# IndigoVision Group plc ("IndigoVision" or "The Group")

# Interim Report 2011

## Highlights

### Financial Highlights

- Revenues up 25% to £15.0m (2010: £12.0m)
- Operating profit up 15% to £1.40m (2010: £1.22m)
- Earnings per share up 26% at 13.1p (2010: 10.4p)
- Net cash balances increased to £5.43m (31 July 2010: £4.43m)
- First interim dividend of 4.0p per share

### Operational Highlights

- Sales growth across all regions
- Support for ONVIF* extends open architecture to other manufacturers' cameras
- Architecture now open in all aspects, including access control, storage, video and analytics
- Business model refined to enable recurring revenue

***Chief Executive, Oliver Vellacott, said:***
"These results represent sound progress against a mixed economic backdrop and we are pleased to be paying an interim dividend for the first time. Our ONVIF development marks the culmination of our journey to becoming what we believe is the most open IP security system in the world. It gives our customers the best of both worlds: the easy installation and low service calls they've come to expect from our end-to-end solution, coupled with the freedom of choice that comes from a truly open system. This strengthens IndigoVision's position in the market."

## Notes to Editors

### About IndigoVision

IndigoVision is a leading manufacturer of end-to-end IP video security solutions for airports, ports, rail, traffic, cities, retail, banking, mining, education, casinos, police, prisons and government.

These enterprise-class systems improve organisations' operational efficiency, enhance public safety and enable timely emergency response. IndigoVision operates from six regional centres, in New Jersey, Sao Paulo, Singapore, Dubai, London and Edinburgh, each with training facilities and demo suites. With sales and support staff in 24 countries, IndigoVision partners with some 300 authorised system integrators to provide local system design, installation and service to end users.

### *About ONVIF

ONVIF (Open Network Video Interface Forum) is a global standard which ensures interoperability between IP-based physical security products, regardless of manufacturer. Some 250 manufacturers have signed up to the standard, with 650 products certified as 'ONVIF conformant'.

**Shareholder calendar**

| | |
|---|---|
| 29 September 2011 | Full year results announced |
| 3 November 2011 | Annual General Meeting |

**Enquiries to:**

| | | |
|---|---|---|
| IndigoVision Group plc | Oliver Vellacott (CEO)<br>Marcus Kneen (CFO) | +44 (0) 131 475 7200 |
| Brewin Dolphin Limited,<br>Nominated Advisor | Sandy Fraser | +44 (0) 845 213 2072 |
| Pelham Bell Pottinger | Archie Berens | +44 (0) 20 7337 1509 |

## Chairman's Statement

We reported at the Annual General Meeting that we had made an encouraging start to the year. The Group has continued to perform and, notwithstanding some margin pressure as a consequence of the economic backdrop, the first half of the current year has delivered record sales, operating profit and earnings per share. As a result of this and the healthy level of net cash balances, the board has decided to pay an interim dividend for the first time.

The global market for IP Video continues to grow, although unsurprisingly the pattern is not consistent across the regions in which we operate. It is, however, pleasing to be able to report that, notwithstanding the economic turbulence that has been widely evident since 2008, all regions showed growth. We remain focused on ensuring that IndigoVision retains and increases its share of all markets in which it operates.

**Results**

Total revenues for the first six months to 31 January 2011 grew a healthy 25% to £15.0m. Sales to Europe, Middle East and Africa grew 13%, sales to Asia Pacific rose 38% and sales to the Americas were up 33%. Within the Americas, North America rose 23% and sales to Latin America rose 66%.

Gross Margin fell to 58% (2010: 62%). The reduction in gross margin was a little more than we had expected, reflecting competitive pricing conditions in some of our markets and a continuing shift in the mix of sales towards cameras. There is scope for a modest improvement in gross margin if economic recovery takes hold. Gross profit was up 17% to £8.68m. Total operating costs rose 18% to £7.28m. Within that, selling and distribution costs were 25% higher, research and development spending was 16% higher and administrative expenses 8% higher.

Operating profit rose 15% to £1.40m and although operating margin fell slightly, it remained acceptable at 9.3% (2010: 10.2%). There is some scope for future improvement depending on gross margin performance. Profit before tax was up 15% at £1.40m and, after a slightly lower tax charge, diluted earnings per share grew 26% to 13.1p.

**Cash and dividends**

At the last half year end net cash balances were £3.90m. By the year end, net cash balances had increased to £4.43m and at 31 January 2011, had reached £5.43m. Given the improved earnings and strong cash position, the board feel it is now appropriate to pay an interim dividend for the first time.

IndigoVision paid an inaugural dividend of 5.0 pence in November 2009. An increased dividend of 7.5 pence was paid in November 2010. This year the board has authorised a payment of 4.0 pence as an interim dividend payment on 14 April 2011 to share holders on the register on 18 March 2011.

The board currently expects to be in a position after the year end to recommend a final dividend as well which, if approved by shareholders, would be payable in November 2011. Shareholders should not necessarily expect that the recommended final dividend will be higher than last year's final, but if trading and cash generation continue to be healthy, it would be reasonable to expect the total of the interim and final dividends to be greater than last year's total dividend.

**Open architecture**

During the first half, we developed support for the ONVIF standard, adding freedom to use third party cameras to IndigoVision's existing openness on storage, access control and analytics. This marks the culmination of our journey to becoming what we believe is the most open IP security system in the world. It gives our customers the best of both worlds: they get the easy installation and low service calls they've come to expect from our end-to-end solution, coupled with the freedom of choice that comes from a truly open system.

**Technology**

Investment in camera technology continues, with our product roadmap on track. The teething problems reported last year have largely been overcome. New models to be launched during the coming year should further strengthen IndigoVision's position as an end-to-end solution.

**Recurring Revenue**

IndigoVision previously provided unlimited software upgrades within the initial purchase price, and this commitment remains for all existing installations. We recently announced to partners that a chargeable Software Upgrade Plan will commence from May 1st 2011, giving end users continuous improvement of their systems. An annual recurring charge for this service allows us to reinvest in the technology to keep our expanding customer base at the forefront of IP security management.

**Outlook**

The world continues to experience both economic and political tremors, but there is plenty to be positive about in the majority of our markets.

We have greatly improved our product offering over the last two years and we remain fortunate to be operating in a growing segment of business. We are excited about our investment in becoming an open system and the opportunities that it will bring for IndigoVision, and we are encouraged by the first half performance.

We therefore continue to be confident about the immediate and long term future, whilst being realistic about the economic and country risks for IndigoVision which might cause the odd blip on an otherwise positive trend.

**Shareholder Information**

Our website can be accessed at www.indigovision.com and contains a large amount of information about our business. The website also carries copies of prior year accounts and stock exchange announcements.

HAMISH GROSSART
Chairman
9 March 2011

## Condensed consolidated statement of comprehensive income

For the 6 months to 31 January 2011

| £'000 | Note | **Interim 2011** | Interim 2010 | Full Year 2010 |
|---|---|---|---|---|
| Revenue | | **15,045** | 11,972 | 28,008 |
| Cost of sales | | **(6,364)** | (4,574) | (11,229) |
| **Gross profit** | | **8,681** | 7,398 | 16,779 |
| Research and development expenses | | **(1,468)** | (1,268) | (2,865) |
| Selling and distribution expenses | | **(3,734)** | (2,986) | (6,962) |
| Administrative expenses | | **(2,081)** | (1,921) | (3,898) |
| **Operating profit** | | **1,398** | 1,223 | 3,054 |
| Financial income | | **1** | 1 | 11 |
| **Net financing income** | | **1** | 1 | 11 |
| **Profit before tax** | | **1,399** | 1,224 | 3,065 |
| Income tax expense | 3 | **(389)** | (409) | (1,095) |
| **Profit for the period attributable to equity holders of the parent** | | **1,010** | 815 | 1,970 |
| **Other comprehensive income:** | | | | |
| Currency translation differences on foreign operations | | **(5)** | (4) | (40) |
| **Total comprehensive income for the period attributable to equity holders of the parent** | | **1,005** | 811 | 1,930 |
| Basic earnings per share (pence) | 2 | **13.6** | 11.1 | 26.8 |
| Diluted earnings per share (pence) | 2 | **13.1** | 10.4 | 25.6 |

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

## Condensed consolidated balance sheet

As at 31 January 2011

| £'000 | **Interim 2011** | Interim 2010 | Full Year 2010 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | **502** | 349 | 491 |
| Intangible assets | **13** | 25 | 22 |
| Deferred tax | **4,465** | 5,615 | 4,850 |
| **Total non-current assets** | **4,980** | 5,989 | 5,363 |
| **Current assets** | | | |
| Inventories | **4,545** | 4,194 | 3,990 |
| Trade and other receivables | **7,144** | 5,561 | 8,046 |
| Cash and cash equivalents | **5,426** | 3,900 | 4,431 |
| **Total current assets** | **17,115** | 13,655 | 16,467 |
| **Total assets** | **22,095** | 19,644 | 21,830 |
| **Current liabilities** | | | |
| Trade and other payables | **3,688** | 2,954 | 4,080 |
| Provisions | **240** | 240 | 240 |
| **Total current liabilities** | **3,928** | 3,194 | 4,320 |
| **Non-current liabilities** | | | |
| Provisions | **25** | 25 | 25 |
| **Total non-current liabilities** | **25** | 25 | 25 |
| **Total liabilities** | **3,953** | 3,219 | 4,345 |
| **Net assets** | **18,142** | 16,425 | 17,485 |
| **Equity** | | | |
| Called up share capital | **75** | 74 | 74 |
| Share premium account | **1,595** | 1,474 | 1,482 |
| Other reserve | **5,146** | 5,146 | 5,146 |
| Translation reserve | **(28)** | 13 | (23) |
| Profit and loss account | **11,354** | 9,718 | 10,806 |
| **Total equity attributable to equity holders of the parent** | **18,142** | 16,425 | 17,485 |

## Condensed consolidated statement of changes in equity

| £'000 | Share Capital | Share Premium | Other Reserve | Translation Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|
| **Balance at 1 August 2010** | 74 | 1,482 | 5,146 | (23) | 10,806 | 17,485 |
| **Comprehensive Income:** | | | | | | |
| Profit for the period | - | - | - | - | 1,010 | 1,010 |
| Currency translation differences on foreign operations | - | - | - | (5) | - | (5) |
| Total comprehensive income | - | - | - | (5) | 1,010 | 1,005 |
| **Transactions with owners:** | | | | | | |
| Share options exercised by employees | 1 | 113 | - | - | - | 114 |
| Equity-settled transactions, including deferred tax effect | - | - | - | - | 96 | 96 |
| Dividends paid to equity holders | - | - | - | - | (558) | (558) |
| Total transactions with owners | 1 | 113 | - | - | (462) | (348) |
| **Balance at 31 January 2011** | **75** | **1,595** | **5,146** | **(28)** | **11,354** | **18,142** |

# Consolidated statement of cash flows

For the 6 months to 31 January 2011

| £'000 | **Interim 2011** | Interim 2010 | Full Year 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | **1,010** | 815 | 1,970 |
| Adjusted for: | | | |
| Depreciation and amortisation | **150** | 130 | 277 |
| Financial income | **(1)** | (1) | (11) |
| Share based payment expense | **96** | 105 | 197 |
| Foreign exchange loss/ (gain) | **13** | (51) | (122) |
| Income tax expense | **389** | 409 | 1,095 |
| Increase in inventories | **(555)** | (1,285) | (1,081) |
| Decrease/(Increase) in trade and other receivables | **902** | 581 | (1,904) |
| (Decrease)/Increase in trade and other payables | **(392)** | (81) | 1,045 |
| Increase in provisions | **-** | 60 | 60 |
| **Cash generated from operations** | **1,612** | 682 | 1,526 |
| Income taxes paid | **(4)** | - | (5) |
| **Net cash inflow from operating activities** | **1,608** | 682 | 1,521 |
| **Cash flows from investing activities** | | | |
| Interest received | **1** | 1 | 11 |
| Acquisition of property, plant and equipment | **(149)** | (121) | (404) |
| Acquisition of intangibles | **(2)** | - | (12) |
| **Net cash outflow from investing activities** | **(150)** | (120) | (405) |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of share capital | **114** | 108 | 116 |
| Repurchase of own shares | **-** | - | (74) |
| Dividends paid | **(558)** | (368) | (368) |
| **Net cash outflow from financing activities** | **(444)** | (260) | (326) |
| Net increase in cash and cash equivalents | **1,014** | 302 | 790 |
| Cash and cash equivalents at 1 August | **4,431** | 3,551 | 3,551 |
| Effect of exchange rate fluctuations on cash held | **(19)** | 47 | 90 |
| **Cash and cash equivalents at period end** | **5,426** | 3,900 | 4,431 |

## Notes to the accounts:

### 1. Basis of preparation and accounting policies

IndigoVision Group plc ("the Company") is domiciled in Scotland. The consolidated interim financial statements ("the interim report") of the Company for the six months ended 31 January 2011 comprise the Company and its subsidiaries together referred to as "the Group". The interim report was approved by the board of directors on 9 March 2011.

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

These financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published financial statements for the year ended 31 July 2010.

The financial information set out in these interim statements does not constitute the Company's statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 July 2010, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, are available on the Company's website at www.indigovision.com and have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006. The interim financial information for the 6 month period ended 31 January 2011 is unaudited.

## 2. Earnings per share

| | **Interim 2011 £000** | Interim 2010 £000 | Full Year 2010 £000 |
|---|---|---|---|
| Profit for the period attributable to equity shareholders (basic and diluted) | **1,010** | 815 | 1,970 |
| | **Pence** | Pence | Pence |
| Basic earnings per share | **13.6** | 11.1 | 26.8 |
| Diluted earnings per share | **13.1** | 10.4 | 25.6 |

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

| | **Interim 2011 No of shares** | Interim 2010 No of shares | Full Year 2010 No of shares |
|---|---|---|---|
| Issued ordinary shares at start of year | **7,371,776** | 7,321,676 | 7,321,676 |
| Effects of shares issued during the period from exercise of employee share options | **77,298** | 28,532 | 38,645 |
| Effects of purchase of own shares | **(20,000)** | - | (110) |
| Weighted average number of ordinary shares for the period – for basic earnings per share | **7,429,074** | 7,350,208 | 7,360,211 |
| Effect of share options in issue | **263,500** | 464,600 | 344,500 |
| Weighted average number of ordinary shares for the period– for diluted earnings per share | **7,692,574** | 7,814,808 | 7,704,711 |

## 3. Taxation

The tax charge in the current period represents a reduction in the deferred tax asset relating to temporary differences on outstanding share option schemes and the utilisation of prior year tax losses to offset the current period taxable profits.

No provision for corporation tax is required due to the substantial tax losses available for offset against future taxable profits. At 31 July 2010 such losses amounted to £16.6m of which £1.2m has been utilised to offset the current period taxable profits. At a corporate tax rate of 27%, this is equivalent to a deferred tax asset in relation to these trading losses of £4.2m, which has been fully recognised in the financial statements.