of high definition cameras and the beginnings of a webcasting industry. The US presidential campaign and the Sydney Olympics added to demand.

The short-term market outlook is somewhat clouded by the slowdown in the USA, but we believe the macro-economic environment and rate of technological change will support satisfactory industry growth in the medium term. Our success will depend on our continuing ability to differentiate sustainable long term trends from temporary bursts of activity.

The Vitec value system The philosophy of the Group is built upon five values which we have formalised during the year:

Customer Service We are totally committed to serving our customers: this means we need to understand their present and anticipate their future needs; view every initiative we take through customers' eyes; set ever more demanding standards and create an increasing flow of value-creating services.

Teamwork We are seeking to create value for shareholders and customers by using our collective knowledge and expertise to continuously improve what we do, and through formal and informal teamwork to transfer best practice throughout the Group.

Innovation We will create value for shareholders and customers by constantly renewing and replacing our product range with better value, higher specifications; by thinking creatively about all our processes; and by pushing into new application areas for our technologies.

Respect for our people In the eight countries where we operate, we respect our people as individuals and as members of teams; we seek to provide a working environment which encourages all to develop their skills to the highest possible level.

Results Ours is a challenging industry and a constant focus on delivery of commitments is essential for superior financial performance; we have a performance culture which assigns responsibility clearly and only rewards success.

Strategic focus Our strategic focus is directed towards the international broadcast, entertainment and media industries. Each of our companies has a wealth of experience, knowledge and understanding of this market space and leverage of this knowledge is key to our future growth.

Our objective is to deliver superior growth in earnings per share over the medium term. We expect this to be accomplished by a combination of internal growth and carefully selected complementary acquisitions.

Internal growth is the lowest cost and lowest risk route to shareholder value. Vitec has strong brands and significant market shares in growing market segments. Our single-minded pursuit of every growth opportunity should allow us to continue to grow faster than these markets.

We must also be alert to changing ways of doing business. We made a major investment in e-business in the year to ensure we can be ahead of demand for e-enabled transactions with our customers. The Group's website (www.vitecgroup.com) and intranet ensure we have visibility and contact with our internal and external stakeholders.

Acquisitions will be considered where we can see real shareholder benefits accruing from Group ownership. We are spending considerable time looking for new opportunities, where we need to broaden our offering to a particular part of our customer base or move into an emerging area of activity.

The Group regards internal rate of return as the key measure to ensure that funds are being invested in new businesses and projects in ways which enhance shareholder value. Annual bonus plans have been revised to drive growth of operating profit whilst maintaining a focus on cash conversion of operating profit. The balance between these two objectives will change from time to time to reflect the particular situation.

Execution of the Group's strategy is the principal responsibility of the Executive Board, which I formed during the year.

Philip Cushing
Group chief executive

Broadcast camera systems

Market conditions were favourable during the year and all the Broadcast camera systems companies performed well. Demand in the USA was strong, and was supported by the Republican and Democratic political conventions and later by the Presidential campaign. The year saw a significant recovery in the Asian markets, especially in Korea. Some of this was due to the release of projects previously deferred. The Olympic Games in Australia also provided a further boost to sales.

Vinten enjoyed a strong year achieving particular successes in sales of Quattro heavy duty pedestals and Vector pan and tilt heads to studios in Korea and good sales of these products in Japan. In the key USA market, sales of lightweight products were well ahead of last year. Vinten maintained its strong robotic pedestal position in the USA, although increases in sales of both robotic and manually operated pedestals were more modest than for the lightweight products.

Vinten camera support systems were part of a package selected by Panasonic on behalf of the Sydney Olympics Broadcast Organisation, to ensure the world's leading broadcasters captured the highest quality video images. Nearly 300 camera support systems were used in venues ranging from the Olympic Stadium to the Sydney Superdome and Olympic rifle range.

There was considerable development effort in the growing area of virtual reality. Investments in tracking technologies, both lockdown and free roaming tracking systems, were made. The September investment in Intersense Inc, a company with proprietary tracking technology using motion sensors and control software, provides further interesting development possibilities in this area.

Sachtler had an outstanding year. Sales were strong in the Americas and particularly large increases were achieved in Korea, the Middle East and Eastern and South Western Europe. Sales of camera support and lighting products were both well ahead of last year. Revenues from studio suspension projects were lower, although market interest remains strong.

The Speedlok© Tripod, a patented rapid deployment system, designed to replace the carbon fibre tripod, was launched in 1999 and produced good sales during the year. The company's range of electronic news gathering lighting was refurbished and the Microsun© HMI (daylight) on-board camera light was launched at NAB 2000.

Anton/Bauer had another excellent year as it continued to expand its worldwide market share. Sales to Asian markets showed large increases following the establishment of the Singapore office the previous year. US demand remained strong.

Anton/Bauer was again the exclusive battery support centre for the world broadcasting community during the Sydney Olympics. The company has co-operated with Panasonic, the key broadcast sponsor of the Olympic Games, the host nation broadcasters and organising authorities since 1992 to provide equipment and on-site support to more than 100 broadcasters at the Olympic Games.

In April, the company added the UltraDAYlight to its best selling on-camera range. This is a high efficiency, 25 watt daylight colour module, allowing instant changes to indoor colour lighting when used in conjunction with the existing UltraLight products.

In October, the company received an Emmy Award from the National Academy of Television Arts and Sciences in recognition of its contribution to the industry.

	2000	1999
Turnover	£67.6m	£59.9m
Operating profit*	£15.2m	£13.1m
Operating margin	22.5%	21.9%

*before exceptional items and goodwill amortisation

Photographic and retail display

Photographic The Photographic businesses enjoyed continued strength in the Asian markets, excluding Japan. Sales for the year to this region exceeded the record levels set in 1997. In the USA market, Bogen showed considerable strength in the first nine months of the year but experienced a slowdown during the last quarter. Bogen's sales in the USA were well ahead of 1999 and strong sales performances were seen in Italy and France, notably due to expansion in sales of the video tripod range. The IFF studio lighting suspension business had an exceptional year. Litec, acquired last year, increased sales substantially. Gitzo made a good recovery, with sales well ahead of last year despite continued market weakness in Japan. Overall, sales benefited significantly from the strength of the US dollar and the Yen against the Euro.

International sales reflected the full year benefit of the Manfrotto range of carbon fibre products which were launched in late 1999. Manfrotto also acquired the licence to use a revolutionary leg locking mechanism in its tripods. The Gitzo Explorer range of tripods was launched at Photokina 2000.

The year saw substantial changes in the manufacturing organisation: a new factory was purchased for IFF, and manufacture of new products in the Gitzo range commenced in Italy, ahead of the relocation of all Gitzo manufacturing from France to Italy. Manufacturing of the Cine heavy duty lighting grip range was combined with the lighter weight photographic lighting range. A new warehousing system was introduced at Bogen and implementation of a new enterprise resource planning system across the whole division was commenced.

Retail display The weak performance of Retail display in the first half continued for the balance of the year. Economic pressures on two major US customers resulted in substantially lower demand for Alu products. However, there were good increases in sales to European markets. Sales to the rest of the world, although small, were also well ahead.

Several new additions were made to the US sales force in the second half in order to widen market penetration. In Europe, the management and the sales staff of the UK operation were restructured and a new showroom opened in London. In Italy sales resource was increased.

The Reed collection of products was successfully launched in December 1999 and sales achieved in its first full year were encouraging. The Spool and Frame collections were introduced at the New York Market in December 2000. A new contract was finalised during the year with Nokia, the mobile communications company. Other product developments included a new cosmetic presentation concept.

Expansion work at the Alu building in Italy commenced, adding an additional 6,200m² of space, and should be available for occupancy in the second quarter of 2001. Also, Alu's warehousing and packing operation in New Jersey was relocated in order to provide more space and improve warehouse efficiency.

	2000	1999
Turnover	£73.8m	£69.5m
Operating profit*	£18.0m	£19.7m
Operating margin	24.4%	28.3%

*before exceptional items and goodwill amortisation

Communications and audio

General market conditions were much more favourable than those which existed in 1999. The market in the USA continued to be firm and there was a significant improvement in the international markets. Increased sales in Asia were driven primarily by the Olympic Games in Australia and by strong demand in Japan. The United Kingdom, Germany and Israel also experienced strong growth.

Clear-Com had an outstanding year and recovered strongly after a difficult 1999. Both the American and international markets were well ahead in both the Party-Line and Matrix ranges of products, with the most significant gains being achieved with digital Matrix product sales outside the USA.

Clear-Com provided the intercom system for the opening ceremony of the Olympic Games with the 72-port Clear-Com Matrix Plus™ digital intercom system at the heart of the communication system. Over 100 party-line connections were run through the digital matrix, and Clear-Com also supplied numerous walkie-talkie and wireless intercom interfaces. Other major customers during the year included KABC-TV in Los Angeles, the US presidential conventions and, in the commercial sector, TRW and Intel.

The most important internal initiative in the year was the introduction of an end-to-end customer service programme. As part of the benefit of the programme, delivery, service and repair performance improved dramatically. Online support was introduced, with full technical manuals now available on www.clearcom.com.

Drake started the year with a high backlog of orders and achieved a strong performance in the first half. However, in the second half the market began to soften. Drake maintained its position as the European market leader and secured a number of significant contracts from major broadcasters.

An innovative Master Control Room system for control and distribution of external audio feeds was developed and launched at the IBC 2000 exhibition in Amsterdam. The first customer for this predominantly software based product was NRK in Norway. In the UK, major contracts were secured with QVC, the home shopping channel, and with TEAMtalk, the internet sports broadcaster.

A fibre Mux/Demux unit was also launched at the IBC exhibition. This provides up to 24 audio channels and enables Drake's Matrix systems and control panels to be multiplexed by optical fibre.

In the non-broadcast segment, Drake was awarded further development contracts by DFS (Deutsche Flugsicherung), the German Air Traffic Control authority, to provide networked communications over ISDN and leased-line services. Drake was also contracted to develop the interface electronics for the voice-logging equipment installed by DFS. Demand in the simulation and defence sectors was only moderate.

Vega was acquired in October 1999 with the primary objective of investing in new product development in order to refresh its existing ageing product line. As stated in last year's annual report, the company was not expected to be profitable in 2000. Unforeseen delays were encountered in development of the new product and, in the meantime, sales of its existing products continued to decline, resulting in larger than expected losses. In order to accelerate the return to profitability, the business is being relocated to San Francisco and integrated within Clear-Com.

	2000	1999
Turnover	£21.8m	£15.9m
Operating profit*	£1.9m	£1.7m
Operating margin	8.7%	10.7%

*before exceptional items and goodwill amortisation

Broadcast services

The general market conditions during the year were very good in the USA, the Division's main marketplace. The year was dominated by many large events, notably the Democratic and Republican conventions and the US presidential election. The Division also serviced a number of large international events, including the Americas Cup in New Zealand, the Sydney Olympics and the International AIDS Conference in the Caribbean.

Bexel began the year with the acquisition of the assets and business of Duke City Video, which was successfully integrated into Bexel in the first half of the year. The acquisition has significantly enhanced Bexel's ability to service large domestic and international events. Larger contracts included a complete camera flight pack for Fox TV's Today pre-game NFL programme live from the aircraft carrier "USS Truman" in the Mediterranean Sea. The company's webcasting business continued to grow, particularly through support of digital webcasts by the House of Blues. Other key webcast-related projects included providing encoding solutions to OishowÓ, a leading webcasting company providing B2B internet solutions, and support for complete coverage of the National Association of Home Builders convention, and support for the Dallas Cowboys training camp daily webcasts. Bexel was also involved in the webcasting of a number of specialist musical events.

The high definition camera segment also continued to grow and the company made significant further investments in high definition camera equipment. In digital cinema, Bexel provided the 24-frame progressive high-definition equipment and expertise used for the special effects in the feature film, "Loch Ness". HD equipment was also used to provide screenings for the full-length HD feature, "Nicolas". In its core video market, Bexel provided its updated 30-frame multi-camera HD system for the live webcast and concurrent DVD of "The Fabulous Thunderbirds" as well as the complete HD facilities for the Bangles concert at the House of Blues.

Audio specialties group (ASG) marked the year 2000 as the first full year for the integrated audio rental business following its formation in 1999. Overall growth reached record levels. This resulted from a combination of highly targeted marketing programmes, gaining market share in the audio and sound reinforcement markets, the major broadcasting events during the year and large increases in audio visual business within the corporate and industrial sector.

Top rental clients in the broadcast sector included Fox Network Sports, Fox Sports Net and the Turner Broadcast Goodwill Games. The top equipment sales customers included broadcasters KABC, KVEA and KJLA, and commercial accounts such as US Naval Research, Disneyland, National Geographic and Warner Brothers. The sales function was restructured during the year into two specialist teams: one to sell wireless microphones and accessories, and the other to sell high-end Matrix intercom equipment supplied by sister-company Clear-Com, to America's broadcast community.

ASG launched a comprehensive continuous improvement process during the year, designed to radically improve customer service standards and organisational efficiency. The year also marked significant progress in e-business, with an extranet for customers and order tracking being introduced.

	2000	1999
Turnover	£36.8m	£26.1m
Operating profit*	£5.0m	£3.7m
Operating margin	13.6%	14.2%

*before exceptional items and goodwill amortisation

Financial review

Turnover increased 17% over the prior year as gross margins decreased slightly and operating margins, at 20.1%, were 2.2 points lower. This was due to adverse exchange translation rate movements, losses at Vega, lower margins in Retail display and higher operating costs, as additional investments were made in sales, marketing, distribution and development.

Duke City Video, acquired in January 2000, was fully integrated into the operations of Bexel in the second half and its results can no longer be reported separately.

The exceptional costs of £1.9 million relate to the relocation of Gitzo's manufacturing activities to Italy and the relocation and restructuring of Vega's business into Clear-Com.

The Group's outstanding track record of cash generation continued. Cash flow from operations was £45.8 million (1999: £51.1 million), equating to 11.2p per share (1999: 10.8p per share). Average working capital as a percentage of sales decreased from 26% to 23%. However, working capital increased during the year, mainly due to higher stocks to support the higher levels of sales.

Dividend payments increased 27% from £7.8 million to £9.9 million. The increase was due to the 15% increase in the dividend per share in 1999; the payment of three dividends during the year, because the 2000 interim dividend was paid on 1 December 2000, compared with 4 January 2000 for the previous year; and reduced by the effect of the buy-backs in 1999.

Treasury policy Financing of the Group, financial risk management and tax planning are managed centrally. The risk management policy is designed to protect profits, not to speculate. Substantial changes to the financial structure of the Group or divergence from previously agreed financial practice must be referred to the Board of Directors. There were no changes during the year to the major financial risks faced by the Group, nor to the approach to their management.

The Group hedges transactions of subsidiaries in foreign currencies up to 12 months forward. Translation of foreign currency profits is not normally hedged. Net assets of foreign subsidiaries are hedged by borrowings in those currencies when this can be done at reasonable cost and within the Group's actual financing needs.

Interest rates are not generally hedged.

Financing activities The share buy-backs in 1999 increased the efficiency of the Group's balance sheet and reduced the Group's weighted average cost of capital by approximately 1%. The Group's weighted average cost of capital is currently estimated at 8%. Despite the higher debt following the buy-backs, net interest cover for the year remained high at 14 times (1999: 35 times).

No new borrowing arrangements were put in place during the year. However, £30 million of 1-year committed revolving credit facilities were renewed for a further year. These are convertible into £15 million 1-year term loans and £15 million 2-year term loans. The weighted average cost of borrowing for the year was 6.9% (1999: 6.7%).

Effect of exchange rates The net effect of the stronger US\$ and weaker Euro versus sterling on the translation of Group results was an increase in turnover of £3 million and a reduction in profits of £0.4 million compared to 1999. At current exchange rates, pro-forma 2000 reported profits would be higher by approximately £1.4 million.

Exchange gains on transactions, resulting primarily from the appreciation of the US\$ and Yen against the Euro on export sales from Italy, France and Germany, net of related hedging contracts, increased profits by approximately £1.7 million.

Hedging contracts for 2001 transactions totalled £35 million (1999: £31 million) at 31 December 2000.

The net of tax effect of exchange rate movements versus sterling, mainly the strengthening of the US\$ between 31 December 2000 and the end of the prior year was to increase shareholders' funds by £4.9 million (1999: reduction of £4.6 million).

Richard Green
Group finance director

	2000	1999
Operating cash flow	£45.8m	£51.1m
Capital expenditure	£12.8m	£10.4m
Interest	£3.0m	£0.9m
Tax	£12.4m	£10.6m
Dividends	£9.9m	£7.8m
Free cash flow	£7.7m	£21.4m

Directors & advisors

Alison Carnwath BA, ACA

Chairman, non-executive, independent, British, aged 48, appointed to the Board on 22 January 1996; member of the Audit committee, the Remuneration committee and Chairman of the Nominations committee. Currently a non-executive director of Arcadia Group plc, Glas Cymru plc, Nationwide Building Society, Man Group plc and Skillsgroup plc.

David Bell MA

Non-executive, independent, British, aged 54, appointed to the Board on 12 March 1997; the senior non-executive director; member of the Audit committee, the Nominations committee and Chairman of the Remuneration committee. Currently Chairman of the Financial Times Group, director of Pearson plc, non-executive Chairman of The Windmill Partnership, non-executive director of Zen Research and Chairman of Common Purpose Europe and non-executive director of Common Purpose UK.

Philip Cushing MA, MCIM

Group chief executive, British, aged 50, appointed to the Board on 3 April 2000; member of the Nominations committee. Currently a non-executive director of Ikon Office Solutions Inc. Previous experience includes Group chief executive of Inchcape plc and Chief executive, International of Norton Opax plc.

Lino Manfrotto

Non-executive, Italian, aged 64, appointed to the Board on 21 March 1991; member of the Audit committee and the Nominations committee. Founder and non-executive president of Gruppo Manfrotto.

John Potter CEng, MIEE, AMBIM

Non-executive, independent, British, aged 57, appointed to the Board on 1 February 1999; member of the Remuneration committee, the Nominations committee and Chairman of the Audit committee. Retired as a director of TI Group plc at the end of 1998.

Richard Green BSc, FCA, CPA

Group finance director, British, aged 51, appointed to the Board on 2 March 1992. Previously Director of Financial Planning at the Morgan Crucible Company plc where he was responsible for mergers and acquisitions. Prior to this he held various senior financial positions in the oil and gas industry in the USA and South East Asia.

Michael Stacey BSc, FRAeS

Non-executive, independent, British, aged 62, appointed to the Board on 1 February 1999; member of the Audit committee, the Remuneration committee and the Nominations committee. Recently retired as Chief executive of Meggitt plc and is non-executive Chairman elect. Also a non-executive director of Marshalls Plc.

Secretary

Roland Peate FCIS, ACMA

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Directors' report

The directors submit their report and the audited accounts for the year ended 31 December 2000.

Review of the Group and its activities

The performance and activities of the Group during the year are set out in the Group chairman's statement and the Group chief executive's review on pages 7 to 12 and in the Financial review on pages 13 and 14.

Results and dividends

Group profit on ordinary activities before taxation amounted to £34.7 million (1999: £36.6 million).

The directors recommend a final dividend of 15.6p per share (1999: 13.6p). If approved, the dividend per share for the year will total 21.2p (1999: 18.5p) an increase of 14.6% over 1999. Subject to approval by shareholders, the final dividend will be paid on 23 May 2001 to shareholders on the register on 27 April 2001.

Future development

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

Research and development

It is recognised by the directors that new products are essential to the long-term success of the Group and great emphasis is placed on active product development programmes in the manufacturing companies. In 2000 those companies spent £7.5 million (1999: £5.5 million) on research and development.

Share capital

Details of shares issued during the year are set out in note 21 to the accounts on page 52. An analysis of shareholdings is shown on inside back cover. The middle market price of a share of the Company on 29 December 2000, the last day of dealing in 2000, together with the range during the year is set out on inside back cover.

Substantial shareholdings

As at 2 March 2001, the Company had been notified of the following interests of 3% or more of its issued share capital:

Prudential plc	4,519,580	11.03%
Deborah Battocchio	2,698,374	6.59%
Manfrotto SA	2,478,374	6.05%
Legal & General Investment Management Limited	1,947,148	4.75%
CGNU plc	1,764,701	4.31%
BNY Trust Company	1,325,454	3.24%

Directors

The directors during the year were Alison Carnwath (Chairman), Malcolm Baggott, Philip Cushing, David Bell, Richard Green, Lino Manfrotto, John Potter and Michael Stacey.

Malcolm Baggott retired as a director and the Group chief executive on 28 April 2000, and retired from the Company on 31 December 2000. Philip Cushing was recruited as Malcolm Baggott's successor and the Board appointed him as a director with effect from 3 April 2000. He assumed the role of Group chief executive immediately following the Company's annual general meeting held on 28 April 2000.

Biographies of the current directors are set out on page 15.

Directors' remuneration

Details of the Remuneration committee are set out in the section on Corporate governance on pages 25 to 28.

Director's name	Salaries and fees		Benefits*		Performance related annual bonus		Pension related bonus		Total	
	2000 £	1999 £	2000 £	1999 £	2000 £	1999 £	2000 £	1999 £	2000 £	1999 £
Chairman										
Alison Carnwath	80,000	44,375	209	–	–	–	–	–	80,209	44,375
Executive directors										
Malcolm Baggott	80,048	231,200	809	2,316	–	60,000	30,774	29,192	111,631	322,708
Philip Cushing	191,155	–	7,830	–	93,238	–	–	–	292,223	–
Richard Green	150,000	138,000	13,896	12,884	56,250	30,000	17,100	15,224	237,246	196,108
Non-executive directors										
David Bell	19,500	18,625	–	–	–	–	–	–	19,500	18,625
Lino Manfrotto	–	–	–	–	–	–	–	–	–	–
John Potter	26,250	17,104	–	–	–	–	–	–	26,250	17,104
Michael Stacey	19,500	17,104	–	–	–	–	–	–	19,500	17,104
	566,453	466,408	22,744	15,200	149,488	90,000	47,874	44,416	786,559	616,024

During the year the highest paid director earned £292,223 (1999: £322,708).

For the year ended 31 December 2000 the executive directors' bonus scheme again comprised two elements with a maximum total bonus payable of 50% of base salary.

Malcolm Baggott's salary includes payment in lieu of a company car and is shown for the period commencing 1 January 2000 up to 28 April 2000, the date on which he retired as a director. In the period from 29 April 2000 to 31 December 2000, the date of his retirement from the Company, Mr Baggott remained an employee and continued to receive salary and benefits at the same rate as those paid to him whilst he was a director on condition that he would provide such assistance to the new Group chief executive and to the Company as and when required. The aggregate amount paid to him during that period was £166,152. In connection with Mr Baggott's retirement from the Company, the sum of £310,000 was paid by the Company into the Vitec Group Executive Pension Scheme to fund enhanced benefits payable to him as a result of his early retirement. Philip Cushing's salary, benefits and performance related bonus are for the period commencing 3 April 2000 up to the end of the year. Mr Cushing's salary includes payment in lieu of a company car for the period 3 April 2000 to 3 July inclusive. John Potter's fees include payment in respect of additional work undertaken in the UK and overseas with a number of the Group's subsidiary companies.

*The principal benefits are a company car, fuel, medical insurance and life insurance premiums.

Pensions related remuneration

It is the Company's policy to make provision for pensions for executive directors in respect of their full basic salaries (but not in respect of annual bonuses or benefits) through funded retirement benefit schemes. Up to the maximum salary level permitted by Inland Revenue rules (known as the earnings cap), retirement benefits are provided through an approved retirement benefit scheme, as shown below.

	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	
	2000 £	1999 £	2000 £	1999 £	2000 £	1999 £	2000 £	1999 £
Executive directors								
Malcolm Baggott	47,622	36,035	11,191	2,815	13,473	12,604	345,190 *	36,440
Philip Cushing	1,530	–	1,530	–	–	–	21,340	–
Richard Green	20,273	17,743	2,335	2,299	10,290	9,520	24,980	25,500

* This figure includes allowances for the increase in value due to Malcolm Baggott's pension coming into payment with effect from 31 December 2000.

Beyond the earnings cap, the cost of pensions comprised defined contribution payments to a funded unapproved retirement benefit scheme (FURBS) as follows: Malcolm Baggott £46,161 (1999: £42,054), Philip Cushing £47,460 (1999: nil) and Richard Green £25,650 (1999: £22,464).

Directors' interests

The beneficial interests of those persons who were directors at the end of the financial year in the Company's shares and share options at 31 December 2000 and 1 January 2000 were as follows:

Directors' shareholdings

	31 December 2000	1 January 2000 or subsequent date of appointment
Alison Carnwath	5,000	3,000
David Bell	–	–
Philip Cushing	10,000	5,000
Richard Green	10,796	9,796
Lino Manfrotto	2,573,374	2,478,374
John Potter	3,000	1,000
Michael Stacey	3,000	3,000
	2,605,170	2,500,170

Directors' share options

	Date of grant	1 January 2000	Options exercised or lapsed during year	Options granted during year	Number of shares 31 December 2000 or date of retirement as a director	Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
Malcolm Baggott									
Executive share options	Oct 1996	24,880	–	–	24,880	694	–	Oct 1999	Oct 2006
	Apr 1998	33,261	–	–	33,261	653	–	Apr 2001	Apr 2008
SAYE options	Jun 1997	2,197	–	–	2,197	471	–	Sep 2002	Feb 2003
	Jun 1998	1,159	–	–	1,159	595	–	Sep 2003	Feb 2004
		61,497	–	–	61,497		–		
Philip Cushing									
Premium priced options	May 2000	–	–	75,000	75,000	661	–	May 2003	May 2010
	May 2000	–	–	100,000	100,000	793	–	May 2003	May 2010
		–	–	175,000	175,000				

Directors' share options (continued)

		Number of shares							
	Date of grant	1 January 2000	Options exercised or lapsed during year	Options granted during year	31 December 2000 or date of retirement as a director	Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
Richard Green									
Executive share options	Apr 1992	25,000	–	–	25,000	268	–	Apr 1995	Apr 2002
	Apr 1995	7,000	–	–	7,000	512	–	Apr 1998	Apr 2005
	Oct 1996	27,305	–	–	27,305	694	–	Oct 1999	Oct 2006
	Apr 1998	14,344	–	–	14,344	653	–	Apr 2001	Apr 2008
SAYE options	Jun 1999	3,429	3,429*	–	–	492	–	Sep 2004	Feb 2005
	Jun 2000	–	–	4,095	4,095	412	–	Sep 2005	Feb 2006
Premium priced options	Oct 2000	–	–	27,452	27,452	683	–	Oct 2003	Oct 2010
	Oct 2000	–	–	32,051	32,051	819	–	Oct 2003	Oct 2010
		77,078	3,429	63,598	137,247				

* Savings contract cancelled, options therefore lapsed

During the financial year no directors exercised share options. No non-executive directors held share options.

Directors' awards under the long term incentive plan

		Number of shares			
	Date of award	At 1 January 2000	Shares exercised or lapsed during the year	Shares awarded during the year	At 31 December 2000
Philip Cushing					
	Apr 2000	–	–	22,321	22,321
		–	–	22,321	22,321
Richard Green					
	Dec 1999	14,004	–	–	14,004
	Oct 2000	–	–	1,996	1,996
		14,004	–	1,996	16,000

Incentive arrangements

In September 2000 the Remuneration committee approved proposals for the restructuring of the Group's incentive arrangements to align them more closely with the objectives and interests of shareholders.

Under the Company's long term incentive plan ("LTIP"), executive directors and other senior employees receive awards over shares that vest in whole or in part depending on the satisfaction of certain performance conditions. As part of the re-structuring of the Group's incentive arrangements, the performance condition of existing and future awards under the LTIP was changed to relate to increases in earnings per share. The benefit of such a change was to simplify administration of the LTIP and, at the same time, ensure that the new performance condition would be no less difficult to achieve than those it replaced. Under the new performance condition, for an award to vest in its entirety, the increase in earnings per share over the performance period of 3 years would need to be not less than the increase in the retail prices index plus 36%. For an award to vest at its lowest level of 25%, the increase in earnings per share over that performance period would need to be equal to, or greater than, the increase in the retail prices index plus 9%. Awards would lapse if the performance was less than the minimum threshold set out above.

On 28 April 2000 a premium option plan ("POP") was approved by shareholders. Full details of the POP were set out in the circular sent to shareholders. Under the POP, selected executive directors and other senior employees would receive options over shares that would be granted in the form of two tiers.

The exercise price of the first tier would be 25% in excess of the share price immediately prior to the date of grant; the exercise price of the second tier would be 50% in excess of that same share price. The two tiers would only be exercisable if the average middle market price of the Company's shares was in excess of the option exercise price within the relevant period for a minimum of 20 consecutive dealing days. Each tier of options would lapse if the share price did not achieve the required threshold within the relevant period. Subject to the share price reaching the required threshold, options could be exercised between the third and the tenth anniversaries of their dates of grant.

On 21 December 2000 a deferred bonus plan (the "DBP") was approved by shareholders. Under the DBP, an eligible executive may waive between 10% and 50% of his cash bonus, that was itself subject to performance targets linked to Group and individual performance, in return for an award over shares in the Company with a value equivalent to the amount of the waived bonus. In normal circumstances, this award could be exercised after 2 years. If exercise was deferred until after 3 years and the executive remained employed by the Group, the participant would be entitled to receive additional shares equal in number to those comprised in the award. The first awards under the DBP are expected to be granted, in respect of bonuses for the year 2000, within the window period following the preliminary announcement of the Group's results for the year ended 31 December 2000.

Executive directors are entitled to participate in the Company's savings related and executive share option schemes, the long term incentive plan, the premium option plan and the deferred bonus plan. Grants under the Company's various incentive arrangements are phased. Under the (1994) Executive Share Option Scheme, exercise is subject to the growth in earnings per share, from the date of grant, exceeding growth in the Retail Prices Index. Under the (1996) Unapproved Executive Share Option Scheme, exercise is subject to growth exceeding the increase in the Retail Prices Index plus 3% per annum. The exercise of options under the (1984) Executive Share Option Scheme is not subject to any performance criteria. No executive option is offered at a discount.

Payments to suppliers

It is the Group's current policy that individual subsidiary companies are responsible for negotiating the terms and conditions of trade under which suppliers are asked to operate. Once agreed, payments to suppliers are made in accordance with those terms and conditions, subject always to the supplier having complied with the terms and conditions. That policy will continue for the financial year ending 31 December 2001. For the financial year to 31 December 2000 the Company paid its suppliers on average within 24 days of date of invoice.

Employees

The Group continues to operate in many countries and its employment policies are designed to meet local conditions and requirements but are established on the basis of the best practices in each country in which it operates.

Active 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 are granted to employees who enter into contracts to save agreed amounts each month.

The importance of good communication and working relationships is recognised and actively encouraged. The Group's policy is to keep employees informed on matters relating to their employment and on financial and economic factors affecting the Group. The Group continues to be organised on a decentralised basis. The senior operating executives of the Group, the Group chief executive and the Group finance director, meet on a regular basis. In addition, the managements of the operating subsidiaries employ a wide variety of consultation methods, including joint committees, project and briefing groups.

The Group has recently launched its web site and the final development stage of a Group-wide intranet is under construction. These will provide the Group with enhanced communications and information exchange capabilities for shareholders and employees.

Ability and aptitude are the determining factors in the selection, training, career development and promotion of all employees. If an employee becomes disabled during his or her period of employment, the Company will, if necessary and to the extent possible, retrain the employee for duties suited to that employee's abilities following the disablement. It continues to be the Company's policy to consider applications for employment from disabled people on the same basis as other potential employees.

Environmental policy

The Group regards compliance with environmental laws and guidelines as important and socially responsible and is committed to controlling and minimising the environmental effects of its operations world wide by good environmental management practices.

The head of each of the Group's operating companies is responsible for complying with the relevant environmental regulations in all the geographical areas in which it operates. The majority of the Group's operations have limited environmental impact. However, where operations could have any environmental impact, such operations are externally monitored and assessed.

The Group's manufacturing operations all report on, and take account of, environmental issues as part of the Group's system of internal control and risk management.

It is in the interests of the environment and in the financial interests of the Group to make the most efficient use of energy. Energy efficiency programs are generally in use in the Group's operations worldwide.

Most of the packaging, office paper and cartons used by the Group's operations is recycled after use and in many cases biodegradable packaging is used. A large proportion of the businesses have been using recycling programs for many years.

Donations

Donations of £38,789 (1999: £39,305) for charitable purposes were made by the Group during the year. No donations were made to any political party.

Annual general meeting

The annual general meeting for 2001 will be held on Wednesday, 11 April 2001 at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 2PB. The notice of meeting and a proxy card are enclosed. The business will include the consideration by shareholders of the report and accounts for the year ended 31 December 2000, the proposed dividend, re-election of a director, re-election of auditors and the following further items of business.

A resolution to change the name of the Company to "The Vitec Group plc". Please note that existing share certificates in the name of Vitec Group plc will remain valid after the change of name.

A resolution to adopt revised articles of association to deal with the Electronic Communications Order 2000 and, at the same time, make minor changes to keep the Articles up to date. The changes are set out in the circular to shareholders.

A resolution renewing the directors' authority to allot shares for cash, as if the pre-emption provisions of Section 89 of the Companies Act 1985 did not apply, is set out in the notice of meeting. The first part of the resolution deals with the allotment of shares for cash under a rights issue, giving power to make adjustments to deal with overseas shareholders, fractions of shares and similar matters. The second part renews the power of the directors to allot shares for cash, limited to 5% of the issued share capital at 5 March 2001. The authority will expire at the end of the Company's next annual general meeting or, if earlier on 11 July 2002. Your directors have no present intention of issuing or granting rights over the unissued share capital, except in relation to the Company's adopted employee share incentive arrangements as set out in this Directors' report, and no issue will be made

which will effectively alter the control of the Company without prior approval of the shareholders in general meeting.

A resolution for a general authority for the Company to make market purchases of its own shares was approved by shareholders at the last 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 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.

Auditors

The auditors, KPMG Audit Plc, are willing to continue in office. A resolution will be put to the annual general meeting to re-appoint them as auditors and to authorise the Board to agree their remuneration.

By order of the Board

Roland Peate

Secretary

5 March 2001

Corporate governance

The listing rules require a company to include in its annual report and accounts a statement of how it has applied the principles set out in Section 1 of the Combined Code (the "Code") together with an explanation to enable its shareholders to evaluate how the principles have been applied. 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 set out in Section 1 of the Code. 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 2000 with the exception of the Code provision with which non-compliance is included in the report below. Where non-compliance is reported (Code provision B.1.7), the reason for such non-compliance is set out in the relevant section below. References in parentheses are to the relevant paragraphs of the Code. The Company regularly reviews and revises its procedures, as necessary, to take account of the requirements of the Code.

The Board

The Board meets regularly 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. Throughout the year, the Board comprised the non-executive independent Chairman, two executive directors, except for the period from 3 April 2000 to 28 April 2000 when there were three executive directors during the hand-over from Malcolm Baggott, the retiring Group chief executive, to the incoming Group chief executive, Philip Cushing, and four other non-executive directors. The directors bring independent judgement to bear on strategic matters, the performance of the Group and the adequacy of resources and standards of conduct. The roles of the Chairman and the Group chief executive are separate. The senior non-executive director is David Bell and his biographical details are shown on page 15.

The Board has a Remuneration committee and an Audit committee. Since the year-end, a Nominations committee has been constituted. Each committee has formal terms of reference. The members of these committees are shown on page 15.

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

The papers supplied for consideration by the Board are provided on a timely basis and include budgets, strategy papers, reviews of the Group's financial position and operating performance and annual and interim reports and accounts.

Appointments and re-election to the Board

A Nominations committee chaired by Alison Carnwath, Chairman of the Board, makes recommendations to the Board on all new Board appointments. The Chairman and the non-executive directors are normally appointed for an initial period of three years which usually, with the approval of the Nominations committee and the Board, would 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 and the Board, 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. Prior to the annual general meeting held in 1999, the executive directors had not been subject to rotation and re-election. However, at the annual general meeting held in 1999 approval was given by shareholders to transitional

arrangements under which the two executive directors at the time would be subject to retirement and re-election at subsequent meetings. The annual general meeting held in 2000 dealt with the first part of those transitional arrangements. Under the second part of those arrangements, Richard Green, Group finance director, will retire and will be proposed for re-election at the annual general meeting to be held in 2001. No other directors retire by rotation at that meeting.

Directors' remuneration

Details of the directors' remuneration policy and the disclosures required by the Code are set out below and in the Directors' report on pages 17 to 24.

During the year a premium option plan and a deferred bonus plan were designed and implemented by the Company for executive directors and senior executives of the Group. In doing so it complied with the provisions set out in Schedule A to the Code.

Richard Green has a service contract requiring 18 months' notice of termination (B.1.7). His service contract has been in place for a number of years and the Remuneration committee believes the notice period under the contract remains appropriate. Philip Cushing, Group chief executive, has a service contract requiring 12 months' notice of termination by the Company. Neither of the executive directors' service contracts provides for pre-determined amounts of compensation in the event of early termination by the Company. The Committee's policy in the event of termination is to mitigate compensation to the fullest extent practicable.

Remuneration committee

Remuneration packages are formulated to attract, retain and motivate executive directors and senior executives of the quality required, without being excessive. They take into account the responsibilities involved, remuneration packages in comparable companies, relative performance and both internal and external advice. Remuneration and benefits reflect responsibility and market comparisons. Basic salary is fully pensioned on a funded basis.

The Remuneration committee, comprising David Bell (Chairman) and the other independent non-executive directors, makes recommendations to the Board, within agreed terms of reference, on the framework of executive remuneration including terms of service, pay structure, incentive arrangements and benefits. The Committee determines the remuneration packages of the executive directors, including pension rights and would also determine any compensation payments in relation to those directors. The Board itself determines the remuneration of the non-executive directors.

The Committee believes that in certain specific circumstances it is beneficial for an executive director to be encouraged to take up external non-executive appointments. Remuneration received by a director in respect of external appointments is retained by the director.

The Chairman of the Committee, will be available to answer questions about directors' remuneration at the Company's annual general meeting.

Relations with shareholders

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

At meetings of shareholders, the level of proxy votes received in respect of resolutions are stated 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, as set out in the notice of annual general meeting.

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

comply with the requirement.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss (principle D.2).

Since its implementation of the recommendations of the Cadbury Committee Code of Best Practice through the guidance published by the Working Group on Internal Control in December 1994, the Board has adopted a risk-based approach to establishing the system of internal control. The application of principle D.2 of the Code and the process followed by the Board in reviewing the effectiveness of the system of internal control during the year (provision D.2.1) is as follows:

- Operating company management is charged with the ongoing responsibility for identifying risks facing each of the businesses and for putting in place procedures to monitor and manage risks.
- The responsibilities of the Chief executive officer and Chief financial officer at each operating unit to manage risks within their businesses are periodically reinforced by Group executive management.
- Major commercial, technological and financial risks are formally assessed during the annual long-term business planning process around mid-year. These plans and the attendant risks are reviewed by the Board.
- Large capital projects, product development projects and acquisitions 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 bi-annual 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, at the end of each year, individual operating units formally review all of their business risks and mitigating controls and 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 Group finance director. The risk and control identification and certification process is monitored and periodically reviewed by Group financial management.
- There is an embedded culture of openness of communication between management and the Board on matters relating to risk and control.
- The Board has established a strong 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 video 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 budget and prior year and the forecast for the year revised where necessary. 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 during the year and up to the date of approval of the annual report and accounts with the Code (D.2.1) as set out in the Guidance for Directors on the Combined Code, published by the Internal Control Working Party of the Institute of Chartered Accountants in England and Wales.

The Group does not have an internal audit function. However, the Board periodically reviews the need for such a function (provision D.2.2). The current conclusion of the Board is that this is not necessary given the scale, diversity and complexity of the Group's activities. Operational audits are outsourced on an as-needed basis.

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.

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

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

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

Auditors' report to the members of the Vitec Group plc

We have audited the financial statements of the Vitec Group plc which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and notes 1 to 27.

Respective responsibilities of directors and auditors

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

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

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by 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, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement, the group chief executive's review and the financial review. 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 Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of

whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Notes

- 1 The maintenance and integrity of the Vitec Group web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the web site.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG Audit Plc

Chartered Accountants

Registered auditor

London

5 March 2001

Consolidated profit and loss account

For the year ended 31 December 2000

	Notes	2000			1999	
		Before exceptional items and goodwill amortisation £m	Exceptional items £m	Goodwill amortisation £m	Total £m	Total £m
Turnover	3	200.0	–	–	200.0	171.4
Cost of sales		(93.4)	–	–	(93.4)	(78.9)
Gross profit		106.6	–	–	106.6	92.5
Net operating expenses	4	(66.5)	(1.9)	(0.6)	(69.0)	(54.8)
Operating profit	6	40.1	(1.9)	(0.6)	37.6	37.7
Net interest payable	23	(2.9)	–	–	(2.9)	(1.1)
Profit on ordinary activities before tax		37.2	(1.9)	(0.6)	34.7	36.6
Tax	9				(11.5)	(11.4)
Profit on ordinary activities after tax and for the financial year					23.2	25.2
Dividends	10				(8.7)	(7.6)
Retained profit for the year transferred to reserves	22				14.5	17.6
Basic earnings per share	11				56.7p	53.3p
Diluted earnings per share	11				56.4p	52.6p
Headline earnings per share	11				62.8p	54.3p

Balance sheets

As at 31 December 2000

		Group		Company	
	Notes	2000 £m	1999 £m	2000 £m	1999 £m
Fixed assets					
Intangible assets	2	10.9	10.0	–	–
Tangible assets	3	47.0	37.5	2.4	2.1
Investments	4	3.5	–	127.1	131.5
		61.4	47.5	129.5	133.6
Current assets					
Stocks	5	37.8	29.1	–	–
Debtors	6	38.0	32.6	5.1	5.3
Cash at bank and in hand	3	19.2	32.8	2.3	11.7
		95.0	94.5	7.4	17.0
Creditors – due within one year	7	(38.6)	(33.7)	(23.0)	(17.3)
Net current assets/(liabilities)		56.4	60.8	(15.6)	(0.3)
Total assets less current liabilities		117.8	108.3	113.9	133.3
Creditors – due after more than one year	7	(46.6)	(57.3)	(40.8)	(49.3)
Provisions for liabilities and charges	9	(7.5)	(5.9)	(0.1)	(0.1)
Net assets		63.7	45.1	73.0	83.9
Capital and reserves					
Called up share capital	1	8.2	8.2	8.2	8.2
Share premium account	2	2.4	2.3	2.4	2.3
Capital redemption reserve	2	1.6	1.6	1.6	1.6
Revaluation reserve	2	1.5	1.5	0.9	0.9
Other reserves	2	–	–	53.7	53.7
Profit and loss account	2	50.0	30.6	6.2	17.2
Shareholders' funds - equity		63.7	44.2	73.0	83.9
Minority interest - equity		–	0.9	–	–
		63.7	45.1	73.0	83.9

Approved by the Board on 5 March 2001 and signed on its behalf

Richard Green
Director

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2000

	2000	1999
	£m	£m
Profit for the financial year	23.2	25.2
Exchange rate movements on foreign net investments	4.3	(3.5)
Tax on exchange differences	0.6	(1.1)
Total recognised gains relating to the year	28.1	20.6

Reconciliation of movements in shareholders' funds

For the year ended 31 December 2000

	2000	1999
	£m	£m
Profit for the financial year	23.2	25.2
Dividends	(8.7)	(7.6)
Retained profit for the year	14.5	17.6
Exchange rate movements and related tax on foreign net investments	4.9	(4.6)
New share capital subscribed	0.1	0.6
Share repurchases	–	(50.7)
Net increase/(reduction) in shareholders' funds	19.5	(37.1)
Opening shareholders' funds	44.2	81.3
Closing shareholders' funds	63.7	44.2

Consolidated cash flow statement

For the year ended 31 December 2000

	Notes	2000 £m	1999 £m
Net cash inflow from operating activities	6	45.8	51.1
Returns on investments and servicing of finance			
Interest received		0.8	0.7
Interest paid		(3.8)	(1.6)
Net cash outflow from returns on investments and servicing of finance		(3.0)	(0.9)
Tax paid		(12.4)	(10.6)
Capital expenditure			
Purchase of tangible fixed assets		(14.4)	(10.7)
Sale of tangible fixed assets		1.6	0.3
Purchase of fixed asset investments	14	(3.5)	–
Net cash outflow from capital expenditure		(16.3)	(10.4)
Acquisitions			
Purchase of subsidiary undertakings	20	(7.1)	(4.8)
Equity dividends paid		(9.9)	(7.8)
Net cash (outflow)/inflow before financing		(2.9)	16.6
Financing			
Issue of shares		0.1	0.6
Repurchase of shares		–	(50.7)
Net (repayment)/receipt of loans	23	(11.0)	41.1
Net cash outflow from financing		(10.9)	(9.0)
(Decrease)/increase in cash in the year	23	(13.8)	7.6

Notes to the accounts

1 Basis of presentation

The consolidated profit and loss account and balance sheets include the accounts of the Company and its subsidiary undertakings made up to 31 December 2000. The accounts have been prepared in accordance with all applicable accounting standards under the historical cost convention modified to include the revaluation of certain land and buildings.

The Financial Reporting Standards ("FRS") FRS 15 Tangible fixed assets and FRS 16 Current tax have been implemented. The impact of the adoption of FRS 15 is outlined in note 13.

2 Accounting policies

Basis of consolidation

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

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

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

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

Upon the disposal of businesses which have become part of the Group by acquisition, purchased goodwill previously written off to reserves, or the unamortised portion of purchased goodwill remaining in the balance sheet as an intangible asset, is written off to the profit and loss account.

Turnover

Represents net sales after deducting agents' commissions and trade discounts.

Foreign currencies

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

Research and development

Expenditure on the Group's own research and development projects is charged to the profit and loss account in the year in which it is incurred.

Investments

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

2 Accounting policies (continued)

Fixed assets and depreciation

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

Freehold and long leasehold buildings	2½ %	–5% on cost or valuation
Short leasehold property		over the remaining period of the lease
Plant and machinery	12½ %	–25% on cost
Motor vehicles	25%	–33 1/3 % on cost
Equipment, fixtures & fittings	10%	–33 1/3 % on cost
Rental equipment	20%	–on cost

Stock and work in progress

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

Capital instruments

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

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

Deferred tax

The charge for tax is based on the profit for the year and takes into account tax deferred because of timing differences between the treatment of certain items for tax and accounting purposes. Provision is made for deferred tax only to the extent that it is considered probable that an actual liability will crystallise. Within any one tax jurisdiction, deferred taxes are only recognised to the extent of deferred tax liabilities arising in that jurisdiction.

Pension costs

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

Employee share schemes

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

Leases

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

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

3 Activity analysis

	Operating profit		Turnover		Net assets	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
3.1 Class of business						
Broadcast camera systems	15.2	13.1	67.6	59.9	34.4	30.2
Photographic and retail display	18.0	19.7	73.8	69.5	31.8	26.3
Communications and audio	1.9	1.7	21.8	15.9	6.0	5.4
Broadcast services	5.0	3.7	36.8	26.1	21.1	13.9
	40.1	38.2	200.0	171.4	93.3	75.8
Exceptional items	(1.9)	–	–	–	–	–
Goodwill amortisation	(0.6)	(0.5)	–	–	–	–
	37.6	37.7	200.0	171.4	93.3	75.8
Group net liabilities					(29.6)	(30.7)
					63.7	45.1

As explained in note 20 the turnover and results of Duke City Video are not separately identifiable but are included within Broadcast services.

The exceptional items are explained in note 5.

Goodwill amortisation relates to Photographic and retail display - £0.1 million (1999: £0.1 million), Communications and audio - £0.1 million (1999: £0.1 million) and Broadcast services - £0.4 million (1999: £0.3 million).

Group net liabilities include cash, financing and capitalised goodwill.

	Operating profit		Turnover		Net assets	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
3.2 Geographic area						
By origin						
United Kingdom	1.1	1.2	28.3	23.4	12.6	14.2
The rest of Europe	21.9	22.8	71.1	66.5	29.0	25.1
The Americas	16.3	13.9	97.6	78.6	50.2	35.0
Asia and Australasia	0.8	0.3	3.0	2.9	1.5	1.5
	40.1	38.2	200.0	171.4	93.3	75.8
Exceptional items	(1.9)	–	–	–	–	–
Goodwill amortisation	(0.6)	(0.5)	–	–	–	–
	37.6	37.7	200.0	171.4	93.3	75.8
Group net liabilities					(29.6)	(30.7)
					63.7	45.1

3 Activity analysis (continued)

	Turnover	
	2000	1999
	£m	£m
Turnover by destination		
United Kingdom	8.6	7.7
The rest of Europe	47.3	44.0
The Americas	115.9	99.5
Asia and Australasia	25.2	17.5
Africa and Middle East	3.0	2.7
	200.0	171.4
4 Operating expenses		
	2000	1999
	£m	£m
Analysis of operating expenses		
Marketing, selling and distribution costs	34.8	27.8
Research and development costs	7.5	5.5
Administrative expenses		
– exceptional restructuring costs	1.9	–
– goodwill amortisation	0.6	0.5
– other administrative expenses	24.2	21.0
	69.0	54.8

5 Exceptional items

The exceptional items include restructuring and relocation costs for the Photographic and retail display (£1.4 million) and Communications and audio (£0.5 million) divisions.

Costs include £1.8 million for redundancy and relocation, and £0.1 million for other items.

6 Operating profit

	2000 £m	1999 £m
The following items are included in operating profit		
Broadcast equipment rental income on operating leases	23.4	16.9
Depreciation	11.4	8.6
Operating lease rental expense		
Plant, machinery & vehicles	0.1	0.1
Property	3.6	3.3
Auditors' remuneration		
Audit fees	0.4	0.4
Other fees paid to the auditor and its associates	0.8	0.4

Fees paid to the auditors for non-audit services comprise £0.3 million for business advisory services, £0.4 million for tax and £0.1 million for other work.

Reconciliation of operating profit to net cash flow from operating activities

	2000 £m	1999 £m
Operating profit	37.6	37.7
Goodwill amortisation	0.6	0.5
Depreciation	11.4	8.6
(Profit) on sale of fixed assets	-	(0.1)
(Increase)/decrease in stock	(7.3)	1.3
Increase in debtors	(3.8)	(0.6)
Increase in creditors	5.2	3.4
Increase in provisions	2.1	0.3
Net cash inflow from operating activities	45.8	51.1

7 Employees

	2000 £m	1999 £m
Aggregate remuneration of all employees during the year		
Wages and salaries	40.1	35.1
Employers' social security costs	6.2	4.8
Employers' pension costs	1.6	1.3
	47.9	41.2

	2000 Number	1999 Number
Average number of employees during the year		
Broadcast camera systems	505	490
Photographic and retail display	631	574
Communications and audio	203	158
Broadcast services	201	167
Head office	12	11
	1,552	1,400

8 Directors' remuneration

The emoluments, share options and pension-related remuneration of all the directors are disclosed in the Directors' report.

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

	2000 £m	1999 £m
Fees to non-executive directors	0.1	0.1
Remuneration of executive directors	0.5	0.4
Performance-related bonuses	0.2	0.1
	0.8	0.6
Gains on exercise of share options	–	–
Pension contributions	0.4	0.1

9 Tax

	2000 £m	1999 £m
UK corporation tax at 30% (1999: 30.25%)	0.2	2.7
Tax on exchange differences taken to reserves	0.6	(1.1)
Overseas corporate tax	11.4	10.2
Deferred tax	(0.6)	(0.1)
Adjustments in respect of prior years	(0.1)	(0.3)
Tax on ordinary activities	11.5	11.4

There is no tax on the exceptional items.

Reconciliation of effective tax rate on profit on ordinary activities before exceptional items and goodwill amortisation

	2000 %	1999 %
The tax charge has been increased/(reduced) by the following major items		
Statutory UK corporation tax rate	30.0	30.3
Profits in tax free areas	(2.3)	(1.9)
Allowable amortisation of intangible assets	(3.5)	(4.3)
Higher overseas tax rates	6.1	5.0
Other items	0.6	1.6
Effective tax rate	30.9	30.7

10 Dividends

	2000 £m	1999 £m
Interim paid of 5.6p per share (1999 : 4.9p)	2.3	2.0
Final proposed 15.6p per share (1999 : 13.6p)	6.4	5.6
Total dividends 21.2p per share (1999 : 18.5p)	8.7	7.6

11 Earnings per ordinary share

The calculation of basic earnings per share under FRS 14 is based on profit after tax of £23.2 million (1999: £25.2 million). Headline earnings per share is presented in order to reflect more appropriately the ongoing earnings performance of the Group. This calculation is based on profit after tax but before exceptional items and amortisation of goodwill. In 2000 this profit was £25.7 million (1999: £25.7 million). Both measures of earnings per share are based on the weighted average number of shares in issue during the year of 40,941,665 (1999: 47,226,150).

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

	2000 £m	1999 £m	2000 pence	1999 pence
Profit for the financial year	23.2	25.2	56.7	53.3
Add back: exceptional items	1.9	–	4.6	–
Add back: goodwill amortisation	0.6	0.5	1.5	1.0
Earnings before exceptional items and goodwill amortisation	25.7	25.7	62.8	54.3

The calculation of diluted earnings per share under FRS 14 is based on profit after tax of £23.2 million (1999: £25.2 million). The number of shares used to calculate the diluted earnings per share incorporates the weighted average number of shares in issue of 40,941,665 (1999: 47,226,150) and the number of shares under option of 2,468,087 (1999: 1,058,806) and contingently issuable shares from the total of potential long-term incentive plan awards of 199,910 (1999: 126,574) as adjusted for a weighting factor between the average exercise prices of the share options and the average market price of the Company's shares during 2000. The number of shares used for the calculation is 41,069,476 (1999: 47,832,375).

12 Intangible fixed assets

	Goodwill £m
Cost	
At 1 January 2000	10.7
Currency translation adjustments	0.7
Additions	0.9
At 31 December 2000	12.3
Amortisation	
At 1 January 2000	0.7
Currency translation adjustments	0.1
Charge for the year	0.6
At 31 December 2000	1.4
Net book value	
At 31 December 2000	10.9
At 31 December 1999	10.0

13 Tangible fixed assets

	Total £m	Land and buildings £m	Plant machinery and vehicles £m	Equipment fixtures and fittings £m
Group				
Cost or valuation				
At 1 January 2000	79.2	21.0	47.4	10.8
Currency translation adjustments	4.8	0.6	3.3	0.9
Acquisitions	6.3	–	6.3	–
Additions	14.5	1.9	8.5	4.1
Transfers between categories	–	–	0.6	(0.6)
Disposals	(8.4)	(0.1)	(7.5)	(0.8)
At 31 December 2000	96.4	23.4	58.6	14.4
Depreciation				
At 1 January 2000	41.7	5.3	29.1	7.3
Currency translation adjustments	2.9	0.4	1.8	0.7
Charge for the year	11.4	0.9	9.1	1.4
Transfers between categories	–	–	0.5	(0.5)
Disposals	(6.6)	–	(5.9)	(0.7)
At 31 December 2000	49.4	6.6	34.6	8.2
Net book value				
At 31 December 2000	47.0	16.8	24.0	6.2
At 1 January 2000	37.5	15.7	18.3	3.5

Plant, machinery and vehicles includes broadcast equipment rental assets with a cost of £31.1 million (1999: £24.3 million) and accumulated depreciation of £15.3 million (1999: £13.7 million).

The fixed assets of the Company, comprising principally of land and buildings, at a cost of £3.3 million (1999: £3.0 million) and with accumulated depreciation of £0.9 million (1999: £0.9 million) are included above. During the year, additions at cost were £0.5 million, disposals totalled £0.1 million and depreciation was £0.1 million.

13 Tangible fixed assets (continued)

	2000 £m	Group 1999 £m	2000 £m	Company 1999 £m
Net book value of land and buildings at cost or valuation comprise the following				
Carried at cost	14.9	13.7	–	–
Carried at valuation (open market basis - 31.3.1989)	1.9	2.0	1.9	2.0
	16.8	15.7	1.9	2.0
Freehold	15.4	14.8	1.9	2.0
Short leasehold	1.4	0.9	–	–
	16.8	15.7	1.9	2.0

The Group's land and buildings shown above at a re-valued net book value of £1.9 million would have been stated under historical cost at £0.7 million and a net book value of £0.3 million.

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

Capital commitments for which no provision has been made in the accounts amount to £2.3 million (1999: £0.8 million) for the Group and £nil (1999: £nil) for the Company.

14 Fixed asset investments

Investments at cost or written down value are

	Total £m	Shares £m	Loans £m
Group			
At 1 January 2000	–	–	–
Additions	3.5	3.5	–
At 31 December 2000	3.5	3.5	–
Company			
At 1 January 2000	131.5	84.6	46.9
Repayments	(4.4)	–	(4.4)
At 31 December 2000	127.1	84.6	42.5

The Group's investment represents a 19% investment in Intersense Inc.

14 Fixed asset investments (continued)

Principal subsidiaries

The Group's principal subsidiaries at 31 December 2000 are listed below. Except as otherwise indicated they are all wholly-owned by the Company, incorporated and registered in England and Wales.

	Country of incorporation
Vitec Group US Holdings Inc	USA
Vitec Luxembourg Holdings Sarl	Luxembourg
Vitec International Financial Services Company Limited	Ireland
Broadcast camera systems	
Anton/Bauer Inc	USA
Centro de Produccion Profesional CPP Limitada	Costa Rica
LCB Beteiligungs GmbH	Germany
Sachtler Corporation of America	USA
Sachtler GmbH & Co. KG	Germany
Vinten Broadcast Limited	England *
Vinten Inc	USA
Photographic and retail display	
Alu Inc	USA
Bogen Photo Corporation	USA
Gitzo SA	France
Lino Manfrotto & Co Spa	Italy
Communications and audio	
Drake Electronics Limited	England *
Vitec CC Inc (trading as Clear-Com)	USA
Broadcast services	
Bexel Corporation	USA
Systems Wireless Limited	USA

* Indicates companies directly owned by the parent company

15 Stocks

	Group	1999
	2000	£m
	£m	£m
Raw materials and components	10.2	8.3
Work in progress	9.3	6.9
Finished goods	18.3	13.9
	37.8	29.1

16 Debtors

	Group		Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
Amounts falling due within one year				
Trade debtors	29.3	24.8	–	–
Amounts owed by subsidiaries	–	–	3.2	3.6
Other debtors	3.7	2.8	0.6	0.2
Tax recoverable	1.2	1.2	1.2	1.2
Prepayments and accrued income	1.7	1.6	0.1	0.3
	35.9	30.4	5.1	5.3
Amounts falling due after one year				
Prepayments and accrued income	1.3	1.3	–	–
Other debtors	0.8	0.9	–	–
	2.1	2.2	–	–
Total debtors	38.0	32.6	5.1	5.3

17 Creditors

	Group		Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
Amounts falling due within one year				
Other loans	4.0	3.8	–	0.1
Payments received on account	0.6	0.5	–	–
Trade creditors	13.8	10.7	–	–
Amounts owed to subsidiaries	–	–	14.2	6.0
Dividends	6.4	7.6	6.4	7.6
Corporation tax	2.4	3.3	0.5	2.9
Other tax and social security costs	1.6	1.4	0.1	–
Other creditors	5.4	3.7	0.5	0.1
Accruals and deferred income	4.4	2.7	1.3	0.6
	38.6	33.7	23.0	17.3
Amounts falling due after more than one year				
Bank loans	38.0	45.1	38.0	45.0
Other loans	8.2	11.7	–	0.3
Loans owed to subsidiaries	–	–	2.8	4.0
Other creditors	0.2	0.3	–	–
Accruals and deferred income	0.2	0.2	–	–
	46.6	57.3	40.8	49.3

18 Financial instruments

An explanation of the Group's treasury policy and controls is included in the Financial review on pages 18 and 19. Short term debtors and creditors have been omitted from all disclosures other than the currency profile.

a) Financial liabilities

i) Analysis of borrowings

	Group		Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
Bank loans	38.0	45.1	38.0	45.0
Senior notes	11.4	14.1	–	–
Net swaps	0.0	0.4	–	0.4
Other loans	0.8	1.0	–	–
Gross financial liabilities	50.2	60.6	38.0	45.4

ii) Maturity profile

	Group		Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
Within one year or less	4.0	3.8	–	0.1
More than one year but not more than two years	42.0	3.9	38.0	0.1
More than two years but not more than five years	4.2	52.9	–	45.2
	50.2	60.6	38.0	45.4

The total amount of loans any part of which falls due after 5 years is £nil (1999: £0.1 million).

The holding company for the USA subsidiaries issued in 1993, via a private placement, US\$40 million of 6.72% unsecured Senior Notes 2003 guaranteed by the Company. The notes are repayable in equal instalments over 7 years commencing in 1997. Concurrent with the drawdowns under the notes, the Company entered into 10 year US dollar/sterling interest rate swap agreements with banks whereby US\$15 million of fixed rate obligations were exchanged for obligations of £10.1 million at interest rates linked to LIBOR. The obligations under the swap agreements amortise in line with the underlying notes.

Certain foreign currency loans in Italy amounting to £0.8 million (1999: £1.0 million) are secured on the land and buildings of subsidiary companies in Italy and are at fixed interest rates of 5.1-5.2%. These loans are repayable in instalments until 2003.

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

	2000
	£m
Expiring in one year or less	
- committed facilities	30.0
- uncommitted facilities	25.0
More than one year but not more than two years	
- committed facilities	7.0
Total	62.0

18 Financial instruments (continued)

iii) Interest rate profile

Currency	Total £m	Floating rate borrowings £m	Fixed rate borrowings £m	Weighted average interest rate %	Fixed rate Weighted average period at fixed rate Years
Sterling	42.3	42.3	–		
US\$	7.1	–	7.1	6.7	3
Euro	0.8	–	0.8	5.1	3
At 31 December 2000	50.2	42.3	7.9		
Sterling	50.8	50.8	–		
US\$	8.7	–	8.7	6.7	4
Euro	1.1	–	1.1	5.1	4
At 31 December 1999	60.6	50.8	9.8		

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

b) Financial assets

Interest rate profile

Currency	Floating rate 2000 £m	1999 £m
Sterling	5.0	9.1
US \$	3.7	13.7
Euro	8.9	8.7
Other	1.6	1.3
	19.2	32.8

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

18 Financial instruments (continued)

c) Fair value of financial assets and liabilities

	Book value £m	Fair value £m
Cash at bank and in hand	19.2	19.2
Floating rate borrowings	(42.3)	(42.3)
Fixed rate borrowings	(7.9)	(7.9)
Swaps	0.0	0.0
At 31 December 2000	(31.0)	(31.0)
Cash at bank and in hand	32.8	32.8
Floating rate borrowings	(50.4)	(50.4)
Fixed rate borrowings	(9.8)	(9.8)
Swaps	(0.4)	(0.8)
At 31 December 1999	(27.8)	(28.2)

Market rates have been used to determine fair values.

d) Foreign exchange hedging

Cost of sales includes net losses of £4.5 million (1999: £1.5 million included in operating expenses) arising from the difference between the exchange rates at which foreign currency transactions are converted and the contracted rates on the forward exchange rate contracts set up as hedges against such transactions. When compared with their values at the exchange rates in effect on 31 December 2000, the cumulative, unrecognised aggregate gain on forward exchange rate contracts as of 31 December 2000 is £0.5 million (1999: £2.3 million loss). All of these unrecognised gains relate to the year 2001. Because these contracts are put in place to hedge a portion of the underlying transactions, any net gain or loss that may arise on these contracts over the forthcoming year will be more than compensated by the corresponding transactional gains or losses.

e) Currency profile

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

Functional currency of group operation	Net foreign currency monetary assets/(liabilities)				Total £m
	Sterling £m	US\$ £m	Euro £m	Other £m	
Sterling	–	0.6	0.9	(0.2)	1.3
Euro	(0.1)	0.9	–	–	0.8
At 31 December 2000	(0.1)	1.5	0.9	(0.2)	2.1
Sterling	–	0.2	0.5	–	0.7
Euro	(0.1)	0.6	–	0.2	0.7
At 31 December 1999	(0.1)	0.8	0.5	0.2	1.4

19 Provisions for liabilities and charges

	Total £m	Deferred tax £m	Exceptional restructuring £m	Group Other provisions £m	Total £m	Company Deferred tax £m
At 1 January 2000	5.9	2.3	–	3.6	0.1	0.1
Currency translation adjustments	0.1	–	–	0.1	–	–
Profit and loss account	2.0	(0.6)	1.9	0.7	–	–
Utilised in year	(0.5)	–	–	(0.5)	–	–
At 31 December 2000	7.5	1.7	1.9	3.9	0.1	0.1

Other provisions include £2.6 million (1999: £2.3 million) to cover accrued statutory entitlements that will be paid to employees in Italy and Germany when they leave employment of the Group. The remaining provisions include warranty provisions of £0.8 million (1999: £0.6million) and property provisions of £0.2 million (1999: £0.4 million).

It is anticipated that the majority of the exceptional restructuring provision will be utilised during 2001.

	Group 2000 £m	1999 £m	Company 2000 £m	1999 £m
Composition of deferred tax provision				
Accelerated tax depreciation allowances	0.7	0.7	0.1	0.1
Other timing differences	1.0	1.6	–	–
	1.7	2.3	0.1	0.1

There are no other material timing differences on which deferred tax has not been provided. Provision for tax on capital gains payable on the disposal of revalued properties is made only when it is decided in principle to dispose of the asset.

20 Acquisitions of businesses

On 21 January 2000 the Group acquired the trade and certain fixed assets of Duke City Video for a consideration of US\$11.8 million (£7.3 million). The acquisition was funded from existing cash resources and has been accounted for using the acquisition method of accounting.

	£m
Net assets acquired	
Tangible fixed assets	6.3
Purchased goodwill	1.0
<hr/>	
Total cost of acquisition including expenses	7.3
<hr/>	

The net book value of assets acquired was increased by £0.4 million to reflect their fair value at the acquisition date.

Net outflow of cash in respect of the acquisition	
Total cost of acquisition including expenses	7.3
Consideration due at 31 December 2000	(0.9)
<hr/>	
Net outflow of cash from the Group	6.4
<hr/>	

During the course of the year, the activities of Duke City Video have become fully integrated in the Broadcast services division. It is therefore not possible to produce accurately results and cash flows which are separately identifiable for the results for the full year.

On 1 January 2000, the Group acquired the remaining 50% minority interest in Sachtler Japan Corporation for a cash consideration of £0.7 million.

21 Share capital

The authorised share capital at 31 December 2000 consisted of 65,000,000 (1999: 65,000,000) shares of 20p each, of which 40,959,492 were allotted and fully paid. The movement during the year was

	Shares	Issued share capital £m
At 1 January 2000	40,937,301	8.2
Exercise of share options	22,191	–
At 31 December 2000	40,959,492	8.2

At 31 December 2000 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	189,600	296p - 595 p	2001 - 2008
International SAYE schemes	376,764	400p - 633 p	2001 - 2006
Executive schemes	1,011,618	268p - 750 p	2001 - 2010
Premium option plan	890,105	661p - 819 p	2003 - 2010
	2,468,087		

On 3 April 2000, an award over 22,321 shares in the Company was made to a senior Group executive under the Company's long term incentive plan. On 12 October 2000, awards over an aggregate of 51,015 shares in the Company were made to 7 senior Group executives under the Company's long term incentive plan. The total number of shares outstanding at 31 December 2000 under the Company's long term incentive plan was 199,910 (1999: 126,574).

The terms of the awards and the related performance conditions are described in the Directors' report.

22 Share premium account and reserves

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Other reserves £m	Profit and loss account £m
Group						
At 1 January 2000	2.3	1.6	1.5	–	–	30.6
Retained profit for the year	–	–	–	–	–	14.5
Premium on new shares issued	0.1	–	–	–	–	–
Tax on exchange differences	–	–	–	–	–	0.6
Exchange rate movement on foreign net investments	–	–	–	–	–	4.3
At 31 December 2000	2.4	1.6	1.5	–	–	50.0

At 31 December 2000 the cumulative goodwill written off on acquisitions prior to 1 January 2000 amounted to £128.3 million (1999: £128.3 million)

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Other reserves £m	Profit and loss account £m
Company						
At 1 January 2000	2.3	1.6	0.9	9.7	44.0	17.2
Retained loss for the year	–	–	–	–	–	(11.0)
Premium on new shares issued	0.1	–	–	–	–	–
At 31 December 2000	2.4	1.6	0.9	9.7	44.0	6.2

As permitted by Section 230 (4) of the Companies Act 1985 the Company has not presented its own profit and loss account. The amount of the Group result for the financial year dealt with in the accounts of the Company was a loss of £2.3 million (1999: £29.5 million profit).

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

23 Cash and financing

	2000 £m	1999 £m
Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash in the year	(13.8)	7.6
Net repayment/(receipt) of loans	11.0	(41.1)
Increase in net debt resulting from cash flows	(2.8)	(33.5)
Exchange rate movements	(0.4)	(1.6)
Movement in net debt in the period	(3.2)	(35.1)
Net (debt)/cash at 1 January	(27.8)	7.3
Net debt at 31 December	(31.0)	(27.8)

	1 January 2000 £m	Cash flow £m	Other non-cash £m	Exchange movements £m	31 December 2000 £m
Analysis of net debt					
Cash	32.8	(13.8)	–	0.2	19.2
Debt due after one year	(56.8)	7.1	4.0	(0.5)	(46.2)
Debt due within one year	(3.8)	3.9	(4.0)	(0.1)	(4.0)
	(60.6)	11.0	–	(0.6)	(50.2)
Total	(27.8)	(2.8)	–	(0.4)	(31.0)

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

23 Cash and financing (continued)

	2000 £m	1999 £m
Interest		
Bank loans and overdrafts	2.6	0.6
Other loans - repayable within five years	1.1	1.2
Total payable	3.7	1.8
Interest receivable	(0.8)	(0.7)
Net interest payable	2.9	1.1

24 Leasing commitments

At 31 December 2000 the Group had the following annual commitments under operating leases

	Land and buildings £m	Other £m	Total £m	1999 £m
Expiring within one year	0.8	0.1	0.9	0.6
Expiring two to five years	2.3	0.1	2.4	2.3
Expiring after five years	0.8	–	0.8	0.7
	3.9	0.2	4.1	3.6

25 Contingent liabilities

The Company has guaranteed the Senior Notes described in note 18.

26 Pension commitments

The Group operates funded defined benefit pension schemes in the UK which are set up under separate trusts. The adequacy of the schemes to meet the projected benefits is assessed by independent qualified actuaries at regular intervals. The most recent actuarial valuations of the schemes based on the projected unit method were as at 5 April 1998. The schemes had assets with a combined market value of £25.7 million at that date. On the basis of the assumptions adopted, the value of the schemes' assets was equal to some 111 per cent of the value placed on the benefits that had accrued to members, allowing for expected future increases in salaries. The surpluses arising are being spread over approximately 13 years by way of variation from regular cost using the straight-line method. The most significant actuarial assumptions were: investment return 8% per annum; price inflation 4% per annum; salary inflation 6% per annum; dividend growth 4.25% per annum and pension increases 4% per annum.

On this basis, the pension charge for 2000 has been calculated as £0.8 million (1999: £0.4 million), including a charge for benefit augmentations of £0.3 million (see Directors' report). There is a prepayment of £1.0 million (1999: £0.9 million) included in the balance sheet for the excess of the accumulated Company pension contributions paid to the schemes over the amount charged to the profit and loss account.

27 Related party transactions

During the year the following related party transactions took place:

L Manfrotto, a director of the Company, is president and shareholder of Mancor Spa, a company from which Gruppo Manfrotto rents properties used in its business under operating leases, which expire between 2001 and 2003. A Manfrotto, Chief Executive, Photographic and retail display division of the Vitec Group, is a non-executive director of Mancor Spa. Rents paid to Mancor in 2000 totalled Lit 455 million, £142,835 (1999: Lit 403 million, £136,703). At 31 December 2000, the outstanding amount payable to Mancor was Lit 135,000, £44 (1999: Lit 405,000, £130). L Manfrotto also owns a factory leased by Gruppo Manfrotto until 2003. Rents paid to L Manfrotto during the year totalled Lit 125 million, £39,240 (1999: Lit 124 million, £42,062).

A Manfrotto has a controlling interest in Antide Srl, a company specialising in worldwide web sites and e-mail services. Group companies paid Antide a total of Lit 143 million, £44,891 during the year (1999: Lit 105 million, £35,617) for products and services.

At 31 December 2000 Gruppo Manfrotto owed Antide Lit 76 million, £24,669 (1999: Lit 27 million, £8,672).

R Casami, formerly managing director of Amic Sachtler until 2 February 2000, owned 40 shares in Amic Sachtler and was a director of Amic KK that owned 120 shares in Amic Sachtler. Their combined holding represented 50% of the issued capital of Amic Sachtler, the other 50% being held by a company within the Group. In January 2000 the Group acquired the shares held by Mr Casami and Amic KK for the consideration of Yen 116,242,000 (£0.7 million).

Five-year financial summary

	Year ended 31 December				
	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover	200.0	171.4	162.3	144.6	148.6
Operating profit before exceptional items and goodwill amortisation	40.1	38.2	40.0	38.4	37.4
Interest	(2.9)	(1.1)	(0.7)	(0.6)	(0.8)
Profit before tax, exceptional items and goodwill amortisation	37.2	37.1	39.3	37.8	36.6
Operating cash flow	45.8	51.1	43.3	45.0	42.3
Free cash flow	7.7	21.4	11.0	17.2	19.0
Capital employed					
Intangible fixed assets	10.9	10.0	6.9	–	–
Tangible fixed assets	47.0	37.5	37.0	33.3	29.3
Other net assets	38.5	27.7	33.2	23.4	21.9
Net cash	–	–	7.3	3.5	14.6
	96.4	75.2	84.4	60.2	65.8
Financed by					
Shareholders' funds – equity	63.7	44.2	81.3	57.3	62.6
Minority interest	–	0.9	0.8	0.6	0.6
Net debt	31.0	27.8	–	–	–
Deferred tax	1.7	2.3	2.3	2.3	2.6
	96.4	75.2	84.4	60.2	65.8
Statistics					
Operating profit (%) before exceptional items and goodwill amortisation	20.1	22.3	24.6	26.5	25.1
Effective tax rate (%)	30.9	30.7	27.6	31.0	26.8
Headline earnings per share (p)*	62.8	54.3	58.2	53.4	55.0
Basic earnings per share (p)	56.7	53.3	56.6	53.4	88.0
Dividends per share (p)	21.2	18.5	16.1	14.0	12.1
Year-end ex-dividend mid-market share price (p)	498	527	587	636	712

* differences between Headline and Basic earnings per share arise from exceptional items in the years in question and, from 1998, the amortisation of goodwill. Free cash flow is the cash inflow from operating activities less interest, tax, capital expenditure on tangible fixed assets and dividend payments.

Group directory (Main office in each country)

Broadcast camera systems

Anton/Bauer

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www.antonbauer.com

Sachtler Germany

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Tel: +44 (01284) 752121
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www.vinten.com
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Germany, Japan and USA)

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www.drake-uk.com

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Bexel

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www.bexel.com

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 IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, telephone +44 (0)20 8650 4866.

Share price information

The middle market price of a Vitec Group plc share on 29 December 2000, the last dealing day of 2000, was 497.5p. During the year the share price fluctuated between 454p and 586.5p. The Company's share price is available from the Group's website www.vitecgroup.com, with a 15 minute delay, and from the Financial Times web site www.ft.com with a similar delay. Up-to-date market information and the Company's share price are available from the Cityline service operated by the Financial Times by telephoning 0906 8434404.

Financial calendar

Annual general meeting	11 April 2001
Ex-dividend date for 2000 final dividend	25 April 2001
Record date for 2000 final dividend	27 April 2001
Proposed 2000 final dividend payment date	23 May 2001
Announcement of 2001 interim results	September 2001
Proposed 2001 interim dividend payment date	November 2001

Analysis of shareholdings as at 31 December 2000

Shares held	Number of holders	% of holders	Number of shares	% of shares
Up to 1,000	857	58.30	360,386	0.88
1,001 to 5,000	394	26.80	913,810	2.23
5,001 to 10,000	64	4.36	438,672	1.07
10,001 to 50,000	69	4.69	1,533,020	3.74
50,001 to 100,000	31	2.11	2,321,827	5.67
100,001 and over	55	3.74	35,391,777	86.41
	1,470	100.00	40,959,492	100.00
Institutions and companies	489	33.26	35,018,109	85.49
Individuals including directors and their families	981	66.74	5,941,383	14.51
	1,470	100.00	40,959,492	100.00

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