

IndigoVision Group plc (“IndigoVision”)

Interim Report 2008

Highlights

Financial Highlights

- Revenues increased by 48% to £9.18m
- Operating profit increased by 269% to £1.29m
- Profit before taxation up 251% to £1.27m
- Fully diluted earnings per share up 234% to 16.7p

Operating Highlights

- Revenue growth in all major territories, product range continues to broaden:
 - Software Integration Kit to support integration with 3rd party systems
 - Range of IP Cameras expanded
 - Network Video Recorder range enhanced
- Major installations and project wins in all geographies including:
 - 5 casinos in EMEA and the Americas
 - First retail projects in both Americas and EMEA

Oliver Vellacott, Chief Executive, said:

“Having invested significantly in the management and sales teams during the last financial year, the last six months have seen this start to feed through in higher levels of profitability. Our challenge as we continue to develop IndigoVision is to maintain a balance between profitability and investing in growth, where our drivers will be to maximise the long-term value of the business and maintain our market leading position. We are fortunate, as signs of weaker corporate spending and possible recession in major markets appear, to be in a growing market with an enviable range of products and a strong customer base”.

Notes to Editors

About IndigoVision

IndigoVision is a leading manufacturer of complete end-to-end IP video and alarm management solutions. IndigoVision is widely chosen for applications in airports, city centres, ports, mines, road and rail systems, education, banking, casinos, prisons, government and the military. These enterprise-class systems improve organisations' operational efficiency, enhance public safety and enable timely emergency response. IndigoVision is headquartered in Edinburgh UK, with local sales and support offices across the world. IndigoVision partners with over 200 authorised system integrators and installers in 40 countries to provide local system design, installation and service to end users.

Shareholder calendar

12 March 2008	2008 Interim results announced
25 September 2008	2008 Full Year results announced
9 October 2008	Annual Report and Financial Statements circulated

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Chairman's Statement

In the last financial year, IndigoVision invested heavily in sales and management infrastructure to position the business for further growth. The first half of the current year has shown the effect of that investment with record sales, profits and earnings per share. Encouragingly, operating margins, which were 14% in the six months to 31 January 2008, are now moving towards our long term goal, and as a result the business has started to generate meaningful positive cash flow.

The market for IP Video has continued to develop rapidly and looks set for further growth. In the half year we have also made major improvements in the product range, in customer service and support, and in maintaining the very high standards of product quality.

Results

Turnover for the six months to 31 January 2008 increased 48% to £9.2m (2007—£6.2m).

Gross margin percentage increased to 71% (2007—63%). The increased margin resulted from an increase in software sales, such as IP Video analytics, a better mix of sales, and improvements in manufacturing processes. Gross margin increased 65% to £6.5m (2007—£3.9m). Operating costs grew 45% to £5.2m (2007—£3.6m), over half of this increase being attributable to selling and distribution expenses. Overall headcount, including retained sales agents, rose from 99 at last year end to 109.

Operating profit was £1.29m (2007—£0.35m) an improvement of 268%. Operating margin increased to 14% from 6%. Profit before taxation grew 251% to £1.27m, and fully diluted earnings per share rose 234% to 16.7p.

During the first half, IndigoVision generated a healthy £1.5m of cash from trading after adjusting for non cash items. In order to finance the higher levels of business, £1.2m of this was absorbed by a net increase in working capital and the remainder was added to cash balances. The net cash position at 31 January 2008 was £0.5m (2007—£0.8m). Net cash at the last year end, 31 July 2007, was £0.2m.

The Business

IndigoVision solutions are employed across about 20 different market sectors, with strong penetration made recently in casinos, rail and petrochemical. IndigoVision's route to market is through its local partners – systems integrators and installers – who receive comprehensive training from IndigoVision and who provide local system design, installation and support. IndigoVision continues to widen its channel to market with over 200 partners now authorised in over 40 countries.

IndigoVision provides a complete IP video management solution, which can scale from just one camera to many thousands of cameras. The IndigoVision pricelist contains several hundred items in total – IP cameras, transmitters, receivers, network video recorders, alarm panels and security management system software – and this breadth and depth of products gives IndigoVision's partners huge choice and power in designing a total video solution as well as providing the foundation for a much larger business.

Some applications demand video to be integrated with other 3rd party systems such as access control and IndigoVision integrates using its Software Integration Kit (SIK). This has already been used by IndigoVision to integrate with GE, Honeywell, Lenel, Software House and ADT, and can also be used by any 3rd party to integrate IndigoVision with any other system.

Current trading and outlook

The first half results are most encouraging and show the returns that are possible from the substantial investment made in prior periods. Our overarching aim, however, is to maximise the long-term value of the business, and as we are fortunate to be well positioned in a growing market we will continue to invest carefully for future growth.

We are seeing some signs of slower spending by corporate end users and it is clear that some economies are at risk of recession. However, the strength of our products, the growth in our markets, the quality of our technology, and the continuing shift from analogue to IP video should go some way to ameliorate the impact on the rate of growth that is likely to arise from harsher conditions.

HAMISH GROSSART
Chairman
11 March 2008

Condensed consolidated income statement

For the 6 months to 31 January 2008

	Note	Interim 2008 <i>Unaudited</i> £000	Interim 2007 <i>Unaudited</i> £000	Full Year 2007 <i>Unaudited</i> £000
Revenue		9,180	6,186	13,385
Cost of sales		<u>(2,708)</u>	<u>(2,260)</u>	<u>(4,610)</u>
Gross profit		6,472	3,926	8,775
Research and development expenses		(843)	(677)	(1,490)
Selling and distribution expenses		(2,617)	(1,774)	(4,315)
Administrative expenses		<u>(1,721)</u>	<u>(1,125)</u>	<u>(2,320)</u>
Operating profit		1,291	350	650
Finance income		3	13	21
Finance expense		<u>(21)</u>	<u>-</u>	<u>-</u>
Profit before tax		1,273	363	671
Taxation	5	<u>47</u>	<u>31</u>	<u>2,125</u>
Profit for the period attributable to equity holders of the parent		<u>1,320</u>	<u>394</u>	<u>2,796</u>
Basic earnings per share	3	<u>18.6p</u>	<u>5.7p</u>	<u>40.0p</u>
Diluted earnings per share	3	<u>16.7p</u>	<u>5.0p</u>	<u>35.8p</u>

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

Condensed consolidated statement of recognised income and expense

For the 6 months to 31 January 2008

	Interim 2008 <i>Unaudited</i> £000	Interim 2007 <i>Unaudited</i> £000	Full Year 2007 <i>Unaudited</i> £000
Profit for the period	1,320	394	2,796
Exchange differences on retranslation of overseas subsidiaries	<u>(5)</u>	<u>(6)</u>	<u>(11)</u>
Total recognised income and expense for the period attributable to equity holders of the parent	<u>1,315</u>	<u>388</u>	<u>2,785</u>

Condensed consolidated balance sheet
at 31 January 2008

	Note	Interim 2008 <i>Unaudited</i> £000	Interim 2007 <i>Unaudited</i> £000	Full Year 2007 <i>Unaudited</i> £000
Non current assets				
Intangible assets*		34	-	-
Plant and equipment		405	285	385
Deferred tax	6	<u>3,015</u>	<u>1,236</u>	<u>3,498</u>
Total non current assets		3,454	1,521	3,883
Current assets				
Inventories		1,507	437	1,533
Trade and other receivables		4,981	2,808	4,211
Cash and cash equivalents		<u>483</u>	<u>781</u>	<u>179</u>
Total current assets		<u>6,971</u>	<u>4,026</u>	<u>5,923</u>
Total assets		<u>10,425</u>	<u>5,547</u>	<u>9,806</u>
Current liabilities				
Trade and other payables		(2,085)	(1,056)	(2,463)
Provisions		<u>(120)</u>	<u>(70)</u>	<u>(120)</u>
Total current liabilities		(2,205)	(1,126)	(2,583)
Non current liabilities				
Provisions		<u>(30)</u>	<u>(20)</u>	<u>(30)</u>
Total liabilities		<u>(2,235)</u>	<u>(1,146)</u>	<u>(2,613)</u>
Net assets		<u>8,190</u>	<u>4,401</u>	<u>7,193</u>
Equity				
Called up share capital		72	70	71
Share premium account	4	24,089	23,996	24,045
Other reserve	4	8,562	8,562	8,562
Translation reserve	4,6	(16)	(6)	(11)
Profit and loss account	4,6	<u>(24,517)</u>	<u>(28,221)</u>	<u>(25,474)</u>
Total equity attributable to equity holders of the parent		<u>8,190</u>	<u>4,401</u>	<u>7,193</u>

* Intangible assets at 31 January 2008 relate to software costs capitalised.

Consolidated statement of cash flows

For the 6 months to 31 January 2008

	Interim 2008 <i>Unaudited</i> £000	Interim 2007 <i>Unaudited</i> £000	Full Year 2007 <i>Unaudited</i> £000
Cash flows from operating activities			
Profit before tax	1,273	363	671
Finance costs	21	-	-
Finance income	(3)	(13)	(21)
Depreciation	108	58	130
Foreign exchange loss	(13)	(2)	(1)
Charge in respect of share based payments	167	104	209
Movement in warranty provisions	-	-	60
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Operating profit before movement in working capital	1,553	510	1,048
Decrease/(increase) in inventories	26	(39)	(1,135)
(Increase)/ decrease in receivables	(836)	(703)	(2,040)
(Decrease)/increase in payables	(378)	(375)	1,033
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Cash generated by operations	366	(607)	(1,094)
Taxation	66	-	-
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Net cash from operating activities	431	(607)	(1,094)
Cash flows from investing activities			
Interest received	3	13	21
Purchase of plant and equipment	(161)	(102)	(275)
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Net cash from investing activities	(158)	(89)	(254)
Cash flows from financing activities			
Proceeds on issue of shares	45	23	73
Interest paid	(16)	-	-
	<hr/>	<hr/>	<hr/>
Net cash from financing activities	29	23	73
Net increase/(decrease) in cash and cash equivalents in the period	302	(673)	(1,275)
Cash and cash equivalents at start of period	179	1,454	1,454
Effect of exchange rate changes	2	-	-
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Cash and cash equivalents at end of period	483	781	179

Notes to the accounts:

1. Basis of preparation

IndigoVision Group plc (“the Company”) is domiciled in Scotland. The consolidated interim financial statements (“the interim report”) of the Company for the six months ended 31 January 2008 comprise the Company and its subsidiaries together referred to as “the Group”. The interim report was approved by the board of directors on 11 March 2008.

The financial information is prepared on a historical cost basis and is presented in Sterling, rounded to the nearest thousand.

The comparative figures for the financial year ended 31 July 2007 are not the company’s statutory accounts for that financial year. Those accounts, which were prepared under UK Generally Accepted Accounting Principles (“UK GAAP”), have been reported on by the company’s auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

2. First-time adoption of International Financial Reporting Standards

The AIM Rules require that the next annual consolidated financial statements of the company, for the year ending 31 July 2008, be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (“adopted IFRSs”).

The interim report has been prepared on the basis of the recognition and measurement requirements of adopted IFRSs as at 31 January 2008 that are effective (or available for early adoption) at 31 July 2008, the Group’s first annual reporting date at which it is required to use adopted IFRSs.

Based on these adopted IFRSs, the directors have applied the accounting policies, which they expect to apply when the first annual IFRS financial statements are prepared for the year ending 31 July 2008. These policies have been consistently applied to all the periods presented and in preparing the opening IFRS balance sheet at 1 August 2006 for the purposes of the transition to IFRS. However, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 July 2008 are still subject to change and to additional interpretation and therefore cannot be determined with certainty. Accordingly, the accounting policies for the annual period will only be determined finally when the annual financial statements are prepared.

The disclosures required by IFRS 1 “First-time Adoption of International Financial Reporting Standards” concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules, presented and explained in note 6.

Accounting policies that have not changed significantly as a result of transition to IFRS are set out in the financial statements for the year ended 31 July 2007.

Adopted IFRSs accounting policies which are different from previous UK GAAP accounting policies are as follows:

Taxation

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

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

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 at the tax rates that are expected to apply in the period when the liability is expected to be settled or the asset is expected to be realised.

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.

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 period 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 over three years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

3. Earnings per share

	Interim 2008 Number 000	Interim 2007 Number 000	Full Year 2007 Number 000
The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share for each period were calculated as follows:			
Issued ordinary shares at start of year	7,082	6,928	6,928
Effects of shares issued during the period from exercise of employee share options	<u>25</u>	<u>24</u>	<u>64</u>
Basic weighted average ordinary shares in issue	7,107	6,952	6,992
Potential ordinary shares on exercise of share options	<u>803</u>	<u>866</u>	<u>819</u>
Diluted weighted average ordinary shares	<u>7,910</u>	<u>7,818</u>	<u>7,811</u>
Basic earnings per share	<u>18.6p</u>	<u>5.7p</u>	<u>40.0p</u>
Diluted earnings per share	<u>16.7p</u>	<u>5.0p</u>	<u>35.8p</u>

4. Share premium and reserves

	Share Premium Account £000	Other Reserve £000	Translation Reserve £000	Profit and loss account £000
At beginning of period	24,045	8,562	(11)	(25,474)
Profit for the period	-	-	-	1,320
Charge in relation to share based payment	-	-	-	167
Deferred tax on share based payment	-	-	-	(530)
Increase in share capital	44	-	-	-
Currency exchange movements	<u>-</u>	<u>-</u>	<u>(5)</u>	<u>-</u>
At end of period	<u>24,089</u>	<u>8,562</u>	<u>(16)</u>	<u>(24,517)</u>

5. Taxation

The tax credit in the current period represents a movement in the deferred tax asset relating to temporary differences on outstanding share option schemes.

No provision for corporation tax is required due to the availability of substantial tax losses available for offset against future taxable profits. At 31 July 2007 such losses amounted to £24.1 million; using a corporate tax rate of 28% this is equivalent to a deferred tax asset in relation to these trading losses of £6.7 million, in respect of which a deferred tax asset of £2.0 million has been recognised at 31 January 2008 and 31 July 2007.

6. Explanation of transition to IFRS

(a) Reconciliation of profit

	Interim 2007			Full Year 2007		
	UK GAAP in IFRS format (i) £'000	IAS 12 (ii) £'000	IFRS £'000	UK GAAP in IFRS format (i) £'000	IAS 12 (ii) £'000	IFRS £'000
Revenue	6,186	-	6,186	13,385	-	13,385
Cost of sales	(2,260)	-	(2,260)	(4,610)	-	(4,610)
Gross profit	3,926	-	3,926	8,775	-	8,775
Research and development expenses	(677)	-	(677)	(1,490)	-	(1,490)
Selling and distribution expenses	(1,774)	-	(1,774)	(4,315)	-	(4,315)
Administrative expenses	(1,125)	-	(1,125)	(2,320)	-	(2,320)
Operating profit	350	-	350	650	-	650
Finance income	13	-	13	21	-	21
Finance expense	-	-	-	-	-	-
Profit before tax	363	-	363	671	-	671
Taxation	-	31	31	2,066	59	2,125
Profit for the period attributable to equity holders of the parent	363	31	394	2,737	59	2,796

(b) Reconciliation of cash flows

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

(c) Reconciliation of equity

	1 August 2006			31 January 2007			31 July 2007		
	UK GAAP in IFRS format (i)	IAS 12 (ii)	IFRS	UK GAAP in IFRS format (i)	IAS 12 (ii)	IFRS	UK GAAP in IFRS format (i)	IAS 12 (ii)	IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non current assets									
Plant and equipment	240	-	240	285	-	285	385	-	385
Deferred tax	-	795	795	-	1,236	1,236	2,000	1,498	3,498
Total non current assets	240	795	1,035	285	1,236	1,521	2,385	1,498	3,883
Current assets									
Inventories	398	-	398	437	-	437	1,533	-	1,533
Trade and other receivables	2,105	-	2,105	2,808	-	2,808	4,211	-	4,211
Cash and cash equivalents	1,454	-	1,454	781	-	781	179	-	179
Total current assets	3,957	-	3,957	4,026	-	4,026	5,923	-	5,923
Total assets	4,197	795	4,992	4,311	1,236	5,547	8,308	1,498	9,806
Current liabilities									
Trade and other payables	(1,431)	-	(1,431)	(1,056)	-	(1,056)	(2,463)	-	(2,463)
Provisions	(70)	-	(70)	(70)	-	(70)	(120)	-	(120)
Total current liabilities	(1,501)	-	(1,501)	(1,126)	-	(1,126)	(2,583)	-	(2,583)
Non current liabilities									
Provisions	(20)	-	(20)	(20)	-	(20)	(30)	-	(30)
Total liabilities	(1,521)	-	(1,521)	(1,146)	-	(1,146)	(2,613)	-	(2,613)
Net assets	2,676	795	3,471	3,165	1,236	4,401	5,695	1,498	7,193
Equity									
Called up share capital	69	-	69	70	-	70	71	-	71
Share premium account	23,974	-	23,974	23,996	-	23,996	24,045	-	24,045
Other reserve	8,562	-	8,562	8,562	-	8,562	8,562	-	8,562
Translation reserve	-	-	-	(6)	-	(6)	(11)	-	(11)
Profit and loss account	(29,929)	795	(29,134)	(29,457)	1,236	(28,221)	(26,972)	1,498	(25,474)
Total equity	2,676	795	3,471	3,165	1,236	4,401	5,695	1,498	7,193

Notes to the reconciliation of profit and reconciliation of equity

- (i) The following reallocations have been made to present UK GAAP figures in IFRS format:
 - The deferred tax asset, included within debtors under UK GAAP is reallocated to non-current assets.
 - An element of the provision for warranty costs has been reallocated to current liabilities whereas under UK GAAP the whole amount was shown separately under one category.
 - IFRS 1 permits certain optional exemptions and accordingly the Group has elected to reset the foreign currency translation reserve to zero at 1 August 2006. Going forward, IFRS requires amounts taken to reserves on the retranslation of foreign subsidiaries to be recorded in a separate foreign currency translation reserve.

- (ii) The Group grants share options to its employees and agents and receives tax relief when they are exercised. Under IFRS a temporary difference exists and as such a deferred tax asset has been recognised for the entire difference for each of the periods presented.