ANNUAL REPORT 2016

IndigoVision Group plc

IndigoVision

SAFE IS A WONDERFUL FEELING.

IndigoVision

Directors’ report and consolidated financial statements 2016

Contents

Vincent Hanna
OFFICER
We record
and protect.
IndigoVision
SAFE IS A WONDERFUL FEELING.

Key Points

For the year ended 31 December 2016

Financial

- Revenues of $46.0m (2015: $47.1m)
- Underlying operating profit[1] $0.4m (2015 operating loss: $0.7m)
- Profit before tax $0.1m (2015: loss $0.7m)
- Net cash balance of $6.2m (2015: $2.8m)
- Adjusted earnings per share[2] 9.0 cents (2015: 0.0 cents) before deferred tax
- Diluted loss per share 37.3 cents (2015 loss per share: 6.5 cents)
- Proposed final dividend of 3.0 pence per share (2015: 2.5 pence per share)

Operational

- Management action returned the business to operating profitability in 2016:
  - New senior management and strengthened sales leadership in the Americas and EMEA
  - Overheads before foreign exchange gains/losses reduced by 7% to $23.2m (2015: $25.0m)
- Large project wins:
  - Healthcare
  - Education
  - Banking
  - Safe cities
  - Casinos
- Restructure of hardware design capability completed in January 2016
- Successful launch of three-tiered Control Center software in November 2016
- Sale volumes of software licenses, cameras and encoders all increased by over 25% year-on-year.

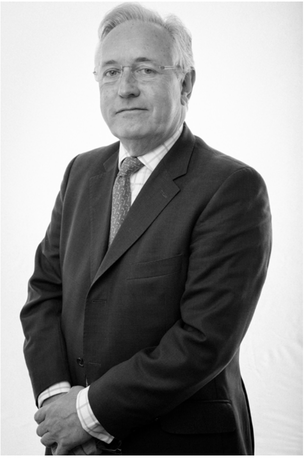
"The results for 2016 were a good improvement on 2015, notwithstanding falling prices across the market as a whole. The tiered camera offering we introduced last year has been well received and we have now extended this concept to software, enabling IndigoVision's products to be competitive in all sectors of the market. We look forward to making further progress in 2017, with a strengthened team, broader product offering, and new market opportunities."

Marcus Kneen, Chief Executive

[1] Underlying operating profit represents operating profit of $0.06m prior to the exceptional bad debt provision of $0.30m

[2] Adjusted earnings per share is based on the loss after tax of $2.79m prior to the exceptional bad debt provision of $0.30m and the deferred tax asset adjustment of $3.16m

Chairman's statement



Hamish Grossart
Chairman

During 2016, the Group continued to make progress and adjust to new market conditions. Performance improved as the year progressed - second half sales were 11% higher than the first half - and second half underlying operating profits were $0.63m, compared with an operating loss of $0.28m in the first half. Underlying operating profit in 2016 amounted to $0.36m, an improvement of $1.11m over the prior year.

Progress to date, and the strong cash position, has encouraged the board to recommend to shareholders an increased dividend and a final dividend of 3.0 pence per share is proposed, 20% higher than last year.

Results

Revenue for the year ended 31 December 2016 was $46.0m (2015: $47.1m). Sales volumes increased by over 25% but this was offset by lower unit prices.

Notwithstanding the reduction in unit selling prices, gross margins were broadly maintained, averaging 50.9% for 2016, compared with 51.4% the previous year. Overheads, before the exceptional bad debt provision of $0.3m, were 7% lower at $23.2m (2015: $25.0m) as savings previously made were maintained.

The group returned to operating profit in the second half of 2016 and, as expected, the second half performance exceeded first half losses. The underlying operating profit for 2016 amounted to $0.36m, a substantial improvement from losses of $0.74m in 2015.

In recent months, the Group has undertaken a review of its balance sheet and its internal controls. Following this review, and an assessment based on current information of the likely recoverability of certain receivables dating back to 2014, an additional bad debt provision of $0.30m has been recognised. As these amounts do not relate to recent trading results of the Group, they have been disclosed separately within administrative expenses and are added back in the calculation of underlying operating profit. Net of this increase in the bad debt provision, the operating profit for the year was $0.06m (2015: operating loss of $0.74m)

The group continues to benefit from research and development tax credits which resulted in a net current tax credit of $0.37m (2015: $0.75m).

The group has substantial historic UK tax losses, which amounted to $26.9m as at 31 December 2016. As intimated with the interim results, the group has re-assessed the likely rate of future utilisation of these losses over the medium term in the light of recent trading results, planned reductions in future UK corporation tax rates and the continuing availability of research and development tax credits. As a result, the carrying value of the Group's deferred tax asset has been reduced by $3.16m to $1.69m. This non-cash reduction has been charged to the profit and loss account in 2016.

Adjusted earnings per share (before the deferred tax asset adjustment) amounted to 9.0 cents (2015: 0.0 cents). The fully diluted loss per share was 37.3 cents (2015: 6.5 cents).

The net cash balance at 31 December 2016 was a healthy $6.20m (2015: $2.76m), with the increase primarily due to improved working capital management. The Group had borrowings of $0.05m at 31 December 2016 (2015: $nil), and has available a bank overdraft facility of $4.0m, which was not utilised during the year.

Sales and Markets

Sales volumes of software licenses, cameras and encoders all increased by between 26% and 28% year on year, with cameras benefitting from a broadening of the range and the introduction of a variety of products with differing price points.

Regionally, EMEA accounted for $22.5m or 49% of sales (2015: $19.4m, 41%). Within this, the Middle East region grew by 34%. The UK market performed well, in local currency terms, but the strengthening US dollar resulted in a 13% reduction in the dollar value of sterling local currency sales, and the strong dollar similarly impacted revenues across the EMEA region as a whole.

Sales in the combined Americas region declined 19% year on year, largely due to reduced activity in the oil driven economies of Latin America. The exceptions to this were the safe cities projects in Latin America, where the Group enjoys a strong market share, and the casino sector in North America. USA senior management has been changed and continues to be strengthened, with recruitment continuing in a number of US regional sales territories to ensure a fully distributed sales team.

Asia Pacific had a steady year, with sales increasing 3% to $5.2m (2015: $5.0m). The new sales team in Australia is rebuilding market share, with a strong focus on cities, universities and traffic systems.

Products

IndigoVision's product strategy remains the design and sale of a software-led complete end-to-end video security solution, inclusive of video management software, cameras, encoders, storage devices and integration to security and operational systems. There are few competitors that provide such a full end-to-end solution, and buyers value the system reliability inherent in the complete solution, as well as the ease of one-stop sourcing.

Three enhanced versions of Control Center 13, IndigoVision's video management software, were released in 2016. In November, the Group launched a three–tier version of Control Center 14, which is expected to open up segments of the market where IndigoVision has not operated historically. This broadening of the product offering is expected to create additional sales opportunities and to help to reduce the volatility which arises from the Group's exposure to individually large projects.

During 2016, the Group launched 45 new products, including 23 cameras and 11 network video recorders. Capital investment in environmental test chambers increased the hardware testing capacity by 50%, enabling the group to bring new products to market more quickly.

Board Changes

As reported at the half year, after nine years with the Group, the last four of which were as CFO, Holly McComb stepped down from the Board on 31 May 2016. The Board are grateful to Holly for her contribution. Holly's successor, Chris Lea, was appointed as a Director on 19 May 2016 and took up his role as CFO on 4 July 2016.

Dividends

In view of the return to operating profitability for the year as a whole, and the improved cash balances, the Board is recommending a dividend of 3.0 pence per share (2015: 2.5 pence per share). The dividend, if approved, will be paid on 25 May 2017 to shareholders on the register on 21 April 2017.

Current trading and outlook

The return to profitability in 2016 is very positive, as is the evidence that IndigoVision is adapting well to changed market conditions.

The Group continues to strengthen its software development team and aims to launch three further releases of its Control Centre software in 2017, offering increased features and functionality for the benefit of its customers.

The start of 2017 was quiet, but sales and orders strengthened markedly in February. The immediate outlook looks encouraging and the group continues to invest in strengthening the sales team in its key markets. The Board therefore currently expects that 2017 will see IndigoVision report further progress.

Hamish Grossart

Chairman

1 March 2017


Safety without the spark.
IndigoVision
SAFE IS A WONDERFUL FEELING.

Strategic report

Business Model

IndigoVision designs and manufactures high performance, video security systems for a wide range of users from large scale and complex security installations to small, eight camera systems. From video capture and transmission to analysis and storage, IndigoVision networked video security systems provide the best quality and most secure video evidence, using market leading compression technology to minimise network bandwidth usage and reduce storage costs.

The Group develops its end-to-end networked video systems through in-house design, use of OEM manufacturers and working with technology partners. Product is manufactured in Asia and Europe and brought into inventory based on forecast sales.

The Group utilises both in-house and third party warehouses in Europe, North America, South America and Asia to store product, enable timely order despatch to its global customer base and offer local product repair services.

The Group sells its products and services through a global network of authorised partners who install the Group's systems at end user sites. The Group's partners vary in size from large international security companies to local systems integrators; value added resellers; and distributors in limited geographies. These companies offer first line technical support to the end users and can maintain the system post sale. The Group provides second line technical support to authorised partners.

The Group is structured into four regional sales and support teams, with people in 24 countries and sales made across many countries.

Strategy

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

Key areas of strategic development for the business include:

Technology innovation

New products are brought to market regularly to compete as technology advances. The Group operates a dual development strategy of in house software development and OEM product sourcing and qualification. The in-house engineering team ensures all products supplied within the end-to-end offering are tested robustly and fully optimised as a complete solution to deliver market leading performance and reliability. Hardware life-cycles in the security market are reducing and, by sourcing products from a number of suppliers, the Group can offer a broader product range and increase speed to market for new technology. The Group's in-house development resource is strategically weighted towards software development, to meet increased market demand for intelligent video systems for both security and operational needs.

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 is continually reviewed to ensure appropriate development is provided and teams resourced accordingly. The sales and marketing team structure is evolving to manage the targeted growth.

Supply chain and logistics

The Group sources products from multiple suppliers in Asia and Europe, and consolidates these in three main logistics centres in Malaysia, the USA and the UK, operated by third parties. The Group also operates service centres in Colombia and Brazil. The Group continually strives to improve efficiency in the supply chain and logistics functions, to provide market leading service to our global customer base.

Group structure and local presence

The Group continues to reduce barriers to revenue growth in all geographies by establishing legal entities as required.

Risks and uncertainties

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. Appropriate measures are taken to control quality throughout the testing and qualification process and the Group has continued to improve its "New Product Introduction" procedures to minimise these risks.

Competitive risk

The Group operates in competitive markets. The Group competes against both a small number of global and local suppliers of end-to-end networked video solutions in addition to a large number of video hardware only and video software only providers. Product innovations, technical advances, global reach and price pressure by competitors could adversely affect the Group. The geographical diversity of operations reduces the possible effect of action by any single competitor. The Group values product quality and customer service as competitive differentiators and continually strives to optimise the customer experience. The Group invests directly in research and development in order to sustain a competitive advantage and also works continually to ensure that its product range is competitive.

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. The Group was an early entrant into the video security market and holds significant prior art should a claim be made.

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 large manufacturers in Asia, with factories in multiple locations, as well as established European manufacturers, and operates three main distribution hubs to reduce the risk of disruption to supply to its customers. The Group obtained Authorised Economic Operator (AEO) status from the European Commission in April 2010, and seeks to work with supply partners that are also AEO accredited, or whose procedures and practices meet the required standards, to minimise risk of operating a global supply chain.

With many European customers being supplied from the Group's UK facilities, the forthcoming withdrawal of the UK from the European Union potentially creates an uncertain trading environment. The Group is monitoring the situation closely and will review its supply chain in the light of future developments. The Group trades in a broad range of geographical markets and its sales to customers in the European Union (excluding the UK) currently account for less than 25% of revenue. The Group's euro denominated sales represent approximately 30% of revenue.

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. This is further supported by the Group's regional support teams who are available to assist in pre-sales and ongoing technical support. Potential new partners also undergo detailed credit checks and trade within authorised credit limits to minimise the Group's financial risk. In addition, the Group seeks to mitigate credit risk through the use of letters of credit where possible.

Foreign currencies exchange rate fluctuations

The Group monitors short and medium term exchange rates and purchases products and components in US dollars to match the major sales currency. The Group seeks to reduce exposure to foreign exchange risk through natural hedging of US dollar income and costs. The Group currently generates euro and Canadian dollar income in excess of euro and Canadian dollar costs, and has sterling costs in excess of sterling income. Foreign currency is purchased as necessary at spot rates. The Group's management does not currently consider that the foreign currency exposures are sufficient to warrant the use of forward exchange contract or other currency instruments at the present time, but continues to keep this under review. Sensitivity analysis associated with currency movements is detailed further in note 22 of the report and accounts.

Environmental risks

The Group seeks to ensure ongoing compliance with relevant legislation and 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 fully complies with the European Union's 'Restriction of Hazardous Substances' directive.

The effect of legislation and other regulatory activities

The Group regularly monitors forthcoming and current legislation and taxation changes as they affect the Group.
Key performance indicators ("KPIs")

The Group uses the following financial KPIs to monitor growth, profitability, spend, and working capital:

	2016	2015	Measure
Revenue growth %	**(2.5%)**	(23.1%)	Current period revenue/ prior period revenue
Operating margin	**0.1%**	(1.6%)	Operating profit before financing costs / revenue
Underlying operating margin	**0.8%**	(1.6%)	Underlying operating profit before financing costs/revenue
Adjusted earnings per share (cents)	**9.0**	0.0	As set out in note 7
R&D as % of sales	**7.3%**	9.3%	Research and development expenses/ revenue
Annualised return on capital employed	**0.3%**	(3.2%)	Profit/(loss) before tax/Year end total assets less current liabilities
Current ratio	**2.7**	3.2	Current assets/current liabilities
Debtor days	**77**	79	Age profile of trade receivables
Creditor days	**55**	50	Age profile of trade payables

The Group also uses non-financial KPIs, including the monitoring of:

- Employees' health and safety
- Average time taken to despatch orders
- Product return rates
- Number of technical support issues opened and resolved

Cash

The net cash balance at period end was $6.20m (2015: $2.76m). Cash balances are mainly held in US dollars, sterling, euros and Canadian dollars. Cash reserves in excess of current requirements are placed on a variety of term deposits. Term deposits are placed with banks from the list of the Group's approved institutions. Cash on term deposits is included within cash and cash equivalents on the balance sheet.

The Group's has an overdraft facility of $4.0m which falls due for renewal in February 2018 that is secured by a bond and floating charge. In addition, the Group has finance leases of $0.05m in relation to computer hardware.

As explained in note 1 to the financial statements, the directors have reviewed the latest forecast results and cash flow projections. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the financial statements have been prepared on a going concern basis.

Employees

The continuing success of the Group primarily depends on its employees across the world who contribute daily to the achievement of the organisational goals. The Group respects its staff and recognises that they are its most valuable asset. The Group recruits and retains staff globally by offering challenging opportunities, competitive compensation packages and a good working environment.

The Group strives to provide a working environment which encourages continuous learning and development for all employees and is committed to effective investment in training and development to achieve the business goals. The Group conducts an annual staff engagement survey to gauge employees' professional and emotional commitment to the Group and to seek feedback to drive continuous improvement.

The Group is committed to employee involvement throughout the business and operates a number of share option, share incentive and long term incentive plans along with a variety of cash bonus schemes. The Group has established an employee benefit trust in connection with these share option plans.

By order of the board

Marcus Kneen

Chief Executive Officer

Edinburgh

1 March 2017

Directors' report

Marcus Kneen
Chief Executive Officer

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2016.

Principal activities and business review

The principal activity of the Group continues to be the development, manufacture and sale of networked video security systems. The Group's software, cameras, encoders and network video recorders are designed both internally and with technology partners and manufactured in Asia and Europe. The Group's end-to-end IP video security systems allow full motion video to be transmitted worldwide, in real time, with digital quality and security, over local or wide area networks, wireless links or the internet, using market leading compression technology to minimise usage of network bandwidth. A review of the activities of the Group for the period is given in the Chairman's statement on pages 4 to 5.

Proposed dividend

The directors recommend the payment of a final dividend of 3.0 pence per share (2015: 2.5 pence).

Political and charitable contributions

The Group made charitable donations of $425 (2015: $70) and no political contributions during the year (2015: $nil).

Share Capital

As at 31 December 2016, the company had 7,610,756 ordinary shares of 1 pence each in issue.

Substantial interests

As at 31 January 2017, 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	%
HSBC Global Custody Nominees Ltd	2,280,000	29.96
Richard Winston Farmiloe[1]	500,000	6.57
Hamish Grossart	418,250	5.50
VT Sorbus Vector Fund[1]	269,600	3.54

[1] Richard Farmiloe is a partner in Sorbus Partners, the investment managers of the VT Sorbus Vector Fund

Directors

Hamish Grossart
Non-Executive Chairman

Hamish Grossart, Non-Executive Chairman joined the board of IndigoVision as Chairman in 1996. He has over 25 years' experience on public company boards in a wide range of industries, both in an executive and non-executive capacity. He is also a director of Artemis Investment Management, having held the position of Chairman from 2010 to 2016. He was Non-Executive Deputy Chairman of British Polythene Industries PLC until the sale of the company to RPC Group PLC in July 2016 and Deputy Chairman of Cairn Energy from 1996 to 2010. Past chairmanships include EFT Group PLC, Royal Doulton PLC, Hicking Pentecost PLC, Scottish Highland Hotels Group PLC and Eclipse Blinds PLC.

Marcus Kneen
Chief Executive Officer

Marcus Kneen joined IndigoVision in 2003 as Chief Financial Officer and was appointed Chief Executive Officer in 2011. Previously he held various Finance Director and General Manager positions including Incorporated Technologies (Holdings) Ltd, Grampian Country Food Group and Howegarden Ltd. Prior to that Marcus held finance and audit positions at Christian Salvesen plc and Ernst & Young. He holds an MA from the University of Dundee and is a member of the Institute of Chartered Accountants of Scotland. In 2010/11 he was chairman of the Scottish Finance Directors Discussion Group.

Chris Lea
Chief Financial Officer (19 May 2016 – date)

Chris was appointed a Director on 19 May 2016, as Company Secretary on 31 May 2016 and took up his full time role as Chief Financial Officer on 4 July 2016. He was previously Finance Director and Company Secretary of AIM-listed Superglass Holdings PLC, the UK's only independent manufacturer of glass and mineral wool insulation, prior to the sale of the company to Inflection Management Corporation in July 2016. Previous to this Chris was Chief Financial Officer for Aviagen Europe, the world's largest poultry breeding company. Chris spent 15 years with KPMG, holding various roles within their audit and corporate finance businesses. He holds a BSc (Hons) from Nottingham University and is a member of the Institute of Chartered Accountants in England and Wales.

Andrew Fulton

Non-Executive Director

Andrew Fulton joined the board of IndigoVision in 2011 as an independent non-executive director. Andrew spent over 30 years in the British Diplomatic Service, his last appointment being in Washington DC, following postings in Saigon, Rome, East Berlin, Oslo and at the United Nations in New York. Amongst other business roles Andrew is Chairman of GPW Ltd, specialists in corporate investigations and business intelligence, and is President (formerly founding Chairman) of the Scottish North American Business Council. He is a former Chairman of the Scottish Conservative and Unionist Party and is senior adviser to the all-Party MENA Council at Westminster.

Martin Pengelley

Non-Executive Director

Martin Pengelley joined the board of IndigoVision in 2014 as an independent non-executive director. Martin qualified as a Chartered Accountant with Ernst & Whinney before joining Wood Mackenzie, a predecessor firm of Deutsche Bank, in 1984. Martin worked in UK Corporate Stockbroking with Deutsche Bank AG for almost 30 years before retiring at the end of 2013. Martin is also a director of DB Trustee Services Ltd, the trustee company of the Deutsche Bank UK pension schemes, and Paddock Wood Community Advice Centre.

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

Directors' remuneration

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

2016 Director	Salary/ Fees $'000	Bonus $'000	Benefits $'000	Total before pension $'000	Pension contributions $'000	**2016 Total** **$000**
Executive						
Marcus Kneen	287	-	7	294	50	**344**
Chris Lea[1]	98	-	2	100	13	**113**
Holly McComb[2]	79	-	1	80	12	**92**
Non-Executive						
Andrew Fulton	41	-	-	41	-	**41**
Martin Pengelley	41	-	-	41	-	**41**
Hamish Grossart	82	-	-	82	-	**82**
	628	-	10	638	75	**713**

[1] Appointed 19 May 2016

[2] Resigned 31 May 2016

2015 Director	Salary/ Fees $'000	Bonus $'000	Benefits $'000	Total before pension $'000	Pension contributions $'000	**2015 Total** **$000**
Executive						
Marcus Kneen	321	-	23	344	43	**387**
Holly McComb	164	-	3	167	26	**193**
Non-Executive						
Andrew Fulton	46	-	-	46	-	**46**
Martin Pengelley	46	-	-	46	-	**46**
Hamish Grossart	92	-	-	92	-	**92**
	669	-	26	695	69	**764**

Directors' interests

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

	Ordinary shares	
	2016	2015
Hamish Grossart	**418,250**	418,250
Marcus Kneen	**219,222**	214,897
Chris Lea	**17,106**	-
Martin Pengelley	**2,000**	2,000
Andrew Fulton	**-**	-
Holly McComb	**-**	8,566

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

	Options at start of period	Awarded during period	Exercised during period	Lapsed during period	**Options at end of period**	Weighted average option price per share, £	Date range in which options can be exercised
Marcus Kneen	143,000	-	-	(85,000)	**58,000**	£0.00	Oct '09 – Dec '25
Chris Lea	-	-	-	-	-	-	
Holly McComb	58,000	-	-	(58,000)	-	-	

Committees

Audit Committee

Martin Pengelley is the Chairman of the audit committee and both Hamish Grossart and Andrew Fulton are members. The Board has delegated the following responsibilities to the audit committee:

- To assist the board in meeting its financial reporting responsibilities
- To ensure that the Group's published financial statements comply with all applicable statutory requirements and accounting standards
- To review the interim and annual financial reports of the Group
- To review the effectiveness of internal financial controls and make recommendations where necessary
- To communicate with the external auditors and review their audit findings
- To review the performance of the auditors
- To advise the Board on the appointment and remuneration of the external auditors

Remuneration Committee

Andrew Fulton is the Chairman of the remuneration committee and both Hamish Grossart and Martin Pengelley are members. The Board has delegated the following responsibilities to the remuneration committee:

- Reviewing the performance of the executive directors
- Setting the pay, bonuses and other remuneration of the executive directors
- Allocating share options together with any attached performance targets to executive directors and employees

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming annual general meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 period. 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 judgements 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.

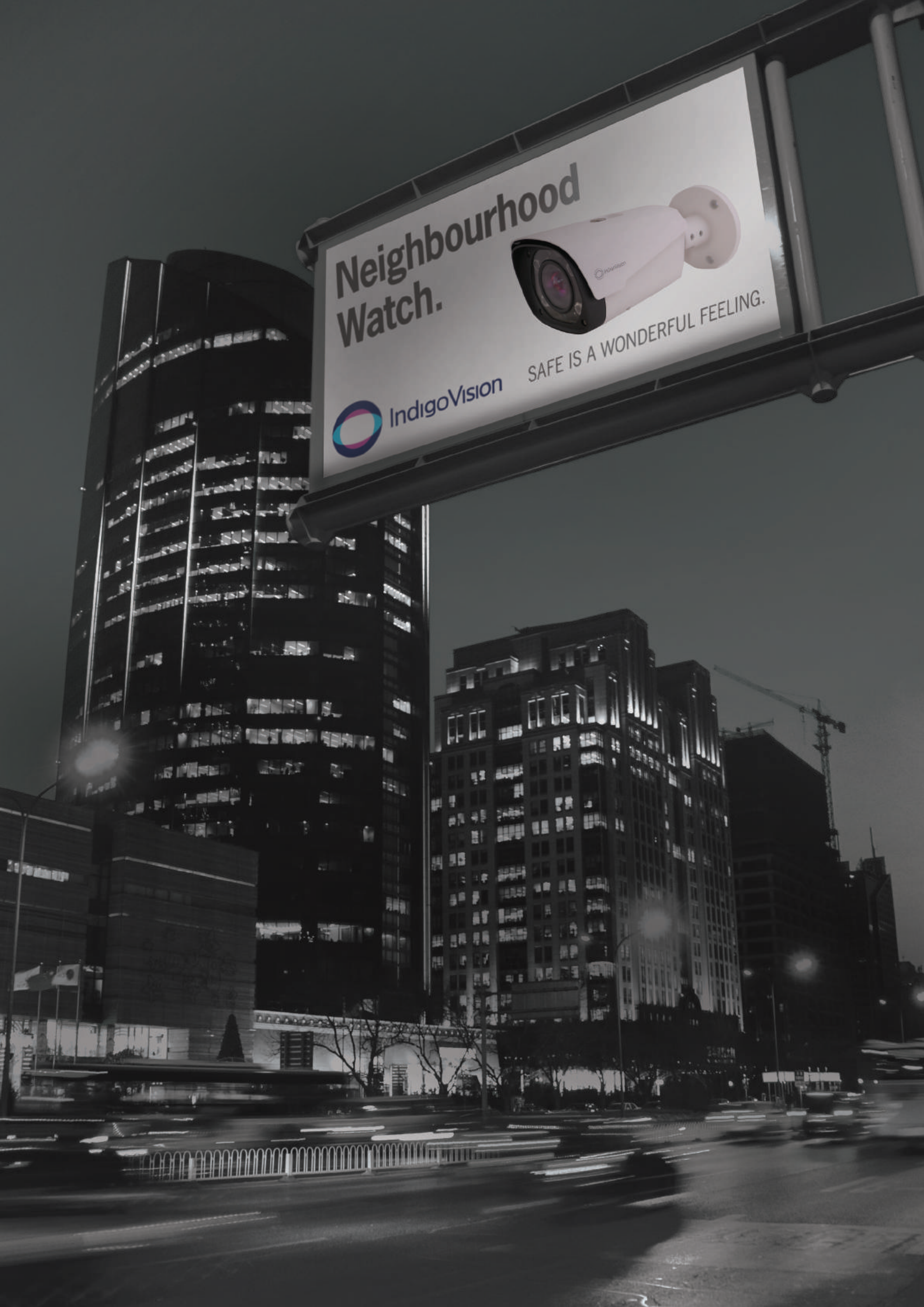
By order of the board

Marcus Kneen

Director

Edinburgh

1 March 2017


Neighbourhood
Watch.
SAFE IS A WONDERFUL FEELING.
IndigoVision

Independent auditor's report

To the members of IndigoVision Group plc

We have audited the financial statements of IndigoVision Group plc for the year ended 31 December 2016 set out on pages 19 to 52. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 16 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 express an 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 December 2016 and of the group's loss 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 Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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.

Alex Sanderson (Senior Statutory Auditor)
For an on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Edinburgh
1 March 2017

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Revenue	2	**45,923**	47,093
Cost of sales		**(22,558)**	(22,881)
Gross profit		**23,365**	24,212
Research and development expenses		**(3,358)**	(4,399)
Selling and distribution expenses		**(15,574)**	(15,834)
Administrative expenses	3	**(4,605)**	(4,786)
Foreign exchange gain		**231**	64
Operating profit /(loss)	3	**59**	(743)
Analysed as:			
Underlying operating profit/(loss)		**359**	(743)
Exceptional bad debt expense	3	**(300)**	-
Financial expense	5	**-**	(10)
Profit/(loss) before tax		**59**	(753)
Income tax (charge)/credit	6	**(2,851)**	269
Loss for the period attributable to equity holders of the parent		**(2,792)**	(484)
Analysed as:			
Underlying profit for the period attributable to equity holders of the parent		**672**	1
Exceptional bad debt expense	3	**(300)**	-
Deferred tax adjustment	7	**(3,164)**	(485)
Other comprehensive income			
Foreign exchange translation differences on foreign operations		**(510)**	(509)
Total comprehensive loss for the year attributable to equity holders of the parent		**(3,302)**	(993)
Basic loss per share (cents)	7	**(37.3)**	(6.5)
Diluted loss per share (cents)	7	**(37.3)**	(6.5)
Adjusted profit per share (cents)	7	**9.0**	0.0

Consolidated balance sheet

As at 31 December 2016

	Note	**2016 $'000**	2015 $'000
Non-current assets			
Property, plant and equipment	8	**1,236**	1,443
Intangible assets	9	**22**	72
Deferred tax	11	**1,687**	4,852
Total non-current assets		**2,945**	6,367
Current assets			
Inventories	12	**8,072**	9,494
Trade and other receivables	13	**12,772**	12,575
Cash and cash equivalents	14	**6,203**	2,763
Total current assets		**27,047**	24,832
Total assets		**29,992**	31,199
Current liabilities			
Trade and other payables	18	**9,990**	7,668
Provisions	17	**138**	137
Total current liabilities		**10,128**	7,805
Non-current liabilities			
Provisions	17	**45**	45
Other non-current liabilities	19	**33**	3
Total non-current liabilities		**78**	48
Total liabilities		**10,206**	7,853
Net assets		**19,786**	23,346
Equity			
Called up share capital	15	**120**	120
Share premium account	15	**2,684**	2,684
Other reserve	15	**8,080**	8,080
Translation reserve	15	**(341)**	169
Profit and loss account		**9,243**	12,293
Total equity attributable to equity holders of the parent		**19,786**	23,346

These financial statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:

Marcus Kneen
Director

Chris Lea
Director

Parent company balance sheet

As at 31 December 2016

	Note	2016 $'000	2015 $'000
Non-current assets			
Investments	10	**2,135**	2,517
Total non-current assets		**2,135**	2,517
Current assets			
Trade and other receivables	13	**2,454**	3,095
Cash	14	**724**	997
Total current assets		**3,178**	4,092
Total assets		**5,313**	6,609
Net assets		**5,313**	6,609
Equity			
Called up share capital	15	**120**	120
Share premium account	15	**2,684**	2,684
Translation Reserve	15	**(1,313)**	(233)
Profit and loss account		**3,822**	4,038
Total equity attributable to equity holders of the parent		**5,313**	6,609

These financial statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:

Marcus Kneen

Director

Chris Lea

Director

Group statement of changes in equity

For the year ended 31 December 2016

Group	Share capital $'000	Share premium $'000	Other reserve $'000	Translation reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 31 December 2014	119	2,666	8,080	678	13,371	24,914
Total comprehensive income						
Loss for the year	-	-	-	-	(484)	(484)
Difference on translation	-	-	-	(509)	-	(509)
Total comprehensive income	-	-	-	(509)	(484)	(993)
Transactions with the owners of the Company						
Share options exercised by employees	1	18	-	-	-	19
Equity-settled transactions, including deferred tax effect	-	-	-	-	(21)	(21)
Dividends paid to equity holders	-	-	-	-	(573)	(573)
Total transactions with the owners of the company	1	18	-	-	(594)	(575)
Balance at 31 December 2015	120	2,684	8,080	169	12,293	23,346
Total comprehensive income						
Loss for the year	-	-	-	-	(2,792)	(2,792)
Difference on translation	-	-	-	(510)	-	(510)
Total comprehensive income	-	-	-	(510)	(2,792)	(3,302)
Transactions with the owners of the Company						
Equity-settled transactions, including deferred tax effect	-	-	-	-	28	28
Dividends paid to equity holders	-	-	-	-	(286)	(286)
Total transactions with the owners of the Company	-	-	-	-	(258)	(258)
Balance at 31 December 2016	**120**	**2,684**	**8,080**	**(341)**	**9,243**	**19,786**

Company statement of changes in equity

For the year ended 31 December 2016

Company	Share capital $'000	Share premium $'000	Translation reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 31 December 2014	119	2,666	76	3,792	6,653
Total comprehensive income					
Profit for the year	-	-	-	810	810
Difference on translation	-	-	(309)	-	(309)
Total comprehensive income	-	-	(309)	810	501
Transactions with the owners of the company					
Share options exercised by employees	1	18	-	-	19
Equity-settled transactions, including deferred tax effect	-	-	-	9	9
Dividends paid to equity holders	-	-	-	(573)	(573)
Total transactions with the owners of the company	1	18	-	(564)	(545)
Balance at 31 December 2015	120	2,684	(233)	4,038	6,609
Total comprehensive income					
Profit for the year	-	-	-	20	20
Difference on translation	-	-	(1,080)	-	(1,080)
Total comprehensive income	-	-	(1,080)	20	(1,060)
Transactions with the owners of the company					
Equity-settled transactions, including deferred tax effect	-	-	-	50	50
Dividends paid to equity holders	-	-	-	(286)	(286)
Total transactions with the owners of the company	-	-	-	(236)	(236)
Balance at 31 December 2016	**120**	**2,684**	**(1,313)**	**3,822**	**5,313**

Consolidated statement of cash flows

For the year ended 31 December 2016

	2016 $'000	2015 $'000
Cash flows from operating activities		
Loss for the year	**(2,792)**	(484)
Adjusted for:		
Depreciation and amortisation	**906**	1,124
Financial expense	**-**	10
Share based payment expense	**38**	9
Foreign exchange	**(231)**	267
Loss/(gain) on disposal of fixed assets	**104**	(25)
Income tax credit	**1,435**	(269)
Decrease in inventories	**1,422**	902
(Increase)/decrease in trade and other receivables	**491**	5,105
Increase/(decrease) in trade and other payables	**2,304**	(5,010)
Increase in provisions	**1**	-
Cash generated from operations	**3,678**	1,629
Income taxes repaid	**708**	(15)
Net cash inflow from operating activities	**4,386**	1,614
Cash flows from investing activities		
Interest paid	**-**	(10)
Acquisition of property, plant and equipment	**(663)**	(819)
Acquisition of intangible assets	**(41)**	(15)
Proceeds from the sale of fixed assets	**4**	-
Net cash outflow from investing activities	**(700)**	(844)
Cash flows from financing activities		
Proceeds from the issue of share capital	**-**	19
Dividends paid	**(286)**	(573)
Net cash outflow from financing activities	**(286)**	(554)
Net increase in cash and cash equivalents	**3,400**	216
Cash and cash equivalents at 31 December	**2,763**	2,559
Effect of exchange rate fluctuations on cash held	**40**	(12)
Cash and cash equivalents at 31 December	**6,203**	2,763

Company statement of cash flows

For the year ended 31 December 2016

	2016 $000	2015 $000
Cash flows from operating activities		
Profit for the year	**20**	810
Adjusted for:		
Financial income	**(51)**	(45)
Foreign exchange	**(648)**	(188)
Decrease in trade and other receivables	**641**	924
Dividend received from subsidiary	**-**	(995)
Cash generated by operations	**(38)**	506
Net cash inflow from operating activities	**(38)**	506
Cash flows from investing activities		
Interest received	**51**	45
Dividends received	**-**	995
Net cash inflow from investing activities	**51**	1,040
Cash flows from financing activities		
Proceeds from the issue of share capital	**-**	19
Dividends paid	**(286)**	(573)
Net cash outflow from financing activities	**(286)**	(554)
Net increase in cash and cash equivalents	**(273)**	992
Effect of exchange rate fluctuations on cash held	**-**	-
Cash and cash equivalents at beginning of period	**997**	5
Cash and cash equivalents at 31 December	**724**	997

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 December 2016 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 1 March 2017.

(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 US Dollars, rounded to the nearest thousand. They are prepared on the historical cost basis.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report and Directors' report on pages 7 to 16. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chairman's statement on pages 4 to 5. In addition, note 22 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 adequate 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. The Group continues to operate with sufficient cash resources and bank facilities and is forecast to continue to do so during the relevant forecast period. 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 period of not less than twelve months from the balance sheet date. 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 period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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 period are discussed in note 26.

The accounting policies set out below have been applied consistently to all periods 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 to direct relevant 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 are 100% controlled.

(ii) Transactions eliminated on consolidation

Intragroup balances, and income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Exchange gains and losses on intra-group balances remain on consolidation.

(iii) Investments in subsidiaries

Investments by the Company in subsidiaries are carried at cost less provision for any impairment. The sterling value of the investments are translated to US dollars at the exchange rates ruling at the balance sheet date for presentation purposes in the Group accounts.

(d) Foreign currency

(i) Functional currency

The Group's earnings stream is primarily US dollars and the principal functional currency is the US dollar, being the most representative currency of the Group. The Group's financial statements are therefore prepared in US dollars.

The exchange rates used in the preparation of these financial statements are stated in note 22.

(ii) Foreign currencies

Income statements of entities whose functional currency is not the US dollars are translated into US dollars at average rates of exchange for the period and assets and liabilities are translated into US dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising on translation of net assets in such entities held at the beginning of the year, together with those differences resulting from the restatement of profits and losses from average to year end rates, are taken to the currency translation reserve.

In each individual entity, transactions in overseas currencies are translated into the relevant functional currency at the exchange rates ruling at the date of the transaction. Where more than one exchange rate is available, the appropriate rate at which assets can be readily realised and liabilities can be extinguished is used. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date. Any exchange differences are taken to the income statement.

(e) Property, plant and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

- Fixtures and fittings 5 – 10 years
- Plant and equipment 3 – 5 years
- Computer hardware 3 years
- Demonstration Equipment 2 years

The residual value and useful lives are reassessed annually.

(e) Property, plant and equipment continued

(iii) Finance lease assets

Leases under which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described below.

(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 period 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 the software's estimated useful lives (one to three 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 are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

(h) Inventories

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

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

(i) Cash and cash equivalents

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

(j) Impairment

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

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

(j) Impairment continued

(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 period in which they are approved by the shareholders.

(l) Employee benefits

(i) Defined contribution pension 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 in the Company. The fair value of options granted is measured at grant date and recognised as an expense with a corresponding increase in equity spread over the period during which the employees become unconditionally entitled to the options. The fair value 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.

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 statements. 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. The fair value is spread over the three year vesting period.

(l) Employee benefits continued

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 period 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 a range of possible outcomes against their associated probabilities.

(o) Trade and other payables

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

(p) Revenue

Revenue comprises income from the sale of goods, income from technical support activities, income from the sales of software upgrade contracts for between one and five years in length, royalty income earned during the period, 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 normally 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 between one and five 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.

(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.

(iii) Finance lease payments

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(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 period 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 within a reasonable period of time. 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 within a reasonable period of time. Deferred tax is calculated using tax rates that are enacted or substantively enacted at the balance sheet date.

(s) Earnings per share

Basic earnings per share is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period, 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.

(t) New standards and interpretations not yet adopted

The 2016 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The IASB and the IFRIC have also issued the following standards and interpretations with an effective date after the date of these financial statements:

New standards and Interpretations Endorsed but not yet Effective	
IFRS 9	Financial Instruments (effective date 1 January 2018)
IFRS 15	Revenue from Contracts with Customers (effective date 1 January 2018)
IFRS 16	Leases (effective date 1 January 2019)
New standards and Interpretations not yet Endorsed and not yet Effective	
IFRS 14	Regulatory Deferral Accounts (effective date 1 January 2016)
IAS 7	Disclosure Initiative (effective date 1 January 2017)
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses (effective date 1 January 2017)
IFRS 2	Clarification and Measurement of Share-based payment Transactions (effective date 1 January 2018)

A full assessment of the impact of the above standards and interpretations has yet to be made.

2. Segment reporting

Following a review of the current board reporting which is used in decision-making, in assessing performance and capital allocation, the format of the segment note (including comparatives) has been changed to reflect the current reporting position. The Board is seen as the Chief Operating Decision Maker and 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 sales regions: primarily Europe, the Middle East and Africa; the Americas and Asia Pacific and has therefore determined these as the operating segments.

2. Segment reporting continued

The Board considers the performance of the operating segments based on regional sales and company-wide gross margin before warranty costs. The operating segments derive their revenue from the sale of software, hardware products and services. Capital is not allocated to geographical regions and substantially all of the Group's income and expenditure is incurred by its UK trading subsidiary, IndigoVision Limited. The information currently provided to the Board is measured in a manner which is consistent with the financial statements.

Segment information is also presented in the respect of the Group's products and services which have different economic characteristics, including the sale of end-to-end video security solutions, consultancy services and multi-year software upgrade plans.

Operating segments

Regional Sales	2016 $'000	2015 $'000
Europe, Middle East and Africa	**22,491**	19,396
Americas	**18,269**	22,671
Asia Pacific	**5,163**	5,026
	45,923	47,093

All sales are to third parties and all segment results are from continuing activities. The gross margin earned in each region is comparable and the majority of overheads are incurred centrally and are therefore unallocated to each region.

Revenues derived from external customers based in the UK were $6,675,000 (2015: $7,556,000)

Analysis of revenue

	2016 $'000	2015 $'000
Revenues from:		
Products/solutions	**43,107**	44,432
Support services	**220**	207
Software Upgrade Contracts	**2,596**	2,454
	45,923	47,093

3. Operating profit/(loss)

	2016 $'000	2015 $'000
Operating profit/(loss) is stated after charging:		
Depreciation and amortisation	**906**	1,124
Exceptional bad debt expense	**300**	-
Net write down of inventories to realisable value	**499**	598
Allowance for doubtful trade receivables	**22**	437
Research & development expenditure	**3,358**	4,399
Share based payment expense	**38**	9
Redundancy costs	**122**	-
Fees payable to the Group's auditor:		
Audit of these financial statements (Group and Company)	**15**	18
Audit of subsidiary companies	**29**	34
All other services	**-**	-

The exceptional bad debt charge relates to an assessment of the likely recoverability of certain receivables dating back to 2014 following a review.

4. Personnel expenses

	2016 $'000	2015 $'000
Wages and salaries	**7,659**	9,040
Compulsory social security contributions	**635**	789
Contributions to defined contribution pension plans	**546**	547
Equity-settled share based payment transactions	**38**	9
	8,878	10,385

The figures above include the directors' remuneration which is disclosed separately below.

	2016 Number	2015 Number
Average number of employees, including executive directors and excluding retained agents, by activity		
Selling and distribution	**56**	56
Research & Development	**26**	44
Administration	**21**	19
	103	119

Directors' remuneration is disclosed on page 14.

5. Net financing expense

	2016 $'000	2015 $'000
Bank interest receivable/(payable)	**5**	(19)
Interest charged on accounts receivable	**(5)**	9
Net financial expense	**-**	(10)

6. Income taxes

Recognised in the income statement

	2016 $'000	2015 $'000
Current tax (credit)/expense		
UK tax	**(373)**	(526)
UK tax - prior year adjustment	**40**	(246)
Overseas tax	**20**	13
Overseas tax – prior year adjustment	**-**	5
	(313)	(754)
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	**2,361**	45
Reduction in tax rates	**308**	157
Adjustments relating to prior year trading losses	**495**	283
	3,164	485
Total income tax charge/(credit) in income statement	**2,851**	(269)

The whole of the deferred tax charge for the year of $3.16m has been designated as an adjusting item, as explained in note 7.

6. Income taxes continued

The Group trades principally through its UK subsidiary, IndigoVision Limited. The current tax credit relates to research and development expenditure at 14.5%

The deferred tax expense of $2.36m arises principally in relation to the reassessment of the recoverability of UK tax losses of $26.9m as at 31 December 2016. The extent to which a deferred tax asset is recognised is dependent on estimates of future trading over an extended period of time and the extent to which research and development costs may be eligible for research and development tax credits in the future. The Group anticipates increasing its investment in research and development proportional to sales growth.

Based on the Group's trading assumptions the deferred tax asset will begin being realised from 2019 onwards, when the Group starts to generate taxable profits and will be realised over a period of five years. As a result, the deferred tax asset has been valued based upon a future UK Corporation tax rate of 17%.

There are a number of forecast scenarios showing potential recovery of the deferred tax asset over periods between three and 12 years, dependent upon a number of factors such as forecast sales growth and profitability, together with the level of research and development expenditure and the future UK tax regime.

The deferred tax asset is denominated in sterling and as such is subject to exchange rate fluctuations. Such exchange rate movements are dealt with as part of the deferred tax expense for the year.

Reconciliation of effective tax rate

	2016		2015	
	%	$'000	%	$'000
Profit/(loss) before tax		59		(753)
Income tax using the UK corporation tax rate	20	12	(20)	(153)
Other Permanent Differences	66	39	(28)	(207)
Non-deductible expenses	119	71	28	207
Net tax relief on share options	-	-	(2)	(16)
Research & Development tax credit	(1,182)	(702)	(89)	(668)
Surrender of tax losses for research & development tax credit refund	259	154	29	215
Unrelieved tax losses & other deductions arising in the period	8	5	17	126
Capital allowances in excess of depreciation	-	-	1	8
Prior year adjustment – current tax	(42)	(25)	(32)	(241)
Overseas taxes payable	-	-	1	6
Timing differences	-	-	2	14
Deferred tax asset not recognised	4,933	2,930	38	283
Effect of tax rate change on deferred tax asset	519	308	21	157
Total	4,799	2,851	(36)	(269)

At 31 December 2016 tax losses generated outside the UK available for offset against future profits, amounted to approximately $1.7m (2015: $1.7m); using an income tax rate of 20.00% (2015: 20.25%) this is equivalent to an asset of $0.3m (2015: £0.3m). 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.

7. Earnings per share

	2016 $'000	2015 $'000
Earnings per share		
Loss for the year attributable to equity shareholders (basic and diluted)	**(2,792)**	(484)
Exceptional bad debt expense	**300**	-
Deferred tax adjustment	**3,164**	485
Adjusted profit for the year attributable to equity shareholders	**672**	1

	Cents	Cents
Basic earnings per share	**(37.3)**	(6.5)
Diluted earnings per share	**(37.3)**	(6.5)
Adjusted earnings per share	**9.0**	0.0

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:

	2016 Number of shares	2015 Number of shares
Issued ordinary shares at start of year	**7,610,756**	7,604,756
Effect of weighted average of shares issued during the year from exercise of employee share options	**-**	4,451
Effect of purchase of own shares	**(134,238)**	(134,238)
Weighted average number of ordinary shares for the year – for earnings per share	**7,476,518**	7,474,969
Effect of share options in issue	**-**	-

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2016 was based on the loss attributable to equity shareholders of $2,792,000 (2015 loss: $484,000) and a weighted average number of ordinary shares during the year ending 31 December 2016 of 7,476,518 (2015: 7,474,969), calculated as shown above.

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2016 was based on the loss attributable to equity shareholders of $2,792,000 (2015 loss: $484,000) and a weighted average number of ordinary shares during the year ending 31 December 2016 of 7,476,518 (2015: 7,474,969), calculated as shown above.

Adjusted earnings per share

The calculation of adjusted earnings per share for the year ended 31 December 2016 was based on the loss attributable to equity shareholders of $2,792,000 (2015 loss: $484,000), to which the deferred tax expense of $3,164,000 (2015: $485,000) and the exceptional bad debt expense of $300,000 (2015: $nil) have been added back and a weighted average number of ordinary shares during the year ending 31 December 2016 of 7,476,518 (2015: 7,474,969), calculated as shown above. Adjusted earnings per share has been presented as the movements related to deferred tax are dependent on a series of assumptions with associated inherent uncertainties which introduce substantial volatility in the deferred tax income/expense from year to year. The Board believes an adjusted earnings per share measure is required to reflect its view of the underlying performance and to align more closely with management targets and rewards.

8. Property, plant and equipment

Group	Plant and equipment	Fixtures and fittings	Computer hardware	Demo equipment	Total
	$'000	$'000	$'000	$'000	**$'000**
Cost					
At 31 December 2014	1,566	846	1,591	1,084	**5,087**
Additions	143	131	29	516	**819**
Disposals	-	-	-	(28)	**(28)**
At 31 December 2015	1,709	977	1,620	1,572	**5,878**
Additions	142	181	101	291	**715**
Disposals	(213)	(77)	(334)	(197)	**(821)**
At 31 December 2016	1,638	1,081	1,387	1,666	**5,772**
Depreciation					
At 31 December 2014	1,151	371	1,265	598	**3,385**
Depreciation charge for the period	249	109	199	521	**1,078**
Disposals	-	-	-	(28)	**(28)**
At 31 December 2015	1,400	480	1,464	1,091	**4,435**
Depreciation charge for the year	220	109	123	415	**867**
Disposals	(213)	(74)	(334)	(145)	**(765)**
At 31 December 2016	1,407	515	1,253	1,361	**4,536**
Net Book Value					
At 31 December 2014	415	475	326	486	**1,702**
At 31 December 2015	309	497	156	481	**1,443**
At 31 December 2016	231	566	134	305	**1,236**

Included in the net book value of computer hardware are assets held under finance leases of $52,000 (2015: $ nil) after charging depreciation of $2,000 (2015: $ nil)

9. Intangible assets

Group	Computer software $'000
Cost	
At 31 December 2014	**596**
Additions	**15**
At 31 December 2015	**611**
Additions	**41**
Disposals	**(88)**
At 31 December 2016	**564**
Amortisation and impairment losses	
At 31 December 2014	**493**
Amortisation for the year	**46**
At 31 December 2015	**539**
Amortisation for the year	**39**
Disposals	**(36)**
At 31 December 2016	**542**
Net book value	
At 31 December 2014	**103**
At 31 December 2015	**72**
At 31 December 2016	**22**

10. Investments in subsidiaries

Company	2016 $'000	2015 $'000
Cost		
At start of period	**2,517**	2,629
Increase in respect of share based payments	**38**	9
Difference on translation	**(420)**	(121)
At end of period	**2,135**	2,517

10. Investments in subsidiaries continued

All subsidiaries

	Registered office address	Country of incorporation	Ownership interest 2016 %	Ownership interest 2015 %
IndigoVision Ltd	Charles Darwin House, Edinburgh Technopole, Milton Bridge, Penicuik, Midlothian, EH26 0PY	Scotland	**100**	100
IndigoVision Inc	300 Broadacres Drive, 4th Floor, Unit 415, Bloomfield, NJ 07003 -3153, United States of America	United States of America	**100**	100
IndigoVision Pte Ltd	80 Robinson Road, #02-00, Singapore, 068898	Singapore	**100**	100
IndigoVision Video Security Solutions Limited.	Avenida da Praia Grande, n.° 815, 4° andar, Edificio Centro Comercial Talento, Macau	Macau	**100**	100
IndigoVision Solucoes De Seguranca Eletronica Ltda.	Rua Cerro Cora, Numero 1.306, Vila Romana ,Sao Paulo, Brazil, 05061-200	Brazil	**100**	100
IndigoVision UK Ltd	Condor House, 10 St Paul's Churchyard, London, EC4M 8AL	England & Wales	**100**	100
IndigoVision Australia Pty Ltd	Level 5, Deutsche Bank Place, 126 Phillip Street, Sydney, New South Wales, 2000	Australia	**100**	100
Indigo Vision Security System (Shanghai) Co., Ltd	Room 405, No. 553 Mao Tai Road, Chang Ning District, Shanghai, China, 200336	China	**100**	100

11. Deferred tax assets and liabilities

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2016 $'000	2015 $'000
Employee benefits – share based payments	**24**	24
Value of tax losses carried forward	**1,626**	4,791
Depreciation in excess of capital allowances	**32**	32
Other timing differences	**5**	5
Tax assets	**1,687**	4,852

Unrecognised deferred tax assets

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

	2016 $'000	2015 $'000
Tax losses - UK	**2,930**	88
Tax losses – Non UK	**314**	314
	3,244	402

11. Deferred tax assets and liabilities continued

Movement in temporary differences during the period

	1 January 2015 $'000	Recognised in income $'000	31 December 2015 $'000
Employee benefits – share-based payments	74	(50)	**24**
Tax value of losses carried forward	5,231	(440)	**4,791**
Depreciation in excess of capital allowances	27	5	**32**
Other timing differences	5	-	**5**
	5,337	(485)	**4,852**

	1 January 2016 $'000	Recognised in income $'000	31 December 2016 $'000
Employee benefits – share-based payments	24	-	**24**
Tax value of losses carried forward	4,791	(3,165)	**1,626**
Depreciation in excess of capital allowances	32	-	**32**
Other timing differences	5	-	**5**
	4,852	(3,165)	**1,687**

12. Inventories

	2016 $'000	2015 $'000
Raw materials and consumables	**1,067**	632
Finished goods	**7,006**	8,862
	8,072	9,494

The write-down of inventories to net realisable value amounted to $499,000 (2015: $598,000). In the 12 month period, raw material, consumables and changes to finished goods recognised as cost of sales amounted to $20,498,000 (2015: $21,007,000).

13. Trade and other receivables

	Group		Company	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Trade receivables	**11,254**	10,992	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**1,807**	2,319
Amounts due from other related parties	**-**	-	**647**	776
Other receivables	**914**	917	**-**	-
Prepayments and accrued income	**604**	736	**-**	-
	12,772	12,575	**2,454**	3,095

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 22.

14. Cash and cash equivalents

	Group		Company	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Bank balances and cash and cash equivalents in the statement of cash flows	**6,203**	2,763	**724**	997

The Group's exposure to interest rate risk is disclosed in note 22.

15. Capital and reserves

	Ordinary shares	
	2016 Number of shares	2015 Number of shares
In issue at start of period	**7,610,756**	7,604,756
Issued for cash on exercise of employee share options	**-**	6,000
In issue at end of period – fully paid	**7,610,756**	7,610,756

At 31 December 2016, the issued share capital comprised 7,610,756 ordinary shares (2015: 7,610,756) which have a nominal value of 1 pence 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.

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 company and subsidiaries where their functional currency is different from the group presentation currency.

Other reserve

The other reserve arose on the acquisition of IndigoVision Limited in 2000 prior to listing on the London Stock Exchange when 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 $848,579 (2015: $848,579) representing the cost of own shares held within the Employee Benefit Trust. The nominal value of own shares held is £1,320.

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 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 three and ten years from the grant date. The scheme is open to all employees.

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.

16. Share based payments continued

The Share Incentive Plan 2010 (SIP)

On 10 August 2010, the Company established the IndigoVision Group plc Share Incentive Plan 2010, which is 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 £150 worth of shares per month by means of 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.

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 notionally to purchase £1,800 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 $3,000 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 December 2016, 132,000 shares in the Company had been acquired by the Employee Benefit Trust.

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			
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
20 April 2012	18,000	3 years from date of grant	10 years
9 January 2013	13,437	3 years from date of grant	10 years
19 December 2013	12,234	3 years from date of grant	10 years
26 March 2015	13,778	3 years from date of grant	10 years
The 2008 Share Option Plan			
29 April 2010	6,389	3 years from date of grant	10 years
19 December 2013	15,266	3 years from date of grant	10 years
26 March 2015	12,222	3 years from date of grant	10 years
The 2008 Stock Option/Issuance Plan			
19 December 2013	4,000	Individually determined (typically 3 years)	10 years
The Stand-Alone Option Agreements			
17 October 2008	13,500	Individually determined (typically 3 years)	10 years
19 December 2013	83,000	Individually determined (typically 3 years)	10 years
26 March 2015	130,000	Individually determined (typically 3 years)	10 years
The Long Term Incentive Plan			
19 December 2013	92,500	Individually determined (typically 3 years)	10 years
26 March 2015	119,800	Individually determined (typically 3 years)	10 years

16. Share based payments continued

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

	2016		2015	
	Weighted average exercise price £	**Number of options**	Weighted average exercise price £	Number of options
The 2000 Approved Share Option Plan				
Outstanding at the beginning of the period	**6.51**	**27,500**	5.20	48,133
Forfeited during the period	**6.02**	**(22,000)**	4.13	(14,633)
Exercised during the period	**-**	**-**	1.95	(6,000)
Outstanding at the end of the period	**8.48**	**5,500**	6.51	27,500
The 2000 Unapproved Share Option Plan				
Outstanding at the beginning of the period	**5.68**	**10,500**	6.65	25,867
Forfeited during the period	**5.68**	**(10,500)**	7.13	(15,367)
Outstanding at the end of the period	**-**	**-**	5.68	10,500
The 2000 Stock Option / Stock Issuance Plan				
Outstanding at the beginning of the period	**8.23**	**500**	7.38	1,500
Forfeited during the period	**8.23**	**(500)**	6.96	(1,000)
Outstanding at the end of the period	**-**	**-**	8.23	500
The 2008 Approved Share Option Plan				
Outstanding at the beginning of the period	**3.68**	**44,809**	3.71	45,031
Granted during the period	**-**	**-**	3.45	13,778
Forfeited during the period	**3.63**	**(11,563)**	3.54	(14,000)
Outstanding at the end of the period	**3.70**	**33,246**	3.68	44,809
The 2008 Unapproved Share Option Plan				
Outstanding at the beginning of the period	**3.71**	**38,491**	3.83	26,269
Granted during the period	**-**	**-**	3.45	12,222
Forfeited during the period	**4.01**	**(9,237)**	-	-
Outstanding at the end of the period	**3.62**	**29,254**	3.71	38,491
The 2008 Stock Option Plan				
Outstanding at the beginning of the period	**3.61**	**2,100**	3.61	2,100
Granted during the period	**-**	**-**	-	-
Forfeited during the period	**4.06**	**(100)**	-	-
Outstanding at the end of the period	**3.59**	**2,000**	3.61	2,100
The Stand Alone Option Agreements				
Outstanding at the beginning of the period	**1.80**	**171,600**	1.12	138,600
Granted during the period	**-**	**-**	0.01	130,000
Forfeited during the period	**2.58**	**(40,000)**	2.05	(97,000)
Exercised during the period	**-**	**-**	-	-
Outstanding at the end of the period	**1.56**	**131,600**	1.80	171,600

The weighted average share price at the date of exercise of share options exercised during the 12 month period was £ nil (2015: £1.95) as no options were exercised.

The options outstanding at the period-end have an exercise price in the range of £0.01 to £8.68 (2015: £0.01 to £8.68) and a weighted average remaining contractual life of 7.0 years (2015: 6.7 years).

16. Share based payments continued

The options outstanding at 31 December 2016 have an exercise price in the ranges summarised below:

Exercise Price Range	**Number of options outstanding at 31 December 2016**	Weighted average remaining contractual life (years)
£0.01- £3.44	**75,000**	8.2
£3.45 - £4.49	**116,100**	6.7
£4.50 - £5.68	**5,000**	3.3
£8.23 - £8.68	**5,500**	0.5
	201,600	7.0

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 between 3.5 and 4 years, a risk free discount rate of between 1.19% and 5.75% and historical share price volatility at the date of grant range of between 33% and 72.2%.

	2016 number	2015 number
Outstanding at the beginning of the year	**208,065**	258,755
Granted during the year	**-**	119,800
Forfeited during the year	**(121,265)**	(170,490)
Outstanding at the end of the year	**86,800**	208,065

The total charge recognised for the period arising from share based payments was $38,000 (2015: $9,000).

Recognised in income statement	**2016 $'000**	2015 $'000
Share options granted in 2012	**-**	12
Share options granted in 2013	**5**	(9)
Share options granted in 2014	**17**	(38)
Share options granted in 2015	**12**	44
Share options granted in 2016	**4**	-
Total expense recognised as employee costs (note 4)	**38**	9

17. Provisions

Product warranties	**2016 $'000**	2015 $'000
Balance at start of period	**182**	182
Provision made during the period	**1,208**	544
Provision used during the period	**(1,207)**	(544)
Balance at the end of the period	**183**	182
Non-current	**45**	44
Current	**138**	137
	183	182

The provision relates to possible claims on products sold during the 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	**2016 $'000**	2015 $'000
Trade payables	**5,605**	3,104
Taxation and social security	**166**	225
Finance lease assets: due within one year	**18**	-
Other payables	**514**	587
Accruals and deferred income	**3,687**	3,752
	9,990	7,668

19. Other non-current liabilities

Group	**2016 $'000**	2015 $'000
Finance lease assets: due in more than one year	**30**	-
International Agents Incentive plan	**3**	3
	33	3

20. Finance Leases

Future lease payments are due as follows:

2016	**Minimum lease payments $'000**	**Interest $'000**	**Present value $'000**
Not later than one year	**18**	**-**	**18**
Between one year and five years	**30**	**-**	**30**
Later than five years	**-**	**-**	**-**
	48	**-**	**48**

2015	Minimum lease payments $'000	Interest $'000	Present value $'000
Not later than one year	-	-	-
Between one year and five years	-	-	-
Later than five years	-	-	-
	-	-	-

21. Contingent Liabilities

Performance guarantee

Performance guarantees require the Group to make payments to third parties in the event that the Group does not perform what is expected of it under the terms of any related contracts. The Company acts as guarantor to Perfect Assets Real Estates Limited for work carried out in Macau. The guarantee is limited to HKD1.75m and expires on 26 May 2017.

HMRC Duty deferment

The Group's HMRC deferment account limit includes a deferment guarantee of £20,000 provided from Royal Bank of Scotland.

22. Financial instruments

The Group’s principal financial instruments as at 31 December 2016 consist of cash and cash equivalents which are used to finance group operations together with trade receivables and trade payables which arise directly from the Group’s operations.

During the periods ended 31 December 2016 and 31 December 2015, the Group did not use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

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

Credit risk

At the balance sheet date there were no significant concentrations of credit risk. The exposure to credit risk is mitigated by selling to a wide range of customers and, where necessary, obtaining payments in advance or letters of credit. Credit evaluations are performed on all customers requiring credit. 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	
	Note	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Trade and other receivables	13	**12,772**	12,575	**2,454**	3,095
Cash and cash equivalents	14	**6,203**	2,763	**724**	997
		18,975	15,338	**3,178**	4,092

The Company has no exposure to trade receivables as receivable balances are due from group companies and related parties.

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

	2016 $'000	2015 $'000
Europe, Middle East and Africa	**5,912**	5,222
Americas	**3,797**	4,214
Asia Pacific	**1,545**	1,486
	11,254	10,922

22. Financial instruments continued

Impairment losses

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

	Gross 2016 $'000	Impairment 2016 $'000	Gross 2015 $'000	Impairment 2015 $'000
Not past due	**6,109**	**-**	6,528	-
0-30 days overdue	**2,395**	**-**	1,350	-
31-60 days overdue	**410**	**-**	1,185	-
More than 61 days overdue	**3,794**	**(1,454)**	2,991	(1,132)
	12,708	**(1,454)**	12,054	(1,132)

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 period was as follows:

	2016 $'000	2015 $'000
Balance at start of period	**(1,132)**	(695)
Net impairment losses recognised	**(439)**	(463)
Effect of movements in foreign exchange	**117**	26
Balance at end of period	**(1,454)**	(1,132)

Interest rate risk

The Group earns interest from cash and cash equivalents with high credit rated financial institutions and pays interest on any bank overdraft balances. These are subject to interest rate movements.

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 US dollars. The currencies giving rise to this risk are primarily sterling, euros and Canadian dollars.

The Group's revenue is denominated in US dollars (approximately 53% (2015: 67%)), sterling (approximately 13% (2015: 16%)), euro (approximately 30% (2015: 12%)) and Canadian dollars 5% (2015: 5%). The majority of the Group's cost of sales is denominated in US dollars. The majority of the Group's other operating expenses are in sterling.

For monetary assets and liabilities held in currencies other than US dollars, 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 has investments in foreign operations whose net assets are exposed to currency translation risk.

22. Financial instruments continued

Financial assets and financial liabilities by currency	Note	2016 $'000	2015 $'000
Sterling trade and other receivables	13	**1,678**	2,561
Euro trade and other receivables	13	**2,403**	1,512
Other currency trade and other receivables	13	**1,608**	1,972
Sterling cash and cash equivalents	14	**795**	(19)
Euro cash and cash equivalents	14	**1,151**	54
Other currency cash and cash equivalents	14	**640**	430
Sterling trade and other payables	18	**(1,164)**	(1,440)
Other currency trade and other payables	18	**(442)**	(545)

All of the Company's financial assets and liabilities are denominated in sterling.

The following significant exchange rates applied during the period

	Average rate		Period end rate	
	12 months ended 31 December 2016	12 months ended 31 December 2015	**31 December 2016**	31December 2015
US dollar to sterling	**0.7342**	0.6531	**0.8091**	0.6742
US dollar to euro	**0.9033**	0.8978	**0.9479**	0.9163

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 $4m which is subject to interest at the Bank of England base rate plus 2.5%. The facility is renewed annually. As at 31 December 2016 the Group was not utilising the overdraft facility and has cash and cash equivalents of $6,203,000 (31 December 2015: $2,763,000). The Group does not have any interest bearing liabilities due after more than one year as the finance lease is interest free.

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 year.

The following are the contractual undiscounted cash flow maturities of financial liabilities.

As at 31 December 2016 Group	**Carrying amount $'000**	**Contractual cash flow $'000**	**6 months or less $'000**	**6 – 12 months $'000**	**1 – 2 years $'000**	**2 – 5 years $'000**
Non-derivative financial liabilities						
Trade and other payables	**10,023**	**10,023**	**-**	**-**	**-**	**-**
Finance lease assets	**48**	**-**	**9**	**9**	**30**	**-**
	10,071	**10,023**	**9**	**9**	**30**	**-**

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 capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Group statement of changes in equity on page 22. The board monitors return on capital, which the Group defines as profit before tax divided by total assets less current liabilities.

22. Financial instruments continued

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. Currently there is 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 sterling against the US dollar would have decreased the Group's profit before tax by approximately $0.2m for the year ended 31 December 2016 (2015: decrease of $0.4m) and a general increase of five percentage points in the value of the US dollar against the euro would have decreased the Group's profit before tax by approximately $0.2m (2015: $0.5m).

Fair values

The nominal value of cash and cash equivalents, trade and other receivables, and trade and other payables of is deemed to reflect materially the fair value for both the Group and Company.

	2016		2015	
Group:	**Carrying Amount $'000**	**Fair Value $'000**	Carrying Amount $'000	Fair Value $'000
Trade and other receivables	**12,772**	**12,772**	12,575	12,575
Cash and cash equivalents	**6,203**	**6,203**	2,763	2,763
Trade and other payables	**(9,990)**	**(9,990)**	(7,671)	(7,671)
	8,985	**8,985**	7,667	7,667

	2016		2015	
Company:	**Carrying Amount $'000**	**Fair Value $'000**	Carrying Amount $'000	Fair Value $'000
Amounts due from subsidiary undertakings	**1,807**	**1,807**	2,319	2,319
Amounts due from other related parties	**647**	**647**	776	776
Cash and cash equivalents	**724**	**724**	997	997
	3,178	**3,178**	4,092	4,092

23. Operating leases

Non-cancellable operating lease rentals are payable as follows.

	2016 $'000	2015 $'000
Lease rentals due within:		
Less than one year	**533**	533
Between one and five years	**1,189**	1,219
More than five years	**-**	-
	1,722	1,752

During the year ended 31 December 2016, $584,000 was recognised as an expense in the income statement in respect of operating leases (2015: $613,000).

23. Operating leases continued

The Group leases premises in the UK, USA, Canada, Brazil, China and Dubai under operating leases. The UK head office lease expires in February 2021, the US lease expires April 2021 and the leases for all other premises expire in November 2017 or earlier.

24. Capital commitments

As at 31 December 2016 the Group had no contracts to purchase property, plant and equipment (2015: $nil).

25. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 10), The IndigoVision Group plc Employee Benefit Trust (see note 15) and with its directors.

Transactions with key management personnel

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

Directors of the Company and their immediate relatives control 8.6% 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 behalf of the executive directors. The executive directors also participate in the Group's share option schemes. Details of the directors' remuneration are contained in the Directors' report on page 11.

Transactions with subsidiaries

During the year the Company was charged a management fee of $157,000 (2015: $261,000) by its subsidiary IndigoVision Limited.

During the year the Company charged interest on cash balances loaned to its subsidiary IndigoVision Limited of $51,000 (2015: $66,000).

At the year end, IndigoVision Limited owed the Company $1,800,000 (2015: $2,310,000).

During the year the Company received no dividend from its subsidiary, IndigoVision Limited (2015: $995,000).

26. 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.

26. Accounting estimates and judgements continued

Warranty provision

The provision for warranties is estimated based on historical warranty data which typically ranges from 1% to 3% per annum and management judgement on estimated future returns given the operational activities during the two year warranty period preceding the reporting date and the extent to which warranty costs can be passed back to third party manufacturers. If actual project installations or product failure rates are less favourable than those estimated by management or the costs associated with repair or replacement cannot be passed back to the manufacturer, then warranty costs may exceed the provision made at the reporting date.

Deferred tax asset

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised, with consideration given to the timing and level of future taxable income and the availability or otherwise of research and development tax credits. 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 require 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 a 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

Solicitors

Shepherd & Wedderburn LLP

1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL

Nominated Advisor and Stock Brokers

Nplus1 Singer Advisory LLP

One Bartholomew Lane
London
EC2N 2AX

Bankers

Royal Bank of Scotland plc

36 St Andrews Square
Edinburgh
EH2 2YB

Auditor

KPMG LLP

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Registrars

Computershare Investor Services plc

The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Shareholder calendar

18 May 2017	Annual General Meeting
25 May 2017	Dividend paid

Notes

IndigoVision

SAFE IS A WONDERFUL FEELING.

SAFE IS A WONDERFUL FEELING.

IndigoVision

IndigoVision Group plc
Charles Darwin House
The Edinburgh Technopole
Edinburgh
EH26 0PY
Tel: + 44 (0) 131 475 7200
Fax: + 44 (0) 131 475 7201
Email: IR@indigovision.com
www.indigovision.com