

ENDACE LIMITED

FINAL RESULTS FOR YEAR ENDED 31 MARCH 2008

Meetings will be held today at Bankside Consultants, 1 Frederick's Place, London, EC2R 8AE. Press Briefing at 10:45 am and Analysts Lunch Briefing at 12:30pm.

Endace Limited ("Endace", "the Group" or "the Company") (LSE/AIM: EDA), a world leader in network monitoring, latency measurement and application acceleration solutions, is pleased to announce its audited final results for the year ended 31 March 2008. All amounts are stated in US\$.

Financial highlights

- Revenue increased by 42% to \$24.2m (2007: \$17.0m).
- Gross margins were 71% (2007: 72%).
- Profit before tax rose by 15% to \$4.5m (2007: \$3.9m). Excluding a one-off provision, profits would have increased by 25%.
- Basic earnings per share increased 29% to US cents 23.1 (2007: US cents 17.8). Adjusted, fully diluted earnings per share increased 25% to US cents 22.1 (2007: US cents 17.7) (see *Finance Director's Report*).
- Net cash at the year end was \$3.5m (2007: \$3.5m) after significant investment costs including an acquisition.

Operational highlights

- NinjaProbe™ appliance products launched successfully at the start of the year and rapidly gained traction in the market.
- \$2m contract to supply the industry's first InfiniBand™ monitoring probe to a leading US-based financial service provider.
- Growth achieved in all geographic regions with strong growth in the Americas and EMEA.
- Good progress at the half-way stage in a two-year investment programme to create an organisation capable of sustained high growth.
- Successful acquisition of Applied Watch Technologies.

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

"We have made excellent progress over the past year, both in terms of developing the scale of the business and achieving our planned targets for revenue and profits. We are well positioned to benefit from a market which is growing strongly and which now regards high speed network monitoring technologies as essential enablers in the drive for improved network security, compliance and performance."

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About Endace

For organisations that rely on their IP networks to do business, Endace provides traffic monitoring, latency measurement, network security and application acceleration solutions that capture, inspect and report on every single data packet. We enable 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>

Chairman's Statement

Introduction

Endace is pleased to present its audited results for the year ended 31 March 2008. Excellent progress has been made on the two-year plan set out a year ago for accelerated re-investment in both R&D and market development in order to drive a high rate of growth. This is reflected in increased revenues, profits and operating cash flow.

Strong customer demand for high speed data monitoring products reported at the half year continues to be driven by security and regulatory requirements. Network monitoring technology products are now regarded as fulfilling a 'must have' rather than 'nice to have' need in our target markets, whilst rapid increases in networking speeds require hardware assistance which cannot be met by traditional software-only solutions. The full year results demonstrate Endace's success in moving its business model progressively towards higher value-added platforms and appliances, while continuing to grow its core DAG[®] (Data Acquisition and Generation) card business. Endace's DAG technology retains its market leadership and this performance advantage is used fully within Endace's appliance products.

Results and finance

Revenue for the year ended 31 March 2008 increased by 42%. Growth was achieved in each geographic area with particularly strong performances in the Americas and EMEA. There was an increased flow of repeat orders from Endace's existing top 20 customers and a reduced reliance on very large contracts, with the largest customer now accounting for less than 10% of total revenue. Sales of DAG cards increased with the largest growth contributed from the sale of high value 10Gb/sec cards. In the first year since launch, appliance products rapidly gained traction in the market and contributed approximately one third of revenues in 2007-8.

Increasing demand for higher speed, higher value-added products resulted in an improvement in underlying product gross margins; this compares with total gross margins for the year were 71% (2007: 72%).

Over the past 12 months, emphasis has been placed on investing to create an organisation capable of sustained high growth. This investment in R&D, sales and marketing, equipment and software tools is reflected within the results for the year. Reported profit before tax increased 15% to \$4.5 million (2007: \$3.9 million); excluding a one-off provision as set out in the Finance Director's Report, profits would have increased by 25%.

Board and senior management

During the year under review, major changes to the Board and senior management occurred with Selwyn Pellett becoming Chairman, Mike Riley becoming CEO and John Scott moving to Deputy Chairman and Senior Non-Executive Director. Steve Gleave joined the Company as VP of Worldwide Marketing, based in the US, and Rob Pollard was appointed as VP of Sales for EMEA, based in the UK.

Outlook

Endace is operating in a market where the principal drivers are the increasing demands of regulation, the unrelenting need for improved network security and the rapid increase in capacity and speed of major data networks operated by telecommunications service providers, financial services institutions and government agencies. The ability to monitor these networks effectively is now regarded as essential, not optional. Endace's strategy to move progressively up the value chain by supplying platforms and appliances, complementing the sales of its DAG card product line, positions the Company to benefit from these strong growth drivers.

The main challenge for Endace during the coming year is to ensure that it continues to add the people and resources required to take full advantage of the growth opportunities now evident. The Company is now half way through its two-year investment plan which is intended to enable it to achieve this aim.

Endace has built a strong momentum across all lines of its business and it will continue to focus on its key vertical markets worldwide. The Board is confident of achieving its goals for growth during the current year and beyond.

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Panmure Gordon & Co. Plc, 155 Moorgate, London EC2M 6XB on Thursday 4 September 2008 at 9.30am.

Selwyn Pellett

Chairman

20 May 2008

Chief Executive Officer's Report

Introduction

Endace's focus over the past 12 months has been to execute successfully the plans set out at the start of the year to create the platform for sustained high growth in the future.

Endace's strategy to focus its efforts on higher speed (10Gb/sec to 40Gb/sec) products offered to the market in the form of value-added platforms and appliances, complementing our DAG card business, is being received well within the Company's telco, government and financial services markets.

Operating review

Investment

At the start of the period under review, it had become clear that in order to take advantage of the opportunities for growth available to Endace, far greater depth and breadth of organisation would be required both to generate sales and to respond to the specific requirements of customers. A two-year programme of investment was initiated to enable the Company to achieve a significantly larger scale. It was recognised that this investment would result in profits increasing at a slower rate than revenue until this 'step change' programme had been completed.

During the first half of 2007-8, a programme was initiated to increase both the number and quality of engineering and development staff together with the required development tools. During the second half of the year, the focus moved towards investment in our sales and marketing resources and activities. In all areas, we are pleased with the quality of the staff recruited, often attracting experienced people from much larger companies. The new sales and marketing management in place, particularly in the US and UK, is already delivering a significant improvement in performance.

To support our expanding business, we continue to expand our workforce; the total number of engineering and customer support staff increased to 46 at the year end, up from 37 at the start of the year. This included the addition of a small development team from the acquisition of Applied Watch Technologies during the year. The total number of sales and marketing staff at the year end was 26, up from 17 at the start of the year.

During the second year of this investment programme, the rate of growth in the cost base is expected to be slower than for last year. In expectation of an increasing level of recurring support and maintenance revenues in future years, investment emphasis will be placed on customer service infrastructure and quality assurance teams. There will be continued investment in additional sales resources, albeit at a slower rate than in the year to 31 March 2008.

The high level of investment in R&D has been maintained; further details are provided in the Finance Director's Report.

Appliance products

The NinjaProbe data capture, interception and monitoring appliances were launched into the market in March 2007. NinjaProbes are powered by our DAG technology, resulting in significant technical and price differentiation in the market. As network operators have embarked on upgrades to network operating speeds from 1Gb/sec to 10Gb/sec and higher, we have experienced an increasing demand in all our target markets for 'ready-made' monitoring solutions. These NinjaProbe products have quickly gained traction and, together with the NinjaBox products, contributed approximately one third of revenues in 2007-8.

Endace is progressively improving the functionality of its appliances, particularly in the areas of advanced capture to disk performance, third party application hosting and forwarding of filtered traffic to the high level monitoring, security correlation and interpretation platforms.

Network monitoring cards

Sales of our DAG cards increased in value during the year, reflecting higher average selling prices. We successfully upgraded customers to NinjaBox platforms and NinjaProbe appliances, resulting in some card volume being converted to higher value platform and / or appliance sales, a key facet of our stated growth strategy.

As expected, the DAG card mix shifted during the year towards higher speed, higher value cards. Typically, a 1Gb/sec card will sell for approximately \$2,000 per port while a 10Gb/sec card will sell for \$16,000 per port. Endace has an estimated installed base of some 15,000 1Gb/sec ports, a portion of which, over time, can be expected to upgrade to higher speeds. Endace has experienced improved pricing and margins in this part of its business.

Partnership and OEM developments

Over the past year, the emphasis on developing partnerships has focussed on targeted software vendors with abilities to increase Endace's penetration of key markets, especially financial services. In particular, the agreement with Trading Metrics assisted in the signing in March 2008 of the product supply and joint marketing agreement with Reuters. Endace also expanded customer options by signing an agreement to resell market-leading Net Optics taps with Endace's product lines.

OEM relationships are being used to increase market penetration and to complement Endace's direct sales activities in its principal markets. The Company has a number of such agreements in place including a recently signed teaming agreement with a global communications solutions provider. While the margin on sales through OEMs is slightly lower than direct sales, associated sales, marketing and support costs are also lower. In 2007-8, sales through OEMs contributed approximately 20% of total revenues.

Successful integration of Applied Watch Technologies LLC

Applied Watch was acquired by Endace in October 2007 for a cash consideration of \$4.6 million. This was a strategic technology acquisition, bringing to Endace a suite of centralised management tools for open source security software tools including SNORT IDS, tools which have been deployed often on Endace platform technology in our core markets.

The integration of Applied Watch's software technology into our NinjaProbe appliance product family has been completed and the first sales of the combined products were made successfully during the Company's fourth quarter.

There is a growing pipeline of potential new business for this combined solution, which now enables Endace to offer a centrally managed, fully integrated passive IDS (Intrusion Detection System) probe operating at full 10Gbps line rates. This latest addition to the NinjaProbe product range positions Endace as a cost effective, high performance alternative to products offered by traditional IDS vendors such as Cisco, Juniper, IBM / ISS and Sourcefire.

Markets

The Company's target geographic markets for high speed data capture, network monitoring, latency measurement and application acceleration mainly comprise North America, Europe, South East Asia and Australasia. The Middle East, Africa, Latin America, the Far East and other Asian economic regions are less of a focus. This is principally as a result of regulatory pressures which tend to be stronger in the more developed economies and a drive to maximise the effectiveness of the Company's limited sales resources.

Financial services

Financial services has been a strong sector for Endace over the past year, notwithstanding the onset of the 'credit crunch' last Autumn. On the contrary, turbulent markets have emphasised the need for absolute knowledge of the performance of the high speed data networks within our customer base, especially for those such as the algorithmic securities trading houses that have prospered in these highly volatile conditions. An example of the resulting business opportunity for Endace was the \$2 million contract announced in September 2007 to supply Infiniband monitoring appliances to a US-based securities trading house.

Additional drivers within this market are the regulatory requirements of MiFID in Europe and RegNMS in the USA, each requiring securities houses to demonstrate dealing efficacy, in turn requiring precise determination of the latency within their data systems. The agreement with Reuters, referred to above, is directed towards helping to fulfil this market need.

Government

Sales into government accounts are driven mainly by the ongoing need for security and surveillance on increasingly complex and higher speed networks. Over the past year, the European government market has grown very strongly while the US has grown less so. We believe there are substantial opportunities for Endace within Western government security agencies. While the government market appears less developed in the Far East, new sales staff added recently in Auckland have enabled Endace to win its first government orders in Asia Pacific.

Telcos

This sector is being driven by government requirements for lawful interception and Endace's customers in this market are mainly Tier 1 telcos in Western nations. Endace's largest order in the fourth quarter was from a leading European telco.

Strategy for growth

Endace's strategy is unchanged from that set out in the last interim results, namely to continue to focus its products and services towards its three core vertical markets worldwide: telecommunications service providers, government security agencies and tier 1 financial service institutions.

We will continue increasing the value of our products and services within these target markets. Continued enhancements to our DAG card product line, complemented by the NinjaProbe appliance family of multi-function monitoring and security probes, are designed to enable us to benefit from the relationships and reputation we have built over many years. We believe that this will allow Endace to penetrate new areas of our customers' networks and to sell products with higher speeds and more value-added appliances as network infrastructure investments and upgrades are rolled out.

The programme of investment within the business is planned to provide the additional resources required to meet the needs of the market and to lift the business to a higher level.

It continues to be Endace's aim to maintain its leadership in its DAG-based high speed monitoring and capture technology and to position the NinjaProbe network monitoring appliance family as the *de facto* high performance standard in our target markets.

Gratitude to staff

I would like to thank all our employees for their skill, dedication, professionalism and extremely hard work over the past year. It is their energy and enthusiasm for our business and our customers that have contributed so much to our success.

Mike Riley
Chief Executive Officer
20 May 2008

Finance Director's Report

Revenue

Revenue for the year ended 31 March 2008 increased by 42% to \$24.2 million (2007: \$17.0 million). Growth was achieved in each geographic area but with a particularly strong performance in the Americas and EMEA where revenues increased by 37% to \$13.5 million (2007: \$9.8 million) and 38% to \$7.2 million (2007: \$5.2 million) respectively. There was modest growth in Asia Pacific product sales to \$1.7 million (2007: \$1.4million) although sales in Australia and New Zealand increased significantly.

Included within the overall segmental analysis of revenue for Asia Pacific was the revenue from the provision of supply chain services of \$1.9m (2007: \$0.3 million) for which the margins were under 11%. Provision of these services ended without cost at the end of the year.

Recurring support income, recognised over the life of the support contract, grew by 69% over the previous year. The balance sheet shows deferred income of \$1.6 million (2007: \$0.6 million), being the contracted support income which is carried forward to the new financial year.

Investment and costs

Over the past 12 months, emphasis has been placed on investing within the business to create an organisation capable of sustained high growth. This investment in sales and marketing is reflected in the increased selling and administration expenses which increased to \$9.4 million (2007: \$5.5 million). These expenses also include a one-off provision of \$0.4 million (2007: \$nil) against a loan to and trade receivable from Endace's former Chinese distributor.

Endace increased its spend on R&D to \$5.4 million (2007: \$3.5 million). Of this, \$3.8 million (2007: \$3.3 million) has been expensed during the year and \$1.6 million (2007: \$0.2 million) has been capitalised in accordance with IFRS. The capitalised element relates to products which are planned for release during the first half of 2008-9 and will be amortised over 2 to 3 years. The amortisation of intangible assets during the year was \$0.3 million (2007: \$Nil). The increased investment in R&D is reflected in an increase in engineering staff of over 25% with a significant portion of these costs devoted to new product development in DAG cards and NinjaProbe appliances.

Cash

Improved control of working capital resulted in year-end net cash and cash equivalents of \$3.5 million (2007: \$3.5 million) after substantial additions to equipment and software and the acquisition of Applied Watch Technologies LLC. A report of the Group cash movements for the year is reported in the Consolidated Cash Flow Statement below.

Acquisition of Applied Watch Technologies

Applied Watch Technologies LLC, acquired on 12 October 2007, contributed revenues of \$0.5 million in 2007-8 and incurred an operating loss of \$0.2m. Revenues for the period were lower than expected with the focus on integration of the technology into the NinjaProbe family but, as reported in the CEO's report, there is now a growing pipeline of potential business. While costs exceeded revenues this year, costs were under budget.

Taxation

Total income tax incurred for the year under review was \$1.1 million (2007: \$1.3 million) and was reduced by an adjustment in respect of the prior year of \$0.5 million. This adjustment arises primarily as a result of translating the tax liability for the New Zealand group entities into New Zealand dollars. The main impact of the translation is the recognition of foreign exchange losses from the revaluation of foreign currency cash balances and intercompany loans into New Zealand dollars.

Adjusted earnings per share

Adjusted earnings per share has been calculated as follows:

	2008 US\$'000	2007 US\$'000
Profit for the period	3,437	2,631
Add back:		
Provision against loan and receivable to/from former Chinese distributor	417	-
Share option compensation charge	313	124
Less:		
Tax benefit from Fx loss arising on calculation of NZ tax liability	(500)	-
	<u>3,667</u>	<u>2,755</u>
Diluted number of shares in issue ('000)	16,611	15,587
Adjusted fully diluted EPS (US cents)	22.1	17.7

Neil Hopkins
Finance Director
 20 May 2008

CONSOLIDATED INCOME STATEMENT
for the year ended 31 March 2008

	Notes	2008 US\$'000	2007 US\$'000
Revenue	2	24,211	16,967
Cost of sales		(7,077)	(4,739)
Gross profit		17,134	12,228
Other income		531	484
Selling and administrative expenses		(9,393)	(5,529)
Research and development expenses		(3,765)	(3,266)
Finance cost		(11)	(2)
Profit before taxation		4,496	3,915
Income tax expense	3	(1,059)	(1,284)
Profit for the period		3,437	2,631
Earnings per share	4	US cents	US cents
- basic		23.05	17.84
- diluted		20.69	16.88

CONSOLIDATED BALANCE SHEET
as at 31 March 2008

	Note	2008 US\$'000	2007 US\$'000
Non-current assets			
Property, plant and equipment		2,389	1,353
Intangible assets		9,879	3,142
Total non-current assets		12,268	4,495
Current assets			
Inventories		2,813	3,040
Trade and other receivables	5	8,909	9,525
Deferred tax		461	302
Cash and cash equivalents		3,513	3,549
Total current assets		15,696	16,416
Total assets		27,964	20,911
Current Liabilities			
Trade and other payables		4,656	2,501
Current income tax liabilities		46	314
Deferred income		1,581	655
Total current liabilities		6,283	3,470
Total liabilities		6,283	3,470
Equity			
Share capital		15,092	14,519
Reserves		(147)	(147)
Retained earnings		6,736	3,069
Total equity		21,681	17,441
Total equity and liabilities		27,964	20,911

CONSOLIDATED CASH FLOW STATEMENT
for year ended 31 March 2008

	Notes	2008 US\$'000	2007 US\$'000
Cash flows from operating activities			
Cash receipts from customers		25,947	11,649
Cash paid to suppliers and employees		(17,277)	(12,843)
Cash generated from operations		8,670	(1,194)
Interest paid		(11)	(2)
Income taxes paid		(1,474)	(810)
Net cash flows from operating activities	6	7,185	(2,006)
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,691)	(906)
Purchases of intangible assets (software & IP)		(167)	(530)
Investment in product development		(1,571)	(271)
Outflow on acquisition	7	(3,984)	-
Repayment of Applied Watch pre-acquisition loan		(595)	-
Proceeds from disposals		60	-
Interest received		187	288
Net cash used in investing activities		(7,761)	(1,419)
Cash flows from financing activities			
Proceeds from exercise of share options		435	-
Net cash flows from financing activities		435	-
Net (decrease) in cash and cash equivalents		(141)	(3,425)
Cash and cash equivalents at beginning of period		3,549	6,678
Exchange gains on cash and cash equivalents		56	296
Cash acquired on acquisition		49	-
Cash and cash equivalents at end of period		3,513	3,549

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2008

	Share capital US\$'000	Foreign Currency translation reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance as at 1 April 2007	14,439	(147)	325	14,617
Retained profit for the period		-	2,631	2,631
Shares issued in partial consideration of nCap licence	53	-	-	53
GST claimed from initial placing costs	16	-	-	16
Share options exercised	11	-	(11)	-
Share option compensation expense	-	-	124	124
Balance as at 31 March 2007	14,519	(147)	3,069	17,441
Retained profit for the period	-	-	3,437	3,437
Capital raised on employee options	435	-	-	435
Share options exercised	81	-	(81)	-
Shares issued in partial consideration of nCap licence	55	-	-	55
Share option compensation expense	-	-	313	313
Balance as at 31 March 2008	15,090	(147)	6,738	21,681

Notes

1 Basis of reporting

The consolidated financial statements contained herein are prepared in accordance with the New Zealand equivalent of the international financial reporting standards (NZ IFRS). The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 31 March 2008 and the results of all subsidiaries of the Group for the year ended 31 March 2008, except for Applied Watch Technologies LLC, a subsidiary acquired on 12 October 2007 whose results are included from the date of acquisition (see note 7). Endace Limited and its subsidiaries together are referred to in these financial statements as the Group and are designated as profit oriented entities for financial reporting purposes.

The consolidated financial information contained herein is an abridged version of the Group's audited accounts, which have received an unqualified report from the Group's auditors. The statutory annual report and accounts for the year ended 31 March 2008 will be dispatched to the shareholders and filed with the New Zealand Registrar of Companies in August 2008.

2 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 location of customers.

Year ended 31 March 2008	North America US\$'000	Europe, Middle East, Africa US\$'000	Asia Pacific US\$'000	Unallocated US\$'000	Consolidated US\$'000
Revenue					
External sales	13,450	7,168	15,874	-	36,492
Inter-segment sales	-	-	(12,281)	-	(12,281)
Total revenue	13,450	7,168	3,593	-	24,211
Results					
Operating profit	337	282	3,700	-	4,319
Finance income - net					177
Profit before taxation	337	282	3,700	-	4,496
Segment assets	5,903	3,298	10,940	7,823	27,964
Segment liabilities	1,868	1,266	3,149	-	6,283
Capital expenditure	233	21	1,707	-	1,961
Depreciation of PPE	40	14	605	-	659
Amortisation of intangibles	-	-	795	-	795

2 Segment reporting (continued)

Year ended 31 March 2007	North America US\$'000	Europe, Middle East, Africa US\$'000	Asia Pacific US\$'000	Unallocated US\$'000	Consolidated US\$'000
Revenue					
External sales	9,835	5,191	13,174	-	28,200
Inter-segment sales	-	-	(11,233)	-	(11,233)
Total revenue	9,835	5,191	1,941	-	16,967
Results					
Operating profit	373	181	3,075	-	3,629
Finance income - net					286
Profit before taxation	373	181	3,075	-	3,915
Segment assets	6,279	2,225	10,047	2,360	20,911
Segment liabilities	912	306	2,252	-	3,470
Capital expenditure	11	18	1,383	-	1,412
Depreciation of PPE	33	11	342	-	386
Amortisation of intangibles	-	-	324	-	324

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables and cash and cash equivalents. Unallocated assets comprise goodwill and deferred taxation arising from the consolidation of the Group. Segment liabilities comprise trade creditors, accruals, tax liabilities and deferred income.

3 Income tax expense

	2008 US\$'000	2007 US\$'000
Current Tax		
New Zealand: Income tax at 33%	1,458	1,036
New Zealand: Adjustment to tax in respect of prior year	(507)	-
Foreign corporation taxes	199	155
Foreign corporation taxes: Adjustment to tax in respect of he prior year	68	-
Total current tax	1,218	1,191
Deferred tax		
Origination and reversal of timing differences	(159)	93
Representing		
New Zealand deferred tax	(159)	93
Foreign deferred tax	-	-
	(159)	93
Income tax expense	1,059	1,284

4 Earnings per share

	As at 31 March 2008			As at 31 March 2007		
	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	3,437			2,631		
Basic EPS						
Earnings attributable to ordinary shareholders	3,437	14,909	23.05	2,631	14,745	17.84
Effect of dilutive securities						
Options	-	1,702	-	-	842	-
Diluted EPS adjusted earnings	3,437	16,611	20.69	2,631	15,587	16.88

5 Trade and other receivables

	2008 US\$'000	2007 US\$'000
Trade receivables	7,858	8,389
Less: provision for impairment of receivables	(117)	(85)
	7,741	8,304
Other receivables	123	309
Prepayments	321	270
Receivables from related parties	724	385
Convertible advance	-	257
Income tax receivable	-	-
Amounts owed from subsidiaries	-	-
	8,909	9,525

As at 31 March 2007, the Group had advanced \$257,000 in loans and interest to be used in establishing an unrelated distribution company in China. The principal and interest were secured by way of a first ranking debenture over the distribution company's assets.

During the year the distribution company ceased operation and was unable to pay its debts.. No value could be attributed from the debenture. As a result management does not expect to recover the debt and a full provision of \$264,065 against the loan and interest (accrued to February 2008) has been made.

The Group has also written off accounts receivable of \$153,182 due from the distributor.

6 Cash flow from operating activities

	2008	2007
	US\$'000	US\$'000
Continuing operations		
Profit/(loss) after tax	3,437	2,631
Less		
Depreciation and amortisation	1,454	710
Current share option compensation charge	313	124
(Gain) on disposal	(48)	-
Interest income	(187)	(288)
	-	-
Foreign exchange (gain)	(56)	(173)
Impact on working capital from acquisition	(783)	-
Deferred consideration for Applied Watch Technologies acquisition	(584)	-
Non-cash movement in working capital	142	-
Changes in working capital excluding the effects of acquisition and the exchange differences on consolidation:	-	-
Inventories	227	(1,451)
Trade and other receivables	457	(4,689)
Trade and other payables	2,813	1,130
Total net cash inflow (outflow) from operating activities	7,185	(2,006)

7 Acquisition of Applied Watch Technologies

On 12 October 2007 the Group acquired 100% of the shares in Applied Watch Technologies LLC.

Details of net assets/(liabilities) acquired and goodwill are as follows:

	2008
	US\$'000
Cash payable	4,500
Direct costs relating to the acquisition	134
Total purchase consideration	4,634
Fair value of net liabilities acquired	743
Less: Intellectual property acquired	(380)
Goodwill	4,997

There was no significant difference between the fair value of the assets and liabilities acquired and the acquiree's carrying value.

The acquired business contributed \$0.5 million to revenue and a loss of \$0.16 million to profit before taxation.

The goodwill is attributed to the significant synergies and business opportunities expected to arise from the acquisition of Applied Watch Technologies LLC.

8 Contingent liabilities and contingent assets

The company and Group had no contingent liabilities or contingent assets as at 31 March 2008 (March 2007: Nil).