

IndigoVision Group plc

Directors' report and consolidated
financial statements 2009

Registered number SC208809

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IndigoVision Group PLC

Final results for year ended 31 July 2009

Record results ahead of expectations.

IndigoVision uses Internet based digital technology to make surveillance systems that allow businesses and governments to secure their assets and processes. The systems are very fast, highly robust and scalable. They can be used anywhere and are hard to infiltrate or disable.

Financial Highlights

- Revenues up 43% to a record £26.4m
- Operating profit up 59% to a record £3.26m
- Adjusted basic earnings per share up 59% to 34.1p
- Net cash more than doubled to £3.5m at 31 July 2009
- Maiden dividend of 5.0p per share

Operating Highlights

- Increased investment in engineering capability
- Supporting ONVIF and PSIA open standard initiatives for IP cameras
- Integration with access control, perimeter detection and vehicle licence plate recognition systems
- Product range:
 - High-Definition (HD) IP cameras range increased
 - Network Video Recorder performance increased
- Major installations across all geographies in 20 vertical markets including:
 - 11 casino projects in North America
 - US-Canadian border crossings for Canada Border Services Agency
 - Banking and Retail projects in all geographies
 - Airport projects in USA, India, China and Portugal
 - Oil, gas and petrochemicals including Sakhalin pipeline and Shell Albian
 - City and traffic systems in all major geographies
 - Rail projects including Santiago Metro in Chile

Oliver Vellacott, Chief Executive, said

'These are great results achieved in a difficult economic climate. I am especially pleased to be announcing our first ever dividend to shareholders.

The financial results achieved are a direct result of the strength of our product range and its powerful supporting technology, the talented group of people which we have worldwide, and the strong market position which we have built based on the needs of customers.

The long term market potential for IndigoVision's offering continues to be attractive, the sales force is well developed, distribution and service centers are working well and finances are sound. Although the security market is moving from older analogue systems to IP, 90% of this transition has still to take place, giving IndigoVision a clear opportunity.

In the current year we will be stepping up spend on research and product development to prepare IndigoVision for the next phase of growth. We expect the short term economic background to continue to be difficult, but believe that IndigoVision can meet this challenge."

Shareholder calendar

30 September 2009	2009 Full year results announced
01 October 2009	Directors' report and consolidated financial statements circulated
4 November 2009	Annual General Meeting
11 March 2010	2010 Interim results announced
29 September 2010	2010 Full year results announced

Chairman's statement

The year to 31 July 2009 turned out to be a remarkably successful one for IndigoVision, notwithstanding the turbulence in financial markets in the first half, and the impact on the economies in which we operate in the second half. The rate of growth fluctuated throughout the year but in the end the group has achieved record sales, profit and earnings. Good progress was also made in developing and bedding in the sales, service, and distribution infrastructure globally. The group ended the year with strong cash balances and no debt, and the board is recommending a dividend to shareholders for the first time.

Results

In the year to 31 July 2009, revenue growth was achieved in each of the three regions in which we operate, and overall sales grew 43% to a record £26.4m. Sales doubled in the Americas to £11.2m, grew by 50% in Asia Pacific to £3.9m, and increased 10% in Europe, Middle East and Africa to £11.3m. All of these rates of growth are creditable given the economic backdrop.

Gross margins were lower than last year, reflecting a change in sales mix and greater volumes, but the contribution from gross margin grew 30% to a record £16.9m. Operating costs were 24% higher at £13.6m; operating profits reached a record £3.26m, 59% higher than the previous year; and adjusted earnings per share reached a record 34.1p, up 59% on the year to 31 July 2008.

The Group started the year with net cash balances of £1.4m. By the year end these balances had increased to £3.5m, notwithstanding an increase in working capital of £1.6m to finance the greater level of sales.

Dividend

The directors believe there is now sufficient balance sheet strength to commence the payment of dividends to shareholders, who have patiently supported IndigoVision as its business has been developed.

The directors are therefore recommending a dividend of 5.0p per share, payment of which will be subject to the approval of shareholders at the Annual General Meeting. If approved, the dividend will be paid on 27 November 2009 to shareholders on the register on 6 November 2009.

IndigoVision's business

IndigoVision innovates and manufactures Security Management Systems. We integrate popular 3rd party systems such as access control, perimeter detection and vehicle license plate recognition, giving users freedom to choose the best technology for their needs yet control it from one 'front end'. For video management IndigoVision provides an end-to-end solution – both hardware and software – giving users the maximum performance and confidence which is possible from having a single point of supply. We are also active participants in the ONVIF and PSIA open standards, meaning our users will in future have the same freedom to choose whichever camera manufacturer best suits their needs.

Growth

The security market is undergoing a fundamental technology shift from analogue to IP. More than 90% of this transition to IP has yet to occur, representing a significant opportunity for IndigoVision. In recent years market growth has been 10-20% per annum (source: IMS Research). We estimate IndigoVision has grown sales at an average of roughly twice the rate of growth in the available market in the last five years, steadily increasing our market share. IndigoVision's strategy is to continue to grow organically, funded by our strong margins and net cash generation, with the goal of continuing to outstrip the rate of growth in the IP market.

Technology

IndigoVision has a reputation for providing IP systems that scale smoothly from just a few to thousands of cameras. A recent industry survey identified reliability as the single most important factor affecting a user's confidence to move from analogue to IP. The fact that IndigoVision is end-to-end – taking the software-hardware integration headaches away from our partners – is an inherent source of confidence for our users. Our technology also employs a unique distributed architecture with no single point of failure, hugely important for mission critical systems which cannot afford to 'go down' just because a central server is temporarily unavailable over the network. Video playback is also a hot favourite with our users with our facility to assess 24 hours of video in just 3 seconds. This, coupled with our suite of video analytics, can enable a ten-fold reduction in the time and cost expended in incident investigation.

Partners

In providing an end-to-end solution we give our partners a single point of accountability so they can have confidence that their project will roll-out smoothly with optimum performance and stability. We are their single point of training, accreditation, design, purchasing and support. IndigoVision authorises partners on completion of technical training and we supply exclusively through these partners – never direct to end users or to 'box shifters'. This encourages loyalty from our partners and protects our brand.

We think end-to-end means customer satisfaction and profit: if it deploys smoothly then the end user gets a great system, our partners make money, and we make money. Yet we also recognise that users need choice and that open systems are good for the whole market. We have a strong reputation as a provider of world-class end-to-end video solutions integrated with popular 3rd party security systems. This gives partners the ease of a single point of supply coupled with freedom of choice for those that prefer to select different manufacturers.

Global reach and markets

We have people in 22 countries, serving hundreds of integrators who deploy IndigoVision systems in approximately 80 countries. Our global supply chain manufactures in the Far East and uses three stocking and service hubs (APAC, EMEA, Americas) to provide local & rapid response to our partners' needs. IndigoVision systems are now installed in 31 airports, having recently won Delhi and Shanghai. In the US alone we have 7000 cameras in 18 casinos, the majority of which have been won in the last year. We continue to build a strong position in Rail, with a number of systems with thousands of cameras in Europe and North America. The Government sector continues to be important for us with the 1000 camera US-Canada border win, which we believe to be the largest project in the world using HD cameras.

We have now provided security for four Olympics Games, three G8 Summits and one G20 Summit. We continue to expand in the Police sector with a growing number of stations using IndigoVision systems across the world. We also continue to build reference sites in Ports, with the Port of Montreal, Suez Canal, Spanish Ports and the St Lawrence Seaway. Retail is also growing, with a large North American bank part-way through a major roll out within their retail branch network. Petrochem is also growing, with the Sakhalin pipeline, Shell Albion and state oil companies in Latin America. Key Education projects include Miami University and John Hopkins University in the US. 'Safe Cities' projects are starting to emerge in scale, with IndigoVision already having completed a system for a major city in the Far East and projects in 17 cities in Latin America. Rail projects include the continuing roll out of a major North American project and the Santiago Metro in Chile. Other sectors in which we are making progress include Health, Industrial, Mining, Traffic and Luxury Residential.

Current trading and outlook

The underlying strength of IndigoVision's business model, people and products has served it well in recent years. Although financial markets seem to be recovering, the severe contraction in bank balance sheets continues to affect business confidence and investment in all major economies and we expect this will continue for some time. It remains to be seen how much this will affect business performance in the short term, but expecting an easy year would be unrealistic. The strength of IndigoVision's market position and technology should enable it to meet this challenge.

The security market is moving from older analogue systems to IP, but 90% of this transition has still to take place. This presents a clear medium and long term opportunity for IndigoVision to develop further. In the current year, we will be stepping up the spend on research and product development to prepare IndigoVision for the next stage of growth.

Sales and order intake for the first few weeks of the current year show a mixed picture, with some markets doing well and others falling short. We expect a clearer picture to emerge by the end of the first quarter, and we will update shareholders at the Annual General Meeting at the beginning of November.



Hamish Grossart
Chairman
29 September 2009

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 July 2009.

Principal activities and business review

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

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

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

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

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

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

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

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

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

Proposed dividend

The directors recommend the payment of a dividend 5.0p per share.

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 2009 the number of days of annual purchases represented by the year-end creditors for the Group amounted to 28 days (2008: 28 days).

Cash and treasury

The net cash balance at year end was £3.55m (2008: £1.37m).

Cash balances are held mainly in sterling and US dollars.

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

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

The Group has a multi option facility of £3.5m secured by a bond and floating charge.

In addition the board was granted authority at the annual general meeting held on 20 January 2005 to allot and issue, for example by way of a share placing, up to 692,300 ordinary shares of 1p each, equivalent to approximately 9.47% of the Company's current issued share capital.

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

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

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

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

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

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

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

Directors' report (continued)

	2009	2008	Measure
Financial			
Operating margin	12%	11%	Operating profit before financing costs / Revenue
Return on capital employed	20%	15%	Profit before tax / Total assets less current liabilities
Current ratio	3.8	2.9	Current assets: current liabilities
Debtor days	43	60	Age profile of trade receivables
Creditor days	28	28	Age profile of trade payables

Political and charitable contributions

The Group made no political or charitable 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

The directors to retire by rotation are Hamish Grossart and Marcus Kneen. Hamish Grossart and Marcus Kneen, being eligible, offer themselves for re-election.

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

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

	Ordinary shares	
	Interest at end of year	Interest at start of year
Hamish Grossart	200,500	200,500
Robert Cathery	143,000	136,500
Barry Keepence	29,350	39,350
Marcus Kneen	176,900	176,900
Oliver Vellacott	1,724,915	1,688,415

Directors' report *(continued)*

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

	Options at start of year	Awarded during year	Options exercised	Weighted average exercise price, £	Options at end of year	Weighted average option price per share, £	Date range in which options can be exercised
Barry Keepence	171,500	6,000	-	-	177,500	£1.06	07/06-10/18
Marcus Kneen	35,000	6,000	-	-	41,000	£3.17	11/08-10/18
Oliver Vellacott	246,500	8,000	136,500	-	118,000	£2.41	11/08-10/18

Substantial interests

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

	Shares	%
Oliver Vellacott	1,724,915	24
Strategos Fund LP, Strategos Master Fund LP	805,553	11
Saracen Growth Fund Ltd	340,000	5
UBS Securities LLC	303,053	4

Disclosure of information to auditors

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

Auditors

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

By order of the board



Marcus Kneen
Secretary

Edinburgh
29 September 2009

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

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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 2009 set out on pages 11 to 15. 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 2009 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
29th September 2009

Consolidated income statement

For the year ended 31 July 2009

£'000	Note	2009	2008
Revenue	2	26,364	18,403
Cost of sales		(9,455)	(5,375)
Gross profit		16,909	13,028
Research and development expenses		(2,263)	(1,766)
Selling and distribution expenses		(6,993)	(5,572)
Administrative expenses		(4,393)	(3,637)
Operating profit	3	3,260	2,053
Financial income	5	4	7
Financial expenses	5	(1)	(24)
Net financing income/(costs)		3	(17)
Profit before tax		3,263	2,036
Income tax (expense)/credit	6	(778)	4,502
Profit for the year attributable to equity holders of the parent	15	2,485	6,538
Basic earnings per share (pence)	7	34.1	91.7
Diluted earnings per share (pence)	7	31.2	82.6

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

Consolidated statement of recognised income and expense

For the year ended 31 July 2009

<i>£'000</i>	<i>Note</i>	2009	2008
Foreign exchange translation differences on foreign operations		<u>33</u>	<u>(5)</u>
Net gains/(losses) recognised directly in equity		33	(5)
Profit for the year		2,485	6,538
Total recognised income and expense for the year attributable to equity holders of the parent	15	<u>2,518</u>	<u>6,533</u>

Company statement of recognised income and expense

For the year ended 31 July 2009

<i>£'000</i>	<i>Note</i>	2009	2008
Profit/(loss) for the year		29	(50)
Total recognised income and expense for the year	15	<u>29</u>	<u>(50)</u>

Consolidated balance sheet

As at 31 July 2009

£'000	Note	2009	2008
Non-current assets			
Property, plant and equipment	8	345	413
Intangible assets	9	38	64
Deferred tax	11	5,939	7,103
Total non-current assets		6,322	7,580
Current assets			
Inventories	12	2,909	2,470
Trade and other receivables	13	6,142	4,683
Cash and cash equivalents	14	3,551	1,371
Total current assets		12,602	8,524
Total assets		18,924	16,104
Current liabilities			
Trade and other payables	18	3,035	2,760
Provisions	17	180	150
Total current liabilities		3,215	2,910
Non-current liabilities			
Provisions	17	25	30
Total non-current liabilities		25	30
Total liabilities		3,240	2,940
Net assets		15,684	13,164
Equity			
Called up share capital	15	73	72
Share premium account	15	1,367	1,241
Other reserve	15	5,146	5,146
Translation reserve	15	17	(16)
Profit and loss account	15	9,081	6,721
Total equity attributable to equity holders of the parent		15,684	13,164

These financial statements were approved by the Board of Directors on 29 September 2009 and were signed on its behalf by:



Oliver Vellacott
 Director



Marcus Kneen
 Director

Company balance sheet

As at 31 July 2009

£'000

	Note	2009	2008
Non-current assets			
Investments	10	1,121	857
Total non-current assets		<u>1,121</u>	<u>857</u>
Current assets			
Trade and other receivables	13	1,176	1,020
Total current assets		<u>1,176</u>	<u>1,020</u>
Total assets		<u>2,297</u>	<u>1,877</u>
Total liabilities		<u>-</u>	<u>-</u>
Net assets		<u>2,297</u>	<u>1,877</u>
Equity			
Called up share capital	15	73	72
Share premium account	15	1,367	1,241
Profit and loss account	15	857	564
Total equity attributable to equity holders of the parent		<u>2,297</u>	<u>1,877</u>

These financial statements were approved by the Board of Directors on 29 September 2009 and were signed on its behalf by:



Oliver Vellacott
 Director



Marcus Kneen
 Director

Consolidated statement of cash flows

For the year ended 31 July 2009

£'000	Group		Company	
	2009	2008	2009	2008
Cash flows from operating activities				
Profit/(loss) for the year	2,485	6,538	29	(50)
Adjusted for:				
Depreciation and amortisation	285	240	-	-
Financial income	(4)	(7)	-	-
Financial expenses	1	24	-	-
Share based payment expense	264	289	-	-
Foreign exchange loss	(150)	-	-	-
Income tax	778	(4,502)	-	-
Increase in inventories	(439)	(937)	-	-
(Increase)/decrease in trade and other receivables	(1,459)	(538)	(156)	3
Increase in trade and other payables	275	297	-	-
Increase in provisions	25	30	-	-
Cash generated from/(absorbed by) operations	2,061	1,434	(127)	(47)
Income taxes (paid)/refunded	(1)	66	-	-
Net cash inflow/(outflow) from operating activities	2,060	1,500	(127)	(47)
Cash flows from investing activities				
Interest received	4	7	-	-
Acquisition of property, plant and equipment	(191)	(335)	-	-
Net cash outflow from investing activities	(187)	(328)	-	-
Cash flows from financing activities				
Proceeds from the issue of share capital	127	47	127	47
Interest paid	(1)	(24)	-	-
Net cash inflow from financing activities	126	23	-	-
Net increase in cash and cash equivalents	1,999	1,195	-	-
Cash and cash equivalents at 1 August	1,371	179	-	-
Effect of exchange rate fluctuations on cash held	181	(3)	-	-
Cash and cash equivalents at 31 July	3,551	1,371	-	-

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 2009 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 29 September 2009.

(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 6 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.

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(iii) Investments in subsidiaries

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

(d) Foreign currency

(i) Foreign currency transactions and balances

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

(ii) Financial statements of foreign operations

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

(e) Property, plant and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

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

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

(f) Intangible assets

(i) Research and development

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

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

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

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

(ii) Computer software

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

(g) Trade and other receivables

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

(h) Inventories

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

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

(i) Cash and cash equivalents

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

(j) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy h), 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.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(i) Calculation of recoverable amount

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

(ii) Reversal of impairment

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

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

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are shown in equity as a deduction from equity. Dividends are recognised as a liability in the year in which they are approved 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 model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

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

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

(iii) Long term incentive plan

The Company has established the IndigoVision Group plc 2008 Long Term Incentive Plan (the LTIP). 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.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(m) Employee share trusts

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

(n) Provisions

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

(i) Warranties

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

(o) Trade and other payables

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

(p) Revenue

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

(i) Product revenues

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

(ii) Technical support activities

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

(iii) Royalty income

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

(q) Expenses

(i) Operating lease payments

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

(ii) Net financing costs

Net financing costs comprise interest payable on the 2 year multi option 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.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(r) Income tax (continued)

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

(s) Earnings per share

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

(t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are endorsed but not yet effective for the year ending 31 July 2009, and have not been applied in preparing these financial statements.

- IFRS 8 *Operating Segments*, which becomes mandatory for the Group's 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The impact of this new standard, on the disclosure within the Group's financial statements, is currently being assessed.
- Revised IAS 23 *Borrowing Costs* will become mandatory for the 2010 financial statements of the Group and of the Company and this revised standard removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. It is not expected to have any impact on the financial statements of the Group and of the Company.
- Revised IAS 1 *Presentation of Financial Statements (2007)* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1 has not yet been endorsed for use in the EU. This may be mandatory for the Group's 2010 consolidated financial statements and have a significant impact on the presentation of the consolidated financial statements.
- Amendment to IFRS2 *Share-based Payment – Vesting Conditions and Cancellation* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in the grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments will become mandatory for the Group's 2010 consolidated financial statements.

Notes to the consolidated financial statements

2. Segment reporting

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

Geographical segments

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

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

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

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

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

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

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

Notes to the consolidated financial statements

2. Segment reporting (continued)

Geographical segments

	Notes	Europe Middle East & Africa		The Americas		Asia Pacific		Unallocated		Group	
		2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Segment revenue		11,290	10,242	11,164	5,489	3,686	2,463	224	209	26,364	18,403
Segment result		4,801	5,291	6,194	2,516	1,004	1,479	-	-	11,999	9,286
Unallocated expenses		-	-	-	-	-	-	(8,739)	(7,233)	(8,739)	(7,233)
Operating profit										3,260	2,053
Net financing income / (cost)	5									3	(17)
Profit before tax										3,263	2,036
Income tax (expense) / credit	6									(778)	4,502
Profit for the year										2,485	6,538
Assets		2,536	2,427	1,949	1,261	1,498	720	12,941	11,696	18,924	16,104
Liabilities		(52)	(33)	(79)	(122)	-	-	(3,109)	(2,785)	(3,240)	(2,940)
Expenditure incurred on segment non-current assets		-	-	20	4	-	-	171	331	191	335
Depreciation and amortisation		-	-	8	7	-	-	277	233	285	240

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

Notes to the consolidated financial statements

2. Segment reporting (continued)

Analysis of Revenue

	2009	2008
	£000	£000
Revenues from:		
Products sold	26,112	18,303
Support services and royalty income	252	100
	<u>26,364</u>	<u>18,403</u>

3. Operating profit

	2009	2008
	£000	£000
<i>Operating profit is stated after charging:</i>		
Depreciation and amortisation	285	240
Increase in provisions	25	30
Write down of inventories to net realisable value	17	67
Allowance for doubtful trade receivables	9	14
Gain on foreign exchange transactions and translation	(63)	(194)
Share based payment expense	264	289
Audit of these financial statements (Group and Company)	32	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	30
Services relating to recruitment and remuneration	7	24
All other services	26	
	<u>26</u>	

4. Personnel expenses

	2009	2008
	£000	£000
Group and Company		
Wages and salaries	5,038	4,343
Compulsory social security contributions	519	438
Contributions to defined contribution plans	155	175
Equity-settled share based payment transactions	264	289
	<u>5,976</u>	<u>5,245</u>

Notes to the consolidated financial statements

4. Personnel expenses (continued)

	2009	2008
	No	No
Average number of employees, including executive directors and excluding retained agents, by activity		
Selling and distribution	27	24
Research & Development	38	36
Administration	35	30
	<u>100</u>	<u>90</u>
	£000	£000
Remuneration of directors		
Directors emoluments	656	428
Company contributions to money purchase pension schemes	25	60
	<u>681</u>	<u>488</u>

The aggregate of emoluments of the highest paid director was £245,000 (2008: £136,000), and company pension contributions of £10,000 (2008: £47,000) were made to a money purchase scheme on his behalf.

	Number of directors	
	2009	2008
	No	No
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<u>3</u>	<u>3</u>
The number of directors who exercised share options was	<u>1</u>	<u>1</u>

5. Net financing income / (costs)

	2009	2008
	£000	£000
Bank interest receivable	4	7
Financial income	<u>4</u>	<u>7</u>
Bank interest payable	<u>(1)</u>	<u>(24)</u>
Financial expenses	<u>(1)</u>	<u>(24)</u>
Net financing income / (costs)	<u>3</u>	<u>(17)</u>

Notes to the consolidated financial statements

6. Income tax expense/(credit)

Recognised in the income statement

	2009	2008
	£000	£000
Current tax expense		
Overseas tax	3	1
	<u>3</u>	<u>1</u>
Deferred tax expense		
Origination and reversal of temporary differences	775	405
Reduction in tax rate	-	103
Adjustments relating to prior year trading losses	-	(5,011)
	<u>775</u>	<u>(4,503)</u>
Total income tax credit in income statement	<u>778</u>	<u>(4,502)</u>

Reconciliation of effective tax rate

	2009	2009	2008	2008
	%	£000	%	£000
Profit before tax		3,263		2,036
Income tax using the UK corporation tax rate	28%	914	29.3%	597
Effect of tax rates in foreign jurisdictions	0.3%	(3)	(0.1%)	(1)
Reduction in tax rate	-	-	5.1%	103
Non-deductible expenses	4.9%	45	(0.8%)	17
Tax relief on share options exercised during the year	(14.7%)	(136)	(8.4%)	(172)
Research & Development tax credit	(4.6%)	(42)	(1.7%)	(35)
Adjustments relating to prior year trading losses	-	-	(246.1%)	(5,011)
	<u>85.1%</u>	<u>778</u>	<u>(221.0%)</u>	<u>(4,502)</u>

Deferred tax recognised directly in equity

	2009	2008
	£000	£000
Relating to equity-settled transactions – deferred tax	<u>(389)</u>	<u>(898)</u>

At 31 July 2009 tax losses generated outside the UK available for offset against future profits, amounted to approximately £0.4 million (2008: £1.7 million); using an income tax rate of 28% (2008: 28%) this is equivalent to an asset of £0.1 million (2008: £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.

Notes to the consolidated financial statements

7. Earnings per share

	<i>Notes</i>	2009 £000	2008 £000
Profit for the year attributable to equity shareholders (basic and diluted)		<u>2,485</u>	6,538
Exceptional deferred tax credit	6	<u>-</u>	(5,011)
Adjusted profit for the year attributable to equity shareholders (basic & diluted)		<u>2,485</u>	<u>1,527</u>
		Pence	Pence
Basic earnings per share		34.1	91.7
Diluted earnings per share		31.2	82.6
Adjusted basic earnings per share		34.1	21.4
Adjusted diluted earnings per share		31.2	19.3

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:

	2009 No of shares	2008 No of shares
Issued ordinary shares at start of year	7,157,176	7,082,176
Effect of shares issued during the year from exercise of employee share options	<u>127,904</u>	<u>49,318</u>
Weighted average number of ordinary shares for the year – for basic earnings per share	7,285,080	7,131,494
Effect of share options in issue	<u>688,500</u>	<u>783,300</u>
Weighted average number of ordinary shares for the year – for diluted earnings per share	<u>7,973,580</u>	<u>7,914,794</u>

Basic earnings per share

The calculation of basic earnings per share for the year ending 31 July 2009 was based on the profit attributable to equity shareholders of £2,485,000 (2008: £6,538,000) and a weighted average number of ordinary shares during the year ending 31 July 2009 of 7,285,080 (2008: 7,131,494), calculated as shown above.

Diluted earnings per share

The calculation of diluted earnings per share for the year ending 31 July 2009 was based on the profit attributable to equity shareholders of £2,485,000 (2008: £6,538,000) and a weighted average number of ordinary shares during the year ending 31 July 2009 of 7,973,580 (2008: 7,914,794), 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

7. Earnings per share (continued)

Adjusted basic earnings per share

The calculation of adjusted basic earnings per share for the year ending 31 July 2009 was based on a profit of £2,485,000 (2008: £1,527,000), which excluded the tax credit relating to adjustments for prior years of £nil (2008: £5,011,000), and a weighted average number of ordinary shares during the year ending 31 July 2009 of 7,285,080 (2008: 7,131,494), calculated as shown above.

Adjusted diluted earnings per share

The calculation of adjusted diluted earnings per share for the year ending 31 July 2009 was based on a profit of £2,485,000 (2008: £1,527,000), which excluded the tax credit relating to adjustments for prior years of £nil (2008: £5,011,000), and a weighted average number of ordinary shares during the year ending 31 July 2009 of 7,973,580 (2008: 7,914,794), calculated as shown above.

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 2007	242	281	625	1,148
Additions	111	39	106	256
Disposals	(3)	(3)	(3)	(9)
Balance at 31 July 2008	<u>350</u>	<u>317</u>	<u>728</u>	1,395
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	<u>421</u>	<u>334</u>	<u>839</u>	1,594
Depreciation				
Balance at 1 August 2007	41	221	501	763
Depreciation charge for the year	114	43	68	225
Disposals	(2)	(2)	(2)	(6)
Balance at 31 July 2008	<u>153</u>	<u>262</u>	<u>567</u>	982
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	<u>281</u>	<u>289</u>	<u>679</u>	1,249
Carrying amounts				
At 1 August 2007	<u>201</u>	<u>60</u>	<u>124</u>	385
At 31 July 2008	<u>197</u>	<u>55</u>	<u>161</u>	413
At 1 August 2008	<u>197</u>	<u>55</u>	<u>161</u>	413
At 31 July 2009	<u>140</u>	<u>45</u>	<u>160</u>	345

Notes to the consolidated financial statements

9. Intangible assets

	Computer software £000
Cost	
Balance at 1 August 2007	-
Additions	<u>79</u>
Balance at 31 July 2008	<u>79</u>
Balance at 1 August 2008	79
Additions	-
Balance at 31 July 2009	<u>79</u>
Amortisation and impairment losses	
Balance at 1 August 2007	-
Amortisation for the year	<u>15</u>
Balance at 31 July 2008	<u>15</u>
Balance at 1 August 2008	15
Amortisation for the year	<u>26</u>
Balance at 31 July 2009	<u>41</u>
Carrying amounts	
At 1 August 2007	-
At 31 July 2008	<u>64</u>
At 1 August 2008	<u>64</u>
At 31 July 2009	<u>38</u>

Notes to the consolidated financial statements

10. Investments in subsidiaries

Company	2009	2008
	£000	£000
Cost		
At 1 August	857	568
Increase in respect of share based payments	264	289
At 31 July	<u>1,121</u>	<u>857</u>

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

11. Deferred tax assets and liabilities

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2009	2008
	£000	£000
Employee benefits – share based payments	292	681
Value of tax losses carried forward	5,521	6,312
Depreciation in excess of capital allowances	126	110
Tax Assets	<u>5,939</u>	<u>7,103</u>

Unrecognised deferred tax assets

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

	2009	2008
	£000	£000
Tax losses – Non UK	105	476
	<u>105</u>	<u>476</u>

Notes to the consolidated financial statements

11. Deferred tax assets and liabilities (continued) Movement in temporary differences during the year

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

	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

12. Inventories

	2009 £000	2008 £000
Raw materials and consumables	505	52
Finished goods	2,404	2,418
	2,909	2,470

The write down of inventories to the lower of cost and net realisable value totalled £17,000 (2008: £67,000). In the year, raw material, consumables and changes to finished goods recognised as cost of sales amounted to £9,426,000 (2008: £5,333,000).

13. Trade and other receivables

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade receivables	5,850	4,347	-	-
Amounts due from subsidiary undertakings	-	-	1,176	1,020
Other receivables	103	148	-	-
Prepayments and accrued income	189	188	-	-
	6,142	4,683	1,176	1,020

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

Notes to the consolidated financial statements

14. Cash and cash equivalents

	2009	2008
	£000	£000
Bank balances	3,190	983
Bank deposits	361	388
Cash and cash equivalents in the statement of cash flows	3,551	1,371

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

15. Capital and reserves

Reconciliation of movement in capital and reserves

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

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

Notes to the consolidated financial statements

15. Capital and reserves (continued)

Share capital

	Ordinary shares	
	As at 31 July 2009	As at 31 July 2008
	No of shares	No of shares
In issue at start of year	7,157,176	7,082,176
Issued for cash on exercise of employee share options	<u>164,500</u>	<u>75,000</u>
In issue at end of year – fully paid	<u>7,321,676</u>	<u>7,157,176</u>

At 31 July 2009, the authorised share capital comprised 7,321,676 ordinary shares (2008: 7,157,176) which have a nominal value of 1 penny per share. All issued shares are fully paid.

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

During the year 164,500 ordinary shares of 1 penny each were issued, 22,000 at 194.5 pence per share, 103,500 at 56.5 pence per share and 39,000 at 65 pence per share pursuant to the exercise of options.

Share premium

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

Translation reserve

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

Other reserve

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

Dividends

After the balance sheet date dividends of £0.05 per qualifying ordinary share (2008: nil) were proposed by the directors. The dividends have not been provided for.

Notes to the consolidated financial statements

16. Share based payments

Share option schemes

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

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

The Approved Share Option Schemes

The Group has two approved share options schemes: The 2000 Approved Share Option Scheme and the 2008 Approved Share Option Scheme, which was introduced to replace the 2000 Approved Share Option Scheme.

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.

Notes to the consolidated financial statements

16. Share based payments (continued)

The Employee Benefit Trust

On 3 June 2008, in connection with establishing the Long Term Incentive Plan, the Company established the IndigoVision Group plc Employee Benefit Trust for the purpose of encouraging and facilitating the acquisition and holding of shares in the Company for the benefit of employees of the Group. As at 31 July 2009, no shares in the Company had been acquired by the Employee Benefit Trust.

Share option plans

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

Grant date	Number of instruments originally granted	Vesting conditions	Contractual life of options
The 2000 Approved Share Option Plan			
16 June 2000	16,000	3 years from date of grant	10 years
19 December 2001	55,000	3 years from date of grant	10 years
30 July 2003	316,428	3 years from date of grant	10 years
19 December 2003	44,000	3 years from date of grant	10 years
23 April 2004	91,796	3 years from date of grant	10 years
3 May 2004	20,000	3 years from date of grant	10 years
12 November 2004	66,500	3 years from date of grant	10 years
1 November 2005	99,727	3 years from date of grant	10 years
16 March 2006	30,140	3 years from date of grant	10 years
25 October 2006	35,000	3 years from date of grant	10 years
16 April 2007	30,973	3 years from date of grant	10 years
3 October 2007	25,548	3 years from date of grant	10 years
The 2008 Approved Share Option Plan			
17 October 2008	11,500	3 years from date of grant	10 years
The 2000 Unapproved Share Option Plan			
30 July 2003	35,572	3 years from date of grant	10 years
23 April 2004	54,704	3 years from date of grant	10 years
12 November 2004	99,000	3 years from date of grant	10 years
1 November 2005	150,273	3 years from date of grant	10 years
16 March 2006	7,860	3 years from date of grant	10 years
25 October 2006	1,000	3 years from date of grant	10 years
16 April 2007	34,027	3 years from date of grant	10 years
3 October 2007	37,952	3 years from date of grant	10 years
The 2008 Unapproved Share Option Plan			
17 October 2008	11,800	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

Notes to the consolidated financial statements

16. Share based payments (continued)

The Stand-Alone Option Agreements

30 July 2003	2,000	Individually determined	10 years
19 December 2003	4,000	Individually determined	10 years
23 April 2004	6,000	Individually determined	10 years
12 November 2004	15,000	Individually determined	10 years
1 November 2005	18,000	Individually determined	10 years
16 June 2006	25,000	Individually determined	10 years
25 October 2006	30,500	Individually determined	10 years
16 April 2007	13,000	Individually determined	10 years
3 October 2007	6,500	Individually determined	10 years
14 April 2008	10,000	Individually determined	10 years
17 October 2008	13,500	Individually determined	10 years

The Long Term Incentive Plan

17 October 2008	38,000	Individually determined	10 years
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The number and weighted average exercise prices of unexercised share options are as follows:

	2009 Weighted average exercise price, £	2009 Number of options	2008 Weighted average exercise price, £	2008 Number of options
The 2000 Approved Share Option Plan				
Outstanding at the beginning of the year	2.51	340,948	2.08	339,854
Granted during the year	-	-	8.68	27,548
Forfeited during the year	4.77	(3,500)	8.16	(7,454)
Exercised during the year	0.90	(77,000)	0.65	(19,000)
Outstanding at the end of the year	2.94	260,448	2.51	340,948
The 2000 Unapproved Share Option Plan				
Outstanding at the beginning of the year	2.77	378,352	2.27	389,946
Granted during the year	-	-	8.68	37,952
Forfeited during the year	-	-	8.68	(16,546)
Exercised during the year	0.60	(83,500)	0.65	(33,000)
Outstanding at the end of the year	3.39	294,852	2.77	378,352
The 2000 Stock Option / Stock Issuance Plan				
Outstanding at the beginning of the year	3.35	7,500	4.09	15,500
Granted during the year	-	-	-	-
Forfeited during the year	8.23	(1,000)	4.79	(8,000)
Exercised during the year	-	-	-	-
Outstanding at the end of the year	2.60	6,500	3.35	7,500

Notes to the consolidated financial statements

16. Share based payments (continued)

The 2008 Approved Share Option Plan

Outstanding at the beginning of the year	-	-	-	-
Granted during the year	4.06	11,500	-	-
Forfeited during the year	4.06	(600)	-	-
Exercised during the year	-	-	-	-
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Outstanding at the end of the year	4.06	10,900	-	-

The 2008 Unapproved Share Option Plan

Outstanding at the beginning of the year	-	-	-	-
Granted during the year	4.06	11,800	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	4.06	11,800	-	-

The 2008 Stock Option Plan

Outstanding at the beginning of the year	8.68	1,000	-	-
Granted during the year	4.06	2,700	8.68	1,000
Forfeited during the year	4.06	(800)	-	-
Exercised during the year	-	-	-	-
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Outstanding at the end of the year	5.65	2,900	8.68	1,000

The Stand Alone Option Agreements

Outstanding at the beginning of the year	4.86	55,500	3.33	74,000
Granted during the year	4.06	13,500	7.85	16,500
Forfeited during the year	7.47	(1,900)	7.75	(12,000)
Exercised during the year	1.95	(4,000)	0.58	(23,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	4.79	63,100	4.86	55,500

The weighted average share price at the date of exercise of share options exercised during the year was £4.51 (2008: £9.01).

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 6.5 years.

Notes to the consolidated financial statements

16. Share based payments (continued)

The options outstanding at 31 July 2009 have an exercise price in the ranges summarised below:

Exercise price range	Number of options outstanding at 31 July 2009	Weighted average remaining contractual life (years)
£0.35 - £0.65	159,500	1.1
£1.30 - £1.945	229,800	2.3
£4.06 - £5.683	147,700	1.7
£7.30 - £8.683	112,500	1.4
£12.30	1,000	0.0
	650,500	6.5

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black Scholes model. The model has used an expected life of options of 3.5 years, a risk free discount rate of 4.5% and historical share price volatility at the date of grant range of 50%.

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

	2009 Weighted average exercise price, £	2009 Number of options	2008 Weighted average exercise price, £	2008 Number of options
LTIPs				
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	4.06	38,000	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	4.06	38,000	-	-

The total expense recognised for the year arising from share based payments was £264,000 (2008: £289,000).

Recognised in income statement	2009 £000	2008 £000
Share options granted in 2005	-	5
Share options granted in 2006	91	108
Share options granted in 2007	126	119
Share options granted in 2008	47	57
Total expense recognised as employee costs (note 4)	264	289

Notes to the consolidated financial statements

17. Provisions

	Product Warranties
	£000
Balance at 1 August 2008	180
Provisions made during the year	338
Provisions used during the year	<u>(313)</u>
Balance at 31 July 2009	<u>205</u>
Non-current	25
Current	<u>180</u>
	<u>205</u>

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	
	2009	2008	2009	2008
	£000	£000	£000	£000
Trade payables	1,810	1,739	-	-
Taxation and social security	112	116	-	-
Other payables	19	25	-	-
Accruals and deferred income	1,094	880	-	-
	<u>3,035</u>	<u>2,760</u>	<u>-</u>	<u>-</u>

19. Financial instruments

The Group's principal financial instruments as at 31 July 2009 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 2009 and 31 July 2008, the Group did not use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

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

Credit risk

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

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

Notes to the consolidated financial statements

19. Financial instruments (continued)

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

	Note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
Trade and other receivables	13	6,142	4,683	1,176	1,020
Cash and cash equivalents	14	3,551	1,371	-	-
		9,693	6,054	1,176	1,020

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

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

	2009 £000	2008 £000
Europe, Middle East and Africa	2,519	2,420
Americas	1,833	1,207
Asia Pacific	1,498	720
	5,850	4,347

Impairment losses

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

Group	Gross	Impairment	Gross	Impairment
	2009 £000	2009 £000	2008 £000	2008 £000
Not past due	4,923	-	3,035	-
0-30 days overdue	672	-	935	-
31-60 days overdue	254	-	89	-
More than 61 days overdue	36	(35)	326	(38)
	5,885	(35)	4,385	(38)

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:

	2009 £000	2008 £000
Balance at start of the year	(38)	(24)
Impairment gain/(loss) recognised	3	(14)
Balance at end of year	(35)	(38)

Notes to the consolidated financial statements

19. Financial instruments (continued)

Interest Rate Risk

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

The Group has a 2 year multi option overdraft facility of £3.5 million. As at 31 July 2009 the Group was not utilising the overdraft facility and has cash balances of £3.6 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.

Financial assets and financial liabilities by currency	Notes	Group	
		2009 £000	2008 £000
US Dollar trade and other receivables	13	4,386	2,504
Euro trade and other receivables	13	664	1,110
US Dollar cash and cash equivalents	14	1,935	899
Euro cash and cash equivalents	14	1,222	61
US Dollar trade and other payables	18	(1,403)	(1,388)
Other currency trade and other payables	18	(26)	(87)

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	
	2009	2008	2009	2008
Pounds Sterling to US Dollar	1.5819	1.9953	1.6559	1.9808
Pounds Sterling to Euro	1.1605	1.3303	1.1729	1.2680

Notes to the consolidated financial statements

19. Financial instruments (continued)

Liquidity Risk

The Group's exposure to liquidity risk is managed through the assessment of cash flow forecasts to ensure that sufficient funds are available to meet liabilities as they fall due. The Group has a £3.5 million 2 year multi option overdraft facility available for use to mitigate liquidity risk. As at 31 July 2009 the Group was not utilising the overdraft facility and has cash and cash equivalents of £3,551,000 (2008: £1,371,000). 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 decrease of five percentage points in the value of the Pound against the USD would have increased the Group's profit before tax by approximately £150,000 for the year ended 31 July 2009 (2008: £120,000).

Fair values

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

	Carrying amount	Fair value	Carrying amount	Fair value
	2009	2009	2008	2008
	£000	£000	£000	£000
Trade and other receivables	6,142	6,142	4,683	4,683
Cash and cash equivalents	3,551	3,551	1,371	1,371
Trade and other payables	(3,035)	(3,035)	(2,760)	(2,760)
	<u>6,658</u>	<u>6,658</u>	3,294	3,294

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

The carrying amount and fair value of trade and other receivables of the Company was £1,176,000 (2008: £1,020,000).

Notes to the consolidated financial statements

20. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2009 £000	2008 £000
Less than one year	37	16
Between one and five years	11	31
More than five years	166	166
	<u>214</u>	<u>213</u>

During the year ended 31 July 2009, £262,000 was recognised as an expense in the income statement in respect of operating leases (2008: 173,000).

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

21. Capital commitments

As at 31 July 2009, the Group had no contracts to purchase property, plant and equipment (2008: £19,000).

22. Related parties

Identity of related parties

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

Transactions with key management personnel

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

Directors of the Company and their immediate relatives control 31.1 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 by its subsidiary IndigoVision Ltd.

During the year the Company charged interest on cash balances loaned to its subsidiary IndigoVision Ltd.

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

At the year end, the subsidiaries owed the Company £1,176,000 (2008: £1,020,000).

Notes to the consolidated financial statements

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.

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 if whether an inventory write down is required is dependent on the circumstances prevailing at the time of the assessment.

Notes to the consolidated financial statements

24. Accounting estimates and judgements *(continued)*

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 rest 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 if whether a development should be capitalised is dependent on the circumstances prevailing at the time of the assessment.

Secretary and advisors

Secretary and Registered Office	The Company Secretary Charles Darwin House The Edinburgh Technopole Edinburgh EH26 0PY
Nominated Advisor and Stock Brokers	Brewin Dolphin Ltd 48 St Vincent Street Glasgow G2 5TS
Auditors	KPMG Audit plc Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
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