IndigoVision Group plc

Directors' report and consolidated financial statements 2011

Registered number SC208809

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IndigoVision Group plc
Final results for year ended 31 July 2011

Financial Highlights

- Revenues £28.9m (2010: £28.0m)
- Operating profit £1.19m (2010: £3.05m)
- Diluted earnings per share 8.2 pence (2010: 25.6 pence)
- Year end cash balances £5.07m (2010: £4.43m)
- Total dividend per share 7.5 pence per share (2010: 7.5 pence)

Operating Highlights

- Sales growth in Latin America +41% and Asia Pacific +16%
- Sales lower in North America -3% and Europe, Middle East and Africa -2%
- Gross margin lower at 56% (2010: 60%)
- Rate of introduction of new products increasing
- Rate of introduction of new products increasing
- ONVIF common standard introduced

Oliver Vellacott, Chief Executive, said:

"Difficult trading towards the end of last year resulted in a reduction in operating profits, but the group continued to grow sales in some markets. We have had a slow start to the current financial year and although sales in the first seven weeks of the current year are approximately in line with last year, order intake is down on the corresponding period last year. Over the last twelve months a great deal of work has been undertaken improving the rate of introduction of new products and we expect that these will start to show through in improved business results as the year progresses. However we remain concerned about the impact of current economic conditions."

Shareholder calendar

3 November 2011	Annual General Meeting
17 November 2011	Dividend paid
8 March 2012	2012 Interim results announced
27 September 2012	2012 Full year results announced

Chairman's Statement

The year to 31 July 2011 was a mixed one for IndigoVision. After a good first six months, the revenue for the second half was disappointing and lower than the previous year. Whilst Group revenue for the year as a whole grew marginally over the previous year, sales and profits fell below our earlier expectations as lead times lengthened towards the end of our financial year and pressure on gross margins continued. Notwithstanding the overall weaker performance, good rates of growth were achieved in some regions and the rate of product introductions has been improved.

Results and Dividend

Revenue for the year to 31 July 2011 was £28.9m, 3% higher than last year (2010: £28.0m).

Sales growth was strong in Latin America, up 41% to £3.89m (2010: £2.76m), and satisfactory in Asia Pacific, up 16% to £5.28m (2010: £4.57m), but there was no overall growth in North America, down 3% to £7.72m (2010: £8.04m), and in Europe, Middle East and Africa, down 2% to £12.03m (2010: £12.24m).

Within North America, USA sales increased by 28%. New management in North America has appointed six new sales managers within an overall unchanged headcount. However, the performance in North America was offset by a 35% fall in Canada as previous large roll-outs completed. Sales growth of 18% in Northern Europe was also offset by a 12% reduction in business in the UK, and by 9% lower sales in Southern Europe, Middle East and Africa. This reflects differing regional economies within Europe and weaker conditions in the Middle East. The fall in UK sales was largely expected as public expenditure reductions began to take effect. In our developing regions, now amounting to one third of Group sales, successes include large projects in Brazil, Colombia, China and Australia in government, safe city and airport sectors, with prospective follow on work.

Gross margin for the year was 56%, down from 60% the previous year, as a result of a change in the sales mix, lower prices and a small number of lower margin reference contracts in new territories. There was evidence of continuing product quality improvements as the cost of returns fell by a quarter from the previous year. Overheads grew 9% from £13.7m to £14.9m as we continued to develop the selling and distribution networks in the regions, and maintained investment in research and product development.

Operating profit was £1.19m, much lower than the previous year's £3.05m as a result of gross profit contribution falling £0.64m and overheads rising £1.22m. Cash balances at the year end were £5.07m (2010: £4.43m) and the group had no borrowings. These cash balances together with unutilised bank facilities of £3.5m provide IndigoVision with strong liquidity.

Diluted earnings per share were 8.2 pence, compared with 25.6 pence the previous year. Last year, there was no interim dividend, but a final dividend of 7.5 pence per share was paid. This year, an interim dividend of 4.0 pence was paid. The directors are recommending a final dividend of 3.5 pence for the year, making a total of 7.5 pence for the year, the same as last year's total. If approved by shareholders, the final dividend will be paid on 17 November 2011 to shareholders on the register on 28 October 2011.

Business Momentum

IndigoVision has always been positioned in the top quartile of the market, and we remain comfortable competing here. We are known for high end forensics, intelligent incident handling, distributed architecture and end-to-end solution. Lengthening lead times and the resultant fall off in sales at the end of the year were unexpected, but momentum is being rebuilt with an increased pace of product innovation, including many new software features. In the last year we have increased the rate of new product launches, including a new HD PTZ Camera, two management software releases, including the 'ONVIF' common standard for video, a range of improved Wide Dynamic Range fixed dome cameras and recorders with doubled capacity. These new products are being well received by our partners. Next month we will be launching a new range of 2 Megapixel HD Minidome cameras to widen significantly the scope of the market across which we compete. Hardware quality has continued to improve during the year and this trend is expected to continue. In support of sustained growth being experienced in Latin America a service support centre is being established in Brazil.

Chairman's Statement (continued)

Resilient architecture

IndigoVision has a reputation for security systems with exceptional resilience, the basis of which is the unique architecture. Being **distributed** means there are no central server bottlenecks, no single-point-of-failure, strong system resilience and high responsiveness. Being **end-to-end** means the system installs easily, has a low cost of ownership and customers can look to IndigoVision as their single point of accountability. Being **open** means customers are not locked in with IndigoVision and are assured of the freedom to choose third party manufacturers. Add those three key aspects of our architecture together – distributed, end-to-end and open – and our customers have a foundation from which they can rely on an exceptionally resilient security system.

Outlook

The regional management structure put in place two years ago is now firmly established. The product management team who perform the critical link between the market and engineering has been strengthened and engineering has been restructured. With the benefit of hindsight we underestimated the challenge of establishing a range of cameras and early products have slowed the business down. Products launched in 2010/11 are being received more positively and should start to extend IndigoVision's reputation for quality to cameras.

However, we do not expect an easy first half to January 2012. Although sales in the first seven weeks of the current year are approximately in line with last year, order intake is down on the corresponding period last year and there is as yet no sign of lead times improving. Regionally, performance remains mixed, reflecting the economic backdrop.

Whilst not expecting benign conditions, there are positives to be drawn from the growth rates we have been achieving in Latin America and Asia Pacific, from the changes we have made to our North American business and from the resilience of our business in North Europe. The management of the group is firmly focused on achieving the gross and operating performance appropriate to IndigoVision's business and this focus should, in due course, produce improved results. We remain confident in the longer term potential of the business, but realistic that in the short term the performance of IndigoVision is likely to be muted.

Hamish Grossart
Chairman
20 September 2011

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 July 2011.

Principal activities and business review

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

A review of the activities of the Group for the year is given in the Chairman's statement on pages 4 to 5.

Proposed dividend

The directors recommend the payment of a final dividend of 3.5 pence per share which, when added to the interim dividend of 4.0 pence, gives a total of 7.5 pence for the year (2010: 7.5 pence). At this level, the dividend would be covered 1.1 times.

Risk

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

Product 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. Such risks may materially impact the Group. All appropriate measures are taken to control quality throughout the design and production processes and the Group has developed detailed new product introduction procedures to minimize these risks.

Litigation Risk: the Group takes precautions to seek to ensure that its products do not infringe third party intellectual property or other rights. However, given that the fields of video and audio technology are heavily patented, there remains a risk that the Group may be the subject of third party claims of intellectual property right infringement.

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.

Supply chain and distribution risk: The Group sources component parts from a number of global suppliers and avoids single points of supply wherever possible. The Group sub-contracts the manufacturer of its goods to a large listed manufacturer in Malaysia, with factories in multiple locations and operates four distribution hubs to reduce the risk of supply to its customers. The Group obtained Authorised Economic Operator (AEO) status in April 2010, and seeks to work with supply chain partners that are also AEO accredited, or whose procedures and practices meet the required standards, to minimise the safety and security risk of operating a global supply chain.

Partner risk: The Group sells its goods and services through a global authorised partner network. Potential new partners undertake a strict authorisation process, including thorough product training to ensure the Group's products are installed and maintained to a high standard at end-user sites and to minimise the risk to the Group's reputation in the market place. Potential new partners also undergo detailed credit checks and trade within authorised credit limits to minimise the Group's financial risk.

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

Directors' report (continued)

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's ethical sourcing policy defines the environmental responsibilities throughout the supply chain. The Group is fully RoHS compliant.

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

Cash and treasury

The net cash balance at year end was £5.07m (2010: £4.43m).

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

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

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

The Group's combined bank facility totalling £3.5m can be used for working capital, letters of credit and bond and guarantees and is secured by a bond and floating charge.

The board was granted authority at the annual general meeting held on 4 November 2010 to allot and issue, for example, by way of a share placing, up to 2,457,259 ordinary shares of 1p each, equivalent to approximately 33.1% of the Company's current issued share capital. In addition, the board was also granted authority to allot and issue by way of a rights issue, a further 2,457,259 ordinary shares of 1p each, equivalent to a further approximate 33.1% of the Company's current issued share capital.

Key areas of strategic development and performance of the business

Sales and marketing: new and repeat business is being won continually; new markets have been developed in line with the Group's strategy; key customer relationships are monitored on a regular basis and the performance of the regional sales teams are continually reviewed to ensure appropriate development is provided and teams resourced accordingly.

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. More regional stock holdings to satisfy global product demand are under review.

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

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

Key financial performance indicators ("KPIs") include the monitoring and management of profitability and working capital.

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

Directors' report (continued)

	2011	2010	Measure
Financial KPIs			
Operating margin	4%	11%	Operating profit before financing costs / Revenue
Return on capital employed	7%	18%	Profit before tax / Total assets less current liabilities
Current ratio	4.4	3.8	Current assets: current liabilities
Debtor days	72	69	Age profile of trade receivables
Creditor days	41	37	Age profile of trade payables

Branches

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

Political and charitable contributions

The Group made a charitable donation of £500 and no political contributions during the year.

Directors and directors' interests

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

Andrew Fulton	Non Executive Director (appointed 31 March 2011)
Hamish Grossart	Chairman
Marcus Kneen	Chief Financial Officer
Oliver Vellacott	Chief Executive Officer

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

The Directors who served the Company during the year, together with their beneficial interests in the shares of the Company, were as follows:

	Ordinary shares	
	Interest at end of year	**Interest at start of year**
Hamish Grossart	200,500	200,500
Marcus Kneen	177,388	176,900
Oliver Vellacott	1,725,403	1,724,915

Directors' report (continued)

The following rights to subscribe for shares in the Company were granted to the directors, or exercised by them, during the financial year:

	Options at start of year	Awarded during year	Options exercised	Weighted average exercise price, £	Options at end of year	Weighted average option price per share, £	Date range in which options can be exercised
Marcus Kneen	54,069	15,000	-	-	69,069	£1.53	11/08-10/16
Oliver Vellacott	140,178	30,000	-	-	170,178	£1.48	11/08-10/16

Substantial interests

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

	Shares	%
Oliver Vellacott	1,725,403	23
Strategos Fund LP, Strategos Master Fund LP	805,553	11
UBS Securities LLC	303,653	4

Employees

The continuing success of the Group greatly depends on its global employees that contribute daily to the achievement of the organisational goals. The Group respects its staff and recognises that they are its most valuable asset. The Group recruits and retains staff globally by offering challenging opportunities, competitive compensation packages and a good working environment. During the year ending 31 July 2011, the Group has focused on recruiting for Research and Development, increasing the number of software developers employed by 11% since 31 July 2010 and for the Sales and Support team in the APAC region, increasing the team size by 20% since 31 July 2010. The Group strives to provide a working environment which encourages continuous learning and development for all employees and is committed to effective investment to achieve the business goals.

The Company is committed to employee involvement throughout the business and operates a number of share option, share incentive and long term incentive plans. The Company has established an offshore employee benefit trust in connection with these plans.

Employees with disabilities

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

Directors' report (continued)

Policy and practice on payment of creditors

It is the Company's and the Group's policy to agree terms and conditions for its business transactions with its suppliers. The Group does not follow any code or standard on payment practice, however it seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. As at 31 July 2011 the number of days of annual purchases represented by the year-end creditors for the Group amounted to 41 (2010: 37).

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

Holly McComb
Secretary

Edinburgh
20 September 2011

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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20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

Independent auditors' report to the members of IndigoVision Group plc

We have audited the financial statements of IndigoVision Group plc for the year ended 31 July 2011 set out on pages 13 to 48. 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 Chapter 3 of Part 16 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 11, 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, and to express and opinion on, 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/private.cfm.

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 2011 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
20 September 2011

Consolidated statement of comprehensive income

For the year ended 31 July 2011

£'000	***Note***	**2011**	2010
Revenue	*2*	**28,886**	28,008
Cost of sales		**(12,747)**	(11,229)
Gross profit		**16,139**	16,779
Research and development expenses		**(3,001)**	(2,975)
Selling and distribution expenses		**(9,481)**	(8,483)
Administrative expenses		**(2,465)**	(2,267)
Operating profit	*3*	**1,192**	3,054
Financial income	*5*	**21**	11
Profit before tax		**1,213**	3,065
Income tax expense	*6*	**(588)**	(1,095)
Profit for the year attributable to equity holders of the parent	*15*	**625**	1,970
Foreign exchange translation differences on foreign operations		**(6)**	(40)
Total comprehensive income for the year attributable to equity holders of the parent	*15*	**619**	1,930
Basic earnings per share (pence)	*7*	**8.4**	26.8
Diluted earnings per share (pence)	*7*	**8.2**	25.6

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

Consolidated balance sheet

As at 31 July 2011

£'000	*Note*	2011	2010
Non-current assets			
Property, plant and equipment	8	**583**	491
Intangible assets	9	**93**	22
Deferred tax	11	**4,278**	4,850
Total non-current assets		**4,954**	5,363
Current assets			
Inventories	12	**4,197**	3,990
Trade and other receivables	13	**7,057**	8,046
Cash and cash equivalents	14	**5,066**	4,431
Total current assets		**16,320**	16,467
Total assets		**21,274**	21,830
Current liabilities			
Trade and other payables	18	**3,489**	4,080
Provisions	17	**240**	240
Total current liabilities		**3,729**	4,320
Non-current liabilities			
Provisions	17	**25**	25
Total non-current liabilities		**25**	25
Total liabilities		**3,754**	4,345
Net assets		**17,520**	17,485
Equity			
Called up share capital	15	**76**	74
Share premium account	15	**1,603**	1,482
Other reserve	15	**5,146**	5,146
Translation reserve	15	**(29)**	(23)
Profit and loss account	15	**10,724**	10,806
Total equity attributable to equity holders of the parent		**17,520**	17,485

These financial statements were approved by the Board of Directors on 20 September 2011 and were signed on its behalf by:

Oliver Vellacott
Director

Marcus Kneen
Director

Company balance sheet

As at 31 July 2011

£'000	***Note***	**2011**	2010
Non-current assets			
Investments	*10*	**1,507**	1,318
Total non-current assets		**1,507**	1,318
Current assets			
Cash		**503**	-
Trade and other receivables	*13*	**2,374**	2,111
Total current assets		**2,877**	2,111
Total assets		**4,384**	3,429
Total liabilities		**-**	-
Net assets		**4,384**	3,429
Equity			
Called up share capital	*15*	**76**	74
Share premium account	*15*	**1,603**	1,482
Profit and loss account	*15*	**2,705**	1,873
Total equity attributable to equity holders of the parent		**4,384**	3,429

These financial statements were approved by the Board of Directors on 20 September 2011 and were signed on its behalf by:

Oliver Vellacott
Director

Marcus Kneen
Director

Consolidated statement of cash flows

For the year ended 31 July 2011

£'000	Group 2011	Group 2010	Company 2011	Company 2010
Cash flows from operating activities				
Profit/(loss) for the year	**625**	1,970	**10**	(13)
Adjusted for:				
Depreciation and amortisation	**305**	277	**-**	-
Financial income	**(21)**	(11)	**(54)**	(37)
Share based payment expense	**189**	197	**-**	-
Foreign exchange loss/(gain)	**45**	(122)	**-**	-
Income tax	**588**	1,095	**-**	-
Increase in inventories	**(207)**	(1,081)	**-**	-
(Increase)/Decrease in trade and other receivables	**989**	(1,904)	**(263)**	(935)
Increase/(Decrease) in trade and other payables	**(591)**	1,045	**-**	-
Increase in provisions	**-**	60	**-**	-
Cash generated from/(absorbed by) operations	**1,922**	1,526	**(307)**	(985)
Income taxes refunded/(paid)	**1**	(5)	**-**	-
Net cash inflow/(outflow) from operating activities	**1,923**	1,521	**(307)**	(985)
Cash flows from investing activities				
Interest received	**21**	11	**54**	37
Acquisition of property, plant and equipment	**(386)**	(404)	**-**	-
Acquisition of intangibles	**(94)**	(12)	**-**	-
Dividends received	-	-	**1,500**	1,200
Net cash (outflow)/inflow from investing activities	**(459)**	(405)	**1,554**	1,237
Cash flows from financing activities				
Proceeds from the issue of share capital	**123**	116	**123**	116
Repurchase of own shares	**(11)**	(74)	**(11)**	-
Dividends paid	**(856)**	(368)	**(856)**	(368)
Net cash outflow from financing activities	**(744)**	(326)	**(744)**	(252)
Net increase in cash and cash equivalents	**720**	790	**503**	-
Cash and cash equivalents at 1 August	**4,431**	3,551	**-**	-
Effect of exchange rate fluctuations on cash held	**(85)**	90	**-**	-
Cash and cash equivalents at 31 July	**5,066**	4,431	**503**	-

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 2011 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 20 September 2011.

(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 11. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Directors' Report on pages 6 to 11. In addition, note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

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

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

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

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

(b) Basis of preparation (continued)

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(iii) Investments in subsidiaries

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

(d) Foreign currency

(i) Foreign currency transactions and balances

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

(ii) Financial statements of foreign operations

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

(e) Property, plant and equipment

(i) Owned assets

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

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

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

(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 is 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.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

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

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

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

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

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

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

(l) Employee benefits
(i) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Share-based payment transactions
The Group's share option programme allows eligible employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that meet the related service and non-market performance conditions at the vesting date, except where forfeiture is only due to share prices not achieving the threshold for vesting.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

(ii) Share-based payment transactions (continued)

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.

(iv) Share Incentive Plans
The Group has established four share incentive plans to enable all employees and sales agents to purchase or notionally purchase shares in the Company: The HMRC approved IndigoVision Group plc Share Incentive Plan 2010 ("The UK employee scheme"), the IndigoVision Inc 2010 Restricted Stock Unit Plan, the International Agents Incentive Plan and the International Employee's Incentive Plan.

The Company matches each share purchased through the UK employee scheme on a 1:1 basis. The fair value of the free matching share is measured using the Black-Scholes option valuation model, taking into account the terms and conditions upon which the shares were granted, and spreads the value over the 3 year vesting period.

The IndigoVision Inc 2010 Restricted Stock Unit Plan, the International Agents Incentive Plan and the International Employee's Incentive Plan are cash settled plans. The Company matches each share notionally purchased through these schemes on a 1:1 basis. The Group accounts for the liability for the free notional share by marking to market at each financial year end.

(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.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

(p) Revenue
Revenue comprises income from the sale of goods, income from technical support activities, income from the sales of software upgrade contracts for 1-3 year in length 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) Software upgrade contracts
Revenue from the sale of software upgrade contracts for 1-3 years in length is deferred on the balance sheet and recognised in the income statement on a straight-line basis over the length of the contract.

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

(q) Expenses
(i) Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

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

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

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

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

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

(s) Earnings per share

Basic earnings per share is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding shares held by the Employee Benefit Trust and shares held in treasury, which are treated as cancelled. Diluted earnings per share is determined by adjusting the weighted average number of ordinary shares outstanding for the effects of potentially dilutive ordinary shares, which comprise share options granted.

Notes to the consolidated financial statements (continued)

2. Segment reporting

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

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

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

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

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

Notes to the consolidated financial statements (continued)

2. Segment reporting (continued)

Operating segments

	Notes	**Europe Middle East & Africa**		**North America**		**Latin America**		**Asia Pacific**		**Unallocated**		**Group**	
		2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Segment revenue		**12,031**	12,236	**7,721**	7,996	**3,890**	2,759	**5,280**	4,568	**(36)**	449	**28,886**	28,008
Segment result		**3,533**	4,424	**2,314**	2,887	**1,024**	1,037	**1,686**	1,816	**-**	-	**8,557**	10,164
Unallocated expenses		**-**	-	**-**	-		-	**-**	-	**(7,365)**	(7,110)	**(7,365)**	(7,110)
Operating profit												**1,192**	3,054
Net financing income	*5*											**21**	11
Profit before tax												**1,213**	3,065
Income tax expense	*6*											**(588)**	(1,095)
Profit for the year												**625**	1,970
Assets		**2,568**	2,752	**1,847**	2,513	**798**	700	**1,468**	1,572	**14,593**	14,293	**21,274**	21,830
Liabilities		**(16)**	(8)	**(93)**	(162)	**-**	-	**-**	-	**(3,645)**	(4,175)	**(3,754)**	(4,345)
Expenditure incurred on segment non-current assets		**-**	-	**12**	104	**-**	-	**-**	-	**468**	312	**480**	416
Depreciation and amortisation		**-**	-	**39**	20	**-**	-	**-**	-	**266**	257	**305**	277

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

Notes to the consolidated financial statements (continued)

2. Segment reporting (continued)

Analysis of Revenue

	2011	2010
	£000	£000
Revenues from:		
Products sold	**28,646**	27,549
Support services and royalty income	**203**	459
Software Upgrade Contracts	**37**	-
	28,886	28,008

3. Operating profit

	2011	2010
	£000	£000
Operating profit is stated after charging/(crediting):		
Depreciation and amortisation	**305**	277
Increase in provisions	**-**	60
Write down of inventories to net realisable value	**(54)**	206
Allowance for doubtful trade receivables	**34**	62
Gain on foreign exchange transactions and translation	**(135)**	(284)
Share based payment expense	**189**	197
Audit of these financial statements (Group and Company)	**11**	31
Amounts received by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**23**	3
All other services	**8**	17

4. Personnel expenses

	2011	2010
	£000	£000
Group and Company		
Wages and salaries	**4,974**	4,739
Compulsory social security contributions	**500**	491
Contributions to defined contribution plans	**172**	163
Equity-settled share based payment transactions	**189**	197
	5,835	5,590

Notes to the consolidated financial statements (continued)

4. Personnel expenses (continued)

	2011	2010
	No	No
Average number of employees, including executive directors and excluding retained agents, by activity		
Selling and distribution	**38**	37
Research & Development	**51**	46
Administration	**17**	17
	106	100

	£000	£000
Remuneration of directors		
Directors emoluments	**383**	544
Company contributions to money purchase pension schemes	**19**	32
	402	576

	Number of directors	
	2011	2010
Retirement benefits are accruing to the following number of directors under:	No	No
Money purchase schemes	**2**	2
The number of directors who exercised share options was	**-**	-

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

Director	Salary/ Fees	Benefits	Total before pension	Pension contributions	2011 Total	2010 Total
	£000	£000	£000	£000	£000	£000
Executive						
Marcus Kneen	125	10	135	9	**144**	128
Oliver Vellacott	175	11	186	10	**196**	161
Non Executive						
Robert Cathery	5	-	5	-	**5**	20
Andrew Fulton	10	-	10	-	**10**	-
Hamish Grossart	47	-	47	-	**47**	42
	362	21	383	19	**402**	351

5. Net financing income

	2011	2010
	£000	£000
Bank interest receivable	**21**	11
Financial income	**21**	11

Notes to the consolidated financial statements (continued)

6. Income tax expense

Recognised in the income statement

	2011 £000	2010 £000
Current tax expense		
UK tax	**2**	-
Overseas tax	**15**	5
	17	5
Deferred tax expense		
Origination and reversal of temporary differences	**635**	1,000
Adjustments relating to prior year trading losses	**(64)**	90
	571	1,090
Total income tax charge in income statement	**588**	1,095

Reconciliation of effective tax rate

	2011 %	2011 £000	2010 %	2010 £000
Profit before tax		**1,213**		3,065
Income tax using the UK corporation tax rate	**26%**	**315**	28%	858
Non-deductible expenses	**20.9%**	**66**	3.7%	32
Net tax relief on share options	**(3.5%)**	**(11)**	(1.0%)	(9)
Research & Development tax credit	**(19.4%)**	**(61)**	(5.5%)	(47)
Adjustments relating to prior year trading losses	**(20.3%)**	**(64)**	10.5%	90
Effect of tax rate change on deferred tax asset	**108.9%**	**343**	19.9%	171
	186.7%	**588**	127.6%	1,095

At 31 July 2011 tax losses generated outside the UK available for offset against future profits, amounted to approximately £1.5 million (2010: £1.8 million); using an income tax rate of 25% (2010: 28%) this is equivalent to an asset of £0.4 million (2010: £0.5 million). However, due to continuing uncertainty over the timing of suitable profits and the fact that such losses will eventually time expire, no asset is currently being recognised in the consolidated financial statements in respect of such losses.

Notes to the consolidated financial statements (continued)

7. Earnings per share

	2011 £000	2010 £000
Profit for the year attributable to equity shareholders (basic and diluted)	**625**	1,970
	Pence	**Pence**
Basic earnings per share	**8.4**	26.8
Diluted earnings per share	**8.2**	25.6

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:

	2011 No of shares	2010 No of shares
Issued ordinary shares at start of year	**7,371,776**	7,321,676
Effect of weighted average of shares issued during the year from exercise of employee share options	**123,682**	38,645
Effect of purchase of own shares	**(20,815)**	(110)
Weighted average number of ordinary shares for the year – for basic earnings per share	**7,474,643**	7,360,211
Effect of share options in issue	**174,380**	344,500
Weighted average number of ordinary shares for the year – for diluted earnings per share	**7,649,023**	7,704,711

Basic earnings per share
The calculation of basic earnings per share for the year ending 31 July 2011 was based on the profit attributable to equity shareholders of £625,000 (2010: £1,970,000) and a weighted average number of ordinary shares during the year ending 31 July 2011 of 7,474,643 (2010: 7,360,211), calculated as shown above.

Diluted earnings per share
The calculation of diluted earnings per share for the year ending 31 July 2011 was based on the profit attributable to equity shareholders of £625,000 (2010: £1,970,000) and a weighted average number of ordinary shares during the year ending 31 July 2011 of 7,649,023 (2010: 7,704,711), calculated as shown above.

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

Notes to the consolidated financial statements (continued)

8. Property, plant and equipment

Group	Property, plant and equipment	Fixtures and fittings	Computer hardware	Total
	£000	£000	£000	£000
Cost				
Balance at 1 August 2009	421	334	839	**1,594**
Additions	165	63	176	**404**
Disposals	(74)	(2)	(282)	**(358)**
Effect of movements in foreign exchange	-	(1)	3	**2**
Balance at 31 July 2010	512	394	736	**1,642**
Balance at 1 August 2010	512	394	736	**1,642**
Additions	111	157	118	**386**
Disposals	(4)	(270)	(192)	**(466)**
Effect of movements in foreign exchange	-	(3)	(5)	**(8)**
Balance at 31 July 2011	619	278	657	**1,554**
Depreciation				
Balance at 1 August 2009	281	289	679	**1,249**
Depreciation charge for the year	117	19	113	**249**
Disposals	(68)	(1)	(281)	**(350)**
Effect of movements in foreign exchange	-	-	3	**3**
Balance at 31 July 2010	330	307	514	**1,151**
Balance at 1 August 2010	330	307	514	**1,151**
Depreciation charge for the year	103	42	137	**282**
Disposals	-	(267)	(191)	**(458)**
Effect of movements in foreign exchange	-	(1)	(3)	**(4)**
Balance at 31 July 2011	433	81	457	**971**
Carrying amounts				
At 1 August 2009	140	45	160	**345**
At 31 July 2010	182	87	222	**491**
At 1 August 2010	182	87	222	**491**
At 31 July 2011	186	197	200	**583**

Notes to the consolidated financial statements (continued)

9. Intangible assets

	Computer software £000
Cost	
Balance at 1 August 2009	**79**
Additions	**12**
Balance at 31 July 2010	**91**
Balance at 1 August 2010	**91**
Additions	**94**
Balance at 31 July 2011	**185**
Amortisation and impairment losses	
Balance at 1 August 2009	**41**
Amortisation for the year	**28**
Balance at 31 July 2010	**69**
Balance at 1 August 2010	**69**
Amortisation for the year	**23**
Balance at 31 July 2011	**92**
Carrying amounts	
At 1 August 2009	**38**
At 31 July 2010	**22**
At 1 August 2010	**22**
At 31 July 2011	**93**

10. Investments in subsidiaries

Company	2011 £000	2010 £000
Cost		
At 1 August	**1,318**	1,121
Increase in respect of share based payments	**189**	197
At 31 July	**1,507**	1,318

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 as well as product assembly and warehousing.

Notes to the consolidated financial statements (continued)

11. Deferred tax assets and liabilities

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2011 £000	2010 £000
Employee benefits – share based payments	**63**	250
Value of tax losses carried forward	**4,105**	4,495
Depreciation in excess of capital allowances	**107**	102
Other timing differences	**3**	3
Tax assets	**4,278**	4,850

Unrecognised deferred tax assets

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

	2011 £000	2010 £000
Tax losses – Non UK	**387**	504
	387	504

Movement in temporary differences during the year

	Balance 1 Aug 09 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Jul 10 £000
Employee benefits – share-based payments	292	(42)	-	**250**
Tax value of losses carried forward	5,512	(1,026)	-	**4,495**
Depreciation in excess of capital allowances	126	(24)		**102**
Other timing differences	-	3	-	**3**
	5,939	(1,089)	-	**4,850**

	Balance 1 Aug 10 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Jul 11 £000
Employee benefits – share-based payments	250	(187)	-	**63**
Tax value of losses carried forward	4,495	(390)	-	**4,105**
Depreciation in excess of capital allowances	102	5	-	**107**
Other timing differences	3	-	-	**3**
	4,850	(572)	-	**4,278**

Notes to the consolidated financial statements (continued)

12. Inventories

	2011 £000	2010 £000
Raw materials and consumables	**1,212**	1,057
Finished goods	**2,985**	2,933
	4,197	3,990

The write-back of inventories to net realisable value amounted to £54,000 (2010: write-down of £206,000). Utilisation of provisions amounted to £199,000. In the year, raw material, consumables and changes to finished goods recognised as cost of sales amounted to £12,518,000 (2010: £10,855,000).

13. Trade and other receivables

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade receivables	**6,445**	7,371	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**2,300**	2,037
Amounts due from other related parties	**-**	-	**74**	74
Other receivables	**297**	330	**-**	-
Prepayments and accrued income	**315**	345	**-**	-
	7,057	8,046	**2,374**	2,111

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

14. Cash and cash equivalents

	2011 £000	2010 £000
Bank balances	**2,994**	3,024
Bank deposits	**2,072**	1,407
Cash and cash equivalents in the statement of cash flows	**5,066**	4,431

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

Notes to the consolidated financial statements (continued)

15. Capital and reserves

Reconciliation of movement in capital and reserves

Group	Share capital £000	Share premium £000	Other reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 August 2009	73	1,367	5,146	17	9,081	15,684
Profit for the year	-	-	-	(40)	1,970	1,930
Share options exercised by employees	1	115	-	-	-	116
Equity-settled transactions, including deferred tax effect	-	-	-	-	197	197
Purchase of own shares	-	-	-	-	(74)	(74)
Dividends paid to equity holders	-	-	-	-	(368)	(368)
Balance at 31 July 2010	**74**	**1,482**	**5,146**	**(23)**	**10,806**	**17,485**
Balance at 1 August 2010	74	1,482	5,146	(23)	10,806	17,485
Profit for the year	-	-	-	(6)	625	619
Share options exercised by employees	2	121	-	-	-	123
Equity-settled transactions, including deferred tax effect	-	-	-	-	160	160
Purchase of own shares	-	-	-	-	(11)	(11)
Dividends paid to equity holders	-	-	-	-	(856)	(856)
Balance at 31 July 2011	**76**	**1,603**	**5,146**	**(29)**	**10,724**	**17,520**

Company	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 August 2009	73	1,367	857	2,297
Profit for the year	-	-	(13)	(13)
Share options exercised by employees	1	115	-	116
Equity-settled transactions, including deferred tax effect	-	-	197	197
Dividend received from subsidiary	-	-	1,200	1,200
Dividend paid to equity holders	-	-	(368)	(368)
Balance at 31 July 2010	**74**	**1,482**	**1,873**	**3,429**
Balance at 1 August 2010	74	1,482	1,873	3,429
Profit for the year	-	-	10	10
Share options exercised by employees	2	121	-	123
Equity-settled transactions, including deferred tax effect	-	-	189	189
Purchase of own shares	-	-	(11)	(11)
Dividend received from subsidiary	-	-	1,500	1,500
Dividend paid to equity holders	-	-	(856)	(856)
Balance at 31 July 2011	**76**	**1,603**	**2,705**	**4,384**

Notes to the consolidated financial statements (continued)

15. Capital and reserves (continued)

Share capital

	Ordinary shares	
	As at 31 July 2011 No of shares	As at 31 July 2010 No of shares
In issue at start of year	**7,371,776**	7,321,676
Issued for cash on exercise of employee share options	**170,120**	50,100
In issue at end of year – fully paid	**7,541,896**	7,371,776

At 31 July 2011, the authorised share capital comprised 7,541,896 ordinary shares (2010: 7,371,776) 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 170,120 ordinary shares of 1 penny each were issued, 103,500 at 35 pence per share, 33,620 at 194.5 pence per share and 33,000 at 65 pence per share pursuant to the exercise of options.

On 21 March 2011 2,238 shares were purchased by the Company and are held in treasury.

Share premium

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

Translation reserve

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

Other reserve

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

Employee benefit trust

Offset within the profit and loss account is an amount of £74,000 (2010: £74,000) representing the cost of own shares held within the Employee Benefit Trust. The nominal value of own shares held is £200.

Dividends

After the balance sheet date a final dividend of £0.035 per qualifying ordinary share (2010: £0.075) was proposed by the directors, in addition to the interim dividend of £0.04 paid on 14 April 2011 . The final dividend has not been provided for.

Notes to the consolidated financial statements (continued)

16. Share based payments

Share option schemes

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

The Approved Share Option Schemes

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

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

The Unapproved Share Option Schemes

The Group has two unapproved share option schemes: The 2000 Unapproved Share Option Scheme and the 2008 Unapproved Share Option Scheme, which was introduced to replace the 2000 Unapproved Share Option Scheme.

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

The Stock Option / Stock Issuance Plans

The Group has two stock options plans: The 2000 Stock Option/ Stock Issuance plan and the 2008 Stock Option Plan, which was introduced to replace the 2000 Stock Option/ Stock Issuance plan.

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

Stand-Alone Option Agreements

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

The Long Term Incentive Plan (LTIP)

On 3 June 2008, the Company established the IndigoVision Group plc 2008 Long Term Incentive Plan. This plan is intended to award share options and/or conditional share awards to selected employees of the Group.

The Share Incentive Plan 2010 (SIP)

On 10 August 2010, the Company established the IndigoVision Group plc Share Incentive Plan 2010, approved by HM Revenue and Customs and open to all employees in the United Kingdom. Under the HM Revenue & Customs approved limits, employees may purchase from a minimum of £10 to a maximum of £125 worth of shares per month from a deduction made from gross pay. The Company matches each share purchased by employees on a 1:1 basis. Employees may redeem their shares at anytime; however, if this is before the third anniversary of the purchase, the Company's matching shares will be forfeited. The SIP scheme is administered by the Yorkshire Building Society.

Notes to the consolidated financial statements (continued)

16. Share based payments (continued)

The International Agent's Incentive Plan

In October 2010, the Company established the IndigoVision Group plc Agent's Share Incentive Plan. This is a cash-settled incentive plan which allows international agents to notionally purchase £1,500 of shares in the Company each year. The Company notionally matches each share purchased on 1:1 basis. The agent may redeem their notional share purchase at any time, but if this is before the third anniversary of the purchase, the Company's notional matching shares will be forfeited.

The 2010 Restricted Stock Unit Plan (RSU)

In October 2010, the US subsidiary of the Company, IndigoVision Inc, established the 2010 RSU plan. This is a cash-settled incentive plan which allows all employees in the USA to notionally purchase $2,400 of shares in the Company each year. The Company notionally matches each share purchased on 1:1 basis. The employee may redeem their notional share purchase at any time, but if this is before the third anniversary of the purchase, the Company's notional matching shares will be forfeited.

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 2011, 20,000 shares in the Company had been acquired by the Employee Benefit Trust.

Notes to the consolidated financial statements (continued)

16. Share based payments (continued)

Share option plans

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

Grant date	Number of instruments originally granted	Vesting conditions	Contractual life of options
The 2000 Approved Share Option Plan			
19 December 2001	5,500	3 years from date of grant	10 years
30 July 2003	316,428	3 years from date of grant	10 years
19 December 2003	44,000	3 years from date of grant	10 years
23 April 2004	91,796	3 years from date of grant	10 years
3 May 2004	20,000	3 years from date of grant	10 years
12 November 2004	68,500	3 years from date of grant	10 years
1 November 2005	99,727	3 years from date of grant	10 years
16 March 2006	30,140	3 years from date of grant	10 years
25 October 2006	35,000	3 years from date of grant	10 years
16 April 2007	20,973	3 years from date of grant	10 years
3 October 2007	25,548	3 years from date of grant	10 years
The 2008 Approved Share Option Plan			
17 October 2008	11,500	3 years from date of grant	10 years
29 April 2010	7,611	3 years from date of grant	10 years
The 2000 Unapproved Share Option Plan			
30 July 2003	35,572	3 years from date of grant	10 years
23 April 2004	54,704	3 years from date of grant	10 years
12 November 2004	99,000	3 years from date of grant	10 years
1 November 2005	150,273	3 years from date of grant	10 years
16 March 2006	7,860	3 years from date of grant	10 years
25 October 2006	30,500	3 years from date of grant	10 years
16 April 2007	34,027	3 years from date of grant	10 years
3 October 2007	37,952	3 years from date of grant	10 years
The 2008 Unapproved Share Option Plan			
17 October 2008	11,800	3 years from date of grant	10 years
29 April 2010	6,389	3 years from date of grant	10 years
The 2000 Stock Option/Issuance Plan			
19 December 2003	4,000	Individually determined	10 years
23 April 2004	6,000	Individually determined	10 years
12 November 2004	4,000	Individually determined	10 years
1 November 2005	7,000	Individually determined	10 years
16 June 2006	5,000	Individually determined	10 years
25 October 2006	1,500	Individually determined	10 years
16 April 2007	3,000	Individually determined	10 years
The 2008 Stock Option/Issuance Plan			
3 October 2007	1,000	Individually determined	10 years
17 October 2008	2,700	Individually determined	10 years
29 April 2010	1,000	Individually determined	10 years

Notes to the consolidated financial statements (continued)

16. Share based payments (continued)

Grant date	Number of instruments originally granted	Vesting conditions	Contractual life of options
The Stand-Alone Option Agreements			
30 July 2003	2,000	Individually determined	10 years
19 December 2003	4,000	Individually determined	10 years
23 April 2004	6,000	Individually determined	10 years
12 November 2004	15,000	Individually determined	10 years
1 November 2005	18,000	Individually determined	10 years
16 June 2006	25,000	Individually determined	10 years
25 October 2006	1,000	Individually determined	10 years
16 April 2007	13,000	Individually determined	10 years
3 October 2007	6,500	Individually determined	10 years
14 April 2008	10,000	Individually determined	10 years
17 October 2008	13,500	Individually determined	10 years
29 April 2010	44,000	Individually determined	10 years
18 November 2010	33,000	Individually determined	10 years
27 January 2011	11,000	Individually determined	10 years
The Long Term Incentive Plan			
17 October 2008	38,000	Individually determined	10 years
27 April 2010	55,801	Individually determined	10 years
11 June 2010	13,000	Individually determined	10 years
18 November 2010	69,000	Individually determined	10 years
27 January 2011	1,000	Individually determined	10 years

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

	2011 Weighted average exercise price, £	2011 Number of options	2010 Weighted average exercise price, £	2010 Number of options
The 2000 Approved Share Option Plan				
Outstanding at the beginning of the year	**3.01**	**199,078**	2.94	260,448
Granted during the year	**-**	**-**	-	-
Forfeited during the year	**8.14**	**(18,804)**	4.61	(17,200)
Exercised during the year	**0.43**	**(90,334)**	2.10	(44,170)
Outstanding at the end of the year	**4.52**	**89,940**	3.01	199,078
The 2000 Unapproved Share Option Plan				
Outstanding at the beginning of the year	**3.36**	**290,922**	3.39	294,852
Granted during the year	**-**	**-**	-	-
Forfeited during the year	**7.92**	**(53,696)**	-	-
Exercised during the year	**1.01**	**(75,786)**	4.94	(3,930)
Outstanding at the end of the year	**2.95**	**161,440**	3.36	290,922

Notes to the consolidated financial statements (continued)

16. Share based payments (continued)

	2011 Weighted average exercise price, £	2011 Number of options	2010 Weighted average exercise price, £	2010 Number of options
The 2000 Stock Option / Stock Issuance Plan				
Outstanding at the beginning of the year	**2.60**	**6,500**	2.60	6,500
Granted during the year	**-**	**-**	-	-
Forfeited during the year	**-**	**-**	-	-
Exercised during the year	**-**	**-**	-	-
Outstanding at the end of the year	**2.60**	**6,500**	2.60	6,500
The 2008 Approved Share Option Plan				
Outstanding at the beginning of the year	**4.48**	**17,211**	4.06	10,900
Granted during the year	**-**	**-**	5.00	7,611
Forfeited during the year	**4.84**	**(3,600)**	4.06	(1,300)
Exercised during the year	**-**	**-**	-	-
Outstanding at the end of the year	**4.38**	**13,611**	4.48	17,211
The 2008 Unapproved Share Option Plan				
Outstanding at the beginning of the year	**4.39**	**18,189**	4.06	11,800
Granted during the year	**-**	**-**	5.00	6,389
Forfeited during the year	**4.06**	**(4,500)**	-	-
Exercised during the year	**-**	**-**	-	-
Outstanding at the end of the year	**4.52**	**13,689**	4.39	18,189
The 2008 Stock Option Plan				
Outstanding at the beginning of the year	**5.65**	**3,500**	5.65	2,900
Granted during the year	**-**	**-**	5.00	1,000
Forfeited during the year	**4.06**	**(800)**	4.06	(400)
Exercised during the year	**-**	**-**	-	-
Outstanding at the end of the year	**5.61**	**2,700**	5.65	3,500
The Stand Alone Option Agreements				
Outstanding at the beginning of the year	**2.75**	**102,400**	4.79	63,100
Granted during the year	**0.01**	**44,000**	0.01	44,000
Forfeited during the year	**2.32**	**(20,400)**	6.63	(2,700)
Exercised during the year	**1.95**	**(4,000)**	1.95	(2,000)
Outstanding at the end of the year	**1.85**	**122,000**	2.75	102,400

Notes to the consolidated financial statements (continued)

16. Share based payments (continued)

The weighted average share price at the date of exercise of share options exercised during the year was £5.09 (2010: £6.15).

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 4.4 years (2010: 5.2 years).

The options outstanding at 31 July 2011 have an exercise price in the ranges summarised below:

Exercise price range	Number of options outstanding at 31 July 2011	Weighted average remaining contractual life (years)
£0.35 - £0.65	**58,000**	0.4
£1.945 - £4.06	**186,380**	2.2
£4.490 - £5.683	**117,500**	1.1
£7.30 - £8.683	**47,000**	0.7
£12.30	**1,000**	0.0
	409,880	4.4

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of fair value of the services received is measured based on the Black Scholes model. The model has used an expected life of options of 3.5 years, a risk free discount rate of between 1.5% and 5.75% and historic share price volatility at the date of grant range of between 49.4% and 72.2%.

	2011 Weighted average exercise price £	2011 Number of options	2010 Weighted average exercise price £	2010 Number of options
LTIPs				
Outstanding at the beginning of the year	**-**	**106,801**	-	38,000
Granted during the year	**-**	**70,000**	-	68,801
Forfeited during the year	**-**	**(37,391)**	-	-
Exercised during the year	**-**	**-**	-	-
Outstanding at the end of the year	**-**	**139,410**	-	106,801

The total expense recognised for the year arising from share based payments was £189,000 (2010: £197,000).

Recognised in income statement	2011 £000	2010 £000
Share options granted in 2006	**-**	12
Share options granted in 2007	**1**	108
Share options granted in 2008	**27**	55
Share options granted in 2010	**153**	22
Share options granted in 2011	**8**	-
Total expense recognised as employee costs (note 4)	**189**	197

Notes to the consolidated financial statements (continued)

17. Provisions

	Product Warranties £000
Balance at 1 August 2010	**265**
Provision made during the year	**318**
Provision used during the year	**(318)**
Balance at 31 July 2011	**265**
Non-current	**25**
Current	**240**
	265

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

18. Trade and other payables

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade payables	**2,434**	3,210	**-**	-
Taxation and social security	**121**	129	**-**	-
Other payables	**77**	21	**-**	-
Accruals and deferred income	**856**	720	**-**	-
	3,488	4,080	**-**	-

Within other payables £1,000 relates to non-current liabilities in respect of the respect of the International Agents Incentive plan.

19. Financial instruments

The Group's principal financial instruments as at 31 July 2011 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 2011 and 31 July 2010, the Group did not use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Notes to the consolidated financial statements (continued)

19. Financial instruments (continued)

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

Credit risk

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

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

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

		Group		Company	
		2011	2010	2011	2010
	Note	£000	£000	£000	£000
Trade and other receivables	*13*	**7,057**	8,046	**2,374**	2,111
Cash and cash equivalents	*14*	**5,066**	4,431	**503**	-
		12,123	12,477	**2,877**	2,111

The Company has no exposure to trade receivables.

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

	2011	2010
	£000	£000
Europe, Middle East and Africa	**2,553**	2,733
North America	**1,626**	2,366
Latin America	**798**	700
Asia Pacific	**1,468**	1,572
	6,445	7,371

Impairment losses

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

	Gross	Impairment	Gross	Impairment
	2011	2011	2010	2010
Group	£000	£000	£000	£000
Not past due	**3,413**	**-**	5,008	-
0-30 days overdue	**1,761**	**-**	1,237	-
31-60 days overdue	**534**	**-**	392	-
More than 61 days overdue	**827**	**(90)**	831	(97)
	6,535	**(90)**	7,468	(97)

Notes to the consolidated financial statements (continued)

19. Financial instruments (continued)

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

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

	2011 £000	2010 £000
Balance at start of the year	**(97)**	(35)
Impairment gain/ (loss) recognised	**7**	(62)
Balance at end of year	**(90)**	(97)

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

The Group has an overdraft facility of £1.5m as part of its total £3.5m bank facility. As at 31 July 2011 the Group was not utilising the overdraft facility and has cash balances of £5.1 million.

Currency Risk
The Group is exposed to foreign currency risk on sales, purchases, staff costs and sales agent costs 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 and dual currency deposits when appropriate. The Group used a small number of dual currency deposits during the current financial year.

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

Notes to the consolidated financial statements (continued)

19. Financial instruments (continued)

Financial assets and financial liabilities by currency	*Notes*	**Group 2011 £000**	**Group 2010 £000**
US Dollar trade and other receivables	*13*	**4,209**	5,456
Euro trade and other receivables	*13*	**1,193**	853
US Dollar cash and cash equivalents	*14*	**2,523**	2,179
Euro cash and cash equivalents	*14*	**117**	678
US Dollar trade and other payables	*18*	**(2,301)**	(2,984)
Other currency trade and other payables	*18*	**(118)**	(46)

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	
	2011	2010	2011	2010
Pounds Sterling to US Dollar	**1.5994**	1.5660	**1.6359**	1.5628
Pounds Sterling to Euro	**1.1592**	1.1416	**1.1422**	1.1972

Liquidity Risk
The Group's exposure to liquidity risk is managed through the assessment of cash flow forecasts to ensure that sufficient funds are available to meet liabilities as they fall due. The Group has an overdraft facility of £1.5m as part of its total £3.5m bank facility for use to mitigate liquidity risk. As at 31 July 2011 the Group was not utilising the overdraft facility and has cash and cash equivalents of £5,066,000 (2010: £4,431,000). 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 every 1-2 years.

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

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

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

It is estimated that a general increase of five percentage points in the value of the Pound against the USD would have increased the Group's profit before tax by approximately £23,000 for the year ended 31 July 2011 (2010: decrease of £37,000) and a general increase of five percentage points in the value of the Pound against the Euro would have decreased the Group's profit before tax by approximately £169,000 (2010: £194,000).

Notes to the consolidated financial statements (continued)

19. Financial instruments (continued)

Fair values

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

	Carrying amount 2011 £000	Fair value 2011 £000	Carrying amount 2010 £000	Fair value 2010 £000
Trade and other receivables	**7,057**	**7,057**	8,046	8,046
Cash and cash equivalents	**5,066**	**5,066**	4,431	4,431
Trade and other payables	**(3,489)**	**(3,488)**	(4,080)	(4,080)
	8,634	**8,634**	8,397	8,397

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

The carrying amount and fair value of trade and other receivables of the Company was £2,374,000 (2010: £2,111,000).

20. Operating leases

Non-cancellable operating lease rentals are payable as follows.

	2011 £000	2010 £000
Leases expiring within:		
Less than one year	**19**	26
Between one and five years	**97**	41
More than five years	**2,102**	1,286
	2,218	1,353

During the year ended 31 July 2011, £346,000 was recognised as an expense in the income statement in respect of operating leases (2010: £269,000).

The Group leases premises in the UK, USA and Dubai under operating leases. The UK leases expire in February 2021 and October 2012. The Dubai lease expires in January 2012 and the US lease expires in January 2013.

21. Capital commitments

As at 31 July 2011, the Group had no contracts to purchase property, plant and equipment (2010: £nil).

22. Related parties

Identity of related parties

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

Transactions with key management personnel

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

Notes to the consolidated financial statements (continued)

22. Related parties (continued)

Directors of the Company and their immediate relatives control 27.9 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 and the IndigoVision Group plc Share Inceptive plan 2010. Details of the directors' remuneration are contained in note 4.

Transactions with subsidiaries

During the year the Company was charged a management fee of £12,000 (2010: £13,000) by its subsidiary IndigoVision Ltd.

During the year the Company charged interest on cash balances loaned to its subsidiary IndigoVision Ltd of £55,000 (2010: £37,000).

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

At the year end, the subsidiaries owed the Company £2,300,000 (2010: £2,037,000).

23. Group entities

Significant subsidiaries

	Country of incorporation	Ownership interest 2011 %	Ownership interest 2010 %
IndigoVision Ltd	Scotland	100	100
IndigoVision Inc	United States of America	100	100

24. Accounting estimates and judgements

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

Share based payments

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

Warranty provision

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

Notes to the consolidated financial statements (continued)

24. Accounting estimates and judgements (continued)

Deferred tax asset

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

Inventories

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

Trade receivables

Trade receivables require management judgements in determining the amounts recoverable. Trade receivables are stated net of any provision for doubtful debts. The assessment of whether a receivable is doubtful is dependent on the circumstances prevailing at the time of the assessment.

Research and development costs

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

Secretary and advisors

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