IndigoVision Group plc

Directors' report and consolidated financial statements 2010

Registered number SC208809

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IndigoVision Group plc
Final results for year ended 31 July 2010

Financial Highlights

- Revenues up 6% to £28.0m (2009: £26.4m)
- Operating profit down 6% to £3.1m (2009: £3.3m)
- Net cash balances up 25% to £4.4m (2009: £3.5m)
- Dividend up 50% to 7.5 pence per share (2009: 5.0 pence)

Operating Highlights

- Research and product development spend increased 32% to £3.0m
- Launched 11000 range of HD pan-tilt-zoom and fixed cameras
- Launched next generation of resilient NVR storage, with RAID and Compact versions
- Integration with more 3rd party manufacturers – 18 now supported covering 26 systems
- Strong performance in police, prisons, rail, government, airports and banks
- New President for North American business appointed

Oliver Vellacott, Chief Executive said:

"As anticipated, the year under review proved to be particularly challenging given the economic backdrop. Whilst the Company saw a mixed performance across the regions in which it operates, operating margins held up well and cash generation remained positive. The increase in spend on research and product development, up by nearly a third against the previous year, was largely absorbed by reductions in other operating costs.

We have had an encouraging start to the current year, with sales comfortably ahead of last year, although performance across the regions remains mixed. We are therefore cautiously optimistic in relation to the current year. Reflecting that, the board is recommending an increased dividend to shareholders."

Shareholder calendar

4 November 2010	Annual General Meeting
18 November 2010	Dividend paid
10 March 2011	2011 Interim results announced
29 September 2011	2011 Full year results announced

Chairman's statement

In last year's statement, we commented that expecting an easy year in the twelve months to 31 July 2010 would be unrealistic. So it proved to be. Although sales growth continued, albeit at a much lower rate than we have been used to, operating profits were down on the previous year. However, operating margins proved to be robust, and cash generation positive, reflecting continued management focus on the key financial metrics of IndigoVision's business.

Operationally, much has been achieved during the period. Management structures have been improved and are bedding in well; the product range has been further developed; substantial additional spend was committed to engineering and product development, as planned; and the quality of the sales force was improved. These advances should serve your company well in the current financial year.

Results

In the year to 31 July 2010, overall sales grew 6% to a record £28.0m (2009: £26.4m). Europe Middle East and Africa grew 8% to £12.2m (2009: £11.3m), sales to Asia Pacific grew 24% to £4.6m (2009: £3.7m), and the Americas fell 4% to £10.8m (2009: £11.2m) despite a strong performance from a small base in Latin America. Royalty and support services revenue grew to £0.4m (2009: £0.2m).

Gross margin for the year was 60%, down from 64% the previous year, reflecting teething problems with certain new products, an increase in stock provisioning and a change in the sales mix. The overall contribution from gross margin was marginally down at £16.8m (2009: £16.9m).

Operating costs were up less than 1% at £13.7m (2009: £13.6m). The one third increase in spend on research and product development to £3.0m (2009: £2.3m) was absorbed by a 4% reduction in selling and distribution costs to £7.0m (2009: £7.2m) and a 9% reduction in administrative costs to £3.8m (2009: £4.1m).

Operating profits were £3.1m, some 6% lower than the previous year, but operating margins remained healthy at just under 11% (2009: 12%). Group net cash balances at the start of the year were £3.6m. During the year these increased to £4.4m and the Group had no borrowings.

Customer focus

In providing a complete solution IndigoVision gives customers a single point of accountability for maximum confidence that their project will roll-out smoothly with optimum performance and stability. The strength of IndigoVision's technology comes from developing the entire solution, from compression hardware through embedded storage to enterprise management software, under one roof. This allows pioneering propositions such as our guarantee never to drop a frame and a unique architecture with no single point of failure. IndigoVision can also provide training, accreditation, purchasing and support, as a one stop shop for partners.

Open system for customer choice

Our management software integrates with market-leading manufacturers of Access Control, License Plate/Automatic Numberplate Recognition, Electronic Point of Sale, Perimeter Detection and other systems, giving partners flexibility and choice. Users will be able to upgrade to our ONVIF-compliant management software on release of Control Center 4.2, giving them an assured migration path to an open system and complete freedom to choose any camera manufacturer.

From niche player to camera manufacturer

Using cutting edge compression technology IndigoVision has built a reputation as a leading player in the niche market for 'hybrid' video management, connecting analogue cameras into IP management systems. It was inevitable that, with the emergence of professional IP cameras, this niche would eventually transition to pure IP systems. In order to maintain our proposition as an end-to-end solution, it was imperative we utilised the strength of our compression technology, moving it into the camera.

Chairman's Statement (continued)

The learning curve in camera technology was steep but rewarding, and we are now rapidly becoming a mainstream camera manufacturer, the result of a considered and planned strategy. Our PTZ (pan-tilt-zoom) dome cameras have been very well received, and nothing else in the market matches our HD version. Our fixed and dome cameras did experience some teething problems, however, new models that we will be launching during the coming year should put us back in front of the market in this area.

Whilst the majority of revenues still arise from the niche 'hybrid' market, for several years we have been investing in product development for the mainstream digital market and are confident of completing a successful transition to this much larger market over the coming years.

Ready for HD

The market is also starting to move from Standard Definition to High Definition. Obviously, identifying faces and reading license plates is significantly enhanced through HD but where IndigoVision has excelled is in making the technology suitable for mainstream deployment. Our compression is part of this – HD only makes sense if it fits on your network and you still get 30 days recording from your storage. But we also remain the only manufacturer capable of guaranteeing not to drop a frame. This is because we encode the video in custom hardware and therefore can predictably deliver the requisite processing power whatever the CCTV content. Our latency is also the lowest in the industry, essential for smooth operator control of PTZ domes. So it's not just about delivering 'more pixels', it's about delivering every frame, at low bandwidth and without delays. Our first generation HD (the 10000 range) was deployed along the US-Canadian border and we believe it remains the largest HD system in the world with over 1,000 cameras. Our second generation HD (the 11000 range) launched in the last few months and is being extremely well received.

It's because we control the end-to-end solution that we've been able to deliver an HD solution for mainstream deployment: cost effective, network-friendly, storage-efficient and instant guaranteed-smooth video.

Resilient distributed architecture

The IndigoVision architecture pushes the power and intelligence to the edge of the network, meaning we don't route video through expensive servers, each of which constitutes a single-point-of-failure. Our cameras and transmitters communicate peer-to-peer direct with operator workstations and recorders and, in not needing a central server of any kind, we deliver an inherently resilient and 'fault-tolerant' system. The IndigoVision architecture is extremely simple yet powerful: no servers, no bottlenecks, cost effective and reliable. In terms of competitive advantage, it's as strong as our compression.

Developing people

We now have four regional leaders, reporting to the CEO, each managing sales, support and marketing in their region: North America, EMEA, APAC and Latin America. The purpose of this is to prepare us for the next stage of growth by locating management of all customer-related functions as close as possible to the market so we can be as responsive as possible and adapt to local business cultures. APAC and Latin America have grown strongly over the last 12 months, a trend we expect to continue. Within EMEA, continental Europe was restructured 12 months ago and over the last 6 months has started to grow once more. We have just appointed a new leader for our North American business, who joins us from a US competitor, and we anticipate growth will resume within the current year.
In May we appointed a new head of Product Management and separated it from Engineering in order to bring more market focus to our product roadmap. At the same time we appointed an Engineering Manager reporting to the Chief Executive, thus ensuring closer ownership of technology leadership at the highest management level.

Chairman's Statement (continued)

Dividend

Last year, IndigoVision paid a dividend of 5.0p per share. This year, reflecting the strong balance sheet and a more encouraging start to the current year, the directors are recommending an increased dividend of 7.5p per share. At this level the dividend would be covered 3.6 times.

The payment of the dividend is subject to the approval of the shareholders at the Annual General Meeting. If approved, the dividend will be paid on 18 November 2010 to shareholders on the register on 29 October 2010.

Outlook

We have had an encouraging start to the current year, with sales for the first 8 weeks comfortably ahead of the corresponding period last year. However, performance remains mixed across the regions and the business climate remains uncertain.

In the developed world, where our activities are predominantly focussed, the practical effects of reducing both public spending and government borrowing will continue to have an impact. Conversely, growth continues apace in some developing economies.

More positively, the market in which we operate continues to grow, with IP replacing analogue technology at an increasing rate. We also expect benefits to start to flow from the greater investment we have made in research and product development, producing products that enable access to a larger market.

Overall, therefore, we continue to view the long term future for IndigoVision positively. For the current year, we have a cautious sense of optimism in IndigoVision's business, underscored by the encouraging start to the new financial year's trading.

Hamish Grossart
Chairman
28 September 2010

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 July 2010.

Principal activities and business review

The principal activity of the Group 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 1 to 4.

Proposed dividend

The directors recommend the payment of a dividend 7.5p per share.

Risk

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

Foreign currency exchange rate fluctuations: 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 regularly monitors forthcoming and current legislation as it affects the Group.

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 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.

Directors' report (continued)

Cash and treasury

The net cash balance at year end was £4.4m (2009: £3.6m).

Cash balances are held in sterling, US dollars and euros.

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 board restructured the Group's bank facility totalling £3.5m in order to minimise costs. The new combined facility can be used for working capital, letters of credit and bond and guarantees and is secured by a bond and floating charge.

The board was granted authority at the annual general meeting held on 4 November 2009 to allot and issue, for example, by way of a share placing, up to 2,442,558 ordinary shares of 1p each, equivalent to approximately 33.1% of the Company's current issued share capital. In addition, the board was also granted authority to allot and issue by way of a rights issue, a further 2,442,558 ordinary shares of 1p each, equivalent to a further approximate 33.1% of the Company's current issued share capital.

Key areas of strategic development and performance of the business

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 ("KPIs") 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.

	2010	2009	Measure
Financial KPIs			
Operating margin	11%	12%	Operating profit before financing costs / Revenue
Return on capital employed	18%	21%	Profit before tax / Total assets less current liabilities
Current ratio	3.8	3.9	Current assets: current liabilities
Debtor days	69	43	Age profile of trade receivables
Creditor days	37	42	Age profile of trade payables

Directors' report (continued)

Branches

The Group operates a branch to its 100% owned subsidiary, IndigoVision Ltd, in Dubai.

Political and charitable contributions

The Group made charitable donations of £100 and no political contributions during the year.

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

Barry Keepence resigned as a director on 14 May 2010.

Robert Cathery will retire by rotation at the annual general meeting on 4th November 2010. Having given 10 years of service, Robert has decided not to stand 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 served the Company during the year, together with their beneficial interests in the shares of the Company, were as follows:

	Ordinary shares	
	Interest at end of year	**Interest at start of year**
Hamish Grossart	200,500	200,500
Robert Cathery	143,000	143,000
Barry Keepence *	6,850	29,350
Marcus Kneen	176,900	176,900
Oliver Vellacott	1,724,915	1,724,915

* At date of resignation

Directors' report (continued)

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 *	177,500	13,069	-	-	190,569	£0.61	07/06-10/13
Marcus Kneen	41,000	13,069	-	-	54,069	£1.95	11/08-04/20
Oliver Vellacott	118,000	22,178	-	-	140,178	£1.79	11/08-04/20

* At date of resignation

Substantial interests

At the date of this report, the Company had been notified in accordance with sections 793 to 828 of the Companies Act 2006, of the following interests of 3% or more in the Company's ordinary share capital:

	Shares	**%**
Oliver Vellacott	1,724,915	23
Strategos Fund LP, Strategos Master Fund LP	805,553	11
UBS Securities LLC	303,653	4
Saracen Growth Fund Ltd	255,000	3

Employees

The continuing success of the Group greatly depends on its global employees that contribute daily to the achievement of the organisational goals. The Group respects its staff and recognises that they are its most valuable asset. The Group recruits and retains staff globally by offering challenging opportunities, competitive compensation packages and a good working environment. The focus on recruiting for Research and Development within the past year has increased the number of engineers employed by 24% since 31 July 2009. The Group strives to provide a working environment which encourages continuous learning and development for all employees and is committed to effective investment to achieve the business goals.

The Company is committed to employee involvement throughout the business and operates a number of share option and long term incentive plans. The Company has established an offshore employee benefit trust in connection these plans. In September 2010 the Company received HM Revenue and Customs approval to launch a Share Incentive Plan in which all UK employees are eligible to participate.

Employees with disabilities

The Company's policy is to give full and fair consideration to suitable applications from people with disabilities for employment. If existing employees become disabled they will continue to be employed, wherever practicable, in the same job or, if this is not practicable, every effort will be made to find suitable alternative employment and to provide appropriate training.

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 2010 the number of days of annual purchases represented by the year-end creditors for the Group amounted to 37 (2009: 42).

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

HMcCand

Holly McComb
Secretary

Edinburgh
28 September 2010

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

The directors are responsible for preparing the Directors' Report and the 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 they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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.

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

Independent auditors' report to the members of IndigoVision Group plc

We have audited the financial statements of IndigoVision Group plc for the year ended 31 July 2010 set out on pages 12 to 46. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants

Edinburgh
28 September 2010

Consolidated income statement

For the year ended 31 July 2010

£'000	*Note*	**2010**	2009
Revenue	*2*	**28,008**	26,364
Cost of sales		**(11,229)**	(9,455)
Gross profit		**16,779**	16,909
Research and development expenses		**(2,991)**	(2,263)
Selling and distribution expenses		**(6,962)**	(7,234)
Administrative expenses		**(3,772)**	(4,152)
Operating profit	*3*	**3,054**	3,260
Financial income	*5*	**11**	4
Financial expenses	*5*	**-**	(1)
Net financing income		**11**	3
Profit before tax		**3,065**	3,263
Income tax expense	*6*	**(1,095)**	(778)
Profit for the year attributable to equity holders of the parent	*15*	**1,970**	2,485
Basic earnings per share (pence)	*7*	**26.8**	34.1
Diluted earnings per share (pence)	*7*	**25.6**	32.4

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

Statement of comprehensive income

For the year ended 31 July 2010

£'000	*Note*	**2010**	2009
Profit for the year attributable to the equity holders of the parent		**1,970**	2,485
Foreign exchange translation differences on foreign operations		**(40)**	33
Total other comprehensive (loss)/income		**(40)**	33
Total comprehensive income for the year	*15*	**1,930**	2,518

Consolidated balance sheet

As at 31 July 2010

£'000	*Note*	**2010**	2009
Non-current assets			
Property, plant and equipment	*8*	**491**	345
Intangible assets	*9*	**22**	38
Deferred tax	*11*	**4,850**	5,939
Total non-current assets		**5,363**	6,322
Current assets			
Inventories	*12*	**3,990**	2,909
Trade and other receivables	*13*	**8,046**	6,142
Cash and cash equivalents	*14*	**4,431**	3,551
Total current assets		**16,467**	12,602
Total assets		**21,830**	18,924
Current liabilities			
Trade and other payables	*18*	**4,080**	3,035
Provisions	*17*	**240**	180
Total current liabilities		**4,320**	3,215
Non-current liabilities			
Provisions	*17*	**25**	25
Total non-current liabilities		**25**	25
Total liabilities		**4,345**	3,240
Net assets		**17,485**	15,684
Equity			
Called up share capital	*15*	**74**	73
Share premium account	*15*	**1,482**	1,367
Other reserve	*15*	**5,146**	5,146
Translation reserve	*15*	**(23)**	17
Profit and loss account	*15*	**10,806**	9,081
Total equity attributable to equity holders of the parent		**17,485**	15,684

These financial statements were approved by the Board of Directors on 28 September 2010 and were signed on its behalf by:

Oliver Vellacott
Director

Marcus Kneen
Director

Company balance sheet

As at 31 July 2010

£'000	***Note***	**2010**	2009
Non-current assets			
Investments	*10*	**1,318**	1,121
Total non-current assets		**1,318**	1,121
Current assets			
Trade and other receivables	*13*	**2,111**	1,176
Total current assets		**2,111**	1,176
Total assets		**3,429**	2,297
Total liabilities		**-**	-
Net assets		**3,429**	2,297
Equity			
Called up share capital	*15*	**74**	73
Share premium account	*15*	**1,482**	1,367
Profit and loss account	*15*	**1,873**	857
Total equity attributable to equity holders of the parent		**3,429**	2,297

These financial statements were approved by the Board of Directors on 28 September 2010 and were signed on its behalf by:

Oliver Vellacott
Director

Marcus Kneen
Director

Consolidated statement of cash flows

For the year ended 31 July 2010

£'000	Group 2010	Group 2009	Company 2010	Company 2009
Cash flows from operating activities				
Profit/(loss) for the year	**1,970**	2,485	**(13)**	29
Adjusted for:				
Depreciation and amortisation	**277**	285	**-**	-
Financial income	**(11)**	(4)	**(37)**	-
Financial expenses	**-**	1	**-**	-
Share based payment expense	**197**	264	**-**	-
Foreign exchange loss	**(122)**	(150)	**-**	-
Income tax	**1,095**	778	**-**	-
Increase in inventories	**(1,081)**	(439)	**-**	-
Increase in trade and other receivables	**(1,904)**	(1,459)	**(935)**	(156)
Increase in trade and other payables	**1,045**	275	**-**	-
Increase in provisions	**60**	25	**-**	-
Cash generated from/(absorbed by) operations	**1,526**	2,061	**(985)**	(127)
Income taxes paid	**(5)**	(1)	**-**	-
Net cash inflow/(outflow) from operating activities	**1,521**	2,060	**(985)**	(127)
Cash flows from investing activities				
Interest received	**11**	4	**37**	-
Acquisition of property, plant and equipment	**(404)**	(191)	**-**	-
Acquisition of intangibles	**(12)**	-	**-**	-
Dividends received	-	-	**1,200**	
Net cash (outflow)/inflow from investing activities	**(405)**	(187)	**1,237**	-
Cash flows from financing activities				
Proceeds from the issue of share capital	**116**	127	**116**	127
Interest paid	**-**	(1)	**-**	-
Repurchase of own shares	**(74)**	-	**-**	
Dividends paid	**(368)**	-	**(368)**	-
Net cash (outflow)/inflow from financing activities	**(326)**	126	**(252)**	127
Net increase in cash and cash equivalents	**790**	1,999	**-**	-
Cash and cash equivalents at 1 August	**3,551**	1,371	**-**	-
Effect of exchange rate fluctuations on cash held	**90**	181	**-**	-
Cash and cash equivalents at 31 July	**4,431**	3,551	**-**	-

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 2010 comprise those of the Company and its subsidiaries (together referred to as the "Group").

The financial statements were authorised for issue by the directors on 28 September 2010.

(a) Statement of compliance

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

(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 Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 5 to 9. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Directors' Report on pages 5 to 9. In addition, note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term relationships with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

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.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

(b) Basis of preparation (continued)
The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

(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 approximating to 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.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

(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 years
• computer hardware	3 years

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

(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.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

(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), trade and other receivables (see accounting policy g) 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.

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. 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 by the shareholders.

(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 option valuation 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 number of share options for which the related service and non-market vesting

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

(ii) Share-based payment transactions (continued)

conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that meet the related service and non-market performance conditions at the vesting date, 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). 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 values of the awards are measured using a valuation model, taking into account the terms and conditions upon which the LTIPs were granted.

(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 income from 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 which is when the goods have been despatched from the warehouse.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

(p) Revenue (continued)

(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 income
Net financing income comprises interest payable on the bank overdraft facility and interest receivable on cash deposits.

(r) Income tax
The tax expense/credit 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.

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, excluding shares held by the Employee Benefit Trust which are treated as cancelled. 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.

Notes to the consolidated financial statements (continued)

(t) New standards and interpretations not yet adopted

IAS 24 Related Party Disclosures (revised 2009) will become mandatory for the 2011 Group and Company financial statements. The changes introduced by IAS 24 (2009) relate mainly to the related party disclosure requirements for government related entities and the definition of a related party. It is therefore not expected to have any significant impact on the financial statements of the Group and Company.

IFRS 7 Financial Instruments: Disclosures – Amendments to disclosures will become mandatory for the 2011 Group and Company financial statements. IFRS 7 is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.

(u) Changes in accounting policies
The following new standards and amendments to standards are mandatory for financial periods commencing on 1 January 2009 and have therefore been adopted by the Group:

- IAS 1 (revised) 'Presentation of financial statements'.
- IFRS 8 'Operating segments'.

(i) IAS 1 (revised) Presentation of financial statements

The Group has applied IAS 1 (revised 2007) 'Presentation of financial statements' in these financial statements. As a result, the Group presents a statement of comprehensive income. All 'non-owner changes in equity' are required to be shown in a performance statement. The Group has elected to present two statements: an income statement and a statement of comprehensive income. Owner changes in equity are shown in a statement of changes in equity.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(ii) Determination and presentation of operating segments
The Group has adopted IFRS 8 'Operating segments' which replaces IAS 14 'Segment reporting'. Therefore, from 1 August 2009 the Group determines and presents operating segments based on the information that is internally provided to the Board of Directors ("The Board"), which is the Group's chief operating decision maker.

Note 2 to the financial statements explains that there are currently three reportable segments which are Europe, the Middle East and Africa, the Americas and Asia Pacific. There has been no impact on the measurement of the Group's assets and liabilities as a result of the adoption of this standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's revenues and gross profit after overhead allocation are reviewed regularly by the Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Board assesses the performance of the operating segments based on revenue and a measure of gross profit after overhead allocation. The gross profit measurement basis excludes the effects of nonrecurring expenditure from operating segments, such as restructuring costs and exceptional inventory write downs. Interest income and expenditure are not included in the result for each operating segment that is reviewed by the Board.

Other information provided to the Board is measured in a manner consistent with that in the financial statements.

The assets and liabilities of the Group are also reviewed by the Board on a segment basis.

Notes to the consolidated financial statements (continued)

(u) Changes in accounting policies (continued)

The following new standards, amendments to standards and interpretations are mandatory for the first time for financial periods commencing on 1 January 2009 but are not currently relevant for the Group:

- IAS 23 (amendment) 'Borrowing costs';
- IFRS 2 (amendment) 'Share-based payment';
- IAS 32 (amendment) 'Financial instruments: Presentation';
- IFRIC 16 'Hedges of a net investment in a foreign operation'; and
- IAS 39 (amendment) 'Financial instruments: Recognition and measurement'.

2. Segment reporting

The Board has determined that the segment reporting format is geographical, based on the Group's management and internal reporting structure.

The Board reviews the Group's internal reporting in order to assess performance and to allocate resources. The Board assesses the performance of the following geographical regions: Europe, the Middle East and Africa; the Americas and Asia Pacific and has therefore determined these as the operating segments.

The Board considers the performance of the operating segments based on gross margin after attributable overheads. The operating segments derive their revenue from the sale of software and hardware products, services and royalties. The information provided to The Board is measured in a manner which is consistent with the financial statements

The assets allocated to the operating segments are trade receivables for sales made to customers in these regions and assets owned by subsidiaries in these regions. The liabilities allocated to operating 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 (continued)

2. Segment reporting (continued)
Operating segments

	Notes	**Europe Middle East & Africa**		**The Americas**		**Asia Pacific**		**Unallocated**		**Group**	
		2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Segment revenue		**12,236**	11,290	**10,755**	11,164	**4,568**	3,686	**449**	224	**28,008**	26,364
Segment result		**5,029**	4,801	**5,106**	6,194	**1,953**	1,004	**-**	-	**12,088**	11,999
Unallocated expenses		**-**	-	**-**	-	**-**	-	**(9,034)**	(8,739)	**(9,034)**	(8,739)
Operating profit										**3,054**	3,260
Net financing income	*5*									**11**	3
Profit before tax										**3,065**	3,263
Income tax expense	*6*									**(1,095)**	(778)
Profit for the year										**1,970**	2,485
Assets		**2,752**	2,536	**3,213**	1,949	**1,572**	1,498	**14,293**	12,941	**21,830**	18,924
Liabilities		**(8)**	(52)	**(162)**	(79)	**-**	-	**(4,175)**	(3,109)	**(4,345)**	(3,240)
Expenditure incurred on segment non-current assets		**-**	-	**104**	20	**-**	-	**312**	171	**416**	191
Depreciation and amortisation		**-**	-	**20**	8	**-**	-	**257**	277	**277**	285

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

Notes to the consolidated financial statements (continued)

2. Segment reporting (continued)

Analysis of Revenue

	2010	2009
	£000	£000
Revenues from:		
Products sold	**27,549**	26,112
Support services and royalty income	**459**	252
	28,008	26,364

3. Operating profit

	2010	2009
	£000	£000
Operating profit is stated after charging/(crediting):		
Depreciation and amortisation	**277**	285
Increase in provisions	**60**	25
Write down of inventories to net realisable value	**206**	17
Allowance for doubtful trade receivables	**62**	9
Gain on foreign exchange transactions and translation	**(284)**	(63)
Share based payment expense	**197**	264
Audit of these financial statements (Group and Company)	**31**	32
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	**-**	28
Services relating to recruitment and remuneration	**5**	7
All other services	**17**	26

4. Personnel expenses

	2010	2009
	£000	£000
Group and Company		
Wages and salaries	**4,739**	5,038
Compulsory social security contributions	**491**	519
Contributions to defined contribution plans	**163**	155
Equity-settled share based payment transactions	**197**	264
	5,590	5,976

Notes to the consolidated financial statements (continued)

4. Personnel expenses (continued)

	2010 No	2009 No
Average number of employees, including executive directors and excluding retained agents, by activity		
Selling and distribution	**23**	30
Research & Development	**46**	38
Administration	**31**	32
	100	100

	£000	£000
Remuneration of directors		
Directors emoluments	**544**	658
Company contributions to money purchase pension schemes	**32**	25
	576	683

	Number of directors 2010 No	Number of directors 2009 No
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**2**	3
The number of directors who exercised share options was	**-**	1

The Directors who served during the year and their remuneration for the year (or period of employment during the year where shorter) are shown below:

Director	Salary/ Fees £000	Benefits £000	Total before pension £000	Pension contributions £000	2010 Total £000	2009 Total £000
Executive						
Barry Keepence (to 14 May 2010)	205	6	211	14	**225**	182
Marcus Kneen	110	10	120	8	**128**	183
Oliver Vellacott	140	11	151	10	**161**	256
Non Executive						
Robert Cathery	20	-	20	-	**20**	20
Hamish Grossart	42	-	42	-	**42**	42
	517	27	544	32	**576**	683

5. Net financing income

	2010 £000	2009 £000
Bank interest receivable	**11**	4
Financial income	**11**	4
Bank interest payable	-	(1)
Financial expenses	-	(1)
Net financing income	**11**	3

Notes to the consolidated financial statements (continued)

6. Income tax expense

Recognised in the income statement

	2010 £000	2009 £000
Current tax expense		
Overseas tax	**5**	3
	5	3
Deferred tax expense		
Origination and reversal of temporary differences	**1,000**	775
Adjustments relating to prior year trading losses	**90**	-
	1,090	775
Total income tax charge in income statement	**1,095**	778

Reconciliation of effective tax rate

	2010 %	2010 £000	2009 %	2009 £000
Profit before tax		**3,065**		3,263
Income tax using the UK corporation tax rate	**28%**	**858**	28%	914
Effect of tax rates in foreign jurisdictions	**-**	**-**	0.3%	(3)
Non-deductible expenses	**3.7%**	**32**	4.9%	45
Net tax relief on share options	**(1.0%)**	**(9)**	(14.7%)	(136)
Research & Development tax credit	**(5.5%)**	**(47)**	(4.6%)	(42)
Adjustments relating to prior year trading losses	**10.5%**	**90**	-	-
Effect of tax rate change on deferred tax asset	**19.9%**	**171**	-	-
	127.6%	**1,095**	85.1%	778

Deferred tax recognised directly in equity

	2010 £000	2009 £000
Relating to equity-settled transactions – deferred tax	**-**	(389)

At 31 July 2010 tax losses generated outside the UK available for offset against future profits, amounted to approximately £1.8 million (2009: £1.7 million); using an income tax rate of 28% (2009: 28%) this is equivalent to an asset of £0.5 million (2009: £0.5 million). However, due to continuing uncertainty over the timing of suitable profits and the fact that such losses will eventually time expire, no asset is currently being recognised in the consolidated financial statements in respect of such losses.

Notes to the consolidated financial statements (continued)

7. Earnings per share

	2010 £000	2009 £000
Profit for the year attributable to equity shareholders (basic and diluted)	**1,970**	2,485
	Pence	**Pence**
Basic earnings per share	**26.8**	34.1
Diluted earnings per share	**25.6**	32.4

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:

	2010 No of shares	2009 No of shares
Issued ordinary shares at start of year	**7,321,676**	7,157,176
Effect of weighted average of shares issued during the year from exercise of employee share options	**38,645**	127,904
Effect of purchase of own shares	**(110)**	-
Weighted average number of ordinary shares for the year – for basic earnings per share	**7,360,211**	7,285,080
Effect of share options in issue	**344,500**	389,300
Weighted average number of ordinary shares for the year – for diluted earnings per share	**7,704,711**	7,674,380

Basic earnings per share
The calculation of basic earnings per share for the year ending 31 July 2010 was based on the profit attributable to equity shareholders of £1,970,000 (2009: £2,485,000) and a weighted average number of ordinary shares during the year ending 31 July 2010 of 7,360,211 (2009: 7,285,080), calculated as shown above.

Diluted earnings per share
The calculation of diluted earnings per share for the year ending 31 July 2010 was based on the profit attributable to equity shareholders of £1,970,000 (2009: £2,485,000) and a weighted average number of ordinary shares during the year ending 31 July 2010 of 7,704,711 (2009: 7,674,380), 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 (continued)

8. Property, plant and equipment

Group	**Property, plant and equipment**	**Fixtures and fittings**	**Computer hardware**	**Total**
	£000	**£000**	**£000**	**£000**
Cost				
Balance at 1 August 2008	350	317	728	**1,395**
Additions	70	16	105	**191**
Disposals	-	-	(2)	**(2)**
Effect of movements in foreign exchange	1	1	8	**10**
Balance at 31 July 2009	421	334	839	**1,594**
Balance at 1 August 2009	421	334	839	**1,594**
Additions	165	63	176	**404**
Disposals	(74)	(2)	(282)	**(358)**
Effect of movements in foreign exchange	-	(1)	3	**2**
Balance at 31 July 2010	512	394	736	**1,642**
Depreciation				
Balance at 1 August 2008	153	262	567	**982**
Depreciation charge for the year	128	27	104	**259**
Effect of movements in foreign exchange	-	-	8	**8**
Balance at 31 July 2009	281	289	679	**1,249**
Balance at 1 August 2009	281	289	679	**1,249**
Depreciation charge for the year	117	19	113	**249**
Disposals	(68)	(1)	(281)	**(350)**
Effect of movements in foreign exchange	-	-	3	**3**
Balance at 31 July 2010	330	307	514	**1,151**
Carrying amounts				
At 1 August 2008	197	55	161	**413**
At 31 July 2009	140	45	160	**345**
At 1 August 2009	140	45	160	**345**
At 31 July 2010	182	87	222	**491**

Notes to the consolidated financial statements (continued)

9. Intangible assets

	Computer software £000
Cost	
Balance at 1 August 2008	**79**
Additions	**-**
Balance at 31 July 2009	**79**
Balance at 1 August 2009	**79**
Additions	**12**
Balance at 31 July 2010	**91**
Amortisation and impairment losses	
Balance at 1 August 2008	**15**
Amortisation for the year	**26**
Balance at 31 July 2009	**41**
Balance at 1 August 2009	**41**
Amortisation for the year	**28**
Balance at 31 July 2010	**69**
Carrying amounts	
At 1 August 2008	**64**
At 31 July 2009	**38**
At 1 August 2009	**38**
At 31 July 2010	**22**

10. Investments in subsidiaries

Company	2010 £000	2009 £000
Cost		
At 1 August	**1,121**	857
Increase in respect of share based payments	**197**	264
At 31 July	**1,318**	1,121

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.

Notes to the consolidated financial statements (continued)

11. Deferred tax assets and liabilities

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2010 £000	2009 £000
Employee benefits – share based payments	**250**	292
Value of tax losses carried forward	**4,495**	5,521
Depreciation in excess of capital allowances	**102**	126
Other timing differences	**3**	-
Tax assets	**4,850**	5,939

Unrecognised deferred tax assets

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

	2010 £000	2009 £000
Tax losses – Non UK	**504**	476
	504	476

Movement in temporary differences during the year

	Balance 1 Aug 08 £000	Recogn-ised in income £000	Recogn-ised in equity £000	Balance 31 Jul 09 £000
Employee benefits – share-based payments	681	-	(389)	**292**
Tax value of losses carried forward	6,312	(791)	-	**5,521**
Depreciation in excess of capital allowances	110	16	-	**126**
	7,103	(775)	(389)	**5,939**

	Balance 1 Aug 09 £000	Recogn-ised in income £000	Recogn-ised in equity £000	Balance 31 Jul 10 £000
Employee benefits – share-based payments	292	(42)	-	**250**
Tax value of losses carried forward	5,521	(1,026)	-	**4,495**
Depreciation in excess of capital allowances	126	(24)	-	**102**
Other timing differences	-	3	-	**3**
	5,939	(1,089)	-	**4,850**

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the company's future tax charge accordingly. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax assets accordingly.

Notes to the consolidated financial statements (continued)

12. Inventories

	2010	2009
	£000	£000
Raw materials and consumables	**1,057**	505
Finished goods	**2,933**	2,404
	3,990	2,909

The write down of inventories to the lower of cost and net realisable value totalled £206,000 (2009: £17,000). In the year, raw material, consumables and changes to finished goods recognised as cost of sales amounted to £10,855,000 (2009: £9,426,000).

13. Trade and other receivables

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Trade receivables	**7,371**	5,850	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**2,037**	1,176
Amounts due from other related parties	**-**	-	**74**	-
Other receivables	**330**	103	**-**	-
Prepayments and accrued income	**345**	189	**-**	-
	8,046	6,142	**2,111**	1,176

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

14. Cash and cash equivalents

	2010	2009
	£000	£000
Bank balances	**3,024**	3,190
Bank deposits	**1,407**	361
Cash and cash equivalents in the statement of cash flows	**4,431**	3,551

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

Notes to the consolidated financial statements (continued)

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 2008	72	1,241	5,146	(16)	6,721	13,164
Profit for the year	-	-	-	33	2,485	2,518
Share options exercised by employees	1	126	-	-	-	127
Equity-settled transactions, including deferred tax effect	-	-	-	-	(125)	(125)
Balance at 31 July 2009	**73**	**1,367**	**5,146**	**17**	**9,081**	**15,684**
Balance at 1 August 2009	73	1,367	5,146	17	9,081	15,684
Profit for the year	-	-	-	(40)	1,970	1,930
Share options exercised by employees	1	115	-	-	-	116
Equity-settled transactions, including deferred tax effect	-	-	-	-	197	197
Purchase of own shares					(74)	(74)
Dividends paid to equity holders	-	-	-	-	(368)	(368)
Balance at 31 July 2010	**74**	**1,482**	**5,146**	**(23)**	**10,806**	**17,485**

Company	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 August 2008	72	1,241	564	1,877
Profit for the year	-	-	29	29
Share options exercised by employees	1	126	-	127
Equity-settled transactions, including deferred tax effect	-	-	264	264
Balance at 31 July 2009	**73**	**1,367**	**857**	**2,297**
Balance at 1 August 2009	73	1,367	857	2,297
Profit for the year	-	-	(13)	(13)
Share options exercised by employees	1	115	-	116
Equity-settled transactions, including deferred tax effect	-	-	197	197
Dividend received from subsidiary	-	-	1,200	1,200
Dividend paid to equity holders	-	-	(368)	(368)
Balance at 31 July 2010	**74**	**1,482**	**1,873**	**3,429**

Notes to the consolidated financial statements (continued)

15. Capital and reserves (continued)

Share capital

	Ordinary shares	
	As at 31 July 2010 No of shares	As at 31 July 2009 No of shares
In issue at start of year	**7,321,676**	7,157,176
Issued for cash on exercise of employee share options	**50,100**	164,500
In issue at end of year – fully paid	**7,371,776**	7,321,676

At 31 July 2010, the authorised share capital comprised 7,371,776 ordinary shares (2009: 7,321,676) 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 50,100 ordinary shares of 1 penny each were issued, 29,000 at 194.5 pence per share, 10,000 at 494.2 pence per share, 7,000 at 65 pence per share, 2,000 at 35 pence per share, 1,600 at 130 pence per share and 500 at 568.33 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 the provisions of IFRS1 such that the accounting for this business combination has not been restated.

Employee benefit trust

Offset within the profit and loss account is an amount of £74,000 (2009: Nil) representing the cost of own shares held within the Employee Benefit Trust. The nominal value of own shares held is £200.

Dividends

After the balance sheet date dividends of £0.075 per qualifying ordinary share (2009: £0.05) were proposed by the directors. The dividends have not been provided for.

Notes to the consolidated financial statements (continued)

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.

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.

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.

Under these plans the remuneration committee may grant eligible employees in the United Kingdom and Dubai share options that exceed the value limit of the HM Revenue and Customs 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 and Dubai.

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.

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 (LTIP)

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.

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 2010, 20,000 shares in the Company had been acquired by the Employee Benefit Trust.

Notes to the consolidated financial statements (continued)

16. Share based payments (continued)

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			
19 December 2001	5,500	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	68,500	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	20,973	3 years from date of grant	10 years
3 October 2007	25,548	3 years from date of grant	10 years
The 2008 Approved Share Option Plan			
17 October 2008	11,500	3 years from date of grant	10 years
29 April 2010	7,611	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	30,500	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 2008 Unapproved Share Option Plan			
17 October 2008	11,800	3 years from date of grant	10 years
29 April 2010	6,389	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/Issuance Plan			
3 October 2007	1,000	Individually determined	10 years
17 October 2008	2,700	Individually determined	10 years
29 April 2010	1,000	Individually determined	10 years

Notes to the consolidated financial statements (continued)

16. Share based payments (continued)

Grant date	Number of instruments originally granted	Vesting conditions	Contractual life of options
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	1,000	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
17 October 2008	13,500	Individually determined	10 years
29 April 2010	44,000	Individually determined	10 years
The Long Term Incentive Plan			
17 October 2008	38,000	Individually determined	10 years
27 April 2010	55,801	Individually determined	10 years
11 June 2010	13,000	Individually determined	10 years

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

	2010 Weighted average exercise price, £	2010 Number of options	2009 Weighted average exercise price, £	2009 Number of options
The 2000 Approved Share Option Plan				
Outstanding at the beginning of the year	**2.94**	**260,448**	2.51	340,948
Granted during the year	**-**	**-**	-	-
Forfeited during the year	**4.61**	**(17,200)**	4.77	(3,500)
Exercised during the year	**2.10**	**(44,170)**	0.90	(77,000)
Outstanding at the end of the year	**3.01**	**199,078**	2.94	260,448
The 2000 Unapproved Share Option Plan				
Outstanding at the beginning of the year	**3.39**	**294,852**	2.77	378,352
Granted during the year	**-**	**-**	-	-
Forfeited during the year	**-**	**-**	-	-
Exercised during the year	**4.94**	**(3,930)**	0.60	(83,500)
Outstanding at the end of the year	**3.36**	**290,922**	3.39	294,852
The 2000 Stock Option / Stock Issuance Plan				
Outstanding at the beginning of the year	**2.60**	**6,500**	3.35	7,500
Granted during the year	**-**	**-**	-	-
Forfeited during the year	**-**	**-**	8.23	(1,000)
Exercised during the year	**-**	**-**	-	-
Outstanding at the end of the year	**2.60**	**6,500**	2.60	6,500

Notes to the consolidated financial statements (continued)

16. Share based payments (continued)

	2010 Weighted average exercise price, £	2010 Number of options	2009 Weighted average exercise price, £	2009 Number of options
The 2008 Approved Share Option Plan				
Outstanding at the beginning of the year	**4.06**	**10,900**	-	-
Granted during the year	**5.00**	**7,611**	4.06	11,500
Forfeited during the year	**4.06**	**(1,300)**	4.06	(600)
Exercised during the year	**-**	**-**	-	-
Outstanding at the end of the year	**4.48**	**17,211**	4.06	10,900
The 2008 Unapproved Share Option Plan				
Outstanding at the beginning of the year	**4.06**	**11,800**	-	-
Granted during the year	**5.00**	**6,389**	4.06	11,800
Forfeited during the year	**-**	**-**	-	-
Exercised during the year	**-**	**-**	-	-
Outstanding at the end of the year	**4.39**	**18,189**	4.06	11,800
The 2008 Stock Option Plan				
Outstanding at the beginning of the year	**5.65**	**2,900**	8.68	1,000
Granted during the year	**5.00**	**1,000**	4.06	2,700
Forfeited during the year	**4.06**	**(400)**	4.06	(800)
Exercised during the year	**-**	**-**	-	-
Outstanding at the end of the year	**5.65**	**3,500**	5.65	2,900
The Stand Alone Option Agreements				
Outstanding at the beginning of the year	**4.79**	**63,100**	4.86	55,500
Granted during the year	**5.00**	**44,000**	4.06	13,500
Forfeited during the year	**6.63**	**(2,700)**	7.47	(1,900)
Exercised during the year	**1.95**	**(2,000)**	1.95	(4,000)
Outstanding at the end of the year	**4.89**	**102,400**	4.79	63,100

Notes to the consolidated financial statements (continued)

16. Share based payments (continued)

The weighted average share price at the date of exercise of share options exercised during the year was £6.15 (2009: £4.51).

The options outstanding at the year end have an exercise price in the range of £0.35 to £12.30 and a weighted average remaining contractual life of 5.2 years (2009: 6.5 years).

The options outstanding at 31 July 2010 have an exercise price in the ranges summarised below:

Exercise price range	Number of options outstanding at 31 July 2010	Weighted average remaining contractual life (years)
£0.35 - £0.65	**150,500**	0.8
£1.945 - £4.06	**228,800**	2.1
£4.490 - £5.683	**148,000**	1.1
£7.30 - £8.683	**109,500**	1.2
£12.30	**1,000**	0.0
	637,800	5.2

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of 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 discount rate of between 1.5% and 5.75% and historic share price volatility at the date of grant range of between 49.4% and 72.2%.

LTIPs	2010 Weighted average exercise price £	2010 Number of options	2009 Weighted average exercise price £	2009 Number of options
Outstanding at the beginning of the year	**-**	**38,000**	-	-
Granted during the year	**-**	**68,801**	-	38,000
Forfeited during the year	**-**	**-**	-	-
Exercised during the year	**-**	**-**	-	-
Outstanding at the end of the year	**-**	**106,801**	-	38,000

The total expense recognised for the year arising from share based payments was £197,000 (2009: £264,000).

Recognised in income statement	2010 £000	2009 £000
Share options granted in 2006	**12**	91
Share options granted in 2007	**108**	126
Share options granted in 2008	**55**	47
Share options granted in 2010	**22**	-
Total expense recognised as employee costs (note 4)	**197**	264

Notes to the consolidated financial statements (continued)

17. Provisions

	Product Warranties £000
Balance at 1 August 2009	**205**
Provisions made during the year	**365**
Provisions used during the year	**(305)**
Balance at 31 July 2010	**265**
Non-current	**25**
Current	**240**
	265

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.

18. Trade and other payables

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade payables	**3,210**	1,810	**-**	-
Taxation and social security	**129**	112	**-**	-
Other payables	**21**	19	**-**	-
Accruals and deferred income	**720**	1,094	**-**	-
	4,080	3,035	**-**	-

19. Financial instruments

The Group's principal financial instruments as at 31 July 2010 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 2010 and 31 July 2009, 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.

Notes to the consolidated financial statements (continued)

19. Financial instruments (continued)

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. 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 restricted 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:

		Group		Company	
		2010	2009	2010	2009
	Note	£000	£000	£000	£000
Trade and other receivables	*13*	**8,046**	6,142	**2,111**	1,176
Cash and cash equivalents	*14*	**4,431**	3,551	-	-
		12,477	9,693	**2,111**	1,176

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

The maximum exposure to credit risk for trade receivables at the reporting date by geographical region was:

	2010	2009
	£000	£000
Europe, Middle East and Africa	**2,733**	2,519
The Americas	**3,066**	1,833
Asia Pacific	**1,572**	1,498
	7,371	5,850

Impairment losses

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

	Gross	Impairment	Gross	Impairment
	2010	2010	2009	2009
Group	£000	£000	£000	£000
Not past due	**5,008**	**-**	4,923	-
0-30 days overdue	**1,237**	**-**	672	-
31-60 days overdue	**392**	**-**	254	-
More than 61 days overdue	**831**	**(97)**	36	(35)
	7,468	**(97)**	5,885	(35)

Notes to the consolidated financial statements (continued)

19. Financial instruments (continued)

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:

	2010 £000	2009 £000
Balance at start of the year	**(35)**	(38)
Impairment (loss) / gain recognised	**(62)**	3
Balance at end of year	**(97)**	(35)

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 an overdraft facility of £1.5m as part of its total £3.5m bank facility. As at 31 July 2010 the Group was not utilising the overdraft facility and has cash balances of £4.4 million.

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 20%), US Dollars (currently approximately 60%) and Euros (currently approximately 20%).

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.

		Group	
Financial assets and financial liabilities by currency	*Notes*	2010 £000	2009 £000
US Dollar trade and other receivables	*13*	**5,456**	4,386
Euro trade and other receivables	*13*	**853**	664
US Dollar cash and cash equivalents	*14*	**2,179**	1,935
Euro cash and cash equivalents	*14*	**678**	1,222
US Dollar trade and other payables	*18*	**(2,984)**	(1,403)
Other currency trade and other payables	*18*	**(46)**	(26)

Notes to the consolidated financial statements (continued)

19. Financial instruments (continued)

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	
	2010	**2009**	**2010**	**2009**
Pounds Sterling to US Dollar	**1.5660**	1.5819	**1.5628**	1.6559
Pounds Sterling to Euro	**1.1416**	1.1605	**1.1972**	1.1729

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 an overdraft facility of £1.5m as part of its total £3.5m bank facility for use to mitigate liquidity risk. As at 31 July 2010 the Group was not utilising the overdraft facility and has cash and cash equivalents of £4,431,000 (2009: £3,551,000). The Group does not have any interest bearing liabilities due after more than 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.

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.

There is currently not considered to be any material risk to the business on the basis of interest rate movements given the financial position of the Company.

It is estimated that a general increase of five percentage points in the value of the Pound against the USD would have decreased the Group's profit before tax by approximately £37,000 for the year ended 31 July 2010 (2009: £150,000) and a general increase of five percentage points in the value of the Pound against the Euro would have decreased the Group's profit before tax by approximately £194,000 (2009: £170,000).

Notes to the consolidated financial statements (continued)

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

	Carrying amount 2010 £000	Fair value 2010 £000	Carrying amount 2009 £000	Fair value 2009 £000
Trade and other receivables	**8,046**	**8,046**	6,142	6,142
Cash and cash equivalents	**4,431**	**4,431**	3,551	3,551
Trade and other payables	**(4,080)**	**(4,080)**	(3,035)	(3,035)
	8,397	**8,397**	6,658	6,658

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 £2,111,000 (2009: £1,176,000).

20. Operating leases

Non-cancellable operating lease rentals are payable as follows.

	2010 £000	2009 £000
Leases expiring within:		
Less than one year	**26**	37
Between one and five years	**29**	11
More than five years	**166**	166
	221	214

During the year ended 31 July 2010, £269,000 was recognised as an expense in the income statement in respect of operating leases (2009: £262,000).

The Group leases premises in the UK, USA and Dubai under operating leases. The UK leases expire in April 2018, June 2011 and October 2010. The Dubai lease expires in January 2011 and the US lease expires in January 2012.

21. Capital commitments
As at 31 July 2010, the Group had no contracts to purchase property, plant and equipment (2009: £nil).

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.

Notes to the consolidated financial statements (continued)

22. Related parties (continued)

Directors of the Company and their immediate relatives control 30.5 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 are contained in note 4.

Transactions with subsidiaries
During the year the Company was charged a management fee of £13,000 (2009: £15,000) by its subsidiary IndigoVision Ltd.

During the year the Company charged interest on cash balances loaned to its subsidiary IndigoVision Ltd of £37,000 (2009: £45,000).

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 £2,037,000 (2009: £1,176,000).

23. Group entities

Significant subsidiaries

	Country of incorporation	Ownership interest	
		2009	2008
		%	%
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 discount 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.

Notes to the consolidated financial statements (continued)

24. Accounting estimates and judgements (continued)

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Some items included in inventories are written down to their net realisable value based on assumptions about future demand and market conditions. If actual market conditions are less favourable than those projected by management, then inventory may be required to be written down by additional amounts. The assessment of whether an inventory write down is required is dependent on the circumstances prevailing at the time of the assessment.

Research and development costs

Expenditure on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognised as an expense in the income statement as incurred. The decision on whether development expenditure is capitalised rests with management. The decision is based on whether the development expenditure leads to a product which is technically feasible, production and sale are intended, a market exists and sufficient resources are available to complete the project. It is only when management can assess each of the requirements with certainty that decision is made to capitalise the development expenditure in the financial statements. The assessment of whether a development should be capitalised is dependent on the circumstances prevailing at the time of the assessment.

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