

# ANNUAL REPORT - 2017 -

IndigoVision Group plc



IndigoVision

INNOVATION THAT MAKES YOU SAFE



# Directors' Report and Consolidated Financial Statements 2017

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IndigoVision

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# Key Points

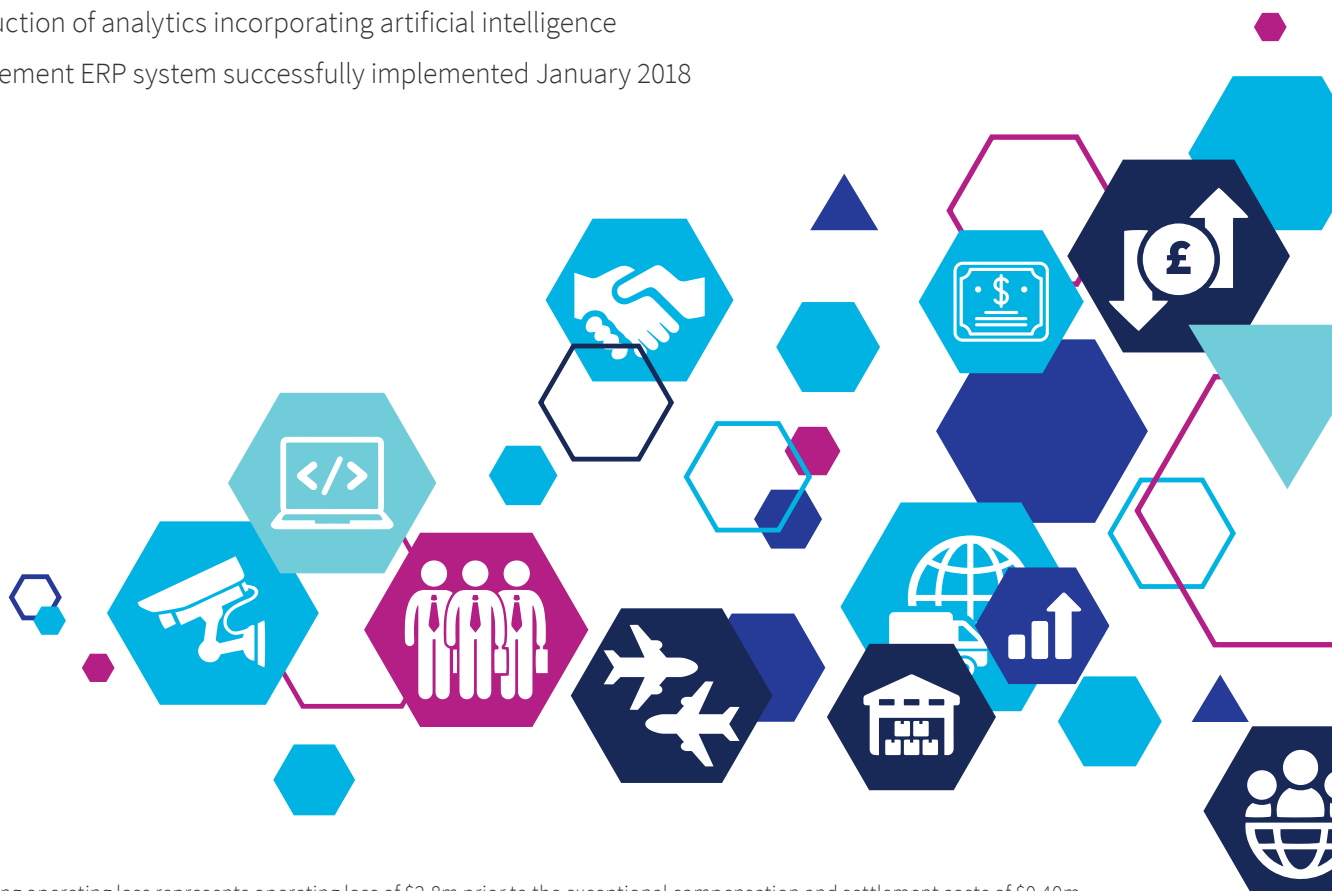
For the year ended 31 December 2017

## Financial

- Revenues of \$42.3m (2016: \$45.9m)
- Operating loss \$2.8m (2016 profit: \$0.1m)
- Underlying operating loss<sup>1</sup> \$2.4m (2016 Operating profit: \$0.4m)
- North American expansion costs of \$2.0m
- Net cash balance of \$2.6m (2016: \$6.2m)
- Basic and diluted loss per share 34.9 cents (2016: 37.3 cents)
- Adjusted loss per share<sup>2</sup> 29.6 cents (2016 adjusted earnings per share: 9.0 cents) before deferred tax
- No final dividend proposed (2016: 3.0 pence per share)

## Operational

- New Chief Executive appointed to lead the business into a growth phase
- Expansion of the North American sales and support team by 60%, under a new leadership team
- Launch of CyberVigilant®, cyber security protection designed specifically for CCTV networks
- Introduction of analytics incorporating artificial intelligence
- Replacement ERP system successfully implemented January 2018



1 Underlying operating loss represents operating loss of \$2.8m prior to the exceptional compensation and settlement costs of \$0.40m

2 Adjusted loss per share is based on the 2017 loss after tax of \$2.6m prior to the exceptional compensation and settlement costs of \$0.40m

# Chairman's statement

The Group's financial performance in 2017 and indeed, prior years, has not been acceptable and IndigoVision is not achieving its full potential. This has resulted in significant changes in the Board and senior management. The leadership team are committed to improving standards and performance at all levels in the Group, and under this new leadership, the Group's strategic direction has been set to better serve our shareholders, customers, employees, partners and other stakeholders.

It is expected that considerable progress in delivering the Group's strategy will be made in 2018 but this will not be reflected fully in its operating results until 2019, consequently management is targeting to at least break even in the current year.



**George Elliott**  
Chairman

## Overview

The Group made an operating loss of \$2.8m in the year ended 31 December 2017 compared to a small operating profit of \$0.1m the previous year.

The Group's financial performance in 2017 and indeed, prior years, has not been acceptable and IndigoVision is not achieving its full potential. This has resulted in significant changes in the Board and senior management. The leadership team are committed to improving standards and performance at all levels in the Group, and under this new leadership, the Group's strategic direction has been set to better serve our shareholders, customers, employees, partners and other stakeholders.

## Strategy

As reported previously the Group's strategy to grow its market share and profitability is to increase and improve the quality of its sales presence in key geographies, develop differentiated products in collaboration with other software developers to meet the growing demand for cyber security and intelligent video security systems, work closely with our OEM partners, improve productivity and efficiency and control costs.

### Sales

During the year significant investment has been made in strengthening the Group's sales presence in North America, in particular the United States, which is beginning to show positive results.

In addition, in the last three months there has

been a determined effort to strengthen links with existing and prospective customers by improving service and support levels. This initiative is being led by the Group's Chief Executive Officer and is recognised as an essential element in building the Group's customer base.

### Product roadmap

The Group's current product range has been reviewed and repositioned to be more competitive. New products in the pipeline have also been reviewed to ensure that priority in the development process is given to those products with the benefits and features that our customers need and differentiate our products, with the focus on cyber security and artificial intelligence. Relationships with third party software developers have also been strengthened during the year.

### Relationship with equipment suppliers

We are working closely with our hardware equipment suppliers to provide our customers with the best integrated end-to-end solution for their security needs, allowing them to take maximum advantage of IndigoVision's software.

## Results

Revenue in the year ended 31 December 2017 was \$42.3m which was in line with revenue expectations

ranging from \$41m to \$43m outlined in the Group's November 2017 trading update. Overall revenues of \$42.3m were, however, \$3.6m (8%) lower than 2016 (\$45.9m), principally because of more challenging market conditions in the enterprise project sector of the Middle East region, where revenues were 53% lower than 2016. The lower level of trading in this region more than accounted for the entire sales shortfall against last year.

With the exception of the Middle East and Latin America, mid to high single digit sales growth was seen in all other regions of the world.

Encouragingly, gross margin improved substantially in the year to 53.8% from 50.9% in 2016, continuing the trend seen in the latter half of 2016. This was achieved, primarily, by improved warranty cost management, a shift towards more profitable geographic markets and a continuing switch into the Group's lower cost GX and BX camera ranges.

In line with the strategy to drive significant revenue growth in North America, the Board elected to increase the sales team by more than 60% during the year, investing to build a national sales team structure covering the entire region. The overall cost of this investment was in excess of \$2.0m with the expanded team expected to drive revenue growth in 2018.

The overall result for the year was an operating loss of \$2.8m (2016: operating profit \$0.1m). The operating loss before exceptional items was \$2.4m (2016: operating profit before exceptional items of \$0.4m).

## Board Changes

After 20 years with the Group, Hamish Grossart stepped down as chairman on 1 July 2017 and from the Board on 31 July 2017. I was appointed to the Board as a Non-Executive Director on 1 June 2017 and succeeded Hamish as chairman on 1 July 2017.

Max Thowless-Reeves was appointed as a Non-Executive Director on 1 June 2017. Andrew Fulton retired from the Board on 31 December 2017.

Marcus Kneen resigned from the Board and ceased to be Chief Executive Officer on 23 November 2017 and was replaced, initially on an interim basis, by Pedro Simoes, who was subsequently appointed to the Board and to the role of Chief Executive Officer on 8 January 2018.

Prior to his appointment as Chief Executive Officer, Pedro was appointed Senior Vice President – Global Sales in October 2017, following a search for an

experienced global sales leader in the security industry. Pedro brings to the Group over 13 years' experience in the sector and nearly six years with Avigilon Corporation where he was ultimately responsible for leading its global salesforce and driving revenue worldwide.

## Cash and Dividends

The net cash balance at 31 December 2017 was \$2.6m (2016: \$6.2m). In addition, the Group has unutilised bank facilities of \$4.0m.

Given the results for the year, the Company will not pay a dividend this year (2016: 3.0p).

During 2017, the Company purchased 95,000 IndigoVision shares, which are currently held in Treasury. The Board retains the ability to purchase further shares up to a maximum aggregate of 375,000, in line with the announcement on 23 May 2017.

## Outlook

Although only two months into the Group's first quarter, both actual sales to date and the increase in the sales pipeline have been encouraging. The investments made in 2017 in North America and the launch of new products targeted at the different market segments, together with innovative new products planned for the second quarter are expected to drive revenue growth in 2018.

It is anticipated that the Board and senior management will make significant progress in delivering the Group's strategy in 2018 but this will not be reflected fully in its operating results until 2019 and consequently management is targeting to at least break even in the current year.



**George Elliott**  
Chairman  
28 February 2018

# Operating and Financial Review

Since joining the Group in late 2017, I have been excited to meet my new colleagues and explore the potential within our product development teams. I recently met with the Group's leadership team to outline my vision for growth, making sure we have the right products and approach to address all parts of the market. While our markets remain competitive, I am confident that after a period of stabilisation, during which new people and new systems bed in, IndigoVision is well positioned for growth.



**Pedro Simoes**  
Chief Executive

## Operational Review

2017 was a year of change. As well as the Board and senior management changes already highlighted in the Chairman's Statement, IndigoVision set a new strategic direction, focussing on delivering greater value to customers through innovation in its proprietary video management software.

During the year, the Company developed its CyberVigilant® technology, using software to identify and report on anomalies within a customer's CCTV network. This new technology is protected by IndigoVision's first ever patent (pending), filed earlier in the year. This retro-fit device, launched in September, allows customers to add an extra layer of cyber protection to their existing network at a reasonable cost, without the need to replace most of the hardware. The next generation of IndigoVision's cyber technology is to embed its cyber protection software within the camera, allowing for real time protection at the edge of the network and differentiating the Company's products from the competition. This new technology will be officially launched at the ISC West trade show in Las Vegas, in April 2018.

The tiered software offering launched in late 2016 has not delivered the revenue growth anticipated from the SME market. As a result, the software tiers have been reviewed and many more valuable features have recently been made available in the IndigoLite and IndigoPro software tiers, providing greater value for our customers with systems of less than 50 cameras.

One year ago, the Board highlighted North America as an area for major investment and growth. Our investment began in April 2017, with a relaunch of the IndigoVision brand at the industry's most important

trade show, ISC West. This was followed by a period of intense recruitment of a number of experienced sales professionals, starting with the restructuring of the USA into three regions and the appointment of senior sales directors for each of USA North East, USA South East, USA West and Canada. Thereafter, the regional sales teams were expanded to provide coverage for all states/provinces, supported by the technical expertise of a locally-focused sales engineering team. Overall, the North American sales and sales engineering team has increased by more than 60% since the end of 2016, putting in place improved capability to take the Company's products to this important market.

### North America

- \$2m+ investment
- changes in personnel
- strengthened management
- expanded sales and sales support team by more than 60%
- 6% increase in revenue

### Latin America

- 8% fall in revenue
- multiple successful safe city projects





# Markets and Products

IndigoVision products are deployed in many market sectors for a variety of customers from small and medium sized enterprises to large and multinational corporations. The Group is particularly well known in the enterprise markets of airports, safe cities, banks, casinos and law enforcement. End users value the quality, reliability and scalability of the IndigoVision system, together with the end-to-end customised solutions achieved through an extensive suite of integration modules with operational and other

security software. 2017 saw major project wins in safe city projects, airports, shopping malls and a number of casinos.

IndigoVision's product strategy continues to be the design and sale of a 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 a full end-to-end solution, and buyers value the system reliability produced by designing the complete solution, as well as the ease of one-stop sourcing.



## EMEA

- 6% increase in revenue in UK and Ireland
- 53% fall in revenue in the Middle East
- expansion at European and Middle East airports
- shopping malls in Northern Europe

## Asia Pacific

- 5% increase in revenue

\$2m investment

6% ↑

5% ↑

# 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.

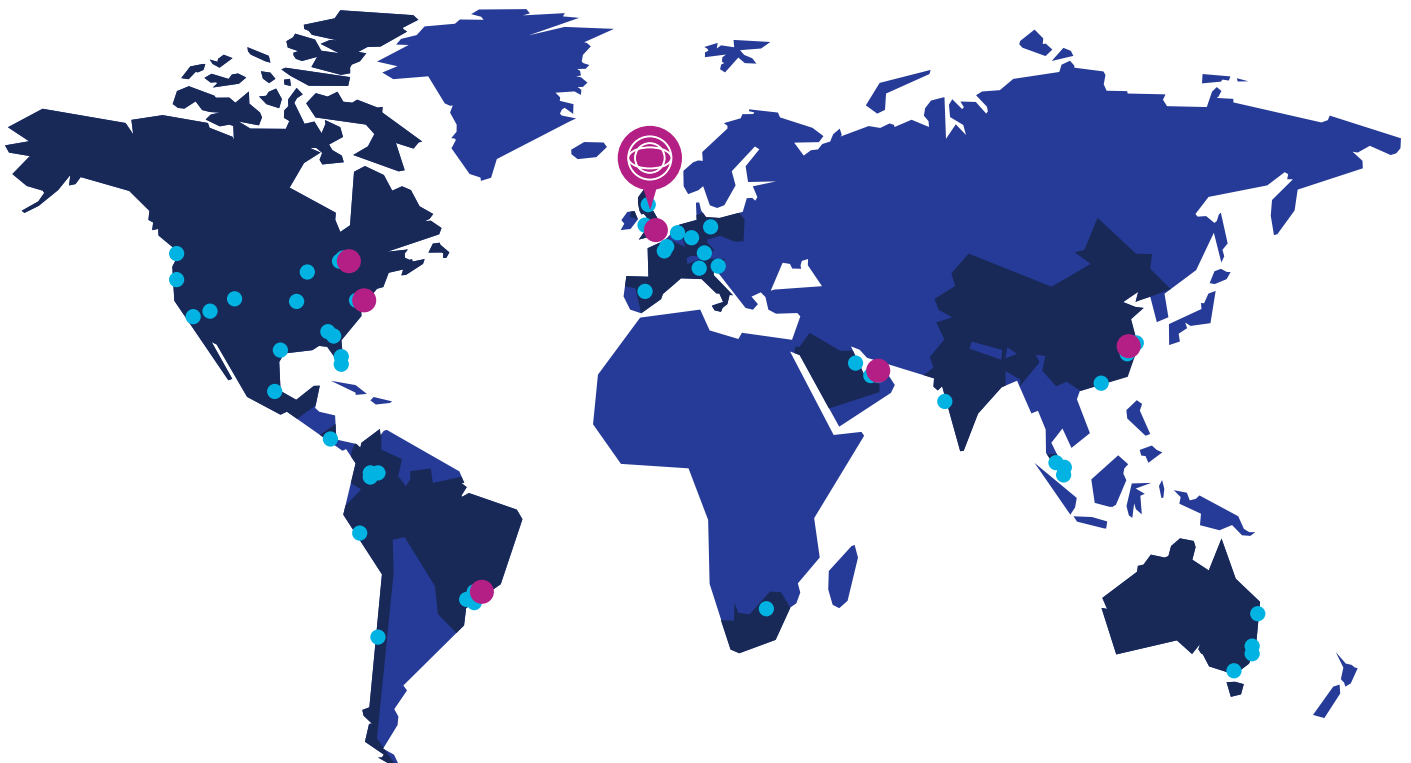
The Group develops its end-to-end networked video systems through in-house design, use of OEM manufacturers and working with technology partners. Product is manufactured in Asia and Europe and brought into inventory based on forecast sales.

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, generating sales across many more countries.



# Strategy

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.

## 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.

## 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.

## Employees

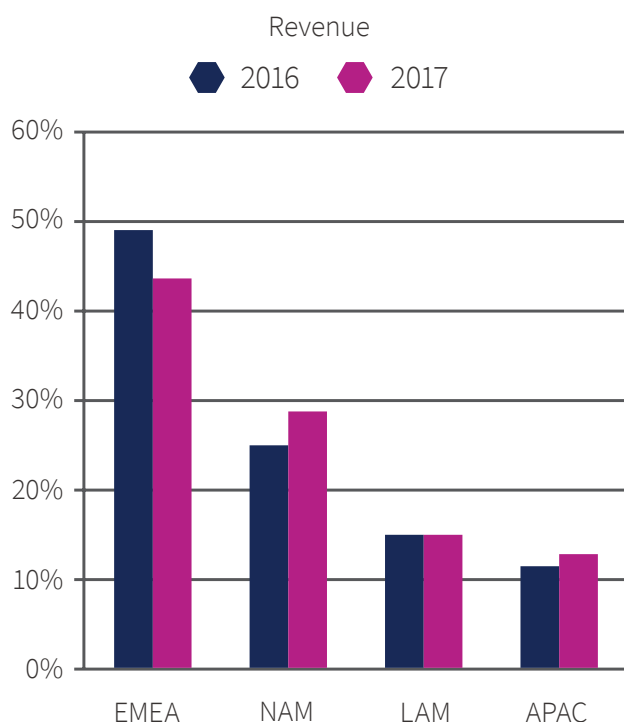
The continuing success of the Group primarily depends on its employees across the world, who contribute daily to the achievement of the organisational goals. The Group respects its staff and recognises that they are its most valuable asset. The Group recruits and retains staff globally by offering challenging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

# Financial Review

In the year to 31 December 2017 revenue was \$42.3m (2016: \$45.9m), a fall of 8%. The headline revenue fall masks significantly different performances across the regions. The Middle East region, where revenues were 53% lower than 2016, was responsible for over 100% of the revenue shortfall. All other regions except Latin America showed single digit revenue growth over 2016.



The volume of cameras sold in the period decreased by 2%, but encouragingly, average prices were in line with last year, a period of relative stability after significant price falls throughout 2016. The number of software licences sold increased marginally, however the trend of lower average selling prices continued. The Company's premium "Ultra" software still accounts for the majority of licence sales.

In line with the Group's strategic focus on the North American market, the Group implemented a major change in its North American operations in mid-2017, with a number of changes in personnel, strengthened management, expanded sales and sales support team and a re-positioning of the IndigoVision brand. North American revenues grew 6% in 2017.

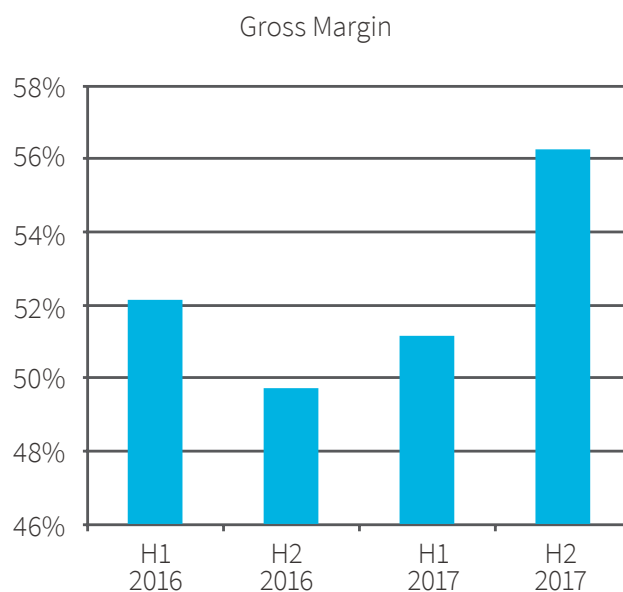
Within EMEA itself, performance was mixed; with a 6% improvement in UK/Northern Europe more than offset by a 53% fall in Middle East sales.

Within Latin America, the Group started 2017 strongly and delivered a number of successful safe city projects

across the region, however difficult market conditions in the second half of the year led to an overall fall in revenues of 8%.

APAC revenues grew 5% in 2017, as the Group continues to focus on the key markets of Australia and South East Asia.

The gross margin improved substantially in the year to 53.8% from 50.9% in 2016, continuing the trend seen in the latter half of 2016. This was achieved, primarily, by improved warranty cost management as the increasing proportion of OEM hardware passes more of the risk back to the supplier, a shift towards more profitable geographic markets and a continuing switch into the Group's lower cost GX and BX camera ranges.



Overheads, at \$25.9m, were 8% higher than last year (2016: \$23.5m), following the decision to expand the North American sales team and a strengthening of sterling against the US dollar adversely impacting UK head office costs. The overall investment in North America in 2017 exceeded \$2.0m, with customer-facing sales and sales support teams expanded, positioning the Group for growth in this key market.

Research and development spend has been broadly maintained at a consistent level to enable the Group to continue to differentiate its offering through innovation, with research and development now focused on software-led end-to-end video security.

The operating loss for the year was \$2.8m (2016: operating profit of \$0.1m). The operating loss before exceptional costs for the year ended 31 December 2017

was \$2.4m (2016: operating profit before exceptional costs of \$0.4m). The loss after tax was \$2.6m (2016: \$2.8m), representing a loss per share of 34.9 cents (2016: 37.3 cents).

## Cash

The net cash balance at 31 December 2017 was \$2.6m (2016: \$6.2m). 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 currently has an unutilised overdraft facility of \$4.0m, secured by a bond and floating

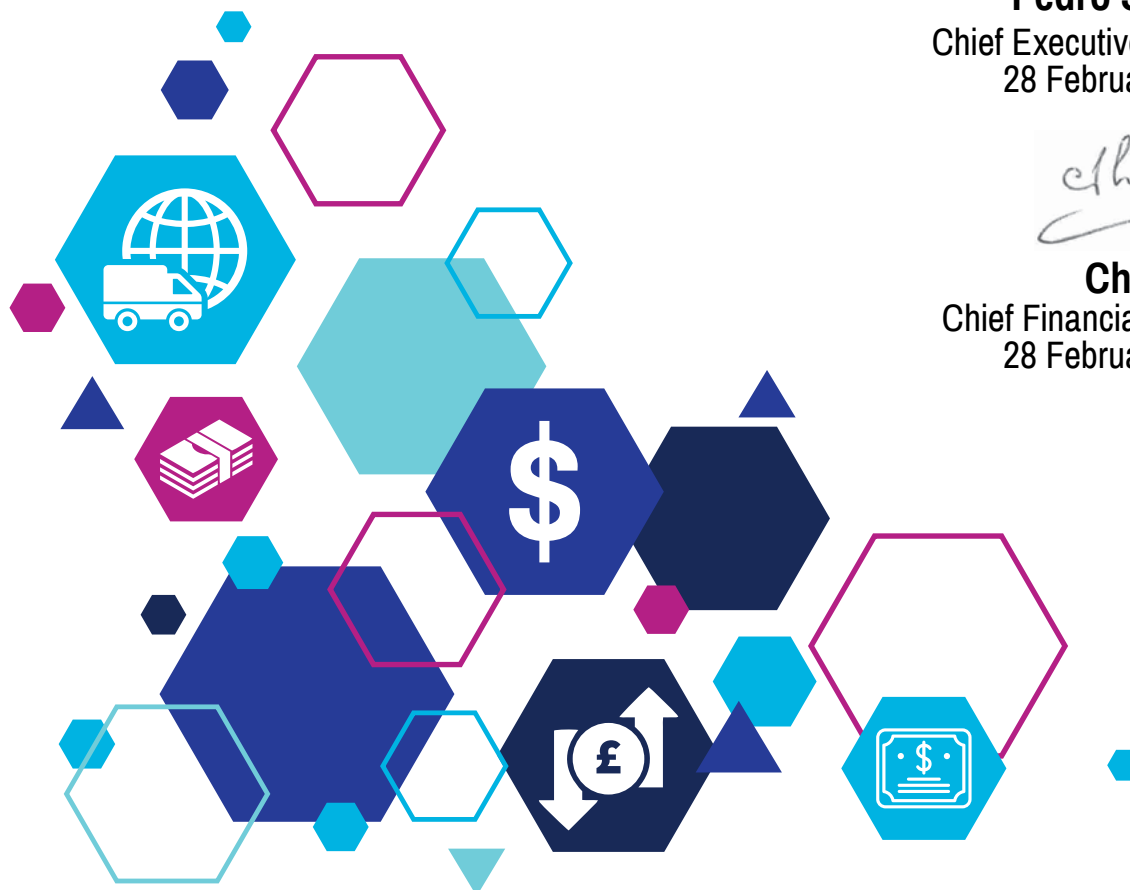
charge, as set out in note 1(b). In addition, the Group has finance leases of \$0.1m (2016: \$0.1m) in relation to computer hardware.

## Dividends

It is also the Board's policy that dividends should reflect earnings and, given the full year loss, the Company will not pay a dividend this year.

## Systems

In January 2018, the Group successfully implemented a new ERP system, facilitating an improvement in operational processes, internal controls and management information. The new system is integral to driving operational efficiencies within the business.



**Pedro Simoes**  
Chief Executive Officer  
28 February 2018

**Chris Lea**  
Chief Financial Officer  
28 February 2018

# Principal Risks and Uncertainties

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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.

## Brexit risk

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 20% 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:

|  | 2017           | 2016   | Measure   |
|--|----------------|--------|---|
| Revenue growth %                           | <b>(7.8%)</b>  | (2.5%) | Current period revenue/ prior period revenue                            |
| Operating margin                           | <b>(6.8%)</b>  | 0.1%   | Operating (loss)/profit before financing costs / revenue                |
| Underlying operating margin                | <b>(5.7%)</b>  | 0.8%   | Underlying operating (loss)/profit before financing costs/revenue       |
| Loss per share (cents)                     | <b>(34.9)</b>  | (37.3) | As set out in note 7  |
| Adjusted (loss)/earnings per share (cents) | <b>(29.6)</b>  | 9.0    | As set out in note 7  |
| R&D as % of sales                          | <b>7.3%</b>    | 7.3%   | Research and development expenses/ revenue                              |
| Annualised return on capital employed      | <b>(16.4%)</b> | 0.3%   | Profit/(loss) before tax/Year end total assets less current liabilities |
| Current ratio                              | <b>2.2</b>     | 2.7    | Current assets/current liabilities                                      |
| Debtor days                                | <b>86</b>      | 77     | Age profile of trade receivables  |
| Creditor days                              | <b>55</b>      | 55     | 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



# Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2017.

## 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 do not recommend the payment of a dividend (2016: 3.0 pence).

## Political and charitable contributions

The Group made charitable donations of \$1,313 (2016: \$425) and no political contributions during the year (2016: \$nil).

## Share Capital

As at 31 December 2017, the Company had 7,610,756 ordinary shares of 1 pence each in issue, of which 97,238 were held in Treasury.

## Substantial interests

As at 31 January 2018, 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    | %     |
|------------------------------------|-----------|-------|
| New Pistoia Income Limited         | 2,274,500 | 30.27 |
| VT Sorbus Vector Fund <sup>1</sup> | 460,000   | 6.12  |
| Hamish Grossart                    | 423,750   | 5.64  |
| Richard Farmiloe <sup>1</sup>      | 375,000   | 4.99  |
| Interactive Investor               | 339,375   | 4.52  |
| Church House Investments           | 282,500   | 3.76  |
| Hargreaves Lansdown                | 257,082   | 3.42  |
| Barclays Stockbrokers              | 255,681   | 3.40  |

<sup>1</sup> Richard Farmiloe is a partner in Sorbus Partners, the investment managers of the VT Sorbus Vector Fund

## Directors



**George Elliott**  
Non-Executive Chairman

George Elliott was appointed to the board of IndigoVision as a non-executive director on 1 June 2017 and was appointed non-executive chairman on 1 July 2017. George is also chairman of AIM-listed Craneware plc (AIM: CRW), the market leader in software and supporting services for healthcare providers in the US, and Calnex Solutions Ltd, Cooper Software Ltd, Optoscribe Ltd and Visionware Ltd. He has extensive boardroom experience in private and public technology companies in an executive and non-executive capacity. He was formerly Chief Financial Officer of Wolfson Microelectronics plc, then a leading UK-listed global provider of high performance mixed-signal semiconductors to the consumer electronics industry.



**Pedro Simoes**  
Chief Executive Officer

Pedro Simoes was initially appointed as the Company's Senior Vice President – Global Sales in October 2017. Pedro took over as interim Chief Executive Officer in November 2017 and was confirmed as CEO in January 2018, at which time he was appointed to the Board. He is an experienced global sales leader in the security industry, with over 13 years of experience in the sector, and prior to joining the Group he spent nearly six years with Avigilon Corporation (TSX: AVO) where he was ultimately responsible for leading its Global salesforce and driving revenue worldwide.



**Chris Lea**  
Chief Financial Officer

Chris Lea 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. Chris was previously Finance Director and Company Secretary of then AIM-listed Superglass Holdings PLC (AIM:SPGH), 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.

Martin Pengelley was appointed to 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.

### Martin Pengelley Non-Executive Director



### Max Thowless-Reeves Non-Executive Director

Max Thowless-Reeves was appointed to the board of IndigoVision with effect from 1 June 2017. Max is a partner in Multi-family Office Sorbus Partners LLP, executive chairman of DivideBuy and a director of Rematch Credit Ltd and David Lean Films Ltd. Max is a Chartered Fellow of the Chartered Institute for Securities & Investment (CISI) and a Visiting Teaching Fellow at Aston Business School.

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:

| 2017 Director                        | Salary/<br>Fees<br>\$'000 | Compensation<br>for loss of<br>office<br>\$'000 | Bonus<br>\$'000 | Benefits<br>\$'000 | Total before<br>pension<br>\$'000 | Pension<br>contributions<br>\$'000 | 2017 Total<br>\$'000 |
|--------------------------------------|---------------------------|---|-----------------|--------------------|-----------------------------------|------------------------------------|----------------------|
| <b>Executive</b>                     |                           |   |                 |                    |                                   |                                    |                      |
| Marcus Kneen <sup>1</sup>            | 263                       | 285   | -               | 20                 | 568                               | 30                                 | <b>598</b>           |
| Chris Lea                            | 189                       | -   | -               | 15                 | 204                               | 25                                 | <b>229</b>           |
| <b>Non-Executive</b>                 |                           |   |                 |                    |                                   |                                    |                      |
| Andrew Fulton <sup>4</sup>           | 39                        | -   | -               | -                  | 39                                | -                                  | <b>39</b>            |
| Martin Pengelley                     | 39                        | -   | -               | -                  | 39                                | -                                  | <b>39</b>            |
| Hamish Grossart <sup>3</sup>         | 44                        | -   | -               | -                  | 44                                | -                                  | <b>44</b>            |
| George Elliott <sup>2</sup>          | 52                        | -   | -               | -                  | 52                                | -                                  | <b>52</b>            |
| Max Thowless-<br>Reeves <sup>2</sup> | 23                        | -   | -               | -                  | 23                                | -                                  | <b>23</b>            |
|                                      | 649                       | 285   | -               | 35                 | 969                               | 55                                 | <b>1,024</b>         |

1 Resigned 23 November 2017

2 Appointed 1 June 2017

3 Resigned 31 July 2017

4 Resigned 31 December 2017

Pedro Simoes was appointed as a director on 8 January 2018.

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

1 Appointed 19 May 2016

2 Resigned 31 May 2016

# 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 |         |
|---------------------------|-----------------|---------|
|                           | 2017            | 2016    |
| Hamish Grossart           | <b>423,750</b>  | 418,250 |
| George Elliott            | <b>13,000</b>   | -       |
| Marcus Kneen <sup>1</sup> | -               | 219,222 |
| Chris Lea                 | <b>29,078</b>   | 17,106  |
| Martin Pengelley          | <b>4,000</b>    | 2,000   |
| Max Thowless-Reeves       | <b>47,383</b>   | -       |

<sup>1</sup> Resigned 23 November 2017

Pedro Simoes was appointed as a director on 8 January 2018.

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 | 58,000                     | 109,500               | -                       | (167,500)            | -                        | £0.00                                   |  |
| Chris Lea    | -                          | 80,500                | -                       | -                    | <b>80,500</b>            | £0.00                                   | Mar 20 - Mar 30                              |
| Pedro Simoes | -                          | 100,000               | -                       | -                    | <b>100,000</b>           | £0.00                                   | Oct 20 - Oct 30                              |

## Committees

### Audit Committee

Martin Pengelley is the chairman of the audit committee and George Elliott and Max Thowless-Reeves 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

Max Thowless-Reeves is the chairman of the remuneration committee and both George Elliott 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 Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (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:

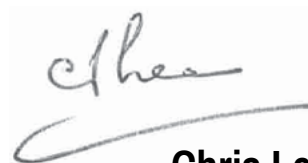
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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**



**Chris Lea**  
Chief Financial Officer  
28 February 2018



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By design



IndigoVision

INNOVATION THAT MAKES YOU SAFE

# Independent auditor's report

To the members of IndigoVision Group plc

## 1. Our opinion is unmodified

We have audited the financial statements of IndigoVision Group plc ("the Company") for the year ended 31 December 2017 which comprise the Consolidated statement of comprehensive income, Consolidated balance sheet, Parent Company balance sheet, Group statement of changes in equity, Company statement of changes in equity, Consolidated statement of cash flows, Company statement of cashflows, and the related notes, including the accounting policies in note 1.

### 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 2017 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

### Overview

|                                       |  |
|---------------------------------------|--|
| <b>Materiality:</b>                   | £240k (2016:\$240k)  |
| group financial statements as a whole | 0.6% (2016:\$0.5%) of group revenue  |
| <b>Coverage</b>                       | 99.9% (2016:99.9%) of group revenue  |
| <b>Risks of material misstatement</b> | <b>vs2016</b>  |
| <b>Recognising risks -Group</b>       | Recoverability of trade receivables <span style="float:right">◀▶</span>          |
|                                       | Revenue recognition <span style="float:right">◀▶</span>                          |
| <b>Recurring risk - Parent only</b>   | Recoverability of investment in subsidiaries <span style="float:right">◀▶</span> |

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.



## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

|  | The risk  | Our response  |
|--|---|---|
| <p><b>Recoverability of trade receivables</b></p> <p>(\$10.5 million; 2016: \$11.3 million)</p> <p>Refer to note 1(g) (accounting policy) and note 13 (financial disclosures).</p>                                   | <p><b>Subjective estimate:</b></p> <p>There is a significant risk over the recoverable amount of trade receivables due to the large volume of overseas customers and material levels of historical debt on individually large balances.</p> <p>Due to the estimation and judgement involved in assessing whether aged balances are recoverable and the material values, there is increased risk that the recoverable amount of receivables could be misstated.</p>  | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Control operation:</b> Evaluating controls over the credit process including their operating effectiveness;</li> <li>• <b>Historical comparisons:</b> Assessing the historical accuracy of the directors' assumptions behind the provisions made against trade receivables against actual outcomes;</li> <li>• <b>Tests of details:</b> Testing the recoverability of specific balances through checking to cash receipts received post year end through to bank statements; and</li> <li>• <b>Personnel interviews:</b> Assessing the directors' assumptions behind the provision made against trade receivables by corroborating judgements made through discussion with management and supporting evidence as appropriate.</li> </ul>  |
| <p><b>Revenue recognition during the "risk period"</b></p> <p>Refer to note 1(p) (accounting policy).</p>  | <p><b>Risk over revenue recognition during the risk period:</b></p> <p>Our risk assessment identified that the specific revenue recognition risk for the Group is in relation to revenue recognised during the last week before the year end and the first week after the year end (the "risk period") rather than revenue recognition throughout the year.</p> <p>Generally, revenue is recognised under clearly defined terms with limited scope for manipulation however note that historically significant revenue has been recognised before the year end.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Control operation:</b> Evaluating controls over the sales process including their operating effectiveness;</li> <li>• <b>Expectation vs outcome:</b> Analysing daily sales trends either side of the balance sheet date to identify the population of revenue transactions falling within the risk period;</li> <li>• <b>Tests of details:</b> Performing substantive procedures over individual revenue transactions identified as falling within the risk period to verify whether revenue was recognised in the appropriate accounting period, including inspecting the contract terms and delivery documentation; and</li> <li>• <b>Assessing transparency:</b> Inspecting standard terms and conditions to confirm they are consistent with the revenue recognition policy and considering whether revenue recognised in the risk period was in compliance with the revenue recognition policy.</li> </ul> |
| <p><b>Recoverability of parent company's investment in subsidiaries</b></p> <p>(\$2.3 million; 2016: \$2.1 million)</p> <p>Refer to page note 1(c)(iii) (accounting policy) and note 10 (financial disclosures).</p> | <p><b>Low risk, high value:</b></p> <p>The carrying amount of the parent company's investments in subsidiaries represents 44.2% (2016: 39.6%) of the company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest potential impact on our overall parent company audit.</p>   | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Tests of details:</b> Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.</li> <li>• <b>Assessing subsidiary audits:</b> Considering the results of the work performed on subsidiary audits and reviews on those subsidiaries' profits and net assets.</li> </ul>   |

### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at \$240k (2016: \$240k), determined with reference to a benchmark of group revenue, disclosed in note 2 of \$42.3m (2016: \$45.9m ), of which it represents 0.57% (2016: 0.52%). We consider revenue to be the most appropriate benchmark as it provides a more stable measure year on year than group loss before tax.

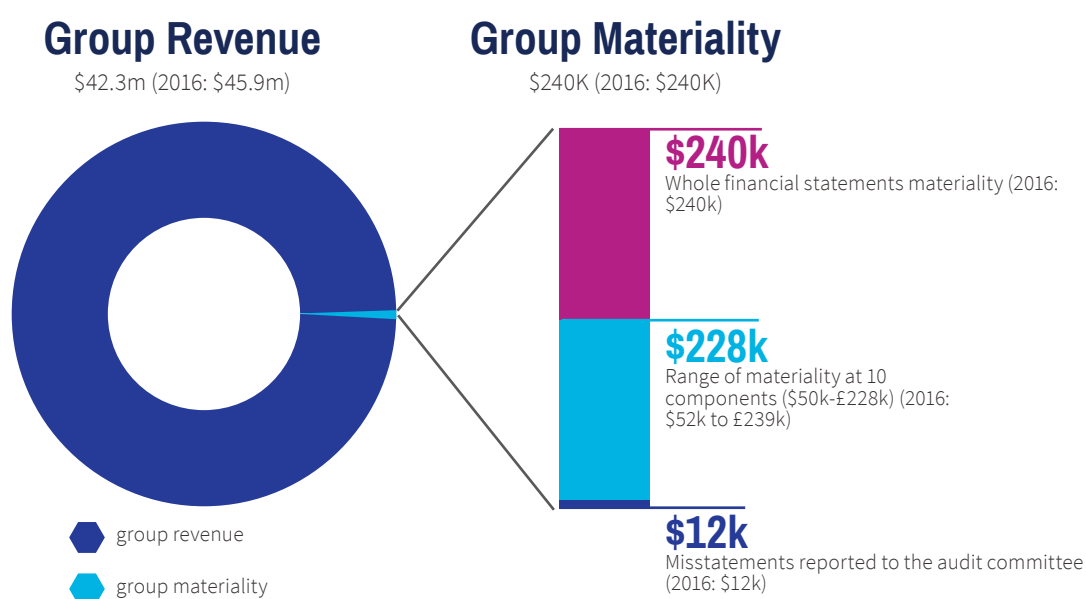
Materiality for the parent company financial statements as a whole was set at \$50k (2016: \$52k), determined with reference to a benchmark of company total assets, of which it represents 1.0% (2016: 1.0%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$12k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group’s 6 (2016: 6) reporting components, we subjected 2 (2016: 2) to full scope audits for group purposes and 1 (2016: 1) to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks in respect of its trade receivables that needed to be addressed. We conducted reviews of financial information (including enquiry) at a further 3 (2016: 3) non-significant components to re-examine our assessment that there were no significant risks of material misstatement of the group financial statements within these.

The components within the scope of our work accounted for the percentages illustrated below.

The audit of all group components, including the audit of the parent company, was performed by the Group team, led by the Senior Statutory Auditor.



|  | Number of components | Group revenue | Group profit before tax | Group total assets |
|--|----------------------|---------------|-------------------------|--------------------|
| Audit for group report reporting purposes                      | 2                    | 99.9%         | 86.3%                   | 97.1%              |
| Specified risk-focused audit procedures over trade receivables | 1                    | -             | 4.2%                    | 0.3%               |
| Reviews of financial information (including enquiry)           | 3                    | 0.1%          | 8.3%                    | 2.4%               |
| <b>Total</b>   | <b>6</b>             | <b>100%</b>   | <b>98.7%</b>            | <b>99.8%</b>       |
| Total 2016   | 6                    | 100%          | 93.2%                   | 99.8%              |

## 4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## 5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## 6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

## 7. Respective responsibilities

### Directors' responsibilities

As explained more fully in their statement set out on pages 15-20, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern,

disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

## 8. The purpose of our audit work and to whom we owe our responsibilities

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.



**Philip Charles**  
Senior Statutory Auditor

For and on behalf of KPMG LLP,  
Statutory Auditor  
Chartered Accountants  
Glasgow  
28 February 2018





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IndigoVision

INNOVATION THAT MAKES YOU SAFE

# Consolidated statement of comprehensive income

For the year ended 31 December 2017

|   | Note | 2017<br>\$'000  | 2016<br>\$'000 |
|---|------|-----------------|----------------|
| Revenue   | 2    | <b>42,331</b>   | 45,923         |
| Cost of sales   |      | <b>(19,558)</b> | (22,558)       |
| <b>Gross profit</b>   |      | <b>22,773</b>   | 23,365         |
| Research and development expenses   |      | <b>(3,090)</b>  | (3,358)        |
| Selling and distribution expenses   |      | <b>(17,081)</b> | (15,574)       |
| Administrative expenses   | 3    | <b>(5,699)</b>  | (4,605)        |
| Foreign exchange gain   |      | <b>281</b>      | 231            |
| <b>Operating (loss)/profit</b>  | 3    | <b>(2,816)</b>  | 59             |
| Analysed as:  |      |                 |                |
| Underlying operating (loss)/profit  |      | <b>(2,420)</b>  | 359            |
| Exceptional salary costs  |      | <b>(396)</b>    | -              |
| Exceptional bad debt expense  | 3    | -               | (300)          |
| <b>Financial income</b>   | 5    | <b>12</b>       | -              |
| <b>(Loss)/profit before tax</b>   |      | <b>(2,804)</b>  | 59             |
| Income tax credit/(charge)  | 6    | <b>204</b>      | (2,851)        |
| <b>Loss for the period attributable to equity holders of the parent</b>                   |      | <b>(2,600)</b>  | (2,792)        |
| Analysed as:  |      |                 |                |
| Underlying loss for the period attributable to equity holders of the parent               |      | <b>(2,204)</b>  | 672            |
| Exceptional salary costs  | 3    | <b>(396)</b>    | -              |
| Exceptional bad debt expense  | 3    | -               | (300)          |
| Deferred tax adjustment   | 11   | -               | (3,164)        |
| <b>Other comprehensive income</b>   |      |                 |                |
| Foreign exchange translation differences on foreign operations                            |      | <b>(255)</b>    | (510)          |
| <b>Total comprehensive loss for the year attributable to equity holders of the parent</b> |      | <b>(2,855)</b>  | (3,302)        |
| Basic loss per share (cents)  | 7    | <b>(34.9)</b>   | (37.3)         |
| Diluted loss per share (cents)  | 7    | <b>(34.9)</b>   | (37.3)         |
| Adjusted (loss)/profit per share (cents)  | 7    | <b>(29.6)</b>   | 9.0            |

# Consolidated balance sheet

As at 31 December 2017

|  | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|--|------|----------------|----------------|
| <b>Non-current assets</b>  |      |                |                |
| Property, plant and equipment                                    | 8    | <b>1,504</b>   | 1,236          |
| Intangible assets  | 9    | <b>352</b>     | 22             |
| Deferred tax   | 11   | <b>1,846</b>   | 1,687          |
| <b>Total non-current assets</b>                                  |      | <b>3,702</b>   | 2,945          |
| <b>Current assets</b>  |      |                |                |
| Inventories  | 12   | <b>8,936</b>   | 8,072          |
| Trade and other receivables                                      | 13   | <b>12,869</b>  | 12,772         |
| Cash and cash equivalents  | 14   | <b>2,574</b>   | 6,203          |
| <b>Total current assets</b>                                      |      | <b>24,379</b>  | 27,047         |
| <b>Total assets</b>  |      | <b>28,081</b>  | 29,992         |
| <b>Current liabilities</b>                                       |      |                |                |
| Trade and other payables   | 16   | <b>10,950</b>  | 9,990          |
| Provisions   | 17   | <b>138</b>     | 138            |
| <b>Total current liabilities</b>                                 |      | <b>11,088</b>  | 10,128         |
| <b>Non-current liabilities</b>                                   |      |                |                |
| Provisions   | 17   | <b>45</b>      | 45             |
| Other non-current liabilities                                    | 18   | <b>17</b>      | 33             |
| <b>Total non-current liabilities</b>                             |      | <b>62</b>      | 78             |
| <b>Total liabilities</b>   |      | <b>11,150</b>  | 10,206         |
| <b>Net assets</b>  |      | <b>16,931</b>  | 19,786         |
| <b>Equity</b>  |      |                |                |
| Called up share capital  | 19   | <b>120</b>     | 120            |
| Share premium account  | 19   | <b>2,684</b>   | 2,684          |
| Other reserve  | 19   | <b>8,080</b>   | 8,080          |
| Translation reserve  | 19   | <b>(596)</b>   | (341)          |
| Treasury/own share reserve                                       | 19   | <b>(268)</b>   | -              |
| Profit and loss account  |      | <b>6,911</b>   | 9,243          |
| <b>Total equity attributable to equity holders of the parent</b> |      | <b>16,931</b>  | 19,786         |

These financial statements were approved by the Board of Directors  
on 28 February 2018 and were signed on its behalf by:

  
**Pedro Simoes**  
Chief Executive Officer  
28 February 2018

  
**Chris Lea**  
Chief Financial Officer  
28 February 2018

# Parent company balance sheet

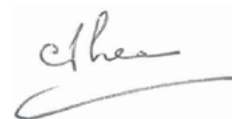
As at 31 December 2017

|  | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|--|------|----------------|----------------|
| <b>Non-current assets</b>  |      |                |                |
| Investments  | 10   | <b>2,337</b>   | 2,135          |
| <b>Total non-current assets</b>                                  |      | <b>2,337</b>   | 2,135          |
| <b>Current assets</b>  |      |                |                |
| Trade and other receivables                                      | 13   | <b>2,186</b>   | 2,454          |
| Cash and cash equivalents  | 14   | <b>437</b>     | 724            |
| <b>Total current assets</b>                                      |      | <b>2,623</b>   | 3,178          |
| <b>Total assets</b>  |      | <b>4,960</b>   | 5,313          |
| <b>Net assets</b>  |      | <b>4,960</b>   | 5,313          |
| <b>Equity</b>  |      |                |                |
| Called up share capital  | 19   | <b>120</b>     | 120            |
| Share premium account  | 19   | <b>2,684</b>   | 2,684          |
| Translation reserve  | 19   | <b>(1,434)</b> | (1,313)        |
| Treasury/own share reserve                                       | 19   | <b>(268)</b>   | -              |
| Profit and loss account  | 19   | <b>3,858</b>   | 3,822          |
| <b>Total equity attributable to equity holders of the parent</b> |      | <b>4,960</b>   | 5,313          |

These financial statements were approved by the Board of Directors  
on 28 February 2018 and were signed on its behalf by:



**Pedro Simoes**  
Chief Executive Officer  
28 February 2018



**Chris Lea**  
Chief Financial Officer  
28 February 2018



# Group statement of changes in equity

For the year ended 31 December 2017

| Group  | Share capital<br>\$'000 | Share premium<br>\$'000 | Other reserve<br>\$'000 | Treasury / own share reserve<br>\$'000 | Translation reserve<br>\$'000 | Retained earnings<br>\$'000 | Total equity<br>\$'000 |
|--|-------------------------|-------------------------|-------------------------|--|-------------------------------|-----------------------------|------------------------|
| Balance at 31 December 2015                                | 120                     | 2,684                   | 8,080                   | -                                      | 169                           | 12,293                      | 23,346                 |
| <b>Total comprehensive income</b>                          |                         |                         |                         |  |                               |                             |                        |
| Loss for the year  | -                       | -                       | -                       | -                                      | -                             | (2,792)                     | (2,792)                |
| Difference on translation                                  | -                       | -                       | -                       | -                                      | (510)                         | -                           | (510)                  |
| <b>Total comprehensive income</b>                          | -                       | -                       | -                       | -                                      | (510)                         | (2,792)                     | (3,302)                |
| <b>Transactions with the owners of the Company</b>         |                         |                         |                         |  |                               |                             |                        |
| Equity-settled transactions, including deferred tax effect | -                       | -                       | -                       | -                                      | -                             | <b>28</b>                   | <b>28</b>              |
| Dividends paid to equity holders                           | -                       | -                       | -                       | -                                      | -                             | <b>(286)</b>                | <b>(286)</b>           |
| <b>Total transactions with the owners of the Company</b>   | -                       | -                       | -                       | -                                      | -                             | <b>(258)</b>                | <b>(258)</b>           |
| Balance at 31 December 2016                                | 120                     | 2,684                   | 8,080                   | -                                      | (341)                         | 9,243                       | 19,786                 |
| <b>Total comprehensive income</b>                          |                         |                         |                         |  |                               |                             |                        |
| Loss for the year  | -                       | -                       | -                       | -                                      | -                             | (2,600)                     | (2,600)                |
| Difference on translation                                  | -                       | -                       | -                       | -                                      | (255)                         | -                           | (255)                  |
| <b>Total comprehensive income</b>                          | -                       | -                       | -                       | -                                      | (255)                         | (2,600)                     | (2,855)                |
| <b>Transactions with the owners of the Company</b>         |                         |                         |                         |  |                               |                             |                        |
| Equity-settled transactions, including deferred tax effect | -                       | -                       | -                       | -                                      | -                             | -                           | -                      |
| Purchase of own shares                                     | -                       | -                       | -                       | (268)                                  | -                             | 268                         | -                      |
| Dividends paid to equity holders                           | -                       | -                       | -                       | -                                      | -                             | -                           | -                      |
| <b>Total transactions with the owners of the Company</b>   | -                       | -                       | -                       | (268)                                  | -                             | 268                         | -                      |
| <b>Balance at 31 December 2017</b>                         | <b>120</b>              | <b>2,684</b>            | <b>8,080</b>            | <b>(268)</b>                           | <b>(596)</b>                  | <b>6,911</b>                | <b>16,931</b>          |

# Company statement of changes in equity

For the year ended 31 December 2017

| Company  | Share capital<br>\$'000 | Share premium<br>\$'000 | Treasury / own share reserve<br>\$'000 | Translation reserve<br>\$'000 | Retained earnings<br>\$'000 | Total equity<br>\$'000 |
|--|-------------------------|-------------------------|--|-------------------------------|-----------------------------|------------------------|
| Balance at 31 December 2015                                | 120                     | 2,684                   | -                                      | (233)                         | 4,038                       | 6,609                  |
| <b>Total comprehensive income</b>                          |                         |                         |  |                               |                             |                        |
| Profit for the year  | -                       | -                       | -                                      | -                             | 20                          | 20                     |
| Difference on translation                                  | -                       | -                       | -                                      | (1,080)                       | -                           | (1,080)                |
| Total comprehensive income                                 | -                       | -                       | -                                      | (1,080)                       | 20                          | (1,060)                |
| <b>Transactions with the owners of the Company</b>         |                         |                         |  |                               |                             |                        |
| 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                  |
| <b>Total comprehensive income</b>                          |                         |                         |  |                               |                             |                        |
| (Loss)/profit for the year                                 | -                       | -                       | -                                      | -                             | (232)                       | (232)                  |
| Difference on translation                                  | -                       | -                       | -                                      | (121)                         | -                           | (121)                  |
| Total comprehensive income                                 | -                       | -                       | -                                      | (121)                         | (232)                       | (353)                  |
| <b>Transactions with the owners of the Company</b>         |                         |                         |  |                               |                             |                        |
| Equity-settled transactions, including deferred tax effect | -                       | -                       | -                                      | -                             | -                           | -                      |
| Purchase of own shares                                     | -                       | -                       | (268)                                  | -                             | 268                         | -                      |
| Dividends paid to equity holders                           | -                       | -                       | -                                      | -                             | -                           | -                      |
| Total transactions with the owners of the Company          | -                       | -                       | (268)                                  | -                             | -                           | -                      |
| <b>Balance at 31 December 2017</b>                         | <b>120</b>              | <b>2,684</b>            | <b>(268)</b>                           | <b>(1,434)</b>                | <b>3,858</b>                | <b>4,960</b>           |

# Consolidated statement of cash flows

For the year ended 31 December 2017

|  | 2017           | 2016    |
|--|----------------|---------|
|  | \$'000         | \$'000  |
| <b>Cash flows from operating activities</b>                |                |         |
| Loss for the year  | (2,600)        | (2,792) |
| Adjusted for:  |                |         |
| Depreciation and amortisation                              | 850            | 906     |
| Financial income   | (12)           | -       |
| Share based payment expense                                | 36             | 38      |
| Foreign exchange gain                                      | (281)          | (231)   |
| Loss on disposal of fixed assets                           | 77             | 104     |
| Income tax (credit)/charge                                 | (204)          | 2,851   |
| (Increase)/decrease in inventories                         | (864)          | 1,422   |
| Decrease in trade and other receivables                    | 570            | 491     |
| Increase in trade and other payables                       | 927            | 2,304   |
| Increase in provisions                                     | -              | 1       |
| <b>Cash (absorbed by)/generated from operations</b>        | <b>(1,501)</b> | 5,094   |
| Income taxes repaid  | 179            | (708)   |
| <b>Net cash (outflow)/inflow from operating activities</b> | <b>(1,322)</b> | 4,386   |
| <b>Cash flows from investing activities</b>                |                |         |
| Interest received  | 12             | -       |
| Acquisition of property, plant and equipment               | (1,139)        | (663)   |
| Acquisition of intangible assets                           | (414)          | (41)    |
| Proceeds from the sale of fixed assets                     | 28             | 4       |
| <b>Net cash outflow from investing activities</b>          | <b>(1,513)</b> | (700)   |
| <b>Cash flows from financing activities</b>                |                |         |
| Purchase of own shares                                     | (268)          | -       |
| Finance lease payments                                     | (18)           | -       |
| Dividends paid   | (289)          | (286)   |
| <b>Net cash outflow from financing activities</b>          | <b>(575)</b>   | (286)   |
| Net (decrease)/increase in cash and cash equivalents       | (3,411)        | 3,400   |
| Cash and cash equivalents at 31 December                   | 6,203          | 2,763   |
| Effect of exchange rate fluctuations on cash held          | (218)          | 40      |
| <b>Cash and cash equivalents at 31 December</b>            | <b>2,574</b>   | 6,203   |

# Company statement of cash flows

For the year ended 31 December 2017

|  | 2017         | 2016         |
|--|--------------|--------------|
|  | \$'000       | \$'000       |
| <b>Cash flows from operating activities</b>                |              |              |
| (Loss)/profit for the year                                 | (232)        | 20           |
| Adjusted for:  |              |              |
| Financial income   | (40)         | (51)         |
| Foreign exchange   | (55)         | (648)        |
| Decrease in trade and other receivables                    | 557          | 641          |
| <b>Cash generated from/(absorbed by) operations</b>        | <b>230</b>   | <b>(38)</b>  |
| <b>Net cash inflow/(outflow) from operating activities</b> | <b>230</b>   | <b>(38)</b>  |
| <b>Cash flows from investing activities</b>                |              |              |
| Interest received  | 40           | 51           |
| <b>Net cash outflow from investing activities</b>          | <b>40</b>    | <b>51</b>    |
| <b>Cash flows from financing activities</b>                |              |              |
| Purchase of own shares                                     | (268)        | -            |
| Dividends paid   | (289)        | (286)        |
| <b>Net cash outflow from financing activities</b>          | <b>(557)</b> | <b>(286)</b> |
| Net decrease in cash and cash equivalents                  | (287)        | (273)        |
| Cash and cash equivalents at beginning of period           | 724          | 997          |
| <b>Cash and cash equivalents at 31 December</b>            | <b>437</b>   | <b>724</b>   |

# Notes to the consolidated financial statements

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## 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 2017 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 28 February 2018.

### (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 Operating and Financial Review and Directors’ report on pages 6 to 20. 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 directors have prepared forecasts, including cash flow forecasts, which demonstrate the group has sufficient headroom from a combination of its cash resources and the current \$4 million facility.

The working capital requirements of the group will increase as the planned growth referred to in the Chairman’s Statement is achieved. In order to maintain the headroom during this period of growth the Board have requested Royal Bank of Scotland plc (the Bank) consider revising the facility to an invoice discounting arrangement, where the facility level will increase alongside any increase in trade debtors. The Bank have indicated their willingness to proceed with such a facility but the arrangements have not been finalised before the signing of these financial statements. As such the existing overdraft facility has been renewed by the Bank in February 2018 subject to periodic review, with the intention it will remain in place until the invoice discounting arrangement is finalised. The directors are confident that an appropriate invoice discounting facility will be agreed with the Bank, or an alternative provider if necessary. On this basis 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.

## Management judgement, estimates and assumptions

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 is 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.

### **(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.

### **(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.

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.

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 2017 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

9. IFRS 9 Financial Instruments (effective date 1 January 2018)
10. IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018)
11. 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)
- IFRS 2 Clarification and Measurement of Share-based payment Transactions (effective date 1 January 2018)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective date 1 January 2018)
- Amendments to IAS 40 Investment Property (effective date 1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019)
- Amendments to IAS 28 Investments in Associates and Joint Ventures (effective date 1 January 2019)
- A full assessment of the impact of the above standards and interpretations has yet to be made with the exception of IFRS 9 and IFRS 15.

## (i) Estimated impact of the adoption of IFRS 9 and IFRS 15

The Group is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Group has assessed the estimated impact that the initial adoption of IFRS 9 (see ii) below and IFRS 15 (see iii) will have on its consolidated financial statements. The estimated impact of the adoption of these standards on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and summarised below. The actual impacts of adopting the standards as at 1 January 2018 may change because:

- the Group has not finalised the testing and assessment of controls over its new ERP system; and
- the new accounting policies are subject to change until the Group presents the first financial statements that include the date of initial applications.

### Estimated impact of adoption of IFRS 9 and IFRS 15

| \$ '000                  | As reported at 31 December 2017 | Estimated adjustments due to adoption of IFRS 9 | Estimated adjustments due to adoption of IFRS 15 | Estimated adjusted opening balance at 1 January 2018 |
|--------------------------|---------------------------------|---|--|--|
| <b>Retained earnings</b> | 17,231                          | (100)   | immaterial                                       | 17,131   |
| <b>Trade receivables</b> | (2,555)                         | (100)   | immaterial                                       | (2,655)  |

## (ii) IFRS 9 Financial Instruments

IFRS9 Financial Instruments sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

### Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, “fair value through other comprehensive income” (FVOCI) and “fair value through profit or loss” (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables or loans that are managed on a fair value basis.

### Impairment – Financial assets and contract assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables; as such the Group has chosen to apply this policy.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model.

Based on the impairment methodology described below, the Group has estimated that application of IFRS9’s impairment requirements at 1 January 2018 results in additional impairment losses as follows:

#### Estimated additional impairment recognised at 1 January 2018

|  | \$'000     |
|--|------------|
| Trade and other receivables, as at 31 December 2017            | 100        |
| Additional trade receivables recognised on adoption of IFRS 15 | 0          |
| Cash and cash equivalents                                      | 0          |
| <b>Gross additional impairment losses</b>                      | <b>100</b> |

### Cash and cash equivalents

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A2 to

Baa1, based on Moody's Investor Service Limited as at 31 December 2017.

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities for the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Group estimates that there is no impairment loss requirement as at 1 January 2018, consistent with IAS 39.

## Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- The amount of the change in the fair value that is attributable to changes in the credit risk of the liability is presented in the OCI; and
- The remaining amount of the change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL, and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

## Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

## Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will be applied retrospectively.

### (iii) IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing recognition guidance included in IAS 18 Revenue.

#### Sale of goods

For the sale of hardware products, revenue is currently recognised when the goods are despatched from the warehouse. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is not continuing management involvement with the goods. Under IFRS 15, revenue will continue to be recognised when a customer obtains control of the goods.

#### Sale of software

Group sells software in the form of licences to allow customers to operate their cameras and network video recording devices (NVR) with IndigoVision's in house designed management system, Control Center. Revenue is currently recognised when the goods, which the licences are deployed on, are despatched from the warehouse.

#### Maintenance and support services

The Group sells maintenance and support contracts related to their licenced software products. As the services are rendered in different reporting periods, i.e. the length of the support contract which ranges from one to five years, the revenue is recognised using the stage of completion method.

Under IFRS 15, the Group does not expect the application of the standard to result in significant differences in the timing of revenue recognition for these services.

## Extended warranties

The Group sells extended warranties in relation to some of its hardware products which extend beyond the standard warranty for that product. Under IFRS 15, the total consideration of these warranties will be based on standalone selling prices which will be based on the list of prices at which the Group sells the warranties in separate transactions.

At present revenue is recognised when the hardware, with which the extended warranty is associated, is despatched from the warehouse.

Under IFRS 15, revenue and the costs associated with the extended warranties will be recognised on a stage of completion basis in recognition that the services are rendered in different reporting periods.

Based on the Group's assessment, the standalone selling prices of the services are different to the fair value but initial estimates suggest that the impact on retained reserves is immaterial.

## 2. Segment reporting

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; Middle East and Africa; North America; Latin America; and Asia Pacific and has therefore determined these as the operating segments.

The Board considers the performance of the operating segments based on regional sales and Group-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                 | 2017          | 2016   |
|--------------------------------|---------------|--------|
|                                | \$'000        | \$'000 |
| Europe, Middle East and Africa | <b>18,468</b> | 22,491 |
| North America                  | <b>12,188</b> | 11,470 |
| Latin America                  | <b>6,250</b>  | 6,799  |
| Asia Pacific                   | <b>5,425</b>  | 5,163  |
|                                | <b>42,331</b> | 45,923 |

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 \$6,794,000 (2016: \$6,675,000)

## Analysis of revenue

|                            | 2017          | 2016   |
|----------------------------|---------------|--------|
|                            | \$'000        | \$'000 |
| Revenues from:             |               |        |
| Products/solutions         | <b>39,277</b> | 43,107 |
| Support services           | <b>113</b>    | 220    |
| Software Upgrade Contracts | <b>2,941</b>  | 2,596  |
|                            | <b>42,331</b> | 45,923 |

## 3. Operating (loss)/profit

|   | 2017         | 2016   |
|---|--------------|--------|
|   | \$'000       | \$'000 |
| Operating (loss)/profit is stated after charging:       |              |        |
| Depreciation and amortisation                           | <b>850</b>   | 906    |
| Exceptional salary costs <sup>1</sup>                   | <b>396</b>   | -      |
| Exceptional bad debt expense <sup>2</sup>               | -            | 300    |
| Allowance for doubtful trade receivables                | <b>385</b>   | 22     |
| Net write down of inventories to realisable value       | <b>379</b>   | 499    |
| Research & development expenditure                      | <b>3,090</b> | 3,358  |
| Share based payment expense                             | <b>36</b>    | 38     |
| Redundancy costs  | -            | 122    |
| Fees payable to the Group's auditor:                    |              |        |
| Audit of these financial statements (Group and Company) | <b>17</b>    | 15     |
| Audit of subsidiary companies                           | <b>33</b>    | 29     |
| All other services                                      | <b>12</b>    | -      |

1 The exceptional salary costs relate to compensation and settlement payments made to Marcus Kneen who resigned 23 November 2017.

2 The exceptional bad debt expense related to an assessment of the likely recoverability of certain receivables dating back to 2014.

## 4. Personnel expenses

|   | 2017          | 2016   |
|---|---------------|--------|
|   | \$'000        | \$'000 |
| Wages and salaries                                  | <b>8,913</b>  | 7,659  |
| Compulsory social security contributions            | <b>878</b>    | 635    |
| Contributions to defined contribution pension plans | <b>566</b>    | 546    |
| Equity-settled share based payment transactions     | <b>36</b>     | 38     |
|   | <b>10,393</b> | 8,878  |

The figures above include the directors' remuneration, including compensation for loss of office, which is disclosed separately on page 18.

|   | 2017       | 2016   |
|---|------------|--------|
|   | number     | number |
| Average number of employees, including executive directors and excluding retained agents, by activity |            |        |
| Selling and distribution  | <b>59</b>  | 56     |
| Research & Development  | <b>32</b>  | 26     |
| Administration  | <b>25</b>  | 21     |
|   | <b>116</b> | 103    |

## 5. Net financing income

|   | 2017   | 2016   |
|---|--------|--------|
|   | \$'000 | \$'000 |
| Bank interest receivable                | 10     | 5      |
| Interest charged on accounts receivable | 2      | (5)    |
| Net financial income                    | 12     | -      |

## 6. Income taxes

|   | 2017   | 2016   |
|---|--------|--------|
|   | \$'000 | \$'000 |
| <b>Current tax (credit)/expense</b>                   |        |        |
| UK tax  | (236)  | (373)  |
| UK tax - prior year adjustment                        | 191    | 40     |
| Overseas tax  | 12     | 20     |
| Overseas tax – prior year adjustment                  | (9)    | -      |
|   | (42)   | (313)  |
| <b>Deferred tax (credit)/expense</b>                  |        |        |
| Origination and reversal of temporary differences     | (183)  | 2,361  |
| Reduction in tax rates                                | 21     | 308    |
| Adjustments relating to prior year trading losses     | -      | 495    |
|   | (162)  | 3,164  |
| Total income tax (credit)/expense in income statement | (204)  | 2,851  |

### Recognised in the income statement

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

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%.

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

|  | 2017          |                | 2016    |        |
|--|---------------|----------------|---------|--------|
|  | %             | \$'000         | %       | \$'000 |
| <b>(Loss)/profit before tax</b>  |               | <b>(2,804)</b> |         | 59     |
| Income tax using the UK corporation tax rate   | <b>19.25</b>  | <b>(540)</b>   | 20      | 12     |
| Other Permanent Differences  | <b>0.18</b>   | <b>(5)</b>     | 66      | 39     |
| Non-deductible expenses  | <b>(1.18)</b> | <b>33</b>      | 119     | 71     |
| Fixed asset difference   | <b>(0.14)</b> | <b>4</b>       | -       | -      |
| Deduction for R&D expenditure  | <b>3.99</b>   | <b>(112)</b>   | (1,090) | (643)  |
| Surrender of tax losses for research & development tax credit refund                         | <b>(6.38)</b> | <b>179</b>     | 259     | 154    |
| Unrelieved tax losses & other deductions arising in the period                               | -             | -              | 8       | 5      |
| Adjustments to brought forward balances  | <b>(0.78)</b> | <b>22</b>      | -       | -      |
| Prior year adjustment – current tax  | <b>(6.63)</b> | <b>186</b>     | (42)    | (25)   |
| Exchange difference arising on movement between opening and closing spot rates – current tax | <b>0.14</b>   | <b>(4)</b>     | -       | -      |
| Overseas taxes credit  | <b>(0.43)</b> | <b>12</b>      | -       | -      |
| Deferred tax asset not recognised  | -             | -              | 4,933   | 2,930  |
| Effect of tax rate change on deferred tax asset  | <b>(0.75)</b> | <b>21</b>      | 519     | 308    |
| <b>Total</b>   | <b>17.97</b>  | <b>(204)</b>   | 4,799   | 2,851  |

At 31 December 2017 tax losses generated outside the UK available for offset against future profits, amounted to approximately \$1.9m (2016: \$1.7m); using an income tax rate of 19.25% (2016: 20.00%) this is equivalent to an asset of \$0.4m (2016: £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

|   | 2017           | 2016    |
|---|----------------|---------|
|   | \$'000         | \$'000  |
| <b>Earnings per share</b>   |                |         |
| Loss for the year attributable to equity shareholders (basic and diluted) | <b>(2,600)</b> | (2,792) |
| Exceptional compensation and settlement costs                             | <b>396</b>     | -       |
| Exceptional bad debt expense  | -              | 300     |
| Deferred tax adjustment   | -              | 3,164   |
| Adjusted (loss)/profit for the year attributable to equity shareholders   | <b>(2,204)</b> | 672     |
|   | <b>Cents</b>   | Cents   |
| Basic earnings per share  | <b>(34.9)</b>  | (37.3)  |
| Diluted earnings per share  | <b>(34.9)</b>  | (37.3)  |
| Adjusted earnings per share   | <b>(29.6)</b>  | 9.0     |

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

|  | <b>2017</b>      | <b>2016</b> |
|--|------------------|-------------|
| Issued ordinary shares at start of year  | <b>7,610,756</b> | 7,610,756   |
| Effect of purchase of own shares   | <b>(170,763)</b> | (134,238)   |
| Weighted average number of ordinary shares for the year – for earnings per share | <b>7,439,993</b> | 7,476,518   |

## Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2017 was based on the loss attributable to equity shareholders of \$2,600,000 (2016 loss: \$2,792,000) and a weighted average number of ordinary shares during the year ending 31 December 2017 of 7,439,993 (2016: 7,476,518), calculated as shown above.

## Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2017 was based on the loss attributable to equity shareholders of \$2,600,000 (2016 loss: \$2,792,000) and a weighted average number of ordinary shares during the year ending 31 December 2017 of 7,439,993 (2016: 7,476,518), calculated as shown above.

## Adjusted earnings per share

The calculation of adjusted earnings per share for the year ended 31 December 2017 was based on the loss attributable to equity shareholders of \$2,600,000 (2016 loss: \$2,792,000), to which the exceptional compensation/settlement costs of \$396,000 (2017: \$0) have been added back. A weighted average number of ordinary shares during the year ending 31 December 2017 of 7,439,993 (2016: 7,476,518), 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<br>\$'000 | Fixtures and fittings<br>\$'000 | Computer hardware<br>% | Demo equipment<br>\$'000 | Total<br>\$'000 |
|------------------------------------|-------------------------------|---------------------------------|------------------------|--------------------------|-----------------|
| <b>Cost</b>                        |                               |                                 |                        |                          |                 |
| At 31 December 2015                | 1,709                         | 977                             | 1,620                  | 1,572                    | <b>5,878</b>    |
| Additions                          | 142                           | 181                             | 101                    | 291                      | <b>715</b>      |
| Disposals                          | (213)                         | (77)                            | (334)                  | (197)                    | <b>(821)</b>    |
| At 31 December 2016                | 1,638                         | 1,081                           | 1,387                  | 1,666                    | <b>5,772</b>    |
| Additions                          | 313                           | 9                               | 220                    | 597                      | <b>1,139</b>    |
| Disposals                          | (28)                          | -                               | (2)                    | (651)                    | <b>(681)</b>    |
| At 31 December 2017                | 1,923                         | 1,090                           | 1,605                  | 1,612                    | <b>6,230</b>    |
| <b>Depreciation</b>                |                               |                                 |                        |                          |                 |
| At 31 December 2015                | 1,400                         | 480                             | 1,464                  | 1,091                    | <b>4,435</b>    |
| Depreciation charge for the period | 220                           | 109                             | 123                    | 415                      | <b>867</b>      |
| Disposals                          | (213)                         | (74)                            | (334)                  | (145)                    | <b>(766)</b>    |
| At 31 December 2016                | 1,407                         | 515                             | 1,253                  | 1,361                    | <b>4,536</b>    |
| Depreciation charge for the year   | 189                           | 118                             | 103                    | 357                      | <b>767</b>      |
| Disposals                          | (7)                           | -                               | (3)                    | (567)                    | <b>(577)</b>    |
| At 31 December 2017                | 1,589                         | 633                             | 1,353                  | 1,151                    | <b>4,726</b>    |
| <b>Net Book Value</b>              |                               |                                 |                        |                          |                 |
| At 31 December 2015                | 309                           | 497                             | 156                    | 481                      | <b>1,443</b>    |
| At 31 December 2016                | 231                           | 566                             | 134                    | 305                      | <b>1,236</b>    |
| At 31 December 2017                | 334                           | 457                             | 252                    | 461                      | <b>1,504</b>    |

Included in the net book value of computer hardware are assets held under finance leases of \$34,000 (2016: \$52,000) after charging depreciation of \$17,000 (2016: \$2,000)

## 9. Intangible assets

| Group                                     | Computer software |
|---|-------------------|
|   | \$'000            |
| <b>Cost</b>                               |                   |
| At 31 December 2015                       | 611               |
| Additions                                 | 41                |
| Disposals                                 | (88)              |
| At 31 December 2016                       | 564               |
| Additions                                 | 414               |
| Disposals                                 | (19)              |
| At 31 December 2017                       | 959               |
| <b>Amortisation and impairment losses</b> |                   |
| At 31 December 2015                       | 539               |
| Amortisation for the year                 | 39                |
| Disposals                                 | (36)              |
| At 31 December 2016                       | 542               |
| Amortisation for the year                 | 84                |
| Disposals                                 | (19)              |
| At 31 December 2017                       | 607               |
| <b>Net book value</b>                     |                   |
| At 31 December 2015                       | 72                |
| At 31 December 2016                       | 22                |
| At 31 December 2017                       | 352               |

## 10. Investments in subsidiaries

| Company                                     | 2017         | 2016   |
|---|--------------|--------|
|   | \$'000       | \$'000 |
| <b>Cost</b>                                 |              |        |
| At start of period                          | <b>2,135</b> | 2,517  |
| Increase in respect of share based payments | <b>36</b>    | 38     |
| Difference on translation                   | <b>166</b>   | (420)  |
| At end of period                            | <b>2,337</b> | 2,135  |

## All subsidiaries

|   | Registered office address  | Country of incorporation    | Ownership interest |           |
|---|--|-----------------------------|--------------------|-----------|
|   |  |                             | 2017<br>%          | 2016<br>% |
| IndigoVision Ltd  | Charles Darwin House,<br>Edinburgh Technopole, Milton<br>Bridge, Penicuik, Midlothian,<br>EH26 0PY       | Scotland                    | <b>100</b>         | 100       |
| IndigoVision Inc  | 300 Broadacres Drive, 4th<br>Floor, Unit 415, Bloomfield, NJ<br>07003 -3153, United States of<br>America | United States of<br>America | <b>100</b>         | 100       |
| IndigoVision Pte Ltd                                      | 80 Robinson Road, #02-00,<br>Singapore, 068898   | Singapore                   | <b>100</b>         | 100       |
| IndigoVision Video<br>Security Solutions<br>Limited.      | Avenida da Praia Grande, n.o<br>815, 4o andar, Edificio Centro<br>Comercial Talento, Macau               | Macau                       | <b>100</b>         | 100       |
| IndigoVision Solucoes<br>De Seguranca<br>Eletronica Ltda. | Rua Cerro Cora, Numero 1.306,<br>Vila Romana ,Sao Paulo, Brazil,<br>05061-200                            | Brazil                      | <b>100</b>         | 100       |
| IndigoVision UK Ltd                                       | Condor House, 10 St Paul's<br>Churchyard, London, EC4M 8AL   | England & Wales             | <b>100</b>         | 100       |
| IndigoVision Australia<br>Pty Ltd                         | Level 5, Deutsche Bank Place,<br>126 Phillip Street, Sydney, New<br>South Wales, 2000                    | Australia                   | <b>100</b>         | 100       |
| Indigo Vision Security<br>System (Shanghai) Co.,<br>Ltd   | Room 405, No. 553 Mao Tai<br>Road, Chang Ning District,<br>Shanghai, China, 200336                       | China                       | <b>100</b>         | 100       |

## 11. Deferred tax assets and liabilities

### Recognised deferred tax assets

Deferred tax assets are attributable to the following:

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Employee benefits – share based payments     | -              | 24             |
| Value of tax losses carried forward          | <b>1,846</b>   | 1,626          |
| Depreciation in excess of capital allowances | -              | 32             |
| Other timing differences                     | -              | 5              |
| Tax assets                                   | <b>1,846</b>   | 1,687          |

## Unrecognised deferred tax assets

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

|                     | 2017         | 2016   |
|---------------------|--------------|--------|
|                     | \$'000       | \$'000 |
| Tax losses - UK     | <b>3,407</b> | 2,930  |
| Tax losses – Non UK | <b>314</b>   | 314    |
|                     | <b>3,721</b> | 3,244  |

## Movement in temporary differences during the period

|  | 2016              |                         |                        | 2017              |                         |                        |
|--|-------------------|-------------------------|------------------------|-------------------|-------------------------|------------------------|
|  | 1 January<br>2016 | Recognised<br>in income | 31<br>December<br>2016 | 1 January<br>2017 | Recognised<br>in income | 31<br>December<br>2017 |
|  | \$'000            | \$'000                  | \$'000                 | \$'000            | \$'000                  | \$'000                 |
| Employee benefits – share-based payments     | 24                | -                       | <b>24</b>              | 24                | -                       | <b>24</b>              |
| Tax value of losses carried forward          | 4,791             | (3,165)                 | <b>1,626</b>           | 1,626             | 159                     | <b>1,785</b>           |
| Depreciation in excess of capital allowances | 32                | -                       | <b>32</b>              | 32                | -                       | <b>32</b>              |
| Other timing differences                     | 5                 | -                       | <b>5</b>               | 5                 | -                       | <b>5</b>               |
|  | 4,852             | (3,165)                 | <b>1,687</b>           | 1,687             | 159                     | <b>1,846</b>           |

## 12. Inventories

|                               | 2017         | 2016   |
|-------------------------------|--------------|--------|
|                               | \$'000       | \$'000 |
| Raw materials and consumables | <b>309</b>   | 1,066  |
| Finished goods                | <b>8,627</b> | 7,006  |
|                               | <b>8,936</b> | 8,072  |

The write-down of inventories to net realisable value amounted to \$379,000 (2016: \$499,000). In the 12 month period, raw material, consumables and changes to finished goods recognised as cost of sales amounted to \$19,415,000 (2016: \$20,498,000).

## 13. Trade and other receivables

|  | Group         |        | Company      |        |
|--|---------------|--------|--------------|--------|
|  | 2017          | 2016   | 2017         | 2016   |
|  | \$'000        | \$'000 | \$'000       | \$'000 |
| Trade receivables                        | <b>10,485</b> | 11,254 | -            | -      |
| Amounts due from subsidiary undertakings | -             | -      | <b>1,478</b> | 1,807  |
| Amounts due from other related parties   | -             | -      | <b>708</b>   | 647    |
| Other receivables                        | <b>1,612</b>  | 914    | -            | -      |
| Prepayments and accrued income           | <b>772</b>    | 604    | -            | -      |
|  | <b>12,869</b> | 12,772 | <b>2,186</b> | 2,454  |

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    |        |
|--|--------------|--------|------------|--------|
|  | 2017         | 2016   | 2017       | 2016   |
|  | \$'000       | \$'000 | \$'000     | \$'000 |
| Bank balances and cash and cash equivalents in the statement of cash flows | <b>2,574</b> | 6,203  | <b>437</b> | 724    |

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

## 15. Share based payments

### Share Option Schemes

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

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

### Stand-Alone Option Agreements

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

## **The Long Term Incentive Plan (LTIP)**

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

## **The Share Incentive Plan 2010 (SIP)**

On 10 August 2010, the Company established the IndigoVision Group plc Share Incentive Plan 2010, 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 2017, 132,000 shares in the Company had been acquired by the Employee Benefit Trust.



## Share option plans

| Grant date                                 | Number of instruments originally granted | Vesting conditions                          | Contractual life of options |
|--|--|---|-----------------------------|
| <b>The 2008 Approved Share Option Plan</b> |  |   |                             |
| 17 October 2008                            | 2,000                                    | 3 years from date of grant                  | 10 years                    |
| 29 April 2010                              | 3,234                                    | 3 years from date of grant                  | 10 years                    |
| 20 April 2012                              | 3,000                                    | 3 years from date of grant                  | 10 years                    |
| 9 January 2013                             | 3,000                                    | 3 years from date of grant                  | 10 years                    |
| 19 December 2013                           | 7,699                                    | 3 years from date of grant                  | 10 years                    |
| 26 March 2015                              | 6,778                                    | 3 years from date of grant                  | 10 years                    |
| <b>The 2008 Share Option Plan</b>          |  |   |                             |
| 29 April 2010                              | 1,766                                    | 3 years from date of grant                  | 10 years                    |
| 19 December 2013                           | 2,801                                    | 3 years from date of grant                  | 10 years                    |
| 26 March 2015                              | 9,222                                    | 3 years from date of grant                  | 10 years                    |
| <b>The Stand-Alone Option Agreements</b>   |  |   |                             |
| 17 October 2008                            | 5,600                                    | Individually determined (typically 3 years) | 10 years                    |
| 19 December 2013                           | 48,000                                   | Individually determined (typically 3 years) | 10 years                    |
| 26 March 2015                              | 75,000                                   | Individually determined (typically 3 years) | 10 years                    |
| 15 March 2017                              | 50,000                                   | Individually determined (typically 3 years) | 10 years                    |
| <b>The Long Term Incentive Plan</b>        |  |   |                             |
| 26 March 2015                              | 28,800                                   | Individually determined (typically 3 years) | 10 years                    |
| 26 March 2015                              | 140,500                                  | Individually determined (typically 3 years) | 10 years                    |
| 15 March 2017                              | 280,000                                  | Individually determined (typically 3 years) | 10 years                    |
| 20 October 2017                            | 100,000                                  | Individually determined (typically 3 years) | 10 years                    |

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

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

|  | 2017                              |                   | 2016                              |                   |
|--|-----------------------------------|-------------------|-----------------------------------|-------------------|
|  | Weighted average exercise price £ | Number of options | Weighted average exercise price £ | Number of options |
| <b>The 2000 Approved Share Option Plan</b>         |                                   |                   |                                   |                   |
| Outstanding at the beginning of the period         | 8.48                              | 5,500             | 6.51                              | 27,500            |
| Forfeited during the period                        | 8.48                              | (5,500)           | 6.02                              | (22,000)          |
| Exercised during the period                        | -                                 | -                 | -                                 | -                 |
| Outstanding at the end of the period               | -                                 | -                 | 8.48                              | 5,500             |
| <b>The 2000 Unapproved Share Option Plan</b>       |                                   |                   |                                   |                   |
| Outstanding at the beginning of the period         | -                                 | -                 | 5.68                              | 10,500            |
| Forfeited during the period                        | -                                 | -                 | 5.68                              | (10,500)          |
| Outstanding at the end of the period               | -                                 | -                 | -                                 | -                 |
| <b>The 2000 Stock Option / Stock Issuance Plan</b> |                                   |                   |                                   |                   |
| Outstanding at the beginning of the period         | -                                 | -                 | 8.23                              | 500               |
| Forfeited during the period                        | -                                 | -                 | 8.23                              | (500)             |
| Outstanding at the end of the period               | -                                 | -                 | -                                 | -                 |
| <b>The 2008 Approved Share Option Plan</b>         |                                   |                   |                                   |                   |
| Outstanding at the beginning of the period         | 3.70                              | 33,246            | 3.68                              | 44,809            |
| Granted during the period                          | -                                 | -                 | -                                 | -                 |
| Forfeited during the period                        | 3.53                              | (8,535)           | 3.63                              | (11,563)          |
| Outstanding at the end of the period               | 3.75                              | 24,711            | 3.70                              | 33,246            |
| <b>The 2008 Unapproved Share Option Plan</b>       |                                   |                   |                                   |                   |
| Outstanding at the beginning of the period         | 3.62                              | 29,254            | 3.71                              | 38,491            |
| Granted during the period                          | -                                 | -                 | -                                 | -                 |
| Forfeited during the period                        | 3.56                              | (15,465)          | 4.01                              | (9,237)           |
| Outstanding at the end of the period               | 3.68                              | 13,789            | 3.62                              | 29,254            |
| <b>The 2008 Stock Option Plan</b>                  |                                   |                   |                                   |                   |
| Outstanding at the beginning of the period         | 3.59                              | 2,000             | 3.61                              | 2,100             |
| Granted during the period                          | -                                 | -                 | -                                 | -                 |
| Forfeited during the period                        | 3.59                              | (2,000)           | 4.06                              | (100)             |
| Outstanding at the end of the period               | -                                 | -                 | 3.59                              | 2,000             |
| <b>The Stand Alone Option Agreements</b>           |                                   |                   |                                   |                   |
| Outstanding at the beginning of the period         | 1.56                              | 131,600           | 1.80                              | 171,600           |
| Granted during the period                          | 1.82                              | 50,000            | -                                 | -                 |
| Forfeited during the period                        | 3.59                              | (17,950)          | 2.58                              | (40,000)          |
| Exercised during the period                        | -                                 | -                 | -                                 | -                 |
| Outstanding at the end of the period               | 1.10                              | 163,650           | 1.56                              | 131,600           |
| <b>The Long Term Incentive Plan</b>                |                                   |                   |                                   |                   |
| Outstanding at the beginning of the period         | -                                 | 86,800            | -                                 | 119,800           |
| Granted during the period                          | -                                 | 380,000           | -                                 | -                 |
| Forfeited during the period                        | -                                 | (167,500)         | -                                 | (33,000)          |
| Exercised during the period                        | -                                 | -                 | -                                 | -                 |
| Outstanding at the end of the period               | -                                 | 299,300           | -                                 | 86,800            |

The weighted average share price at the date of exercise of share options exercised during the 12 month period was £ nil (2016: £nil) as no options were exercised.

| Exercise Price Range | Number of options<br>outstanding at 31 December<br>2017 | Weighted average remaining<br>contractual life (years) |
|----------------------|---|--|
| £0.01- £3.44         | <b>125,000</b>  | 4.3  |
| £3.45 - £4.49        | <b>87,100</b>   | 5.7  |
| £4.50 - £5.00        | <b>5,000</b>  | 2.3  |
|                      | <b>217,100</b>  | 4.8  |

The options outstanding at the period-end have an exercise price in the range of £0.01 to £5.00 (2016: £0.01 to £8.68) and a weighted average remaining contractual life of 6.3 years (2016: 7.0 years).

The options outstanding at 31 December 2017 have an exercise price in the ranges summarised below:

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%.

The total charge recognised for the period arising from share based payments was \$36,000 (2016: \$38,000).

|   | 2017      | 2016   |
|---|-----------|--------|
| Recognised in income statement                      | \$'000    | \$'000 |
| Share options granted in 2013                       | <b>4</b>  | 5      |
| Share options granted in 2014                       | <b>6</b>  | 17     |
| Share options granted in 2015                       | <b>10</b> | 12     |
| Share options granted in 2016                       | <b>11</b> | 4      |
| Share options granted in 2017                       | <b>5</b>  | -      |
| Total expense recognised as employee costs (note 4) | <b>36</b> | 38     |

## 16. Trade and other payables

|   | 2017          | 2016   |
|---|---------------|--------|
| Group                                     | \$'000        | \$'000 |
| Trade payables                            | <b>6,086</b>  | 5,605  |
| Taxation and social security              | <b>395</b>    | 166    |
| Finance lease assets: due within one year | <b>19</b>     | 18     |
| Other payables                            | <b>509</b>    | 514    |
| Accruals                                  | <b>862</b>    | 800    |
| Deferred income                           | <b>3,079</b>  | 2,887  |
|   | <b>10,950</b> | 9,990  |

## 17. Provisions

|                                  | 2017         | 2016    |
|----------------------------------|--------------|---------|
|                                  | \$'000       | \$'000  |
| Product warranties               |              |         |
| Balance at start of period       | <b>183</b>   | 182     |
| Provision made during the period | <b>796</b>   | 1,208   |
| Provision used during the period | <b>(796)</b> | (1,207) |
| Balance at the end of the period | <b>183</b>   | 183     |
| Non-current                      | <b>45</b>    | 45      |
| Current                          | <b>138</b>   | 138     |
|                                  | <b>183</b>   | 183     |

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. Other non-current liabilities

|   | 2017      | 2016   |
|---|-----------|--------|
|   | \$'000    | \$'000 |
| Group   |           |        |
| Finance lease assets: due in more than one year | <b>14</b> | 30     |
| International Agents Incentive plan             | <b>3</b>  | 3      |
|   | <b>17</b> | 33     |

## 19. Capital and reserves

|   | Ordinary shares  |                  |
|---|------------------|------------------|
|   | 2017             | 2016             |
|   | Number of Shares | Number of Shares |
| In issue at start of period                           | <b>7,610,756</b> | 7,610,756        |
| Issued for cash on exercise of employee share options | -                | -                |
| In issue at end of period – fully paid                | <b>7,610,756</b> | 7,610,756        |

At 31 December 2017, the issued share capital comprised 7,610,756 ordinary shares (2016: 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.

## Treasury/own shares reserve

During 2017 three separate purchases of shares, totalling 95,000 shares, were made to be held in Treasury. The total number of shares held in Treasury at 31 December 2017 was 97,238 (2016: 2,238).

## Employee benefit trust

Offset within the profit and loss account is an amount of \$848,579 (2016: \$848,579) representing the cost of own shares held within the Employee Benefit Trust. The nominal value of own shares held is £1,320.

## 20. Finance Leases

Future lease payments are due as follows:

|                                 | 2016                   |          |               | 2017                   |          |               |
|---------------------------------|------------------------|----------|---------------|------------------------|----------|---------------|
|                                 | Minimum lease payments | Interest | Present value | Minimum lease payments | Interest | Present value |
|                                 | \$'000                 | \$'000   | \$'000        | \$'000                 | \$'000   | \$'000        |
| Not later than one year         | 18                     | -        | 18            | <b>19</b>              | -        | <b>19</b>     |
| Between one year and five years | 30                     | -        | 30            | <b>14</b>              | -        | <b>14</b>     |
| Later than five years           | -                      | -        | -             | -                      | -        | -             |
|                                 | 48                     | -        | 48            | <b>33</b>              | -        | <b>33</b>     |

## 21. Contingent Liabilities

### HMRC Duty deferment

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

## 22. Financial instruments

The Group's principal financial instruments as at 31 December 2017 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 2017 and 31 December 2016, 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:

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

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

|                             | Note | Group          |                | Company        |                |
|-----------------------------|------|----------------|----------------|----------------|----------------|
|                             |      | 2017<br>\$'000 | 2016<br>\$'000 | 2017<br>\$'000 | 2016<br>\$'000 |
| Trade and other receivables | 13   | <b>12,869</b>  | 12,772         | <b>2,186</b>   | 2,454          |
| Cash and cash equivalents   | 14   | <b>2,574</b>   | 6,203          | <b>437</b>     | 724            |
|                             |      | <b>15,443</b>  | 18,975         | <b>2,623</b>   | 3,178          |

## Impairment losses

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

|                                | 2017<br>\$'000 | 2016<br>\$'000 |
|--------------------------------|----------------|----------------|
| Europe, Middle East and Africa | <b>5,868</b>   | 6,517          |
| North America                  | <b>2,726</b>   | 2,363          |
| Latin America                  | <b>1,868</b>   | 2,003          |
| Asia Pacific                   | <b>1,512</b>   | 1,825          |
|                                | <b>11,974</b>  | 12,708         |

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.

|                           | 2017            |                      | 2016            |                      |
|---------------------------|-----------------|----------------------|-----------------|----------------------|
|                           | Gross<br>\$'000 | Impairment<br>\$'000 | Gross<br>\$'000 | Impairment<br>\$'000 |
| Not past due              | <b>6,817</b>    | -                    | 6,109           | -                    |
| 0-30 days overdue         | <b>1,705</b>    | -                    | 2,395           | -                    |
| 31-60 days overdue        | <b>656</b>      | -                    | 410             | -                    |
| More than 61 days overdue | <b>2,796</b>    | <b>(1,489)</b>       | 3,794           | (1,454)              |
|                           | <b>11,974</b>   | <b>(1,489)</b>       | 12,708          | (1,454)              |

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

|   | 2017           | 2016    |
|---|----------------|---------|
|   | \$'000         | \$'000  |
| Balance at start of period              | <b>(1,454)</b> | (1,132) |
| Impairment recognised                   | <b>(681)</b>   | (439)   |
| Impairment released                     | <b>296</b>     | -       |
| Effect of movements in foreign exchange | <b>350</b>     | 117     |
| Balance at end of period                | <b>(1,489)</b> | (1,454) |

## 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 55% (2016: 53%)), sterling (approximately 16% (2016: 13%)), euro (approximately 20% (2016: 30%)) and Canadian dollars 9% (2016: 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.

| Financial assets and financial liabilities by currency | Note | 2017           | 2016    |
|--|------|----------------|---------|
|  |      | \$'000         | \$'000  |
| Sterling trade and other receivables                   | 13   | <b>1,855</b>   | 1,678   |
| Euro trade and other receivables                       | 13   | <b>3,012</b>   | 2,403   |
| Other currency trade and other receivables             | 13   | <b>1,527</b>   | 1,608   |
| Sterling cash and cash equivalents                     | 14   | <b>92</b>      | 795     |
| Euro cash and cash equivalents                         | 14   | <b>377</b>     | 1,151   |
| Other currency cash and cash equivalents               | 14   | <b>316</b>     | 640     |
| Sterling trade and other payables                      | 18   | <b>(2,183)</b> | (1,164) |
| Other currency trade and other payables                | 18   | <b>(766)</b>   | (442)   |

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 2017 | 12 months ended 31 December 2016 | 31 December 2017 | 31 December 2016 |
| US dollar to sterling | <b>0.7759</b>                    | 0.7342                           | <b>0.7394</b>    | 0.8091           |
| US dollar to euro     | <b>0.8861</b>                    | 0.9033                           | <b>0.8326</b>    | 0.9479           |

## 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 currently has an overdraft facility of \$4m which is subject to interest at the Bank of England base rate plus 2.5%. The facility has recently been renewed and is subject to periodic review. As at 31 December 2017 the Group was not utilising the overdraft facility and has cash and cash equivalents of \$2,574,000 (31 December 2016: \$6,203,000). 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 utilises the overdraft facility as and when necessary.

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

| As at 31 December 2017                      | Carrying amount | Contractual cash flow | 6 months or less | 6 – 12 months | 1 – 2 years | 2 – 5 years |
|---|-----------------|-----------------------|------------------|---------------|-------------|-------------|
| Group                                       | \$'000          | \$'000                | \$'000           | \$'000        | \$'000      | \$'000      |
| <b>Non-derivative financial liabilities</b> |                 |                       |                  |               |             |             |
| Trade and other payables                    | 10,948          | 10,948                | -                | -             | -           | -           |
| Finance lease assets                        | 34              | -                     | 10               | 10            | 14          | -           |
|   | <b>10,982</b>   | 10,948                | <b>10</b>        | 10            | 14          | -           |

## 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 31. The board monitors return on capital, which the Group defines as profit before tax divided by total assets less current liabilities.

## Sensitivity analysis

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

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 \$0.3m for the year ended 31 December 2017 (2016: decrease of \$0.2m) and a general increase of five percentage points in the value of the US dollar against the euro would have increased the Group's profit before tax by approximately \$0.4m (2016: increase \$0.2m).



## 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.

|  | 2017                      |                      | 2016                      |                      |
|--|---------------------------|----------------------|---------------------------|----------------------|
|  | Carrying Amount<br>\$'000 | Fair Value<br>\$'000 | Carrying Amount<br>\$'000 | Fair Value<br>\$'000 |
| <b>Group</b>                             |                           |                      |                           |                      |
| Trade and other receivables              | <b>12,869</b>             | <b>12,869</b>        | 12,772                    | 12,772               |
| Cash and cash equivalents                | <b>2,574</b>              | <b>2,574</b>         | 6,203                     | 6,203                |
| Trade and other payables                 | <b>(10,950)</b>           | <b>(10,950)</b>      | (9,990)                   | (9,990)              |
|  | <b>4,493</b>              | <b>4,493</b>         | 8,985                     | 8,985                |
| <b>Company</b>                           |                           |                      |                           |                      |
| Amounts due from subsidiary undertakings | <b>1,478</b>              | <b>1,478</b>         | 1,807                     | 1,807                |
| Amounts due from other related parties   | <b>708</b>                | <b>708</b>           | 647                       | 647                  |
| Cash and cash equivalents                | <b>437</b>                | <b>437</b>           | 724                       | 724                  |
|  | <b>2,623</b>              | <b>2,623</b>         | 3,178                     | 3,178                |

## 23. Operating leases

|                                  | 2017<br>\$'000 | 2016<br>\$'000 |
|----------------------------------|----------------|----------------|
| <b>Lease rentals due within:</b> |                |                |
| Less than one year               | <b>582</b>     | 533            |
| Between one and five years       | <b>1,002</b>   | 1,189          |
| More than five years             | -              | -              |
|                                  | <b>1,584</b>   | 1,722          |

Non-cancellable operating lease rentals are payable as follows.

During the year ended 31 December 2017, \$533,000 was recognised as an expense in the income statement in respect of operating leases (2016: \$584,000).

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 2018 or earlier.

## 24. Capital commitments

As at 31 December 2017 the Group had no contracts to purchase property, plant and equipment (2016: \$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 1.5% 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 18.

### Transactions with subsidiaries

During the year the Company was charged a management fee of \$213,000 (2016: \$157,000) by its subsidiary IndigoVision Limited.

During the year the Company charged interest on cash balances loaned to its subsidiary IndigoVision Limited of \$40,000 (2016: \$51,000).

At the year end, IndigoVision Limited owed the Company \$1,468,000 (2016: \$1,800,000).

During the year the Company received no dividend from its subsidiary, IndigoVision Limited (2016: \$nil).

## 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 15 and include expected volatility, the expected life of the option and the risk free discount rate. While the Board considers that the assumptions are appropriate, changes in these assumptions may materially affect the amount of the expense recognised for share-based payments.

### Warranty provision

The provision for warranties is estimated based on historical warranty data 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.

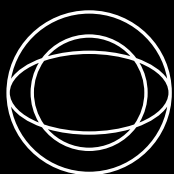
## Trade receivables

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.

**“There are two kinds of companies in the world: those that know they’ve been hacked, and those that don’t yet know it.”**



**IndigoVision**

**INNOVATION THAT MAKES YOU SAFE**

# Secretary and advisors

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## 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

### N+1 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

319 St Vincent Street  
Glasgow  
G2 5AS  
Registrars

## Registrars

### Computershare Investor Services plc

The Pavilions  
Bridgwater Road  
Bristol  
BS99 6ZZ

# Financial calendar

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17 May 2018

Annual General Meeting

20 September 2018

Interim Results

# INDIGOVISION GROUP PLC

(Incorporated in Scotland, registered number SC208809)

## Notice of Annual General Meeting

Notice is hereby given that the eighteenth annual general meeting of IndigoVision Group plc (the "**Company**") will be held at the Hoechst Lecture Theatre, Pentlands Science Park, Bush Loan, Penicuik, Midlothian, EH26 0PZ at 11.00 a.m. (UK time) on 17 May 2018 (the "**AGM**") for the following purposes:

### To Consider and, If Thought Fit, Pass The Following as Ordinary Resolutions:

1. To receive the Company's accounts for the financial year ended 31 December 2017 and the directors' report and the auditors' report on those accounts.
2. To re-elect George Elliott, who retires at the AGM, as a director of the Company.
3. To re-elect Martin Pengelley, who retires at the AGM, as a director of the Company.
4. To re-elect Pedro Simoes, who retires at the AGM, as a director of the Company.
5. To re-elect Max Thowless-Reeves, who retires at the AGM, as a director of the Company.
6. To re-appoint KPMG LLP as auditor of the Company to hold office until the conclusion of the next general meeting of the Company at which accounts are laid before the Company.
7. To authorise the directors to determine the auditor's remuneration.
8. That:
  - A. the directors be generally and unconditionally authorised to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, up to a maximum nominal amount of £25,045;
  - B. in addition to the authority contained in paragraph (A), the directors be authorised to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, comprising equity securities (within the meaning of section 560(1) of the Companies Act 2006 (the "**Act**") up to a maximum nominal amount of £25,045 in connection with a Pre-Emptive Offer undertaken by means of a rights issue;
  - C. the authorities given by this resolution:
    01. are given pursuant to section 551 of the Act and shall be in substitution for all pre-existing authorities under that section; and
    02. unless renewed, revoked or varied in accordance with the Act, shall expire on 30 June 2019 or, if earlier, at the end of the next annual general meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require the allotment of shares in the Company, or the grant of rights to subscribe for or to convert any security into shares in the Company, after such expiry; and
  - D. for the purpose of this Resolution, "**Pre-Emptive Offer**" means an offer of equity securities to:
    01. holders of ordinary shares (other than the Company) on a fixed record date in proportion to their respective holdings of such shares; and
    02. other persons entitled to participate in such offer by virtue of, and in accordance with, the rights attaching to any other equity securities held by them;

in each case, subject to such exclusions or other arrangements as the directors may deem necessary or appropriate in relation to fractional entitlements, legal, regulatory or practical problems under the laws or the requirements of any regulatory body or stock exchange of any territory or otherwise.

9. That:

- A. the IndigoVision Group plc 2018 Company Share Option Plan (the "**New CSOP**"), constituted by the rules produced to the meeting and signed by the Chairman for the purposes of identification (the principal terms of which are summarised in the appendix to this notice of annual general meeting) (the "**New CSOP Rules**") be and is approved and the directors be and are authorised to adopt the New CSOP Rules, subject to such modifications as the directors may consider necessary or desirable to comply with the provisions of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 and to take account of the requirements of best practice, and to do all acts and things necessary or desirable to implement and operate the New CSOP; and
- B. the directors be and are authorised to establish further plans based on the New CSOP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the New CSOP.

10. That:

- A. the IndigoVision Group plc 2018 Employee Share Option Plan (the "**New ESOP**"), constituted by the rules produced to the meeting and signed by the Chairman for the purposes of identification (the principal terms of which are summarised in the appendix to this notice of annual general meeting) (the "**New ESOP Rules**") be and is approved and the directors be and are authorised to adopt the New ESOP Rules, subject to such modifications as the directors may consider necessary or desirable to take account of the requirements of best practice, and to do all acts and things necessary or desirable to implement and operate the New ESOP; and
- B. the directors be and are authorised to establish further plans based on the New ESOP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the New ESOP.

## **To Consider and, If Thought Fit, Pass the Following as Special Resolutions:**

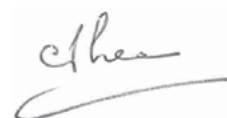
11. That:

- A. subject to the passing of resolution 8 above (the "**Allotment Authority**"), the directors be given power pursuant to section 570 of the Companies Act 2006 (the "**Act**") to allot equity securities (within the meaning of section 560(1) of the Act) for cash pursuant to the Allotment Authority, and to sell treasury shares wholly for cash, as if section 561(1) of the Act did not apply to any such allotment or sale, provided that such power shall be limited to the allotment of equity securities or the sale of treasury shares:
  - 01. in the case of paragraph (A) of the Allotment Authority:
    - a. in connection with a Pre-Emptive Offer (as defined in the Allotment Authority); or
    - b. (otherwise than in connection with a Pre-Emptive Offer, up to a maximum nominal amount of £7,514;
  - 02. in the case of paragraph (B) of the Allotment Authority, in connection with a Pre-Emptive Offer undertaken by means of a rights issue; and
- B. the power given by this resolution:
  - 01. shall be in substitution for all pre-existing powers under section 570 of the Act; and
  - 02. unless renewed in accordance with the Act, shall expire at the same time as the Allotment Authority, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry.

12. That the Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (as amended) (the "**Act**") to make market purchases (within the meaning of section 693(1) of the Act) of ordinary shares of 1p each ("**Ordinary Shares**") on such terms and in such manner as the directors may decide provided that:

- A. the maximum number of Ordinary Shares that may be purchased by the Company pursuant to this authority is 751,351;
- B. the minimum price that may be paid for any such Ordinary Share shall be the nominal value of that share (exclusive of expenses payable by the Company in connection with the purchase);
- C. the maximum price that may be paid for any Ordinary Share purchased pursuant to this authority is an amount equal to the higher of (a) 105 per cent. of the average of the middle market prices shown in the quotations for the Company's Ordinary Shares in the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that Ordinary Share is contracted to be purchased and (b) an amount equal to the higher of the last independent trade of an Ordinary Share and the highest current independent bid for an Ordinary Share as derived from all London Stock Exchange trading systems (in each case, exclusive of expenses payable by the Company in connection with the purchase); and
- D. this authority shall expire at the conclusion of the next annual general meeting of the Company or, if earlier, on 30 June 2019, but the Company may make a contract to purchase Ordinary Shares under this authority before its expiry which will or may be completed wholly or partly after the expiry of this authority, and may complete such a purchase as if this authority had not expired.

**By Order of The Board**



**Chris Lea**  
Chief Financial Officer  
17 April 2018

Registered Office:

**Charles Darwin House**  
**The Edinburgh Technopole**  
**Milton Bridge**  
**Edinburgh**  
**EH26 0PY**



# Explanatory Notes to the Notice of Annual General Meeting

## General

The notes on the following pages give an explanation of the proposed resolutions. Resolutions 1 to 10 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 11 and 12 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

## Resolution 1 – Annual Report and Accounts

The directors must lay the Company's accounts, the directors' report and the auditor's report before the shareholders in a general meeting. A copy of those accounts and reports are enclosed with this document and are also available on the Company's website at <http://www.indigovision.com/investors/>

## Resolutions 2 to 5 – Re-election of Directors

The Company's articles of association require that the directors appointed since the last annual general meeting (being George Elliott, Pedro Simoes and Max Thowless-Reeves) retire at this meeting. Being eligible, each of them offers himself for re-election. In addition, the articles of association require that one third of directors (who are subject to retirement by rotation) must retire by rotation at each annual general meeting. Martin Pengelley is required to retire this year. Being eligible, he offers himself for re-election.

## Resolutions 6 and 7 – Re-appointment and Remuneration of The Auditor

The Company is required to appoint an auditor at each general meeting at which accounts are laid before the shareholders, to hold office until the end of the next such meeting. Resolution 6 proposes the re-appointment of KPMG LLP as the Company's auditor. Resolution 7 seeks authority for the directors to decide the auditor's remuneration.

## Resolution 8 - Renewal of Authority to Allot Shares

The purpose of this resolution is to confer upon the directors the power to allot shares. Section 551 of the Companies Act 2006 provides that the directors may not allot new shares (other than pursuant to employee share schemes) without shareholder approval. The directors currently have authority to allot shares up to a maximum amount of £25,369, which represented approximately 33 per cent. of the Company's issued share capital when that authority was conferred upon the directors in 2017.

The resolution proposes that a similar authority be granted in substitution for the existing authority to allot securities up to a maximum amount of £25,045, representing approximately 33 per cent. of the Company's total issued share capital as at 17 April 2018 (excluding shares then held in treasury).

In addition (and as was the case at the last AGM), the Company is seeking additional authority to allot securities in connection with a fully pre-emptive rights issue up to a maximum amount of £25,045, representing approximately 33 per cent of the Company's total issued share capital as at 17 April 2018 (excluding shares then held in treasury). The benefit to the Company of obtaining such authority on an annual basis is that it would allow the Company to implement a rights issue of an amount equal to two-thirds of the issued share capital without the need to call an additional general meeting. This would shorten the implementation timetable of such a rights issue. This is in accordance with best practice guidance issued by the Investment Association.

The directors have no present intention of exercising this authority. The authority will expire at the conclusion of the next annual general meeting or, if earlier, on 30 June 2019, unless previously cancelled or varied by the

Company in general meeting. It is the intention of the Directors to renew this authority annually at each annual general meeting.

As at 17 April 2018, the Company held 97,238 shares in treasury.

## Resolutions 9 and 10 - Establishing New Share Option Arrangements

Since its original flotation on the London Stock Exchange in August 2000, the Company has utilised a variety of share-based arrangements to assist with the recruitment, motivation and reward of its employees.

From 30 May 2008 onwards, the principal share plans used by the Company for the above purposes have been as follows:

- the IndigoVision Group plc 2008 Long Term Incentive Plan (the “**2008 LTIP**”), which allows conditional rights to acquire Ordinary Shares to be granted to the Company’s senior management team (including its executive directors) the vesting of which is dependent on continued employment with the Group and the extent to which specified performance conditions are satisfied over a prescribed period; and
- the IndigoVision Group plc 2008 Approved Share Option Scheme and the IndigoVision Group plc 2008 Share Option Scheme (together, the “**2008 Option Schemes**”), both of which allow less senior employees to be granted “market value” options over the Company’s shares.

Given that the 2008 LTIP and the 2008 Option Schemes are now approaching the tenth anniversary of their original adoption date (after which no further grants can be made pursuant to their terms), the remuneration committee of the Board (the “**Remuneration Committee**”) recently commenced a broad review of the Group’s approach to share-based incentivisation.

In the case of the arrangements for the Company’s executive directors, the Remuneration Committee’s above noted review remains ongoing and it is anticipated that proposals for a new scheme for these individuals will be brought forward for the approval of shareholders at some point in the next twelve months.

As regards less senior employees, the Remuneration Committee has concluded that the general structure of the 2008 Option Schemes remains broadly fit for purpose. Accordingly, resolutions 9 and 10 seek the approval of shareholders to the adoption of the following new plans as direct replacements:

- the IndigoVision Group plc 2018 Company Share Option Plan (the “**New CSOP**”); and
- the IndigoVision Group plc 2018 Employee Share Option Plan (the “**New ESOP**”).

It is envisaged that the New CSOP and the New ESOP (together, the “**New Option Plans**”) will operate in a manner which is largely comparable to the 2008 Option Plans. In particular:

- they will allow selected participants to be granted “market value” options over Ordinary Shares;
- no change has been made to the limits on individual participation (i.e. 100 per cent. of salary in a single year, save that a 200 per cent. of salary annual limit can be applied in exceptional circumstances); and
- the overall dilution limit that will apply under the New Option Plans has been maintained at the “15 per cent. in 10 years” level that applied under the 2008 Option Plans and 2008 LTIP.

Although the rules of the New Option Plans will allow options to be granted to any employee of the Group, it has been decided that, where an individual receives an award under the 2008 LTIP (or any arrangement that is introduced to replace it), he will not be granted options under the New Option Plans during that same period. It is, therefore, unlikely that Company’s executive directors will participate in the New Option Plans.

The principal terms of the New Option Plans are summarised in the appendix to this notice of annual general meeting.

## Resolution 11 - Disapplication of Pre-emption Rights

Section 561(1) of the Companies Act 2006 provides that if the directors wish to allot any equity securities, or sell any treasury shares (if it holds any), for cash, the Company must first offer them to existing shareholders in proportion to their existing shareholdings. Section 561 does not apply in connection with allotments made pursuant to an employee share scheme.

The purpose of this resolution is to allow the directors to allot shares or sell any treasury shares for cash as if section 561(1) of the Companies Act 2006 did not apply, in connection with rights issues, open offers and other pre-emptive offers pursuant to the authority to allot shares granted by resolution 8, and otherwise up to a total amount of £7,514, representing approximately 10 per cent. of the Company's total issued share capital as at 17 April 2018 (excluding shares then held in treasury).

As regards this latter power to allot equity securities on a non pre-emptive basis, shareholders should note that the directors currently have power to allot equity securities on a non pre-emptive basis up to a maximum amount of £7,611 (which represented approximately 10 per cent. of the Company's issued share capital when that power was granted). If passed, this resolution will replace that existing power.

The power conferred by this resolution will expire at the conclusion of the next annual general meeting or, if earlier, on 30 June 2019, unless previously cancelled or varied by the Company in general meeting. It is the intention of the directors to renew this power annually at each annual general meeting.

## **Resolution 12 - Market Purchase of Own Shares by The Company**

Authority for the Company to make market purchases of its own shares was granted at the 2017 annual general meeting. This resolution seeks to renew that authority.

The authority given by this resolution will be exercised only if the directors are satisfied that any purchase is in the interests of shareholders generally (irrespective of whether or not it results in an immediate increase in earnings per Ordinary Share).

The maximum number of Ordinary Shares which may be purchased under the proposed authority will be 751,351, representing approximately 10 per cent. of the issued share capital of the Company as at 17 April 2018 (excluding shares then held in treasury). The price paid for Ordinary Shares will not be less than the nominal value of the shares nor more than 5 per cent. above the average of the middle market quotations of the Company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days preceding the day on which the Ordinary Shares are purchased.

As at 17 April 2018, the total number of outstanding options to subscribe for shares was 457,400, representing approximately 6.08 per cent. of the total issued share capital of the Company (excluding shares then held in treasury) at that date. That age will increase to approximately 6.76 per cent. if the authority being sought is exercised in full.

The authority will expire at the end of the next annual general meeting or, if earlier, on 30 June 2019, unless previously cancelled or varied by the Company in general meeting. It is the intention of the directors to renew this authority annually at each annual general meeting.

# **Shareholder Notes**

## **Appointment of Proxy**

Any shareholder who is entitled to attend and vote at the AGM is entitled to appoint one or more proxies (who need not be shareholders) to attend the AGM and speak and vote instead of the shareholder. If more than one proxy is appointed each proxy must be appointed to exercise rights attached to different shares. Appointment of a proxy will not preclude a shareholder from attending and voting in person at the AGM.

In order for a proxy form to be valid, it must be completed and signed and returned to the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY so they receive it no later than 11 a.m. (UK time) on 15 May 2018.

Shareholders may also register their proxy appointments online at [www.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy). To vote online you will require the Control Number, Shareholder Reference Number and PIN quoted on your Form of Proxy, or if you receive communications from us electronically, these details will be quoted in your email broadcast.

A shareholder wishing to appoint multiple proxies should contact the Shareholder Helpline on 0370 707 1088 to obtain additional proxy forms. Alternatively you may wish to photocopy your proxy form. It will be necessary for

the shareholder to indicate on each separate proxy form the number of shares in relation to which each proxy is authorised to act.

## Appointment of Proxy Using CREST

Shareholders may also appoint proxies online through CREST by using the procedures described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “**CREST proxy instruction**”) must be properly authenticated in accordance with Euroclear UK & Ireland Limited’s specifications and must contain the information required for such instructions, as described in the CREST Manual. All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy must be transmitted so as to be received by the issuer’s agent (ID 3RA50) by 11 a.m. (UK time) on 15 May 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. Any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST proxy instructions. It is therefore the responsibility of the CREST member concerned to take (or procure the taking of) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat a CREST Proxy Instruction as invalid in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

## Corporate representatives

Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.

## Record date

To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the register of members of the Company at 10 p.m. (UK time) on 15 May 2018 (or, in the event of any adjournment, 10 p.m. on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

## Documents available for inspection

Copies of the following documents may be inspected at the registered office of the Company during normal business hours Monday to Friday (public holidays excepted) up to and including the day of the AGM, and at the venue for the AGM from half an hour before the time fixed for the AGM until the end of the AGM:

- the Company’s annual report and accounts for the year ended 31 December 2017; and
- copies of the executive directors’ service contracts and non-executive directors’ letters of appointment.

Copies of the draft rules of the New CSOP and the New ESOP will be available for inspection at the registered office of the Company during normal business hours on weekdays from the date of this notice until the time of the AGM, and will also be available at the place of the AGM from at least 15 minutes prior to the meeting and until the conclusion of the meeting.

## Shareholder Helpline

Shareholders who have general queries about the AGM or need additional proxy forms should call our Shareholder Helpline on 0370 707 1088 (no other methods of communication will be accepted).

### Statement of capital and voting rights

As at 17 April 2018, the Company's issued share capital consisted of 7,610,756 Ordinary Shares of which 97,238 are held by the Company as treasury shares. Therefore, total voting rights in the Company as at 17 April 2018 are 7,513,518.

## Other Matters

Shareholders may not use any electronic address provided in either this notice of AGM or any related documents (including the chairman's letter and proxy form), to communicate with the Company for any purposes other than those expressly stated.

# Appendix

## Summary of the principal terms of the IndigoVision Group plc 2018 Company Share Option Plan and the IndigoVision Group plc 2018 Employee Share Option Plan

The IndigoVision Group plc 2018 Company Share Option Plan (the “**New CSOP**”) and the IndigoVision Group plc 2018 Employee Share Option Plan (the “**New ESOP**”) are discretionary arrangements that will allow selected employees of the Company and its subsidiaries (the “Group”) to be granted “market value” options (“**Options**”) over the Company’s ordinary shares (“**Ordinary Shares**”). Both the New CSOP and the New ESOP (together, the “**New Option Plans**”) will be administered by the remuneration committee of the Board (the “**Remuneration Committee**” or the “**Committee**”).

A summary of the principal terms of the New Option Plans is set out below:

### 1. Eligibility

Any employee of the Group will be eligible to be granted Options under the New Option Plans at the discretion of the Committee. However, the current intention is that no Options will be granted under either of these arrangements to the Company’s executive directors.

### 2. Grant of Options

It is intended that the New CSOP will comply with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 and may be used to grant tax-favoured Options over Ordinary Shares.

Options granted under the New ESOP will be capable of being structured as either tax efficient enterprise management incentive (“**EMI**”) Options pursuant to the provisions of Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 or as “**Unapproved Options**” (which do not attract any preferential tax treatment).

Options may normally be granted within the period of forty two days after:

- the date on which the New Option Plans are first adopted by the Board; or
- a results announcement by the Company in any year.

Additionally, Options may also be granted on any day on which the Committee resolves that exceptional circumstances exist which justify the making of such grants.

No Options will be granted more than ten years after shareholder approval of the New Option Plans. No payment is required for the grant of an Option. Options are not pensionable.

### 3. Options Personal to The Participants

An Option granted under the New Option Plans will be personal to the participant and may not be transferred, assigned or charged in any way, except on death.

### 4. Exercise Price

The price payable for each Ordinary Share on the exercise of an Option will be specified by the Committee but will not be less than the higher of:

- the market value of an Ordinary Share on the date of grant; and
- (for newly issued Ordinary Shares) their nominal value.

For the above purposes, the market value of an Ordinary Share on the date of grant will be equal to its middle market quotation (as derived from the London Stock Exchange Daily Official List) for the immediately preceding dealing day (or, if the Remuneration Committee so determines, the average of such quotations for the three dealing days immediately preceding the date of grant).

## 5. Individual Limits

No person may at any time hold options granted under the New CSOP (or any other non savings-related tax favoured option scheme operated by the Group) over Ordinary Shares having a total market value at the time of grant of more than £30,000.

Save as specified below, the maximum total market value (at date of grant) of Ordinary Shares over which an individual may be granted Options under the New CSOP and the New ESOP (and any other discretionary share scheme operated by the Company) in any financial year will not exceed 100 per cent. of his annual base salary in that financial year.

Options of up to 200 per cent. of salary may, however, be granted to a participant in a single financial year if the Committee determines that there are exceptional circumstances (including, for example, recruitment).

Within the above limits, the value of Ordinary Shares over which an Option is granted will be determined at the sole discretion of the Committee.

## 6. Performance Conditions

The Remuneration Committee may make the exercise of an Option subject to objective performance conditions.

The Remuneration Committee will have the power to vary the terms of any performance conditions attaching to an outstanding Option in exceptional circumstances, provided that the amended conditions are, in their opinion, neither materially easier nor more difficult to achieve than the original performance conditions as envisaged by the Remuneration Committee at the date of grant of that Option.

## 7. Exercise and Lapse of Options

Options will generally vest and become capable of exercise on such date or dates as the Committee may specify at the date of grant and then only if, and to the extent that, any applicable performance conditions have been satisfied.

Options will lapse on the day immediately preceding the tenth anniversary of the date of grant or sooner on the occurrence of certain corporate events or where the participant ceases to hold employment with the Group (subject to certain exceptions, details of which are set out ).

Ordinary Shares will normally be transferred or allotted on the exercise of an Option within twenty eight days of the date of exercise.

## 8. Source of Ordinary Shares and Dilution Limit

Options granted under the New Option Plans may be satisfied either by the issue of new Ordinary Shares, the transfer of Ordinary Shares from treasury or the transfer of existing Ordinary Shares purchased in the market. Any Ordinary Shares that are allotted when an Option is exercised will rank equally with Ordinary Shares then in issue (except for rights arising by reference to a record date prior to their allotment). Until a participant acquires any Ordinary Shares subject to an Option, he/she has no rights to those Ordinary Shares, including voting or dividend rights.

The number of new Ordinary Shares issued or remaining capable of being issued pursuant to awards granted under the New Option Plans and all the Company's other employee share schemes in any period of 10 years will not exceed 15 per cent. of the ordinary share capital of the Company in issue from time to time.

For the purpose of the above limit:

- any Ordinary Shares which are acquired by market purchase for the purposes of satisfying share scheme awards will not be counted;

- treasury shares will count as new issue Ordinary Shares unless institutional investors decide that they need not count;
- no account will be taken of any Ordinary Shares where the right to acquire them was granted under an employee share scheme (i) that is or has been approved by the Company's shareholders in general meeting; and (ii) which specifies in its rules that it is to be excluded from the terms of the above limit; and
- no account will be taken of any Ordinary Shares where the right to acquire them was released or lapsed prior to vesting/exercise.

## 9. Malus and Clawback

Under the New ESOP, the number of Ordinary Shares over which an Option subsists may be reduced by the Remuneration Committee in accordance with the terms of any clawback arrangement entered into between the Company and the relevant participant.

## 10. Cessation of Employment

As a general rule, an unexercised Option will lapse immediately if the participant ceases to be an employee or director of the Group.

If, however, a participant ceases to be an employee or director by reason of injury, permanent disability, retirement, redundancy, his employing company or the business for which he works being sold out of the Group or in other circumstances at the discretion of the Remuneration Committee (i.e. a "good leaver"), then his Option will not lapse and will continue to vest on the date when it would have vested had he not ceased such employment or office.

The extent to which an Option will vest in these circumstances will depend upon two factors:

- the extent to which any performance conditions have, in the opinion of the Remuneration Committee, been satisfied over the original performance measurement period; and
- the pro-rating of the Option to reflect the period of time between its grant and the date of cessation, although the Remuneration Committee can decide not to pro-rate an Option if it regards it as inappropriate to do so in the particular circumstances.

Alternatively, if a participant ceases employment as a good leaver, the Remuneration Committee can decide that his Option will vest at or around the time when he leaves, subject to performance condition satisfaction (measured at that time) and time pro-rating (unless the Remuneration Committee determines otherwise).

Finally, if a participant dies then his or her Option may be exercised during the following period of 12 months, but only to the extent that it had already vested prior to the date of death (or to such greater extent as the Remuneration Committee permits).

## 11. Corporate Events

In the event of a takeover or winding up of the Company all Options will vest early subject to: (i) the extent to which any performance conditions have been satisfied at that time; and (ii) the prorating of the Options to reflect the reduced period of time between their grant and vesting, although the Remuneration Committee can decide not to pro-rate an Option if it regards it as inappropriate to do so in the particular circumstances.

In the event of an internal corporate reorganisation, Options may be replaced by equivalent rights over shares in a new holding company.

## 12. Variation of Capital

In the event of any capitalisation issue, rights issue, open offer, consolidation, subdivision or reduction of capital, demerger or any other event affecting the share capital of the Company, the number and/or nominal value of Ordinary Shares comprised in Options may be adjusted by the Remuneration Committee.



## 13. Amendments to the New Option Plans

The Committee may, at any time, amend the provisions of the New Option Plans in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Ordinary Shares or the transfer of treasury shares, the basis for determining a participant's entitlement to, and the terms of, the Ordinary Shares or cash to be acquired and the adjustment of Options.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the New Option Plans, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in Group.

Prior shareholder approval will also not be required for any amendment to performance conditions applying to an Option provided that the amendments are within the parameters of the adjustment powers of the New Option Plans relating to the amendment of performance conditions where relevant.

## 14. Overseas Jurisdictions

The rules of the New ESOP will include a "sub-plan" for US residents and the maximum number of Ordinary Shares which may be subject to any Incentive Stock Options (as defined in Section 422 of the US Internal Revenue Code of 1986, as amended) granted thereunder is 380,000 Ordinary Shares.

The Committee may develop and approve other overseas jurisdiction variants to the New Option Plans under the terms of which Options may be made in such a way as to satisfy or take advantage of securities and tax legislation in such jurisdictions. Any plan variants will otherwise be of similar structure and economic intent as the main New Option Plans and any Options granted pursuant to their terms will count towards the overall plan limits described above.



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