

IndigoVision Group plc

Directors' report and consolidated
financial statements 2008

Registered number SC208809

Contents

Highlights	1
Chairman's statement	3
Directors' report	6
Statement of directors' responsibilities in respect of the Directors' report and consolidated financial statements	10
Independent auditors' report to the members of IndigoVision Group plc	11
Consolidated income statement	13
Consolidated balance sheet	15
Consolidated statement of cash flows	17
Notes to the consolidated financial statements	18
Secretary and advisors	48

Highlights

Financial Highlights

- Revenues up 37% to record £18.4m
- Gross margin 71%, up from 66%
- Operating profit tripled to £2.05m
- Operating margin 11%, up from 5%
- Adjusted basic earnings per share up 102% to 21.4p
- Good start to current year

Operating Highlights

- Expansion and strengthening of the direct sales force
- Expansion of operations in the US, Dubai, France, Germany, China, India and Mexico
- Supporting open standards for IP cameras
- Successful integration with 16 access control manufacturers
- Product range extended:
 - High-Definition (HD) IP cameras
 - Enterprise alarm management
 - Network Video Recorder range broadened
- Major installations across all geographies in 20 vertical markets including:
 - Casinos
 - Rail
 - Police and prisons
 - Airports
 - Oil, gas and petrochemicals
 - City installations including crime reduction projects

Oliver Vellacott, Chief Executive, said

'We are delighted to be able to report strong results for the year to 31 July 2008, with record sales, margins and profits. We are particularly pleased with the sales increases in the Americas of 51% and EMEA of 45% and to have tripled profits against a more difficult economic backdrop.

Growth is continuing in the current year, with sales and new orders won for the first seven weeks well ahead of the corresponding period last year. The strength of IndigoVision's products, technology, markets and customers together with the continuing move from analogue to digital systems have more than offset the dampening effect of economic weakness. We are confident that the current year will be one of further progress for IndigoVision.'

Highlights (continued)

Shareholder calendar

25 September 2008	2008 Full year results announced
26 September 2008	Directors' report and consolidated financial statements circulated
6 November 2008	Annual General Meeting
12 March 2009	2009 Interim results announced
30 September 2009	2009 Full year results announced

Chairman's statement

In the year to 31 July 2008, at a time when many organisations experienced reductions in performance, IndigoVision achieved record sales, profits, margins and earnings per share.

This relative strength is no accident. Firstly, IndigoVision operates at the leading edge of a market in which the key determinant of the size of the available market is the rate at which networked solutions are supplanting analogue technology. Secondly, by the testimony of its customers, IndigoVision's products are the best available. Thirdly, the business model is well thought out, IndigoVision being strong in offering an end to end solution developed entirely in house. Fourthly, the pricing, margins, costs and cash are carefully managed to ensure appropriate returns and sound finances.

Against the current economic background, the board remains confident in the medium and long term prospects for IndigoVision. In the short term, despite turmoil in financial markets and the consequent effect on business generally, the record of growth is currently continuing and IndigoVision has had a good start to the year to 31 July 2009.

Results

In the year to 31 July 2008, revenues grew 37% to a record £18.4m, with revenue growth achieved in all regions. Growth was strong in the Americas, up 51% to £5.5m, and in Europe, Middle East and Africa, up 45% to £10.2m. Growth was less impressive in Asia Pacific, up only 11% to £2.5m, but we believe this to be as a result of poor execution on our part rather than market weakness. Given the corrective action which has already been taken internally, we anticipate that performance in this region will improve.

Gross margins were again strong, reflecting the quality of IndigoVision's products, and were 70.8% overall in the year to 31 July 2008, compared with 65.6% in the previous year. This increase was largely attributable to a change in the mix of sales and to lower product build costs. The contribution from gross margin grew by 48% to a record £13.0m. The year saw a lower rate of cost increases than in previous years, and total operating costs grew 35% to £10.97m, on a total headcount (including retained agents) which grew to 118 from 99 last year end. Within this, selling and distribution costs grew 29% to £5.57m, administrative costs grew 58% to £3.64m, and research and development costs were 19% higher at £1.77m. The high rate of increase in administrative costs was largely attributable to a broadening and strengthening of the management team and support infrastructure which we deemed necessary to develop the scale of the Group's business in line with the market opportunity available.

Operating profits reached a record £2.05m, up 211% on the previous year. These profits represent an operating margin on sales of 11.2% compared with 4.9% in the previous year. This excellent increase arose primarily as a result of sales growth, margin improvement and cost management. After financing charges, profit before tax was £2.04m, three times last year's figure. The Group has reported an income tax credit of £4.5m, predominantly due to an exceptional deferred tax credit of £5.0m relating to recognised past trading losses. The exceptional deferred tax credit has been stripped out in calculating the adjusted basic earnings per share, which rose 102% to a record 21.4p.

At the beginning of the year, IndigoVision had net cash and cash equivalents of £0.18m. During the year, cash inflows from trading, after adjusting for non-cash items, amounted to £2.61m, capital expenditure amounted to £0.34m, and £1.18m was absorbed by increased working capital to finance the increased level of sales. As a result, net cash and cash equivalents increased by £1.19m to £1.37m at the year end, and the Group's overdraft facilities were unutilised at that date.

Global sales reach

IndigoVision now has its own people in 18 countries, partnering some 250 trained integrators who together support thousands of end users in over 43 countries. Over 100,000 units of our products have been in use for some time now, spanning several generations of technology supported by full backwards compatibility with common management software. Despite rapid sales growth, the rate of warranty

Chairman's statement (continued)

returns continues to reduce year on year. IndigoVision products operate effectively in some of the harshest environments in the world – deserts, mines, oil rigs, even the South Pole.

IndigoVision's sales strategy is to achieve maximum market penetration with the minimum number of partners. We expect loyalty and commitment from our partners and recognise that requires loyalty and commitment from us too. For this reason we minimise the number of our partners, do not sell through distribution and avoid selling directly to end users – three commercial aspects which differentiate IndigoVision in the market. To consolidate a fast-growing global footprint we have invested in a worldwide supply chain capable of supporting much higher volumes. The basis of this is three stock & service hubs operated by us in Singapore, New Jersey and the UK. In addition an office was opened in Dubai supporting the sales success in that region. To be successful, our partners need: local and responsive account management, strong sales engineering assistance on larger bids, rapid supply of product, fast warranty response and 24 hour local support from our global technical team to complement the strength of our technology.

This strategy is serving IndigoVision well and we are now active in twenty vertical markets including casinos, rail, police and prisons, airports, oil and gas, cities including crime prevention projects, university and campuses, the military, education, mining, ports, industrial and retail. IndigoVision's challenge is to replicate local successes in these markets to pan-regional and global scale.

Outstanding people

The total number of staff and retained agents employed in customer facing areas, namely sales, marketing, sales support, customer service and distribution increased by 27% to 70 from 55 last year.

Key to continuing IndigoVision's record of growth is recruiting the best quality people in all areas of our operations, including sales. We have created an extensive professional training programme for our sales people, the key challenge for each team member being to gain a close understanding of the end user requirement and match this against IndigoVision's extensive proposition. There are more than 300 significant features and benefits in IndigoVision's 'Control Center' software and that breadth & depth demands a high level sales professional to understand and convey this to the partner, consultant and end user. We have created the foundation for a rapidly expanding sales & support team with sales vice presidents covering all major geographies. The Group's engineering team is world class, and fully exploits the competitive advantage we currently enjoy in owning the technology for the enterprise end-to-end solution under one roof: compression chips, over 40 hardware platforms, firmware and management software.

Open architecture

IndigoVision's products and software operate as an open system, conforming to video and networking standards wherever they exist, such as MPEG-4 and H.264. To give our end users and partners freedom to choose we also integrate with sixteen 3rd party access control systems including Lenel, Software House, Honeywell and GE, and continue to develop integration, targeting one new access control manufacturer each month. All integration with 3rd party manufacturers is built using IndigoVision's Software Developers' Kit (SDK), which is freely available to anyone who wishes to use the same proven platform to integrate with IndigoVision.

IndigoVision are members of the Open Network Video Interface Forum (ONVIF) and in the process of joining the Physical Security Interoperability Alliance (PSIA), through which we are working to define communication standards for IP Cameras. We are committed to supporting these standards once ratified. This will confirm IndigoVision as a completely open system, giving end users and partners the power to choose whatever best meets their needs in video, access control and alarms – and indeed any other aspect of a security system through our SDK.

Chairman's statement (continued)

Exceptional technology

Within the three main areas of the security market (video, access and alarms), IndigoVision's strategy is to consolidate its very strong position in Video, extend capability in Alarm Management and integrate with 3rd party manufacturers of Access Control. We believe that end users have an increasing desire for integrated security solutions and our strategy supports this objective without forcing end users to compromise on choice. The new version 40 of IndigoVision's 'Control Center' security management software marks a major step into enterprise alarm management to match IndigoVision's already strong video capability. This continues IndigoVision's evolution from a provider of Video Management Systems to a provider of Security Management Systems.

We have just launched the first in what will become a wide range of High Definition (HD) IP cameras, fully integrated within IndigoVision's end-to-end solution. We anticipate that this will speed up the rate at which digital solutions replace analogue technology as IndigoVision HD IP cameras deliver upwards of three times as many pixels as analogue cameras, but using very low bandwidth and at a highly competitive cost. We expect that HD will become our standard IP camera offering within the medium-term and have designed and priced it accordingly. We believe that analogue will become obsolete because IP is the only way in which HD can be delivered.

Capital reduction and future dividends

On 30 May 2008, the Company passed a special resolution to reduce its share premium account by £22,849,853. This was confirmed by an Order of the Court of Session, Scotland on 3 July 2008. As a result, as at 31 July 2008, the Company has distributable reserves of £564,000 and is now able to pay dividends to shareholders.

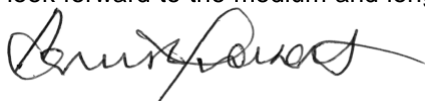
As at 31 July 2008, the board is not recommending payment of a dividend to shareholders. As part of the financial planning which the board regularly undertakes, it is an aim to commence paying dividends at some point in the future. The board will continue to review that in light of progress towards the overall objectives of growth, generating appropriate operating margins and meaningful positive cashflows, and will take into account the necessary re-investment in the business to maintain its strong competitive position.

Current trading and outlook

Growth has continued into the current year. Sales and order intake for the first 7 weeks of the current year are well ahead of the corresponding period last year. The pipeline of potential new business is at record levels and, at this stage, there is every reason to expect that we will be able to report a further increase in annual sales at the year end. In particular, the board believes that the rate of increase in the available market is likely to more than offset any slowdown arising from economic weakness.

In the current year, we are not expecting further gross margin improvement. Whilst high gross margins are necessary to support both growth, and the engineering resource necessary to maintain a leading position as the market develops, any further gains in efficiency are likely to be applied to aid sales growth. We expect costs to increase, but at a materially lower rate than last year, and we are aiming at least to maintain the operating margins generated last year.

The Group remains in a strong position, both operationally and financially. The opportunity for developing a more substantial and profitable business, and generating meaningful net cash flow, is clearly available to IndigoVision. In the current year, we expect further progress in the development of the Group, and look forward to the medium and long term with a sense of confidence.



Hamish Grossart
Chairman
24 September 2008

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 July 2008.

Principal activities and business review

The principal activity of the Group and its subsidiaries continues to be the design, development, manufacture and sale of software and hardware products. These products provide CCTV and alarm integrators with a complete enterprise class Security Management System that allows full motion real time video to be transmitted worldwide, in real-time, with digital quality and security, using local or wide area networks, wireless links or the Internet.

A review of the activities of the Group for the year is given in the Chairman's statement on pages 3 to 5.

The principal risks and uncertainties affecting the business include the following:

Foreign currency exchange: the Group monitors short and medium term exchange rates and US dollar priced product purchasing matches the major currency of sales.

Environmental risks: the Group places considerable emphasis upon environmental compliance in its business and not only seeks to ensure ongoing compliance with relevant legislation, but also strives to ensure that environmental best practice is incorporated into its key processes. The Group is fully RoHS compliant.

The effect of legislation and other regulatory activities: the Group monitors forthcoming and current legislation as it affects the Group regularly.

Pension funding risk: the Group operates defined contribution pension schemes only and has no additional pension funding risk.

Product, project and technology risk: All new technologies and products involve business risk both in terms of possible abortive expenditure, risk to reputation and potential customer claims or onerous contracts. Such risks may materially impact on the Group. All appropriate measures are taken to protect the Group's intellectual property rights and to minimise the risk of infringement of third party rights.

Competitive risk: The Group operates in highly competitive markets. Product innovations or technical advances by competitors could adversely affect the Group. The geographical diversity of operations reduces the possible effect of action by any single competitor. The Group invests directly in research and development in order to sustain a competitive advantage, and also works continually to ensure that its cost base is competitive.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors' report *(continued)*

Policy and practice on payment of creditors

It is the Company's and the Group's policy to agree terms and conditions for its business transactions with its suppliers. The Group does not follow any code or standard on payment practice, however it seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. As at 31 July 2008 the number of days of annual purchases represented by the year-end creditors for the Group amounted to 28 days (2007: 32 days).

Cash and treasury

The net cash balance at year end was £ 1.37m (2007: £0.18m).

Cash balances are held mainly in sterling and US dollars.

Cash reserves in excess of current requirements are placed on a variety of term deposits. Term deposits are placed with banks from the list of the Group's approved institutions.

The Group reviews its treasury and foreign currency policies on a regular basis.

The Group has a multi option facility of £3m secured by a bond and floating charge. The facility includes a US\$1m standby letter of credit and overdraft.

In addition the board was granted authority at the annual general meeting held on 20 January 2005 to allot and issue, for example by way of a share placing, up to 692,300 ordinary shares of 1p each, equivalent to approximately 9.67% of the Company's current issued share capital.

Key areas of strategic development and performance of the business include:

Sales and marketing: new and repeat business is being won continually; new markets have been developed in line with the Group's strategy; key customer relationships are monitored on a regular basis.

Manufacturing: products continue to be developed for both existing and development markets; production efficiencies have been gained and new initiatives for process and efficiency improvements are constantly being developed.

Health and Safety: the Group continues to seek ways of ensuring that a safe and healthy working environment is progressively improved.

Environment: new methods of achieving greater environmental effectiveness are continually being examined.

Key financial performance indicators include the monitoring and management of profitability and working capital.

Key non-financial performance indicators include the monitoring of our employees' health and safety in addition to the Group's environmental impact and energy consumption.

Directors' report (continued)

	2008	2007	Measure
Financial			
Operating margin	11%	5%	Operating profit before financing costs / Revenue
Return on capital employed	15%	9%	Profit before tax / Total assets less current liabilities
Current ratio	2.9	2.3	Current assets: current liabilities
Debtor days	60	65	Age profile of trade receivables
Creditor days	28	32	Age profile of trade payables

Political and charitable contributions

The Group made no political contributions during the year. Donations to UK charities amounted to £500.

Directors and directors' interests

The directors who held office during the year were as follows:

Hamish Grossart	Chairman
Robert Cathery	Non Executive Director
Barry Keepence	Chief Technology Officer
Marcus Kneen	Chief Financial Officer
Oliver Vellacott	Chief Executive Officer

The directors to retire by rotation are two of Barry Keepence, Oliver Vellacott and Hamish Grossart. Barry Keepence and Oliver Vellacott who, being eligible, offer themselves for re-election.

The directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of directors' interests:

	Ordinary shares	
	Interest at end of year	Interest at start of year
Hamish Grossart	200,500	201,000
Robert Cathery	136,500	136,500
Barry Keepence	39,350	39,350
Marcus Kneen	176,900	143,900
Oliver Vellacott	1,688,415	1,688,415

Directors' report *(continued)*

According to the register of directors' interests, the following rights to subscribe for shares in the Company were granted to the directors, or exercised by them, during the financial year:

	Options at start of year	Awarded during year	Options exercised	Weighted average exercise price, £	Options at end of year	Weighted average option price per share, £	Date range in which options can be exercised
Barry Keepence	171,500	-	-	-	171,500	£0.95	07/06-10/16
Marcus Kneen	68,000	-	(33,000)	£0.65	35,000	£3.01	11/08-10/16
Oliver Vellacott	246,500	-	-	-	246,500	£1.34	04/07-10/16

Substantial interests

At the date of this report, the Company had been notified under Section 198 of the Companies Act 1985 of the following notifiable holdings of the Company's ordinary shares:

	Shares	%
Oliver Vellacott	1,688,415	24
Saracen Growth Fund	395,000	6
Strategos Fund LP, Strategos Master Fund LP	353,633	5
UBS Securities LLC	303,053	4

Disclosure of information to auditors

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

Auditors

In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Marcus Kneen
Secretary

Edinburgh
24 September 2008

Statement of directors' responsibilities in respect of the Directors' report and consolidated financial statements

The directors are responsible for preparing the Directors' report and consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange, the directors are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable laws and have elected to prepare the parent company financial statements on the same basis.

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

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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.

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

Independent auditors' report to the members of IndigoVision Group plc

We have audited the group and parent company financial statements (the "financial statements") of IndigoVision Group plc for the year ended 31 July 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' report and consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 10.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Directors' report and consolidated financial statements and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

Independent auditors' report to the members of IndigoVision Group plc (continued)

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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 July 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 July 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

24 September 2008

Consolidated income statement

For the year ended 31 July 2008

<i>£'000</i>	<i>Note</i>	2008	2007
Revenue		18,403	13,385
Cost of sales		(5,375)	(4,610)
Gross profit		13,028	8,775
Research and development expenses		(1,766)	(1,490)
Selling and distribution expenses		(5,572)	(4,315)
Administrative expenses		(3,637)	(2,309)
Operating profit	3	2,053	661
Financial income	5	7	21
Financial expenses	5	(24)	-
Net financing (costs)/ income		(17)	21
Profit before tax		2,036	682
Income tax credit *	6	4,502	2,125
Profit for the year attributable to equity holders of the parent	15	6,538	2,807
Basic earnings per share (pence)	7	91.7	40.1
Diluted earnings per share (pence)	7	82.6	35.9

Revenue and profit for the year and comparative year relate wholly to continuing activities.

* The income tax credit includes an exceptional credit of £5,011,000 (2007: £2,066,000) relating to recognition of prior year tax losses. The impact on earnings per share has been shown in the adjusted earnings per share calculation in note 7.

Consolidated statement of recognised income and expense

For the year ended 31 July 2008

<i>£'000</i>	<i>Note</i>	2008	2007
Foreign exchange translation differences on foreign operations		<u>(5)</u>	<u>(11)</u>
Net losses recognised directly in equity		(5)	(11)
Profit for the year		6,538	2,807
Total recognised income and expense for the year	15	<u>6,533</u>	<u>2,796</u>

Company statement of recognised income and expense

For the year ended 31 July 2008

<i>£'000</i>	<i>Note</i>	2008	2007
Loss for the year		(50)	(40)
Total recognised income and expense for the year	15	<u>(50)</u>	<u>(40)</u>

Consolidated balance sheet

As at 31 July 2008

£'000	Note	2008	2007
Non-current assets			
Property, plant and equipment	8	413	385
Intangible assets	9	64	-
Deferred tax	11	7,103	3,498
Total non-current assets		7,580	3,883
Current assets			
Inventories	12	2,470	1,533
Trade and other receivables	13	4,683	4,211
Cash and cash equivalents	14	1,371	179
Total current assets		8,524	5,923
Total assets		16,104	9,806
Current liabilities			
Trade and other payables	18	2,760	2,463
Provisions	17	150	120
Total current liabilities		2,910	2,583
Non-current liabilities			
Provisions	17	30	30
Total non-current liabilities		30	30
Total liabilities		2,940	2,613
Net assets		13,164	7,193
Equity			
Called up share capital	15	72	71
Share premium account	15	1,241	24,045
Other reserve	15	5,146	8,562
Translation reserve	15	(16)	(11)
Profit and loss account	15	6,721	(25,474)
Total equity attributable to equity holders of the parent		13,164	7,193

These financial statements were approved by the Board of Directors on 24 September 2008 and were signed on its behalf by:



Oliver Vellacott
Director



Marcus Kneen
Director

Company balance sheet

As at 31 July 2008

£'000

	Note	2008	2007
Non-current assets			
Investments	10	857	568
Total non-current assets		<u>857</u>	<u>568</u>
Current assets			
Trade and other receivables	13	1,020	1,023
Total current assets		<u>1,020</u>	<u>1,023</u>
Total assets		<u>1,877</u>	<u>1,591</u>
Total liabilities		<u>-</u>	<u>-</u>
Net assets		<u>1,877</u>	<u>1,591</u>
Equity			
Called up share capital	15	72	71
Share premium account	15	1,241	24,045
Profit and loss account	15	564	(22,525)
Total equity attributable to equity holders of the parent		<u>1,877</u>	<u>1,591</u>

These financial statements were approved by the Board of Directors on 24 September 2008 and were signed on its behalf by:



Oliver Vellacott
 Director



Marcus Kneen
 Director

Consolidated statement of cash flows

For the year ended 31 July 2008

£'000	Group		Company	
	2008	2007	2008	2007
Cash flows from operating activities				
Profit/ (loss) for the year	6,538	2,807	(50)	(40)
Adjusted for:				
Depreciation and amortisation	240	130	-	-
Financial income	(7)	(21)	-	(10)
Financial expenses	24	-	-	-
Share based payment expense	289	209	-	-
Foreign exchange gain	-	(11)	-	-
Income tax credit	(4,502)	(2,125)	-	-
Increase in inventories	(937)	(1,135)	-	-
(Increase)/decrease in trade and other receivables	(538)	(2,040)	3	(883)
Increase in trade and other payables	297	1,033	-	-
Increase in provisions	30	60	-	-
Cash generated from/ (absorbed by) operations	1,434	(1,093)	(47)	(933)
Income taxes refunded	66	-	-	-
Net cash inflow/ (outflow) from operating activities	1,500	(1,093)	(47)	(933)
Cash flows from investing activities				
Interest received	7	21	-	10
Acquisition of property, plant and equipment	(335)	(275)	-	-
Net cash (outflow)/ inflow from investing activities	(328)	(254)	-	10
Cash flows from financing activities				
Proceeds from the issue of share capital	47	73	47	73
Interest paid	(24)	-	-	-
Net cash inflow from financing activities	23	73	-	-
Net increase/ (decrease) in cash and cash equivalents	1,195	(1,274)	-	(850)
Cash and cash equivalents at 1 August	179	1,454	-	850
Effect of exchange rate fluctuations on cash held	(3)	(1)	-	-
Cash and cash equivalents at 31 July	1,371	179	-	-

Notes to the consolidated financial statements

1. Significant accounting policies

IndigoVision Group plc (the "Company") is a company domiciled and registered in Scotland. The consolidated financial statements of the Company for the year ended 31 July 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

The financial statements were authorised for issue by the directors on 24 September 2008.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union (adopted IFRSs). These are the first Group and Company financial statements prepared in accordance with adopted IFRSs and IFRS1: "First Time Adoption of International Financial Reporting Standards", has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group and the Company is provided in note 25. This note includes reconciliations of equity and profit for the comparative year reported under UK GAAP to those reported for that year under adopted IFRSs. The Company has elected not to restate business combinations prior to the date of transition to adopted IFRSs. Under section 230 (4) of the Companies Act 1985 the Company is exempt from the requirement to present its own income statement and related notes.

(b) Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on the historical cost basis.

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

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

Judgements made by management in the application of adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 August 2006 for the purposes of the transition to IFRSs.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All subsidiaries have 31 July as their year end.

(ii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(iii) Investments in subsidiaries

Investments by the Company in subsidiaries are carried at cost less provision for any impairment.

(d) Foreign currency

(i) Foreign currency transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using exchange rates at the date of the transaction.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below). Cost includes expenditure that is directly attributable to the acquisition of the asset.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- | | |
|-------------------------|--------------|
| • fixtures and fittings | 5 - 10 years |
| • plant and equipment | 3 - 5 years |
| • computer hardware | 3 years |

The residual value, if not insignificant, is reassessed annually.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(f) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

An internally generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- the project from which the asset arises meets the Group's criteria for assessing technical feasibility;
- it is probable that the asset created will generate future economic benefits, and
- the development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

(ii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised using the straight line method over their estimated useful lives (1 to 3 years). Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

(g) Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and is the expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(j) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy h) and deferred tax assets (see accounting policy r), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy j(i)).

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell. In assessing fair value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss is reversed if there has been a positive change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are shown in equity as a deduction from equity. Dividends are recognised as a liability in the year in which they are approved.

(l) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Share-based payment transactions

The Group's share option programme allows eligible employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The proceeds received net of any directly attributable expenses are credited to share capital and share premium when the options are exercised.

Where the Company grants share options to the employees of its subsidiaries, it recognises an increase in the cost of its investment in its subsidiaries equivalent to the equity settled share based payment charge in the consolidated financial statement. The corresponding credit is recognised in equity.

(iii) Long term incentive plan

The Company has established the IndigoVision Group plc 2008 Long Term Incentive Plan (the LTIP). The LTIP enables the Company to grant conditional awards of shares, nil-cost options over shares and nominal value options over shares. All employees and executive directors of the Group are eligible to be granted awards. The grant date fair value of conditional shares and share option awards is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the shares. The fair value of the awards are measured using a valuation model, taking into account the satisfaction of the performance criteria governing the awards granted.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(m) Employee share trusts

The Company has established a share trust, "The IndigoVision Group plc Employee Benefit Trust" which is separately administered and funded by loans from the Company. The Company recognises the assets and liabilities of the Trust in its own accounts.

(n) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(i) Warranties

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(o) Trade and other payables

Trade and other payables are not interest bearing and are stated at their fair value.

(p) Revenue

Revenue comprises the sale of goods, income from technical support activities and royalty income earned during the year and excludes sales taxes.

(i) Product revenues

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Technical support activities

Revenue from technical support activities is recognised on completion of the service.

(iii) Royalty income

Royalty income represents revenue earned from software license agreements. Such revenue is earned and income is recognised when the software sales, for which royalty is due, are confirmed to the Group.

(q) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(ii) Net financing costs

Net financing costs comprise interest payable on the overdraft facility and interest receivable on cash deposits.

(r) Income tax

The tax credit / expense represents the sum of the current / taxes payable and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

The current tax payable is based on taxable income for the year using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(r) Income tax (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the asset recognised to be recovered. Deferred tax is calculated using tax rates that are enacted or substantially enacted at the balance sheet date.

(s) Earnings per share

Basic earnings per share is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of potentially dilutive ordinary shares, which comprise share options granted to employees.

(t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ending 31 July 2008, and have not been applied in preparing these financial statements.

The following standards have been endorsed by the EU and will require to be applied in subsequent years:

- *IFRS 8 Operating segments* introduces the management approach to segment reporting. IFRS 8 becomes mandatory for the Company's 2009 financial statements and will require disclosure of segment information based on the internal reports regularly reviewed by the Group's chief operating decision maker in order to assess each segment's performance and to allocate resources to them.

The following standards and interpretations have not yet been endorsed by the EU but may apply in subsequent years if endorsed.

- *Revised IAS 23 Borrowing costs* removes the option to expense certain borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements but it is not expected to have any impact.
- *Amendments to IAS 1 Presentation of Financial Statements*. This standard will require the Company to present a statement of comprehensive income and may require additional disclosures with respect to changes in equity.
- *Amendments to IAS 27 Consolidated and Separate Financial Statements and IFRS 3 (revised) Business combinations*. These amendments make some changes to accounting for business combinations. The standard will affect the Company if it is involved in business combinations in the future.

Notes to the consolidated financial statements

2. Segment reporting

The Board has determined that the primary segment reporting format is geographical, based on the Group's management and internal reporting structure. The secondary segment is the Group's single business segment, which is the design, manufacture and sale of IP video and alarm management solutions.

Geographical segments

The Group is managed from the United Kingdom and sells into three principal geographies:

- Europe, Middle East and Africa
- Americas
- Asia Pacific

The Group's management structure is based on the geographical division of its sales teams.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment revenue is based on the geographical location of customers. Unallocated items comprise mainly central development and administrative expenses and corporate assets and liabilities.

The assets allocated to geographical segments are trade receivables for sales made to customers in these regions and assets owned by subsidiaries in these regions. The liabilities allocated to geographical segments are liabilities of subsidiaries in these regions. Unallocated assets and liabilities are utilised and managed centrally for all geographical sales segments.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Notes to the consolidated financial statements

2. Segment reporting (continued) Geographical segments

	Notes	Europe Middle East & Africa		The Americas		Asia Pacific		Unallocated		Group	
		2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Segment revenue		10,242	7,074	5,489	3,634	2,463	2,220	209	457	18,403	13,385
Segment result		5,291	2,782	2,516	910	1,479	1,152	-	-	9,286	4,844
Unallocated expenses		-	-	-	-	-	-	(7,233)	(4,183)	(7,233)	(4,183)
Operating profit										2,053	661
Net financing (cost)/ income	5									(17)	21
Profit before tax										2,036	682
Income tax expense	6									4,502	2,125
Profit for the period										6,538	2,807
Assets		2,427	1,474	1,261	1,709	720	586	11,696	6,037	16,104	9,806
Liabilities		(33)	-	(122)	(33)	-	-	(2,785)	(2,580)	(2,940)	(2,613)
Expenditure incurred on segment non-current assets		-	-	4	6	-	-	331	269	335	275
Depreciation and amortisation		-	-	7	9	-	-	233	121	240	130

All sales are to third parties. All segment results are from continuing activities.

Notes to the consolidated financial statements

2. Segment reporting (continued)

Analysis of Revenue

	2008	2007
	£000	£000
Revenues from:		
Products sold	18,303	13,257
Support services and royalty income	100	128
	<u>18,403</u>	<u>13,385</u>

3. Operating profit

	2008	2007
	£000	£000
<i>Operating profit is stated after charging</i>		
Depreciation and amortisation	240	130
Increase in provisions	30	60
Write down of inventories to net realisable value	67	21
Allowance for doubtful trade receivables	14	2
Gain/ (loss) on foreign exchange transactions and translation	194	(100)
Share based payment expense	289	209
Audit of these financial statements (Group and Company)	32	25
Amounts received by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	3	3
Other services relating to taxation	30	9
All other services	24	-
	<u>24</u>	<u>-</u>

4. Personnel expenses

	2008	2007
	£000	£000
Group and Company		
Wages and salaries	4,343	3,396
Compulsory social security contributions	438	353
Contributions to defined contribution plans	175	100
Equity-settled share based payment transactions	289	209
	<u>5,245</u>	<u>4,058</u>

Notes to the consolidated financial statements

4. Personnel expenses (continued)

	2008	2007
	No	No
Average number of employees, including executive directors and excluding retained agents, by activity		
Selling and distribution	24	20
Research & Development	36	29
Administration	30	23
	90	72
	£000	£000
Remuneration of directors		
Directors emoluments	428	373
Company contributions to money purchase pension schemes	60	18
	488	391

The aggregate of emoluments of the highest paid director was £136,000 (2007: £125,000), and company pension contributions of £47,000 (2007: £7,000) were made to a money purchase scheme on his behalf.

	Number of directors	
	2008	2007
	No	No
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	3	3
	1	1

5. Net financing (costs)/ income

	2008	2007
	£000	£000
Bank interest receivable	7	21
Financial income	7	21
	(24)	-
Bank interest payable	(24)	-
Financial expenses	(24)	-
Net financing costs	(17)	21

Notes to the consolidated financial statements

6. Income tax expense

Recognised in the income statement

	2008	2007
	£000	£000
Current tax expense		
Current year charge/ (credit)	-	(66)
Overseas tax	1	-
	1	(66)
Deferred tax expense		
Origination and reversal of temporary differences	405	7
Reduction in tax rate	103	-
Adjustments relating to prior year trading losses	(5,011)	(2,066)
	(4,503)	(2,059)
Total income tax credit in income statement	(4,502)	(2,125)

Reconciliation of effective tax rate

	2008	2008	2007	2007
	%	£000	%	£000
Profit before tax		2,036		682
Income tax using the UK corporation tax rate	29.3%	597	30.0%	205
Effect of tax rates in foreign jurisdictions	(0.1%)	(1)	-	-
Reduction in tax rate	5.1%	103	-	-
Non-deductible expenses	(0.8%)	17	0.1%	1
Tax relief on share options exercised during the year	(8.4%)	(172)	(48.2%)	(329)
Research & Development tax credit	(1.7%)	(35)	(6.0%)	(41)
Other items	-	-	(3.7%)	(25)
Tax losses carried forward	-	-	19.1%	130
Adjustments relating to prior year trading losses	(246.1%)	(5,011)	(302.9%)	(2,066)
	(221.0%)	(4,502)	(311.6%)	(2,125)

Deferred tax recognised directly in equity

	2008	2007
	£000	£000
Relating to equity-settled transactions – deferred tax	(898)	644

At the end of the previous financial year, following a second period of profitable trading, a deferred tax asset of £2,066,000 was recognised in respect of prior period trading losses. Following another year of profitable trading the directors now consider it appropriate to recognise the balance of the previously unrecognised deferred tax asset. Accordingly, the financial statements for the year ended 31 July 2008 include an exceptional credit of £5,011,000 relating to the balance of past trading losses (see note 24).

In addition, at 31 July 2008 tax losses in the United States available for offset against future profits in that country, amounted to approximately £1.7million (2007: £1.6 million); using an income tax rate of 28% (2007: 30%) this is equivalent to an asset of £0.5 million (2007: £0.5 million). However, due to continuing uncertainty over the timing of suitable profits in the United States and the fact that such losses will eventually time expire, no asset is currently being recognised in the consolidated financial statements.

Notes to the consolidated financial statements

7. Earnings per share

	<i>Notes</i>	2008	2007
		£000	£000
Profit for the year attributable to equity shareholders (basic and diluted)		6,538	2,807
Exceptional deferred tax credit	6	(5,011)	(2,066)
Adjusted profit for the year attributable to equity shareholders (basic & diluted)		1,527	741
		Pence	Pence
Basic earnings per share		91.7	40.1
Diluted earnings per share		82.6	35.9
Adjusted basic earnings per share		21.4	10.6
Adjusted diluted earnings per share		19.3	9.5

The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share for each year were calculated as follows:

	2008	2007
	No of shares	No of shares
Issued ordinary shares at start of year	7,082,176	6,927,976
Effect of shares issued during the year from exercise of employee share options	49,318	64,333
Weighted average number of ordinary shares for the year – for basic earnings per share	7,131,494	6,992,309
Effect of share options in issue	783,300	819,300
Weighted average number of ordinary shares for the year – for diluted earnings per share	7,914,794	7,811,609

Basic earnings per share

The calculation of basic earnings per share for the year ending 31 July 2008 was based on the profit attributable to equity shareholders of £6,538,000 (2007: £2,807,000) and a weighted average number of ordinary shares during the year ending 31 July 2008 of 7,131,494 (2007: 6,992,309), calculated as shown above.

Diluted earnings per share

The calculation of diluted earnings per share for the year ending 31 July 2008 was based on the profit attributable to equity shareholders of £6,538,000 (2007: £2,807,000) and a weighted average number of ordinary shares during the year ending 31 July 2008 of 7,914,794 (2007: 7,811,609), calculated as shown above.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

Notes to the consolidated financial statements

Adjusted basic earnings per share

The calculation of adjusted basic earnings per share for the year ending 31 July 2008 was based on a profit of £1,527,000 (2007: £741,000), which excluded the tax credit relating to adjustments for prior years of £5,011,000 (2007: £2,066,000), and a weighted average number of ordinary shares during the year ending 31 July 2008 of 7,131,494 (2007: 6,992,309), calculated as shown above.

Adjusted diluted earnings per share

The calculation of adjusted diluted earnings per share for the year ending 31 July 2008 was based on a profit of £1,527,000 (2007: £741,000), which excluded the tax credit relating to adjustments for prior years of £5,011,000 (2007: £2,066,000), and a weighted average number of ordinary shares during the year ending 31 July 2008 of 7,914,794 (2007: 7,811,609), calculated as shown above.

8. Property, plant and equipment

Group	Property, plant and equipment £000	Fixtures and fittings £000	Computer hardware £000	Total £000
Cost				
Balance at 1 August 2006	83	262	552	897
Additions	160	19	96	275
Disposals	(1)	-	(21)	(22)
Effect of movements in foreign exchange	-	-	(2)	(2)
Balance at 31 July 2007	<u>242</u>	<u>281</u>	<u>625</u>	<u>1,148</u>
Balance at 1 August 2007	242	281	625	1,148
Additions	111	39	106	256
Disposals	(3)	(3)	(3)	(9)
Effect of movements in foreign exchange	-	-	-	-
Balance at 31 July 2008	<u>350</u>	<u>317</u>	<u>728</u>	<u>1,395</u>
Depreciation				
Balance at 1 August 2006	5	183	469	657
Depreciation charge for the year	37	38	55	130
Disposals	(1)	-	(21)	(22)
Effect of movements in foreign exchange	-	-	(2)	(2)
Balance at 31 July 2007	<u>41</u>	<u>221</u>	<u>501</u>	<u>763</u>
Balance at 1 August 2007	41	221	501	763
Depreciation charge for the year	114	43	68	225
Disposals	(2)	(2)	(2)	(6)
Effect of movements in foreign exchange	-	-	-	-
Balance at 31 July 2008	<u>153</u>	<u>262</u>	<u>567</u>	<u>982</u>
Carrying amounts				
At 1 August 2006	<u>78</u>	<u>79</u>	<u>83</u>	<u>240</u>
At 31 July 2007	<u>201</u>	<u>60</u>	<u>124</u>	<u>385</u>
At 1 August 2007	<u>201</u>	<u>60</u>	<u>124</u>	<u>385</u>
At 31 July 2008	<u>197</u>	<u>55</u>	<u>161</u>	<u>413</u>

Notes to the consolidated financial statements

9. Intangible assets

	Computer software £000
Cost	
Balance at 1 August 2006	-
Additions	-
Balance at 31 July 2007	<u>-</u>
Balance at 1 August 2007	-
Additions	<u>79</u>
Balance at 31 July 2008	<u>79</u>
Amortisation and impairment losses	
Balance at 1 August 2006	-
Amortisation for the year	-
Balance at 31 July 2007	<u>-</u>
Balance at 1 August 2007	-
Amortisation for the year	<u>15</u>
Balance at 31 July 2008	<u>15</u>
Carrying amounts	
At 1 August 2006	<u>-</u>
At 31 July 2007	<u>-</u>
At 1 August 2007	<u>-</u>
At 31 July 2008	<u>64</u>

Notes to the consolidated financial statements

10. Investments in subsidiaries

	2008	2007
Company	£000	£000
Cost		
At 1 August	568	359
Increase in respect of share based payments	<u>289</u>	<u>209</u>
At 31 July	<u>857</u>	<u>568</u>

The Company owns 100% of the ordinary share capital of IndigoVision Limited, a company registered in Scotland. The principal activity of the company is the design, development, manufacture and sale of software and hardware products. IndigoVision Limited owns 100% of IndigoVision Inc, a company incorporated in the USA. Its principal activity is the marketing of the Group's software and hardware products.

11. Deferred tax assets and liabilities

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2008	2007
	£000	£000
Employee benefits – share based payments	681	1,498
Value of tax losses carried forward	6,312	2,000
Depreciation in excess of capital allowances	110	-
Tax Assets	<u>7,103</u>	<u>3,498</u>

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2008	2007
	£000	£000
Tax losses-UK	-	4,800
Tax losses – Non UK	476	480
Depreciation in excess of capital allowances	-	130
	<u>476</u>	<u>5,410</u>

Notes to the consolidated financial statements

11. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

	Balance 1 Aug 06 £000	Recogn- ised in income £000	Recogn- ised in equity £000	Balance 31 Jul 07 £000
Employee benefits – share-based payments	795	59	644	1,498
Tax value of losses carried forward	-	2,000	-	2,000
	<u>795</u>	<u>2,059</u>	<u>644</u>	<u>3,498</u>

	Balance 1 Aug 07 £000	Recogn- ised in income £000	Recogn- ised in equity £000	Balance 31 Jul 08 £000
Employee benefits – share-based payments	1,498	81	(898)	681
Tax value of losses carried forward	2,000	4,312	-	6,312
Depreciation in excess of capital allowances	-	110	-	110
	<u>3,498</u>	<u>4,503</u>	<u>(898)</u>	<u>7,103</u>

12. Inventories

	2008 £000	2007 £000
Raw materials and consumables	52	392
Finished goods	<u>2,418</u>	1,141
	<u>2,470</u>	<u>1,533</u>

Included in inventories are £nil (2007: £nil) inventories expected to be recovered in more than 12 months. The write down of inventories to the lower of cost and net realisable value totalled £67,000 (2007: £21,000). In the year, raw material, consumables and changes to finished goods recognised as cost of sales amounted to £5,333,000 (2007: £4,533,000).

13. Trade and other receivables

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Trade receivables	4,347	3,740	-	-
Amounts due from subsidiaries	-	-	1,020	1,023
Other receivables	148	358	-	-
Prepayments and accrued income	188	113	-	-
	<u>4,683</u>	<u>4,211</u>	<u>1,020</u>	<u>1,023</u>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 19.

Notes to the consolidated financial statements

14. Cash and cash equivalents

	2008	2007
	£000	£000
Bank balances	983	142
Bank deposits	388	37
Cash and cash equivalents in the statement of cash flows	1,371	179

The Group's exposure to interest rate risk is disclosed in note 19.

15. Capital and reserves

Reconciliation of movement in capital and reserves

Group	Share capital £000	Share premium £000	Other reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 August 2006	69	23,974	8,562	-	(29,134)	3,471
Total recognised income and expense	-	-	-	(11)	2,807	2,796
Share options exercised by employees	2	71	-	-	-	73
Equity-settled transactions, including deferred tax effect	-	-	-	-	853	853
Balance at 31 July 2007	71	24,045	8,562	(11)	(25,474)	7,193
Balance at 1 August 2007	71	24,045	8,562	(11)	(25,474)	7,193
Total recognised income and expense	-	-	-	(5)	6,538	6,533
Court sanctioned capital reduction	-	(22,850)	-	-	22,850	-
Reserve transfer	-	-	(3,416)	-	3,416	-
Share options exercised by employees	1	46	-	-	-	47
Equity-settled transactions, including deferred tax effect	-	-	-	-	(609)	(609)
Balance at 31 July 2008	72	1,241	5,146	(16)	6,721	13,164

Company	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 August 2006	69	23,974	(22,694)	1,349
Total recognised income and expense	-	-	(40)	(40)
Share options exercised by employees	2	71	-	73
Equity-settled transactions, including deferred tax effect	-	-	209	209
Balance at 31 July 2007	71	24,045	(22,525)	1,591
Balance at 1 August 2007	71	24,045	(22,525)	1,591
Total recognised income and expense	-	-	(50)	(50)
Court sanctioned capital reduction	-	(22,850)	22,850	-
Share options exercised by employees	1	46	-	47
Equity-settled transactions, including deferred tax effect	-	-	289	289
Balance at 31 July 2008	72	1,241	564	1,877

Notes to the consolidated financial statements

15. Capital and reserves (continued)

The Company passed a special resolution on 30 May 2008 to reduce the share premium account of the Company by £22,849,853.09 as confirmed by an Order of the Court of Session, Scotland on 3 July 2008.

Share capital

	Ordinary shares	
	As at 31 July 2008	As at 31 July 2007
	No of shares	No of shares
On issue at start of year	7,082,176	6,927,976
Issued for cash on exercise of employee share options	75,000	154,200
On issue at end of year – fully paid	<u>7,157,176</u>	<u>7,082,176</u>

At 31 July 2008, the authorised share capital comprised 7,157,176 ordinary shares (2007: 7,082,176) which have a nominal value of 1 penny per share. All issued shares are fully paid.

The holders of ordinary shares are entitled to one vote per share at meetings of the Company and are entitled to receive dividends as recommended by the directors. The holders of ordinary shares also have an unlimited right to share in the surplus remaining on winding up after all creditors are satisfied.

During the year 75,000 ordinary shares of 1 penny each were issued, 4,000 at 36 pence per share, 6,000 at 56.5 pence per share and 65,000 at 65 pence per share pursuant to the exercise of options.

Share premium

The share premium arose primarily on 2 August 2000 when the Company was listed on the London Alternative Investment Market.

Translation reserve

The translation reserve comprises all foreign exchange differences from the 1 August 2006, the IFRS transition date, arising from the translation of the financial statements of the overseas subsidiary IndigoVision Inc.

Other reserve

The other reserve arose on the acquisition of IndigoVision Limited in 2000 prior to listing on the London Stock Exchange and merger accounting, which was permitted under applicable accounting standards at that time, was adopted. As this was before the date of transition to IFRS, advantage has been taken of IFRS1 such that the business combination has not been restated.

The movement in the current year follows a capital reduction in IndigoVision Ltd which occurred following the passing of a special resolution on 29 April 2008 to reduce its share premium account by £26,788,184.43 as confirmed by an Order of the Court of Session, Scotland on 27 June 2008. As at 31 July 2008, the share premium account of IndigoVision Ltd stood at £5,146,000, and this is reflected in the consolidated financial statements as an "other reserve".

Notes to the consolidated financial statements

16. Share based payments

Share option schemes

The Group has established a number of share option schemes that entitle directors, senior management and other employees to purchase shares in the Company. Grants have been made of share options in the period from 2000 to date.

There were grants of share options before 7 November 2002. The recognition and measurement principles in IFRS2 have not been applied to these grants in accordance with the transitional provisions of IFRS1 and IFRS2.

The Approved Share Option Schemes

The Group has two approved share options schemes: The 2000 Approved Share Option Scheme and the 2008 Approved Share Option Scheme, which was introduced to replace the 2000 Approved Share Option Scheme. As at 31 July 2008, no share options had been granted under the new 2008 Approved Share Option Scheme.

Under these plans the remuneration committee may grant eligible employees in the United Kingdom share options under the terms and conditions of HM Revenue & Customs approved share option plans. The scheme is open to all employees in the United Kingdom.

The Unapproved Share Option Schemes

The Group has two unapproved share option schemes: The 2000 Unapproved Share Option Scheme and the 2008 Unapproved Share Option Scheme, which was introduced to replace the 2000 Unapproved Share Option Scheme. As at 31 July 2008, no share options had been granted under the new 2008 Unapproved Share Option Scheme.

Under these plans the remuneration committee may grant eligible employees in the United Kingdom share options that exceed the value limit of the HM Revenue and Customers approved share option plan. Options granted under this scheme may be exercised between 3 and 10 years from the grant date. The scheme is open to all employees in the United Kingdom.

The Stock Option/ Stock Issuance Plans

The Group has two stock options plans: The 2000 Stock Option/ Stock Issuance plan and the 2008 Stock Option Plan, which was introduced to replace the 2000 Stock Option/ Stock Issuance plan. As at 31 July 2008, 1,000 options had been granted under the new 2008 Stock Option plan.

These plans are intended to promote the interests of the Group by giving incentives to eligible employees and other consultants or advisors to the Group based in the United States of America. The remuneration committee has sole discretion to grant options and determine in each case the terms and conditions that apply to each agreement.

Stand-Alone Option Agreements

The remuneration committee has sole discretion to grant share options through stand alone option agreements to sales agents or other consultants or advisors to the Group. The remuneration committee can determine the terms and conditions that apply to each agreement.

The Long Term Incentive Plan

On 3 June 2008, the Company established the IndigoVision Group plc 2008 Long Term Incentive Plan. This plan is intended to award share options and/or conditional share awards to selected employees of the Group. As at 31 July 2008, no awards had been made under this plan.

Notes to the consolidated financial statements

16. Share based payments (continued)

The Employee Benefit Trust

On 3 June 2008, in connection with establishing the Long Term Incentive Plan, the Company established the IndigoVision Group plc Employee Benefit Trust for the purpose of encouraging and facilitating the acquisition and holding of shares in the Company for the benefit of employees of the Group. As at 31 July 2008, nil shares in the Company had been acquired by the Employee Benefit Trust.

Share option plans

The terms and conditions of grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Number of instruments originally granted	Vesting conditions	Contractual life of options
The 2000 Approved Share Option Plan			
16 June 2000	16,000	3 years from date of grant	10 years
19 December 2001	55,000	3 years from date of grant	10 years
30 July 2003	316,428	3 years from date of grant	10 years
19 December 2003	44,000	3 years from date of grant	10 years
23 April 2004	91,796	3 years from date of grant	10 years
3 May 2004	20,000	3 years from date of grant	10 years
12 November 2004	66,500	3 years from date of grant	10 years
1 November 2005	99,727	3 years from date of grant	10 years
16 March 2006	30,140	3 years from date of grant	10 years
25 October 2006	35,000	3 years from date of grant	10 years
16 April 2007	30,973	3 years from date of grant	10 years
3 October 2007	25,548	3 years from date of grant	10 years
The 2000 Unapproved Share Option Plan			
30 July 2003	35,572	3 years from date of grant	10 years
23 April 2004	54,704	3 years from date of grant	10 years
12 November 2004	99,000	3 years from date of grant	10 years
1 November 2005	150,273	3 years from date of grant	10 years
16 March 2006	7,860	3 years from date of grant	10 years
25 October 2006	1,000	3 years from date of grant	10 years
16 April 2007	34,027	3 years from date of grant	10 years
3 October 2007	37,952	3 years from date of grant	10 years
The 2000 Stock Option/Issuance Plan			
19 December 2003	4,000	Individually determined	10 years
23 April 2004	6,000	Individually determined	10 years
12 November 2004	4,000	Individually determined	10 years
1 November 2005	7,000	Individually determined	10 years
16 June 2006	5,000	Individually determined	10 years
25 October 2006	1,500	Individually determined	10 years
16 April 2007	3,000	Individually determined	10 years
The 2008 Stock Option Plan			
3 October 2007	1,000	Individually determined	10 years
The Stand-Alone Option Agreements			
30 July 2003	2,000	Individually determined	10 years
19 December 2003	4,000	Individually determined	10 years
23 April 2004	6,000	Individually determined	10 years
12 November 2004	15,000	Individually determined	10 years
1 November 2005	18,000	Individually determined	10 years
16 June 2006	25,000	Individually determined	10 years
25 October 2006	30,500	Individually determined	10 years
16 April 2007	13,000	Individually determined	10 years
3 October 2007	6,500	Individually determined	10 years
14 April 2008	10,000	Individually determined	10 years

Notes to the consolidated financial statements

16. Share based payments (continued)

The number and weighted average exercise prices of share options are as follows:

	2008 Weighted average exercise price, £	2008 Number of options	2007 Weighted average exercise price, £	2007 Number of options
The 2000 Approved Share Option Plan				
Outstanding at the beginning of the year	2.08	339,854	1.13	466,577
Granted during the year	8.68	27,548	6.64	55,973
Forfeited during the year	8.16	(7,454)	3.71	(32,700)
Exercised during the year	0.65	(19,000)	0.47	(149,996)
Outstanding at the end of the year	2.51	340,948	2.08	339,854
The 2000 Unapproved Share Option Plan				
Outstanding at the beginning of the year	2.27	389,946	1.31	329,623
Granted during the year	8.68	37,952	7.03	64,527
Forfeited during the year	8.68	(16,546)	-	-
Exercised during the year	0.65	(33,000)	0.57	(4,204)
Outstanding at the end of the year	2.77	378,352	2.27	389,946
The 2000 Stock Option/ Stock Issuance Plan				
Outstanding at the beginning of the year	4.09	15,500	2.53	15,000
Granted during the year	-	-	7.38	4,500
Forfeited during the year	4.79	(8,000)	1.95	(4,000)
Exercised during the year	-	-	-	-
Outstanding at the end of the year	3.35	7,500	4.09	15,500
The 2008 Stock Option Plan				
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	8.68	1,000	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	8.68	1,000	-	-
The Stand Alone Option Agreements				
Outstanding at the beginning of the year	3.33	74,000	2.39	67,000
Granted during the year	7.85	16,500	8.05	14,000
Forfeited during the year	7.75	(12,000)	3.76	(7,000)
Exercised during the year	0.58	(23,000)	-	-
Outstanding at the end of the year	4.86	55,500	3.33	74,000

The weighted average share price at the date of exercise of share options exercised during the year was £9.01 (2007: £7.67).

Notes to the consolidated financial statements

16. Share based payments (continued)

The options outstanding at the year end have an exercise price in the range of £0.35 to £8.68 and a weighted average remaining contractual life of 7.0 years.

The options outstanding at 31 July 2008 have an exercise price in the ranges summarised below:

Exercise price range	Number of options outstanding at 31 July 2008	Weighted average remaining contractual life (years)
£0.35 - £0.65	302,000	2.2
£1.30 - £1.945	253,800	2.3
£4.49 - £5.683	110,000	1.1
£7.30 - £8.683	116,500	1.3
£12.30	1,000	0.1
	783,300	7.0

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black Scholes model. The model has used an expected life of options of 3.5 years, a risk free rate range of between 3.75% and 5.75% and historical share price volatility at the date of grant range of between 49.4% and 72.2%.

The total expense recognised for the year arising from share based payments was £289,000 (2007: £209,000).

Recognised in income statement	2008 £000	2007 £000
Share options granted in 2004	-	15
Share options granted in 2005	5	17
Share options granted in 2006	108	110
Share options granted in 2007	119	67
Share options granted in 2008	57	-
Total expense recognised as employee costs (note 4)	289	209

17. Provisions

	Product Warranties £000
Balance at 1 August 2007	150
Provisions made during the year	222
Provisions used during the year	(192)
Balance at 31 July 2008	180
Non-current	30
Current	150
	180

The provision relates to possible claims on products sold during the two year warranty period granted at the point of sale. The provision has been based on analysis of product introductions and instances of actual goods returned.

Notes to the consolidated financial statements

18. Trade and other payables

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Trade payables	1,739	1,676	-	-
Taxation and social security	116	124	-	-
Other payables	25	27	-	-
Accruals and deferred income	880	636	-	-
	2,760	2,463	-	-

19. Financial instruments

The Group's principal financial instruments as at 31 July 2008 consist of cash and cash equivalents together with trade receivables and trade payables which arise directly from the Group's operations. The main purpose of these is to finance the Group's operations.

During the years ended 31 July 2008 and 31 July 2007, the Group did not use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

The Group is exposed to credit risk, interest rate risk, foreign currency risk and liquidity risk during the normal course of business.

Credit risk

At the balance sheet date there were no significant concentrations of credit risk. The exposure to credit risk is mitigated by selling to a wide range of customers and, where necessary, obtaining payments in advance or letters of credit. Credit evaluations are performed on all customers requiring credit, and in addition, credit insurance has been purchased to protect against the risk of default. The Group establishes a specific allowance for impairment if a loss is estimated in respect of trade and other receivables.

Counterparties for cash and short-term deposits are limited to financial institutions which have a high credit rating.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. As at the reporting date, the maximum exposure to credit risk was:

	Note	Group		Company	
		2008 £000	2007 £000	2008 £000	2007 £000
Trade and other receivables	13	4,683	4,211	1,020	1,023
Cash and cash equivalents	14	1,371	179	-	-
		6,054	4,390	1,020	1,023

The Company has no exposure to trade receivables or cash and cash equivalents.

Notes to the consolidated financial statements

19. Financial instruments (continued)

The Group has credit insurance in respect of its trade receivables. However, the maximum exposure to credit risk for trade receivables at the reporting date by geographical region, if the Group had no credit insurance, was:

	2008 £000	2007 £000
Europe, Middle East and Africa	2,420	1,474
Americas	1,207	1,680
Asia Pacific	720	586
	<u>4,347</u>	<u>3,740</u>

Impairment losses

The aged profile of trade receivables at the reporting date was:

Group	Gross 2008 £000	Impairment 2008 £000	Gross 2007 £000	Impairment 2007 £000
	Not past due	3,035	-	2,310
0-30 days overdue	935	-	912	-
31-60 days overdue	89	-	375	-
More than 61 days overdue	326	(38)	167	(24)
	<u>4,385</u>	<u>(38)</u>	<u>3,764</u>	<u>(24)</u>

The allowance in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the outstanding amount is possible. At that point, the amount considered irrecoverable is written off against the trade receivables directly. Based on past experience, the Group believes no further impairment allowance is necessary in respect of trade receivables which are past due.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2008 £000	2007 £000
Balance at start of the year	24	22
Impairment loss recognised	14	2
Balance at end of year	<u>38</u>	<u>24</u>

Interest Rate Risk

The Group earns interest from cash and cash equivalents with high credit rated financial institutions. These are subject to interest rate movements.

The Group has a multi option facility of £3m. The facility includes a US\$1m standby letter of credit and overdraft. As at 31 July 2008 the Group was not utilising the overdraft facility and has cash balances of £1.4 million. The Group has drawn down on the overdraft facility during the year.

Notes to the consolidated financial statements

19. Financial instruments (continued)

Currency Risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Pounds Sterling. The currencies giving rise to this risk are primarily US Dollars and Euros.

The Group's revenue is denominated in Pounds Sterling (currently approximately 25%), US Dollars (currently approximately 50%) and Euros (currently approximately 25 %).

The majority of the Group's cost of sales is denominated in US Dollars which provides a natural hedge to the US Dollar revenue. The majority of the Group's other operating expenses are in Pounds Sterling.

For monetary assets and liabilities held in currencies other than Pounds Sterling, the Group ensures that the net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates where necessary to address short-term balances. The Group considers the use of financial instruments such as foreign exchange contracts but did not enter into any such contracts during the current and preceding financial years.

The Group has investments in foreign operations whose net assets are exposed to currency translation risk. This currency exposure is not significant.

Financial assets and financial liabilities by currency	Notes	Group	
		2008 £000	2007 £000
US Dollar trade and other receivables	13	2,504	2,761
Euro trade and other receivables	13	1,110	827
US Dollar cash and cash equivalents	14	899	169
Euro cash and cash equivalents	14	61	2
US Dollar trade and other payables	18	(1,388)	(1,764)
Other currency trade and other payables	18	(87)	(128)

The Company has no financial assets or liabilities in foreign currencies.

The following significant exchange rates applied during the year

	Average rate		Year end rate	
	2008	2007	2008	2007
Pounds Sterling to US Dollar	1.9953	1.9514	1.9808	1.9726
Pounds Sterling to Euro	1.3303	1.4883	1.2680	1.5240

Liquidity Risk

The Group's exposure to liquidity risk is managed through the assessment of cash flow forecasts to ensure that sufficient funds are available to meet liabilities as they fall due. The Group has a £3million multi option facility, including a US\$1million standby letter of credit and overdraft, available for use to mitigate liquidity risk. As at 31 July 2008 the Group was not utilising the overdraft facility and has cash and cash equivalents of £1,371,000 (2007: £179,000). The Group does not have any interest bearing liabilities due out with 1 year.

The Group meets its day to day working capital requirements from operating cash flows and use, if necessary, of the overdraft facility which is renewed annually.

Notes to the consolidated financial statements

19. Financial instruments (continued)

Capital Management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board monitors return on capital, which the Group defines as profit before tax divided by total assets less current liabilities.

Sensitivity analysis

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

At 31 July 2008, it is estimated that a general decrease of one percentage point in interest rates would increase the Group's equity and profit before tax by approximately £2,000 (2007: decrease of £5,000).

It is estimated that a general decrease of five percentage points in the value of the Pound against the USD would have increased the Group's profit before tax by approximately £120,000 for the year ended 31 July 2008 (2007: £25,000).

Fair values

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

	Carrying amount 2008 £000	Fair value 2008 £000	Carrying amount 2007 £000	Fair value 2007 £000
Trade and other receivables	4,683	4,683	4,211	4,211
Cash and cash equivalents	1,371	1,371	179	179
Trade and other payables	(2,760)	(2,760)	(2,463)	(2,463)
	3,294	3,294	1,927	1,927

All trade and other receivables and payables have a remaining life of less than one year. Therefore the nominal amount is deemed to reflect the fair value.

The carrying amount and fair value of trade and other receivables of the Company was £1,020,000 (2007: £1,023,000).

Notes to the consolidated financial statements

20. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2008 £000	2007 £000
Less than one year	16	-
Between one and five years	31	9
More than five years	166	163
	<u>213</u>	<u>172</u>

During the year ended 31 July 2008, £173,000 was recognised as an expense in the income statement in respect of operating leases (2007: 164,000).

The Group leases premises in the UK, USA and Dubai under operating leases. The UK leases expire in April 2018, June 2010 and October 2008. The US lease expires in March 2010 and the Dubai lease expires in February 2009.

21. Capital commitments

As at 31 July 2008, the Group had entered into a contract to purchase property, plant and equipment for £19,000 (2007: nil). These commitments are expected to be settled in the following financial year.

22. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see notes 10 and 23), employee benefit trust (see note 16) and with its directors.

Transactions with key management personnel

The board has defined key management personnel as the directors of the Company.

Directors of the Company and their immediate relatives control 31.3 per cent of the voting shares of the Company. Information regarding the directors' shareholdings and share options is contained in the Directors' Report.

In addition to their salaries, the Group also contributes to a post-employment defined contribution plan on their behalf. The executive directors also participate in the Group's share option schemes. Details of the directors' remuneration is contained in note 4.

Transactions with subsidiaries

During the year the Company was charged a management fee by its subsidiary IndigoVision Ltd.

Also, employees and agents of IndigoVision Ltd exercised share options during the year and the cash generated is loaned to the subsidiary to further fund operating activity.

At the year end, the subsidiaries owed the Company £1,020,000 (2007: £1,023,000).

Notes to the consolidated financial statements

23. Group entities

Significant subsidiaries

	Country of incorporation	Ownership interest	
		2008	2007
		%	%
IndigoVision Ltd	Scotland	100	100
IndigoVision Inc	United States of America	100	100

24. Accounting estimates and judgements

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

Share based payments

The Group's share-based payment expense is based on the fair value of the share-based awards. The estimation of the fair values for the share-based payments is dependent on the selection by the Board of assumptions applied in the valuation model. The assumptions applied are described in note 16 and include expected volatility, the expected life of the option and the risk free rate. While the Board considers that the assumptions are appropriate, changes in these assumptions may materially affect the amount of the expense recognised for share-based payments.

Warranty provision

The provision for warranties is estimated based on historical warranty data and management judgement on operational activities during the two year warranty period preceding the reporting date. If actual project installations or product failure rates are less favourable than those estimated by management, then warranty costs may exceed the provision made at the reporting date.

Deferred tax asset

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised, with consideration given to the timing and level of future taxable income. As future taxable income is likely to deviate to some degree from forecasts, the amount of the deferred tax asset carried needs to be reviewed in the light of such variations.

25. Explanation of transition to IFRSs

As stated in note 1(a), these are the Group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 July 2008, the comparative information presented in these financial statements for the year ended 31 July 2007 and in the preparation of an opening IFRS balance sheet at 1 August 2006 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK Generally Accepted Accounting Practice (UKGAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the consolidated financial statements

25. Explanation of transition to IFRSs (continued)

Reconciliation of equity

Group	Note	UK GAAP in IFRS format			UKGAAP in IFRS format		
		1 August 2006			31 July 2007		
		£000	£000	£000	£000	£000	£000
Assets							
Property, plant and equipment		240	-	240	385	-	385
Deferred tax assets	a,b	-	795	795	2,000	1,498	3,498
Total non-current assets		240	795	1,035	2,385	1,498	3,883
Inventories		398	-	398	1,533	-	1,533
Trade and other receivables		2,105	-	2,105	4,211	-	4,211
Cash and cash equivalents		1,454	-	1,454	179	-	179
Total current assets		3,957	-	3,957	5,923	-	5,923
Total assets		4,197	795	4,992	8,308	1,498	9,806
Liabilities							
Provisions	d	20	-	20	30	-	30
Total non-current liabilities		20	-	20	30	-	30
Trade and other payables		1,431	-	1,431	2,463	-	2,463
Provisions		70	-	70	120	-	120
Total current liabilities		1,501	-	1,501	2,583	-	2,583
Total liabilities		1,521	-	1,521	2,613	-	2,613
Total assets		2,676	795	3,471	5,695	1,498	7,193
Equity							
Issued capital		69	-	69	71	-	71
Share premium		23,974	-	23,974	24,045	-	24,045
Capital contribution reserve		8,562	-	8,562	8,562	-	8,562
Translation reserve	c	-	-	-	-	(11)	(11)
Retained earnings		(29,929)	795	(29,134)	(26,983)	1,498	11
Total equity		2,676	795	3,471	5,695	1,498	7,193

Notes to the reconciliation of equity

- (a) The Group grants share options to its employees and agents and receives tax relief when they are exercised. Under IFRS a temporary difference exists and as such a deferred tax asset has been recognised for the entire difference for each of the years presented.
- (b) The deferred tax asset, included within debtors under UK GAAP is reallocated to non-current assets.
- (c) IFRS 1 permits certain optional exemptions and accordingly the Group has elected to reset the foreign currency translation reserve to zero at 1 August 2006. Going forward, IAS 21 requires amounts taken to reserves on the retranslation of foreign subsidiaries to be recorded in a separate foreign currency translation reserve.
- (d) An element of the warranty provision has been reallocated to current liabilities whereas under UK GAAP the whole amount was shown separately under one category.

Notes to the consolidated financial statements

25. Explanation of transition to IFRSs (continued)

Company

There are no differences between the balance sheet as reported under UK GAAP and IFRS for the Company at either 1 August 2006 or 31 July 2007.

Reconciliation of profit for 2007

	UK GAAP in IFRS format £000	IAS 12 £000	IAS 21 £000	IFRS £000
Revenue	13,385	-	-	13,385
Cost of sales	(4,610)	-	-	(4,610)
Gross profit	8,775	-	-	8,775
Research and development expenses	(1,490)	-	-	(1,490)
Selling and distribution expenses	(4,315)	-	-	(4,315)
Administrative expenses	(2,320)	-	11	(2,309)
Operating profit before financing costs	650	-	-	661
Financial income	21	-	-	21
Financial expenses	-	-	-	-
Net financing costs	21	-	-	21
Profit before tax	671	-	-	682
Taxation	2,066	59	-	2,125
Profit for the year attributable to equity holders of the parent	2,737	59	11	2,807
Basic earnings per share (pence)	39.1			40.1
Diluted earnings per share (pence)	35.0			35.9

Reconciliation of cash flows

IFRS prescribes both the definition of cash and cash equivalents and the format for analysing the changes in cash and cash equivalents in the cash flow statement. There are no material differences between the cash flows presented under IFRS and the cash flow statements presented under UK GAAP other than the changes in presentation between UK GAAP and IFRS.

Secretary and advisors

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Solicitors	Shepherd & Wedderburn LLP 1 Exchange Crescent Conference Square Edinburgh EH3 8UL
Bankers	Royal Bank of Scotland plc 36 St Andrews Square Edinburgh EH2 2YB
Registrars	Computershare Investor Services plc The Pavilions Bridgwater Road Bristol BS13 8AE