

# Endace Limited

## Press Announcement



FOR IMMEDIATE RELEASE

30 October 2007

### ENDACE LIMITED

#### INTERIM RESULTS FOR THE SIX MONTHS PERIOD ENDING 30 SEPTEMBER 2007

Endace Limited (“Endace” or “the Company”; LSE/AIM: EDA), a world leader in network traffic monitoring, capture and analysis is pleased to announce its unaudited interim results for the six months ended 30 September 2007.

#### Financial Highlights

- Revenue up 34% to US\$8.37m (H1, 2006: US\$6.24m).
- Profit before tax up 18% to US\$1.04m (H1, 2006: US\$0.88m).
- Positive cash flows over the past 6 months with net cash increasing to US\$5.70m at period end.

#### Operational Highlights

- Continued strong sales into core telecommunications, financial services and government market verticals.
- Successful introduction of NinjaProbe appliances during the period are helping Endace move up the value chain.
- US\$2m contract to supply industry-first InfiniBand™ monitoring probes to a leading US-based financial service provider.
- Strengthened the senior management team with appointment of Rob Pollard as Vice President of Sales for Europe, Middle East and Africa and Steve Gleave as new Vice President of Worldwide Marketing, succeeding Mike Riley after his promotion to CEO.
- Good progress in recruiting staff to expand engineering, sales and marketing.
- The acquisition of Applied Watch Technologies LLC completed after the period end.

#### Commenting on the results, Endace’s Chief Executive Officer, Mike Riley, said:

*“This has been a solid start to our current financial year. We continue to make progress in our target customer verticals and are successfully moving up the value chain. We are confident of achieving our goals for growth over the remainder of this year and beyond.”*

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#### About Endace

For organisations that rely on their IP networks to do business, Endace provides network traffic monitoring, capture and analysis at multi-gigabit rates. Our appliance platforms support and accelerate a broad range of network management and security applications, enabling our customers to be confident in their service performance, information security, and regulatory compliance. Based in Auckland, New Zealand, Endace also has offices in the UK, USA and Singapore. Quoted on AIM, the stock code is LSE: EDA. For further information: <http://www.endace.com>.

## Interim Statement

### Introduction

Endace has made significant progress during the six months to 30 September 2007, both operationally and financially.

At the time of the final results announcement for last year, Endace set out its strategy of moving steadily up the 'value chain' in terms of selling higher valued NinjaProbe™ appliances as monitoring and security solutions – in addition to the DAG cards which formerly contributed most of the company's business. The results for the half year demonstrate substantial progress in this respect at a time when the market requirements for these very high speed solutions are moving into 'centre stage' in our key vertical markets within the telecommunications, government security and financial services sectors.

The strong customer demand for Endace's products is being driven by the continued increase in data traffic volumes coupled with ever stricter security and regulatory requirements.

The recently announced acquisition of Applied Watch Technologies LLC ("Applied Watch") significantly extends the Company's ability to offer complete security solutions.

### Results and finance

Total revenue increased by 34% over the same period last year to US\$8.37 million (2006: US\$6.24 million). While all regions achieved growth, there was particularly good progress in the US market where a number of notable sales helped revenues grow by 55%. The InfiniBand® deal announced on 5 September 2007 contributed US\$1 million to revenues in the period.

Although released to the market only at the start of the half year, sales of NinjaProbe appliances, together with related software and support, contributed over US\$1.7 million of revenue in the period. Appliance sales continue to accelerate and, in a number of cases, potential DAG card deals have been replaced by higher value appliances which offer more functionality and value for the customer. Sales of DAG cards represented over 54% of total revenue. Recurring support income has increased in part due to higher value NinjaProbe sales.

Gross margins for the period were 70%, unchanged from the second half of last year and a little below the 73% for the same period last year. Overhead costs increased in the period, reflecting the growth of the company and the planned investment in additional engineering, sales and marketing staff. Average staff numbers for the last 6 months were 82 compared to 57 for the same period last year. Increased investment in engineering staff and product development is reflected in our R&D costs expensed in the period at US\$1.7 million (2006: US\$1.7 million) together with US\$0.6 million of development costs (2006; nil) which have been capitalised for this period in accordance with IFRS. Profit before tax increased by 18% to US\$1.04 million (2006: US\$0.88 million) and basic earnings per share increased to US 4.74 cents (2006: US 4.10 cents).

Strong cash flow resulted in cash balances increasing by \$2.1 million to US\$5.7 million during the period after providing US\$0.5 million for our initial investment in Applied Watch prior to its acquisition after the end of the period (see below). Immediately following completion of the acquisition, net cash stood at US\$2.5 million.

### Acquisition of Applied Watch

As announced on 15 October 2007, Endace has acquired Applied Watch Technologies LLC. As part of this transaction, Endace provided Applied Watch with a secured convertible loan of US\$0.5 million for working capital during the six months under review, US\$3.9 million was paid on completion in October and the final US\$0.6 million will be paid on or before 31 March 2008, subject to warranty or indemnity claims.

This acquisition represents an important step forward in Endace's strategy of offering complete solutions within its chosen markets by incorporating Applied Watch's software products into Endace's existing product offering. It also increases the Company's presence in the US market, adds a team of seasoned security specialists and provides significant opportunities for cross-selling between Endace's and Applied Watch's customer bases.

## **REVIEW OF OPERATIONS**

### **Products**

Continued increases in traffic speeds and interface types drive innovation in our DAG family of products. Processing functions traditionally performed by software are being superseded by the performance capabilities of DAG hardware and firmware sold either as separate cards or as part of our NinjaProbe appliance. The US\$2 million contract announced in September to supply the industry's first InfiniBand monitoring probe to a leading US-based financial service provider is a good example of how the fundamental performance, flexibility and programmable attributes of Endace's DAG technology open up major new business opportunities for higher value solutions.

These advanced capabilities are being leveraged primarily within the NinjaProbe family of multi-function monitoring appliances, the first of which was introduced in March 2007 with additional models announced since then. The introduction of the NinjaProbe 40G1 model now provides network operators with the ability to capture data at the highest speeds possible within today's commercial networks. It is pleasing to report that sales of appliances have started very well, contributing 20% of revenues in the first half year.

New software functionality was introduced during the first half of the year. The first was NinjaIntercept™ software which interfaces with Verint System's STARGATE™ system to instruct the NinjaProbe to capture traffic for lawful interception purposes. More recently, we announced our NinjaFlow™ traffic analysis software, the first product to be developed as an outcome of the technology licensing deal signed with Sprint Nextel Corp in 2006.

The ability of the NinjaProbe family to support multiple applications simultaneously, such as NinjaIntercept and NinjaFlow, enables network operators to maximise the return on network assets by deploying a single probe to perform multiple monitoring tasks, eliminating the need for multiple, single-function probes.

The launch of the NinjaBox-Z platform series earlier this year to accelerate the performance of network traffic analysis applications, such as open source SNORT® IDS (intrusion detection systems), has been well received in service provider and government markets.

The recently acquired software from Applied Watch complements these NinjaBox-Z platforms by also improving the manageability of a broad range of open source security applications. This combined solution considerably improves Endace's competitive position in the market for commercial intrusion detection systems.

### **Application partnerships**

Seantech Technologies and Trading Metrics have joined Endace's Application Partner Program. As leaders in application performance measurement and monitoring solutions for the financial services industry, they are able to use Endace's hardware-based, 100% traffic capture filtering and precision time-stamping to deliver ultra-low-latency measurement solutions for electronic financial trading systems.

### **Board and management**

During the past six months a number of key appointments have been made to the Group's board and senior management team. Mike Riley was appointed CEO, having previously been VP of Worldwide Marketing, Rob Pollard replaced Greg Howard as VP of Sales for EMEA and Steve Gleave joined as VP of Worldwide Marketing and is based in the US. Selwyn Pellett was appointed Non-Executive Chairman in July 2007 after retiring as group CEO and John Scott became Deputy Chairman and Senior Non-Executive Director, having previously been Non-Executive Chairman.

### **Endace resource development**

Good progress has been made in building up the engineering, sales and marketing teams to support the anticipated growth. Although the recruitment process gathered pace during the half year, the benefits of the additional staff were not reflected fully during this period, but will be in the second half year together with the associated costs of employment.

As a significant number of Endace customers are located in North America and Europe, it has been decided to move our marketing team into the USA to better serve these markets, retaining product management in New Zealand. The appointment of Steve Gleave as VP of Worldwide Marketing in the USA was a significant step in this process.

The move to Singapore of DAG Card manufacturing operations is now complete.

Overall, the business has increased staff world wide by 49% to 85 since this time last year and we are actively looking for further talent, especially in Engineering and R&D.

### **Strategy for growth**

Endace continues to focus its products and services towards its three core vertical markets: telecommunications service providers, government security agencies and tier 1 financial service institutions. All three sectors share certain key attributes that make them important and growing markets for Endace:

- continued growth in the volumes and types of traffic they must transport across their backbone networks;
- a requirement to comply with stricter security and regulatory requirements, creating a need to improve their network traffic monitoring, protection and measurement capabilities;
- capable of making significant capital expenditures in network infrastructure; and
- familiarity with Endace and the strength of our DAG technology.

Endace's stated goal is to offer increased value to these target markets, in the form of still further enhancements to its DAG card product line, complemented by the NinjaProbe appliance family of multi-function monitoring and security probes.

It is Endace's aim to position the NinjaProbe network monitoring appliance family as the *de facto* high performance standard in our target markets.

### **Outlook**

Over the past year, Endace's technologies and products have moved steadily from being seen as serving an important 'niche' to becoming a 'must have' for those organisations where high levels of security and monitoring of very high speed networks are central to their operations. This has become the main driver for the business.

The recently announced acquisition of Applied Watch Technologies enhances our know-how and intellectual property in security application software development, creates new opportunities for cross-selling and gives Endace an increased presence in the North American marketplace.

Endace will continue to focus on its core market segments, building on the momentum within the business. The Board is confident of achieving its goals for growth over the remainder of the current year and beyond.

**CONSOLIDATED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007**

		<b>6 Months Ended 30 September 2007 (unaudited) US\$'000</b>	<b>6 Months Ended 30 September 2006 (unaudited) US\$'000</b>	<b>12 Months Ended 31 March 2007 (audited) US\$'000</b>
	<b>Notes</b>			
<b>Revenue</b>	3	8,371	6,245	16,967
Cost of sales		(2,475)	(1,676)	(4,883)
<b>Gross profit</b>		5,896	4,569	12,084
Other income		320	212	484
Selling and administrative expenses		(3,473)	(2,190)	(5,385)
Research and development expenses		(1,698)	(1,708)	(3,266)
Finance cost		(2)	(1)	(2)
<b>Profit before taxation</b>	3,4	1,043	882	3,915
Income tax expense	5	(337)	(278)	(1,284)
<b>Profit for the period</b>		706	604	2,631
<b>Earnings per share</b>	6	<b>US cents</b>	<b>US cents</b>	<b>US cents</b>
- basic		4.74	4.10	17.84
- diluted		4.33	3.96	16.88

The notes which follow are an integral part of these interim financial statements.

**CONSOLIDATED BALANCE SHEET  
AS AT 30 SEPTEMBER 2007**

	Notes	As at 30 September 2007 (unaudited) US\$'000	As at 30 September 2006 (unaudited) US\$'000	As at 31 March 2007 (audited) US\$'000
<b>Non-current assets</b>				
Property, plant and equipment		1,883	1,049	1,353
Intangible assets	7	3,603	2,552	3,142
<b>Total non-current assets</b>		<u>5,486</u>	<u>3,601</u>	<u>4,495</u>
<b>Current assets</b>				
Inventories		3,438	1,680	3,040
Trade and other receivables	8	6,836	4,722	9,525
Current income tax receivable		50	-	-
Deferred tax		355	439	302
Cash and cash equivalents		5,696	6,741	3,549
<b>Total current assets</b>		<u>16,375</u>	<u>13,582</u>	<u>16,416</u>
<b>Total assets</b>		<u>21,861</u>	<u>17,183</u>	<u>20,911</u>
<b>Current Liabilities</b>				
Trade and other payables		2,224	1,210	2,501
Current income tax liabilities		-	237	314
Deferred income		909	463	655
<b>Total current liabilities</b>		<u>3,133</u>	<u>1,910</u>	<u>3,470</u>
<b>Total liabilities</b>		<u>3,133</u>	<u>1,910</u>	<u>3,470</u>
<b>Equity</b>				
Share capital		15,046	14,469	14,519
Reserves		(147)	(147)	(147)
Retained earnings		3,829	951	3,069
<b>Total equity</b>		<u>18,728</u>	<u>15,273</u>	<u>17,441</u>
<b>Total equity and liabilities</b>		<u>21,861</u>	<u>17,183</u>	<u>20,911</u>

The notes which follow are an integral part of these interim financial statements.

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007**

		<b>6 Months Ended 30 September 2007 (unaudited) US\$'000</b>	<b>6 Months Ended 30 September 2006 (unaudited) US\$'000</b>	<b>12 Months Ended 31 March 2007 (audited) US\$'000</b>
	<b>Notes</b>			
<b>Cash flows from operating activities</b>				
Cash receipts from customers		11,969	6,901	11,649
Cash paid to suppliers and employees		(7,394)	(6,652)	(12,843)
<b>Cash generated from operations</b>		<b>4,575</b>	<b>249</b>	<b>(1,194)</b>
Interest paid		(2)	(1)	(2)
Income taxes paid		(754)	(113)	(810)
Net cash flows from operating activities	10	<u>3,819</u>	<u>135</u>	<u>(2,006)</u>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(906)	(274)	(906)
Purchases of intangible assets		(837)	(39)	(801)
Issue of convertible loan	9	(500)	-	-
Proceeds from disposals		60	-	-
Interest received		109	157	288
Net cash used in investing activities		<u>(2,074)</u>	<u>(156)</u>	<u>(1,419)</u>
<b>Cash flows from financing activities</b>				
Proceeds from exercise of share options		422	-	-
Net cash flows from financing activities		<u>422</u>	<u>-</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		<u>2,167</u>	<u>(21)</u>	<u>(3,425)</u>
Cash and cash equivalents at beginning of the period		<u>3,549</u>	<u>6,678</u>	<u>6,678</u>
Exchange (losses)/gains on cash and cash equivalents		(20)	84	296
Cash and cash equivalents at end of the period		<u>5,696</u>	<u>6,741</u>	<u>3,549</u>

The notes which follow are an integral part of these interim financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007**

	Share Capital US\$'000	Foreign Currency Translation Reserve US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
<b>Balance as at 1 April 2006 (audited)</b>	14,439	(147)	325	14,617
Admission and initial placing costs	19	-	-	19
Share option compensation expense	-	-	33	33
Share options exercised	11	-	(11)	-
Retained profit for the period	-	-	604	604
<b>Balance as at 30 September 2006 (unaudited)</b>	14,469	(147)	951	15,273
Second installment of shares issued in partial consideration of nCap licence	53	-	-	53
Admission and initial placing costs	(3)	-	-	(3)
Share option compensation expense	-	-	91	91
Retained profit for the period	-	-	2,027	2,027
<b>Balance as at 31 March 2007 (audited)</b>	14,519	(147)	3,069	17,441
Final installment of shares issued in partial consideration of nCap licence	55	-	-	55
Capital raised from exercise of share options	422	-	-	422
Share option compensation expense	-	-	122	122
Share options exercised	50	-	(50)	-
Share options forfeited	-	-	(18)	(18)
Retained profit for the period	-	-	706	706
<b>Balance as at 30 September 2007 (unaudited)</b>	15,046	(147)	3,829	18,728

The notes which follow are an integral part of these interim financial statements.

## NOTES TO THE INTERIM FINANCIAL STATEMENT

### 1 General information

The Group operates in the network security and monitoring market sectors.

The Group has operations in New Zealand, the US, the UK and Singapore. Endace Limited (referred to as the "Company") is a limited liability company incorporated and domiciled in New Zealand with its registered office at Building 7, 17 Lambie Drive, Manukau City, New Zealand. The Company has its primary listing on the Alternative Investment Market (AIM) of the London Stock Exchange. These consolidated interim financial statements have been approved for issue by the Board of Directors on 29 October 2007.

### 2 Significant accounting policies

These consolidated interim financial statements for the six months ended 30 September 2007 have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and IAS 34 Interim Financial Statements.

The accounting policies and methods of computation used in these consolidated interim financial statements are the same as those used in the most recent annual financial statements for the year ended 31 March 2007.

### 3 Segment reporting

The Group's revenue is attributable to the principal activities being sales, marketing and distribution of the products developed by the Group. The Group's primary format for reporting segment information is geographical segments that are based on the location of customers.

Segment assets consist primarily of property, plant and equipment, intangible assets (except goodwill), inventories, trade and other receivables, and cash and cash equivalents. Unallocated assets comprise goodwill and deferred taxation.

<b>6 Months ended 30 September 2007 (unaudited)</b>	<b>North America US\$'000</b>	<b>Europe, Middle East, Africa US\$'000</b>	<b>Asia Pacific US\$'000</b>	<b>Unallocated US\$'000</b>	<b>Consolidated US\$'000</b>
Revenue:					
External sales	4,934	2,350	5,686	-	12,970
Inter-segment sales	-	-	(4,599)	-	(4,599)
<b>Total revenue</b>	<b>4,934</b>	<b>2,350</b>	<b>1,087</b>	<b>-</b>	<b>8,371</b>
Results:					
Operating profit	197	92	647	-	936
Finance income - net	-	-	-	107	107
<b>Profit before taxation</b>	<b>197</b>	<b>92</b>	<b>647</b>	<b>107</b>	<b>1,043</b>
Segment assets	1,080	444	17,977	2,360	21,861

## 3. Segment reporting (continued)

<b>6 Months ended 30 September 2006 (unaudited)</b>	<b>North America US\$'000</b>	<b>Europe, Middle East, Africa US\$'000</b>	<b>Asia Pacific US\$'000</b>	<b>Unallocated US\$'000</b>	<b>Consolidated US\$'000</b>
Revenue:					
External sales	3,185	2,123	4,696	-	10,004
Inter-segment sales	-	-	(3,759)	-	(3,759)
<b>Total revenue</b>	<b>3,185</b>	<b>2,123</b>	<b>937</b>	<b>-</b>	<b>6,245</b>
Results:					
Operating profit	127	85	514	-	726
Finance income - net	-	-	-	156	156
<b>Profit before taxation</b>	<b>127</b>	<b>85</b>	<b>514</b>	<b>156</b>	<b>882</b>
Segment assets	874	640	13,266	2,403	17,183

<b>12 Months ended 31 March 2007 (audited)</b>	<b>North America US\$'000</b>	<b>Europe, Middle East, Africa US\$'000</b>	<b>Asia Pacific US\$'000</b>	<b>Unallocated US\$'000</b>	<b>Consolidated US\$'000</b>
Revenue:					
External sales	9,835	5,191	13,174	-	28,200
Inter-segment sales	-	-	(11,233)	-	(11,233)
<b>Total revenue</b>	<b>9,835</b>	<b>5,191</b>	<b>1,941</b>	<b>-</b>	<b>16,967</b>
Results:					
Operating profit	373	181	3,075	-	3,629
Finance income - net	-	-	-	286	286
<b>Profit before taxation</b>	<b>373</b>	<b>181</b>	<b>3,075</b>	<b>286</b>	<b>3,915</b>
Segment assets	6,279	2,22	10,047	2,360	20,911

## 4 Expenses

	<b>Note</b>	<b>6 Months Ended 30 September 2007 (unaudited) US\$'000</b>	<b>6 Months Ended 30 September 2006 (unaudited) US\$'000</b>	<b>12 Months Ended 31 March 2007 (audited) US\$'000</b>
<b>Profit before taxation is stated after charging / (crediting):</b>				
Wages and salaries expense		2,183	2,191	5,325
Depreciation of property, plant and equipment		290	178	386
Amortisation of intangible assets	7	376	135	324
Bad and doubtful debt expense		111	(13)	64
Operating lease rentals		207	146	324
Directors' fees		118	75	174
Share option compensation charge		104	38	124
Unrealised foreign exchange gains		(60)	(179)	(125)
Realised foreign exchange gains		(12)	(112)	(49)

## 5 Income tax expense

	6 Months Ended 30 September 2007 (unaudited) US\$'000	6 Months Ended 30 September 2006 (unaudited) US\$'000	12 Months Ended 31 March 2007 (audited) US\$'000
<b>Profit before tax</b>	1,043	882	3,915
Profit on ordinary activities multiplied by standard rate of corporation tax in New Zealand 33% (2006: 33%)	344	291	1,292
Effects of:			
Foreign tax differences	(64)	(45)	(31)
Adjustment to tax in respect of the prior year	37	-	-
Non assessable expenses	20	32	23
<b>Income tax expense</b>	<b>337</b>	<b>278</b>	<b>1,284</b>

## 6 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	As at 30 September 2007 (unaudited)			As at 30 September 2006 (unaudited)			As at 31 March 2007 (audited)		
	Earnings US\$'000	Number of shares '000	Per Share amount US cents	Earnings US\$'000	Number of shares '000	Per share amount US cents	Earnings US\$'000	Number of shares '000	Per Share amount US cents
Profit attributable to shareholders	706			604			2,631		
<b>Basic EPS</b>									
Earnings attributable to ordinary shareholders	706	14,904	4.74	604	14,731	4.10	2,631	14,745	17.84
<b>Effect of dilutive securities</b>									
Options <sup>(1)</sup>	-	1,405	-	-	505	-	-	842	-
<b>Diluted EPS adjusted earnings</b>	<b>706</b>	<b>16,309</b>	<b>4.33</b>	<b>604</b>	<b>15,236</b>	<b>3.96</b>	<b>2,631</b>	<b>15,587</b>	<b>16.88</b>

(1) Includes the option entitlements held by non-executive Directors John Scott and Mark Rowan.

## 7 Intangible assets

	Goodwill US\$'000	Software US\$'000	Development costs US\$'000	Intellectual property US\$'000	Total US\$'000
<b>Cost</b>					
<b>At 1 April 2006</b>	2,060	510	-	387	2,957
Additions	-	25	-	14	39
<b>At 30 September 2006 (unaudited)</b>	2,060	535	-	401	2,996
Additions	-	495	271	13	779
<b>At 31 March 2007 (audited)</b>	2,060	1,030	271	414	3,775
Additions	-	74	763	-	837
<b>At 30 September 2007 (unaudited)</b>	2,060	1,104	1,034	414	4,612
<b>Amortisation</b>					
<b>At 1 April 2006</b>	40	194	-	75	309
Charge for the period	-	70	-	65	135
<b>At 30 September 2006 (unaudited)</b>	40	264	-	140	444
Charge for the period	-	100	9	80	189
<b>At 31 March 2007 (audited)</b>	40	364	9	220	633
Charge for the period	-	154	149	73	376
<b>At 30 September 2007 (unaudited)</b>	40	518	158	293	1,009
<b>Net book amount</b>					
At 30 September 2007 (unaudited)	2,020	586	876	121	3,603
At 30 September 2006 (unaudited)	2,020	271	-	261	2,552
At 31 March 2007 (audited)	2,020	666	262	194	3,142

## 8 Trade and other receivables

	Note	As at 30 September 2007 (unaudited) US\$'000	As at 30 September 2006 (unaudited) US\$'000	As at 31 March 2007 (audited) US\$'000
Trade receivables		5,066	3,454	8,389
Less: provision for impairment of receivables		(195)	(16)	(85)
		4,871	3,438	8,304
Other receivables		376	435	309
Prepayments		397	292	270
Receivables from related parties		428	357	385
Convertible advance	9	764	200	257
		6,836	4,722	9,525

## 9 Convertible advances

- a. The group has advanced \$250,000 (September 2006: \$200,000, March 2007: \$250,000) to be used in establishing a distribution company in China. Interest is charged on the advance at 3% per annum, compounding monthly. The principal and interest are secured by way of a first ranking debenture over the distribution company's assets.

The advance and interest are convertible into a 51% shareholding in the distribution company on the fulfilment of certain conditions agreed with that company. If the company does not elect to convert the advance the distribution company will be required to repay the outstanding advance and interest.

The convertible advance plus interest is held on the balance sheet at its fair value of \$261,000 (September 2006: \$250,000 March 2007: \$257,000).

- b. During the current period the group has advanced \$500,000 to Applied Watch Technologies LLC (Applied Watch) to assist with its working capital requirements. Interest is charged at 6.5% per annum, compounding monthly. The advance and interest are convertible into a 5% shareholding in Applied Watch.

The convertible advance plus interest is held on the balance sheet at its fair value of \$503,000.

On 15<sup>th</sup> October 2007 the company announced the acquisition of 100% of the capital in Applied Watch (note 12).

## 10 Net cash flow from operating activities

	<b>6 Months Ended 30 September 2007 (unaudited) US\$'000</b>	<b>6 Months Ended 30 September 2006 (unaudited) US\$'000</b>	<b>12 Months Ended 31 March 2007 (audited) US\$'000</b>
<b>Continuing operations</b>			
Profit before tax	1,043	882	3,915
Less			
Depreciation and amortisation	666	313	710
Share-base payment	104	-	124
Gain on disposal	(56)	-	-
Interest income	(109)	(157)	(288)
Income tax paid	(754)	(113)	(810)
(Increase) in inventories	(316)	(90)	(1,451)
Decrease/(Increase) in debtors	3,189	70	(4,689)
Increase/(Decrease) in creditors	32	(479)	656
Foreign exchange loss/(gain)	20	(291)	(173)
<b>Total net cash inflow (outflow) from operating activities</b>	<b>3,819</b>	<b>135</b>	<b>(2,006)</b>

## 11 Contingent liabilities and contingent assets

The Group had no contingent liabilities or contingent assets as at 30 September 2007 (September 2006: Nil, March 2007: Nil).

## 12 Subsequent event

Effective 12<sup>th</sup> October 2007 the Group acquired 100% of the capital of Applied Watch Technologies LLC for \$4.5 million. An initial cash consideration of US\$3.9 million has been paid on completion of the acquisition. A further cash payment of US\$600,000 will be paid on or before 31 March 2008, subject to warranty or indemnity claims.