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VISLINK PLC

INTERIM REPORT 2006

TECHNOLOGY FOR FUTURE GROWTH



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VISLINK ARE



**A GLOBAL PROVIDER OF HIGH
QUALITY WIRELESS VIDEO
AND DATA TRANSMISSION
SYSTEMS AND MARINE
SAFETY CCTV SYSTEMS**

HIGHLIGHTS



£50.76 million, up 42%

Sales for the period
(2005 – £35.75 million)

£6.91 million, up 127%

Adjusted* operating profit
(2005 – £3.05 million)

3.08 pence, up 132%

Adjusted* earnings per share
(2005 – 1.33 pence)

*Adjusted operating profit is operating profit before amortisation of acquired intangibles.
Adjusted earnings per share is calculated on the same basis.

CHAIRMAN'S STATEMENT



Results for six months to June 30, 2006

The Board is pleased to report that the Group has continued to deliver a significant improvement in its trading, with a record performance for the first six months of 2006.

The Group's order intake for the period increased to £48.78 million (2005 – £46.90 million). Group sales from continuing operations were up 42 per cent to £50.76 million (2005 – £35.75 million).

The Group's reported operating profit from continuing operations was up by 146 per cent to £6.23 million (2005 – £2.53 million). The adjusted operating profit, being operating profit from continuing operations before the amortisation of acquired intangibles, was up by £3.86 million to £6.91 million (2005 – £3.05 million). Each of the Group's regional businesses have reported higher sales and adjusted operating profits in the period. The UK business reported an operating profit of £1.83 million (2005 – £1.46 million) before the amortisation of acquired intangibles; operating profits in the US business of MRC increased to £5.74 million (2005 – £2.00 million) and at Hernis the operating profit increased to £0.73 million (2005 – £0.54 million).

Net interest costs were lower at £0.16 million (2005 – £0.44 million) including £0.11 million of interest arising from the discounting of the deferred consideration in respect of the Link acquisition (2005 – £0.13 million). The Group made a profit on continuing activities after interest charges but before tax of £6.08 million (2005 – £2.09 million).

The Group's net cash inflow from operating activities in the period was £6.57 million (2005 – £0.23 million outflow). The Group had net cash of £3.92 million at 30 June 2006 (December 31, 2005 – £2.16 million).

Earnings per share

The reported basic undiluted earnings per share for the period were 2.73 pence (2005 – 1.07 pence). After adjusting for the amortisation of acquired intangibles, the Group's adjusted earnings per share were 3.08 pence (2005 – 1.33 pence).

Dividends

The Group's stated strategy is to only recommend a final dividend and therefore as in previous years the Board is not recommending an interim dividend.

Business review

US business

MRC, the US business, has seen its external sales increase to £29.98 million (2005 – £16.64 million) as a result of both the 2GHz re-channelisation programme in the US and an increase in its international sales to £4.41 million (2005 – £2.27 million). Operating profits increased by 187 per cent to £5.74 million (2005 – £2.00 million).

The US domestic broadcast market remains strong with demand being driven by the 2GHz re-channelisation programme. The international broadcast market continues to grow for MRC. Good progress is also being made in developing the US defence and law enforcement markets.

UK business

The UK business comprises the Advent satellite communications business, the Link wireless camera business and the Venezuelan TV contract. External sales for the business were £14.99 million (2005 – £14.41 million). The adjusted operating profit increased by 25 per cent to £1.83 million (2005 – £1.46 million) before the £0.68 million amortisation of acquired intangibles in respect of the acquisition of Link (2005 – £0.52 million).

Link has continued to perform strongly in all of its markets. In the UK the BBC English Regions have appointed Link as their preferred supplier for wireless camera systems and have ordered LinkXPs for thirteen BBC regions. Link has benefited from the launch of HD products in the UK and internationally and also from the 2GHz re-channelisation programme in the US.



Advent returned to profitability in the period.

The business has opened a Singapore office for the Asian region and won significant orders from Sun TV in India. Skylogic have ordered more ground stations following on from last year's successful installations for the winter Olympics in Turin.

The Venezuelan TV contract is scheduled to be completed during the second half.

Hernis

Hernis has made an excellent start to the year. Orders for the period increased by 54 per cent to £8.75 million (2005 – £5.69 million) due to the growth in the offshore oil and gas markets and the marine LNG carrier market. Significant orders received in the period included a contract for the installation of Hernis camera systems on four new LNG carriers for Samsung Heavy Industries in Korea, a storage tank farm for Qatar and two contracts with Jurong Shipyard in Singapore for two ultra-deepwater semi-submersible drilling rigs. Hernis sales increased by 23 per cent to £5.80 million (2005 – £4.70 million) and operating profits increased by 35 per cent to £0.73 million (2005 – £0.54 million).

Strategy and prospects

The Group's strategy is to maintain organic sales growth from the development of the worldwide defence, security and law enforcement markets. These markets require communication systems that are mobile, are able to cope with difficult environments and require minimal infrastructure with a high bandwidth to cope with a variety of data. In addition there is a significant trend toward the convergence of terrestrial microwave and satellite in these markets. These are all features inherent in the Group's broadcast contribution products. There is a major benefit to the Group in developing its channels to these markets.

In the defence, public safety and homeland security markets the Group now has products that provide rapidly deployable tactical, multi-agency video and data communications from vehicles, airborne platforms, point to point microwave and satellite links. Group sales in the period for these markets increased by 80 per cent to £5.77 million (2005 – £3.21 million).

The Group's broadcast products continue to offer the most flexible range of TV contribution technology systems that transmit live video signals back to the studio. The different applications of live contribution technology define our broadcast markets. The migration of the industry towards High Definition (HD) and IPTV is underpinning long-term confidence in the contribution market.

The Group is developing new products to meet the increasing demands for greater mobility, HD and IP based systems. The Group sees the move from Standard Definition (SD) to HD within the professional broadcast market as a strong growth opportunity.

MRC and Link are expected to continue to benefit from the 2GHz re-channelisation programme in the US over the next two and a half years. In addition Advent, Link and MRC are all seeing increased demand from the international professional broadcast markets.

The marine, offshore and onshore markets are currently strong for Hernis. Their growth has been fuelled by the high oil price and the increasing demand for natural resources that has encouraged investment in a number of shipping and exploration projects around the world by the oil and gas industry.

In summary, the Group has had a record half year and has entered the second half with a strong order book. The Board is encouraged by current trading and continues to look forward to the rest of the year with enthusiasm and confidence.

A I R Morton Chairman
August 30, 2006

CONSOLIDATED GROUP INCOME STATEMENT



FOR THE SIX MONTHS ENDED JUNE 30, 2006

	Notes	Six months to June 30, 2006 (Unaudited) £000	Six months to June 30, 2005 (Unaudited) £000	Year ended Dec 31, 2005 (Audited) £000
Continuing operations				
Revenue	2	50,764	35,753	85,072
Cost of sales		(32,052)	(24,506)	(56,452)
		18,712	11,247	28,620
Sales and marketing		(5,591)	(3,077)	(8,952)
Research and development		(2,456)	(2,272)	(4,950)
Administrative costs		(4,233)	(3,286)	(7,407)
Other expenses		(198)	(85)	(170)
Operating profit from continuing operations	2	6,234	2,527	7,141
Operating profit is analysed as:				
Adjusted operating profit	6	6,910	3,046	8,348
Amortisation of acquired intangibles		(676)	(519)	(1,207)
Finance costs	3	(242)	(475)	(872)
Investment income	3	84	40	96
Profit on continuing activities before taxation		6,076	2,092	6,365
Tax on profit on ordinary activities	4	(2,363)	(741)	(2,883)
Profit for the period from continuing operations being profit attributable to shareholders		3,713	1,351	3,482
Earnings per share expressed in pence per share:				
From continuing operations – basic	6	2.73p	1.07p	2.66p
From continuing operations – diluted	6	2.68p	1.06p	2.62p

Dividends

No dividends have been declared and approved in respect of the six month periods ending June 30, 2006 and June 30, 2005 (see note 5).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



FOR THE SIX MONTHS ENDED JUNE 30, 2006

	Notes	Six months to June 30, 2006 (Unaudited) £000	Six months to June 30, 2005 (Unaudited) £000	Year ended Dec 31, 2005 (Audited) £000
Opening shareholders' equity		37,815	25,001	25,001
Profit for the financial period		3,713	1,351	3,482
Share options – value of employee services		59	42	75
Dividends	5	(681)	(246)	(246)
Movements in the profit and loss account		3,091	1,147	3,311
Translation difference on foreign currency net investments		(1,161)	1,027	1,765
Shares issued		66	7,470	7,687
Disposal of investment in own shares		60	4	51
Total movements in shareholders' equity		2,056	9,648	12,814
Closing shareholders' equity		39,871	34,649	37,815

CONSOLIDATED GROUP BALANCE SHEET



AS AT JUNE 30, 2006

	Notes	June 30, 2006 (Unaudited) £000	June 30, 2005 (Unaudited) £000	Dec 31, 2005 (Audited) £000
Assets				
Non-current assets				
Goodwill		23,013	23,181	23,393
Intangible assets		6,492	7,394	6,854
Property, plant and equipment		4,891	4,785	4,547
Financial assets-available for sale investments		109	–	43
Deferred tax assets		929	1,602	835
		35,434	36,962	35,672
Current assets				
Inventories		15,973	11,117	13,345
Trade and other receivables		14,023	15,686	17,032
Financial assets – available for sale investments		–	259	–
Net cash and cash equivalents	8	7,658	2,100	7,122
		37,654	29,162	37,499
Liabilities				
Current liabilities				
Financial liabilities – borrowings	8	235	2,660	3,794
Trade and other payables		22,898	17,216	22,206
Current tax liabilities		1,151	1,060	816
Provisions		825	620	732
		25,109	21,556	27,548
Net current assets		12,545	7,606	9,951
Non-current liabilities				
Financial liabilities – borrowings	8	3,500	2,795	1,169
Deferred tax liabilities		2,372	3,232	2,608
Other non-current liabilities		2,236	3,752	3,878
Provisions		–	140	153
		8,108	9,919	7,808
		39,871	34,649	37,815
Capital and reserves				
Called up share capital		3,418	3,392	3,412
Share premium account		4,422	4,165	4,362
Investment in own shares		(49)	(156)	(109)
Merger reserve		30,565	30,565	30,565
Translation reserve		(2,449)	(2,026)	(1,288)
Profit and loss account		3,964	(1,291)	873
Total shareholders' equity		39,871	34,649	37,815

CONSOLIDATED GROUP CASH FLOW STATEMENT



FOR THE SIX MONTHS ENDED JUNE 30, 2006

	Notes	Six months to June 30, 2006 (Unaudited) £000	Six months to June 30, 2005 (Unaudited) £000	Year ended Dec 31, 2005 (Audited) £000
Cash flow from operating activities				
Cash generated from/(used in) operating activities	7	6,569	(230)	9,602
Investment income		84	40	96
Finance costs		(183)	(387)	(567)
Taxation paid		(2,325)	(413)	(2,670)
Net cash generated from/(used in) operating activities		4,145	(990)	6,461
Cash flows from investing activities				
Acquisition of subsidiary		–	(2,445)	(2,445)
Proceeds from sale of property, plant and equipment		2	–	130
Purchase of property, plant and equipment		(1,063)	(596)	(1,014)
Expenditure on capitalised development costs		(869)	(467)	(1,054)
Acquisition of investments		(66)	–	(43)
Net cash (used in) investing activities		(1,996)	(3,508)	(4,426)
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital		66	4,470	4,687
Net proceeds from sale of own shares held		60	4	51
Proceeds from issue of new bank loan	8	3,500	–	–
Repayment of borrowings	8	(3,678)	(1,307)	(3,084)
Repayment of loan notes	8	(1,285)	–	(54)
Dividend paid to shareholders		–	–	(246)
Cash (used in)/generated from financing activities		(1,337)	3,167	1,354
Effect of foreign exchange rate changes	8	(276)	212	514
Net increase/(decrease) in cash and cash equivalents		536	(1,119)	3,903
Net cash and cash equivalents at beginning of period		7,122	3,219	3,219
Net cash and cash equivalents at end of period	8	7,658	2,100	7,122

NOTES TO THE INTERIM ACCOUNTS



FOR THE SIX MONTHS ENDED JUNE 30, 2006

1. Basis of preparation

This interim report has been prepared under the historical cost convention. The accounting policies are the same as those presented in the audited financial statements for the year ended December 31, 2005 and those that are anticipated to be in force at December 31, 2006. The preparation of the interim report in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

This interim report is unaudited and does not constitute audited accounts within the meaning of the Companies Act 1985. The accounts for the year ended December 31, 2005, on which the auditors gave an unqualified audit opinion, were prepared in accordance with International Financial Reporting Standards and IFRIC interpretations, and have been filed with the Registrar of Companies.

2. Segmental analysis

The Group's internal organisational and management structure and its system of internal financial reporting to the Board of Directors is based on the geographical location of its businesses. These comprise three regions, the UK, the United States of America (US) and Norway. The UK comprises the broadcast businesses of Advent Communications (satellite products), projects and the wireless camera systems of Link. The US comprises the microwave radio broadcast business of MRC. Norway comprises the marine CCTV business of Hernis.

The table below shows the analysis of Group external revenue, by geographic location.

	Revenue			Operating profit		
	Six months to June 30, 2006 (Unaudited) £000	Six months to June 30, 2005 (Unaudited) £000	Year ended Dec 31, 2005 (Audited) £000	Six months to June 30, 2006 (Unaudited) £000	Six months to June 30, 2005 (Unaudited) £000	Year ended Dec 31, 2005 (Audited) £000
By geographic location						
UK – broadcast (note a)	20,276	17,032	34,523	1,150	942	888
US – broadcast	30,161	16,757	47,403	5,741	2,003	7,414
Norway – marine CCTV	5,798	4,699	10,044	725	540	942
Central costs	–	–	–	(1,026)	(698)	(1,802)
Inter-segmental transactions	(5,471)	(2,735)	(6,898)	(356)	(260)	(301)
Group total	50,764	35,753	85,072	6,234	2,527	7,141

Notes:
a) For the six months ended June 30, 2006 the UK operating profit is after charging £676,000 in respect of the acquired intangibles (six months to June 30, 2005 – £519,000 and year to December 31, 2005 – £1,207,000).



2. Segmental analysis continued

Secondary format – geographic, product and customer segments

The Group manages its business segments on a global basis. The operations are based in three main geographical areas. The UK is the home country of the parent. The operations are located geographically as described in the table above.

The sales analysis in the tables below is based on the geographical location of the customer, product categories and customer categories.

	Six months to June 30, 2006 (Unaudited) £000	Six months to June 30, 2005 (Unaudited) £000	Year ended Dec 31, 2005 (Audited) £000
By market			
UK and Ireland	3,847	3,091	5,478
Rest of Europe	4,367	5,403	12,330
North America	26,397	15,349	41,835
South America	5,338	7,904	12,548
Middle East	3,132	520	2,010
Asia	7,153	2,908	9,282
Africa	151	170	606
Other	379	408	983
	50,764	35,753	85,072
Analysis of revenue by product category			
Microwave radio and wireless camera products	32,942	18,101	49,070
Satellite products	8,697	6,240	15,576
Broadcast projects	3,327	6,713	10,370
Marine CCTV products	5,798	4,699	10,044
Other	–	–	12
	50,764	35,753	85,072
Analysis of revenue by customer category			
Broadcasters	39,276	27,984	66,017
Defence, security and law enforcement	5,771	3,206	7,745
Marine, oil and gas	5,188	4,563	9,803
Other	529	–	1,507
	50,764	35,753	85,072

NOTES TO THE INTERIM ACCOUNTS

**3. Finance costs – net**

	Six months to June 30, 2006 (Unaudited) £000	Six months to June 30, 2005 (Unaudited) £000	Year ended Dec 31, 2005 (Audited) £000
Interest payable on bank borrowing	(114)	(348)	(537)
Interest payable on other loans	(16)	(1)	(43)
Unwinding of discounting associated with deferred consideration	(112)	(126)	(292)
Finance costs	(242)	(475)	(872)
Investment income	84	40	96
Finance costs – net	(158)	(435)	(776)

4. Tax on profit on ordinary activities

	Six months to June 30, 2006 (Unaudited) £000	Six months to June 30, 2005 (Unaudited) £000	Year ended Dec 31, 2005 (Audited) £000
The tax charge for the period comprises:			
UK current tax charge	179	27	149
Overseas current tax charge	2,513	862	2,755
Deferred tax (credit)	(329)	(148)	(21)
	2,363	741	2,883

The tax charge for the six months ended June 30, 2006 is based on the effective tax rate, which it is estimated will apply to earnings for the full year.

5. Dividends

No interim dividend is proposed for the period. In 2005 there was no interim dividend and the final dividend of 0.5 pence per share was approved at the Annual General Meeting on May 24, 2006 and paid on July 21, 2006.

6. Earnings per ordinary share

Earnings per share is calculated by reference to a weighted average of 135,912,000 ordinary shares in issue during the period, excluding shares held by the Employees' Share Ownership Plan (June 30, 2005 – 126,812,000 and December 31, 2005 – 131,052,000).

The diluted earnings per share is after taking account of a further 2,439,000 shares (June 30, 2005 – 945,000; December 31, 2005 – 1,631,000) being the dilutive effect of share options.

**6. Earnings per ordinary share continued****Adjusted earnings**

Vislink believes that adjusted operating profit, adjusted profit before tax, adjusted earnings and adjusted earnings per share provide additional useful information on trends to shareholders. Vislink uses these measures for internal performance analysis and incentive compensation arrangements. The principal adjustment is in respect of the amortisation of acquired intangibles.

The reconciliation between reported and adjusted earnings and basic earnings per share is shown below:

	Six months to June 30, 2006		Six months to June 30, 2005		Year ended Dec 31, 2005	
	Earnings £000	Basic EPS pence	Earnings £000	Basic EPS pence	Earnings £000	Basic EPS pence
Reported earnings	3,713	2.73p	1,351	1.07p	3,482	2.66p
Amortisation of acquired intangibles after tax	473	0.35p	337	0.26p	845	0.64p
Adjusted earnings	4,186	3.08p	1,688	1.33p	4,327	3.30p

7. Notes to the cash flow statement

Net cash flow from operating activities comprises:

	Six months to June 30, 2006 £000	Six months to June 30, 2005 £000	Year ended Dec 31, 2005 £000
Continuing operations			
Net profit	3,713	1,351	3,482
Adjustments for:			
Taxation	2,363	741	2,883
Depreciation	621	476	1,081
Loss on disposal of property, plant and equipment	41	16	5
Amortisation of development costs	488	477	968
Amortisation of acquired intangibles	676	519	1,207
Share options – value of employee services	59	42	75
Investment income	(84)	(40)	(96)
Finance costs	242	475	872
Changes in working capital (excluding the effect of the acquisition of subsidiaries)			
(Increase) in inventories	(3,156)	(1,419)	(3,377)
Decrease in trade and other receivables	2,399	1,430	619
(Decrease)/increase in payables	(765)	(3,925)	2,150
(Decrease) in provisions	(28)	(373)	(267)
Net cash inflow/(outflow) from operating activities	6,569	(230)	9,602

NOTES TO THE INTERIM ACCOUNTS

**8. Net cash**

The movements in cash and cash equivalents and borrowings in the period were as follows:

	Net cash and cash equivalents £000	Short-term borrowings £000	Other borrowings £000	Total net borrowings £000
At January 1, 2006	7,122	(3,794)	(1,169)	2,159
New bank borrowings	3,500	–	(3,500)	–
Repayment of borrowings	(3,678)	2,509	1,169	–
Payment of loan notes	(1,285)	1,285	–	–
Issue of loan notes	–	(235)	–	(235)
Other cash movements in the period	2,275	–	–	2,275
Exchange rate adjustments	(276)	–	–	(276)
At June 30, 2006	7,658	(235)	(3,500)	3,923

Loan notes are issued in respect of the deferred consideration associated with the acquisition of Link Research Limited on February 11, 2005.

9. Approval

A committee of the Board of Directors approved this report on August 30, 2006.

INDEPENDENT REVIEW REPORT TO VISLINK PLC

**Introduction**

We have been instructed by the company to review the financial information for the six months ended June 30, 2006, which comprise the consolidated interim balance sheet as at June 30, 2006, and the related consolidated interim statements of income, cash flows and changes in shareholders' equity for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in note 1.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended June 30, 2006.

PricewaterhouseCoopers LLP

Chartered Accountants
Bristol

August 30, 2006