

# Endace Limited

## Press Announcement



FOR IMMEDIATE RELEASE

4 November 2008

### ENDACE LIMITED

#### HALF YEARLY RESULTS FOR THE SIX MONTHS PERIOD ENDING 30 SEPTEMBER 2008

Endace Limited (LSE/AIM: EDA, “Endace” or “the Company”), a world leader in network monitoring solutions, announces interim results for the half year ended 30 September 2008.

#### Highlights

- Period of excellent progress
- Strong financial performance
  - Revenues increased by 62% to US\$13.5 million (2007: US\$8.4 million)
  - Profit before tax increased by 73% to US\$1.8 million (2007: US\$1.0 million)
  - Margins continue to grow
- Good growth across all key vertical industry markets – government, telecommunications service providers and financial institutions
- Good growth across all target geographic markets – EMEA (up 74%), North America (up 61%) and Asia Pacific (up 150%, adjusted for discontinued legacy supply chain distribution revenue)
- Continued investment for the future
- Strategy unchanged and working
- Prospects good

Endace Chief Executive, Mike Riley, commented:

“We have had an excellent half year, having built strong momentum across all our geographic and sector markets, and our pipeline of opportunities continues to increase. Our investment programme aimed at creating a company capable of sustained, profitable growth is proving successful. We currently have a platform of sales opportunities which continues to underpin our confidence in meeting expectations for the full year. We recognise the need for caution in such a volatile global economic environment, and will continue to monitor progress in order to ensure revenues and expenses are aligned to deliver the continued profitable, cash-generative growth of our business”.

Ends

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## **About Endace**

For organisations that rely on their IP networks to do business, Endace provides high performance traffic analysis, latency measurement, network security and application acceleration solutions that capture, inspect and report on every single data packet. Our product portfolio includes high-speed packet capture technology, open development environments, multi-function network monitoring appliances and a comprehensive range of powerful yet intuitive management, measurement, alerting and analysis applications. We enable our customers to be confident in their service performance, traffic monitoring, 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>

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## HALF YEARLY STATEMENT

### Introduction

I am pleased to report on a first half of good progress for Endace. Strong improvements in revenues and profits reflect good performances in all our key vertical industry markets and target geographies. At the same time, we have continued the successful development of the Group against the key strategic goals laid down eighteen months ago, building the foundations for Endace's future growth.

### Results and Finance

Total sales for the six months to 30 September increased by 62% over the same period last year to US\$13.54 million. Our operations in North America grew by 72% and in EMEA by 67%. Turnover growth in Asia Pacific has been distorted by the inclusion last year of over US\$0.6m of legacy supply chain distribution revenue, which is no longer a feature of our business; adjusting for that revenue, period on period growth in Asia Pacific was an excellent 150%, reflecting increased focus on Australia and New Zealand and new business in India.

Sales of DAG cards increased by 74%, with particular strength in the government sector. Platform and appliance sales and related software revenues increased by 72%. Recurring support income continued to grow, up 80%, reflecting increased NinjaProbe sales over recent periods.

Gross margins at 72% were similar to the comparable six month period last year but ahead of that for the second half and full last year, benefiting from economies of scale from increased volumes, the continued shift to 10 gigabit technology across our product portfolio, and reduced component costs on some of our more mature products. Selling and administration costs rose 64%, in line with revenues. Research and development expenses were just over US\$2 million (2007: US\$1.7 million), a 19% increase over the comparable period last year, primarily reflecting a continued increase in engineering staff and associated expenses. Average total staff numbers for the last 6 months were 102 compared to 82 for the same period last year. An additional US\$ 1.2m (2007: US\$ 0.8m) of development costs have been capitalized during the period, in line with IFRS, reflecting significant investment in new product development.

Profit before tax showed a healthy 73% increase to US\$1.80 million (2007 US\$1.04m) and basic earnings per share were 78% ahead at US 8.07 cents (2007: US 4.74 cents).

Positive operating cash flows for the period of \$1.5m were offset by cash investments of \$3m in equipment, software and new product development. The increase in trade receivables to \$9.0m (2007: \$5.1m) reflects a higher portion of revenues being recognised towards the end of the period compared to the first half last year. These revenues derive from new products that were not available for release until late August and September.

### Operational review

Our first half operational performance demonstrated further success in all key aspects of the business.

#### *Product portfolio*

We continued the development of our product lines, increasing functionality across our DAG and Ninja product families to strengthen the capabilities and versatility of our current range. In particular, as our NinjaProbes have matured, so has the ease with which they can be integrated into our clients' networks, helping to accelerate purchase decisions.

Developments in the first half included the introduction of IEEE1588 (known also as Precision Time Protocol, PTP) an industry-standard protocol that provides additional, highly accurate time-stamping and synchronization capabilities for our latency measurement and network monitoring solutions. We also introduced additional features to our family of NinjaProbes, including the addition of Snort® IDS Applied Watch Command Centre Agent and data mining features which further enhance the probes' passive capture capabilities and the ability to allow the platform to capture, store and replay network traffic at speeds approaching 10Gb/s. Most recently we announced the launch of a comprehensive and intuitive visualization and analytics application which enables operators to view and interpret easily the information captured on the network.

All these developments were driven by the needs of our current and target customers, or as a response to identified opportunities in our marketplace. Clients acknowledge that Endace technology has become critical infrastructure in their continued need to maintain the integrity of their networks in the face of increasing demands placed upon them.

#### *Contract wins*

The first half has seen a good level of new contract awards across the Government, Telco and Financial markets. For reasons of national security or commercial sensitivity we are seldom able to announce details of such wins. However, one such that we were able to announce was the US\$0.6 million contract award by a US-based Tier 1 telecommunications carrier for our NinjaProbe™ appliances to monitor packet loss and sequence statistics for one of the carrier's IP networks. We received our first orders from India including our first direct sales and a large OEM customer contract.

Our success in winning good levels of new and repeat business reflects our growing customer list, the increasingly close relationships we are developing with those customers and the resulting widening exposure to our product portfolio within their often very large organizations.

#### *Partnerships and collaborative agreements*

We have continued to enter into partnerships and collaborative agreements where these expand our reach into the market or extend the capabilities of our products. Most recently these have included an agreement with Mellanox® Technologies to co-market a passive monitoring solution for InfiniBand™ clusters, and a collaborative agreement with Voltaire to deliver passive monitoring capabilities for InfiniBand™-based interconnect solutions in high performance computing (HPC) environments, which often support the ultra high-speed and low-latency requirements of next generation Financial Services electronic and algorithmic trading platforms.

During the period we also entered into a software licensing agreement with CACE Technologies to enhance Endace's NinjaProbe with traffic analysis and visualisation capabilities.

#### *Resource development*

A key focus for Endace is the development of our engineering, sales and marketing resource to support future growth. The current business environment is improving our ability to attract talented people and, following the successful development of the team in North America and Europe, we are now turning our attention to developing our sales presence in the Asia and Oceania regions to enable us to properly and efficiently address the opportunities in that region.

During the period the business has increased staff worldwide to 109, a 27% increase over this time last year.

#### **Markets**

Increasing pressures of regulation, the national security needs of governments around the world and heightening complexity and usage of telecoms sector networks worldwide all provide opportunities for the increasingly sophisticated monitoring and security capabilities offered by our product portfolio. The same is true of our developing market in the specific area of financial services where the current volatile trading environment is underlining the need for network and trade latency measurement for which Endace hardware forms a core component.

We have excellent relationships with a customer base of tier 1 organisations, offering them a compelling proposition to monitor their network activity which, whatever the economic environment, is mission critical to their businesses.

### **Strategy for growth**

Our progress reflects the successful implementation of the strategic plan laid down for the business at the beginning of last year. This remains essentially unchanged, as we continue to focus our offering towards our three core vertical markets worldwide, continue to enhance our products and increase their value to our customers, and commit the resources necessary to market and support our products across the globe.

### **Outlook**

We have had an excellent half year, having built strong momentum across all our geographic and sector markets, and our pipeline of opportunities continues to increase. Our investment programme aimed at creating a company capable of sustained, profitable growth is proving successful. We currently have a platform of sales opportunities which continues to underpin our confidence in meeting expectations for the full year. We recognise the need for caution in such a volatile global economic environment, and will continue to monitor progress in order to ensure revenues and expenses are aligned to deliver the continued profitable, cash-generative growth of our business.

**CONSOLIDATED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008**

		<b>6 Months Ended 30 September 2008 (unaudited) US\$'000</b>	<b>6 Months Ended 30 September 2007 (unaudited) US\$'000</b>	<b>12 Months Ended 31 March 2008 (audited) US\$'000</b>
	<b>Notes</b>			
<b>Revenue</b>	3	13,539	8,371	24,211
Cost of sales		(3,798)	(2,219)	(7,077)
<b>Gross profit</b>		9,741	6,152	17,134
Other income		206	320	531
Selling and administrative expenses		(6,123)	(3,729)	(9,393)
Research and development expenses		(2,018)	(1,698)	(3,765)
Finance cost		(2)	(2)	(11)
<b>Profit before taxation</b>	4	1,804	1,043	4,496
Income tax expense	5	(596)	(337)	(1,059)
<b>Profit for the period</b>		1,208	706	3,437
<b>Earnings per share</b>	6	<b>US cents</b>	<b>US cents</b>	<b>US cents</b>
- basic		8.07	4.74	23.05
- diluted		7.26	4.33	20.69

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

**CONSOLIDATED BALANCE SHEET  
AS AT 30 SEPTEMBER 2008**

		As at 30 September 2008 (unaudited) US\$'000	As at 30 September 2007 (unaudited) US\$'000	As at 31 March 2008 (audited) US\$'000
	Notes			
<b>Non-current assets</b>				
Property, plant and equipment		2,860	1,883	2,389
Intangible assets	7	10,820	3,603	9,879
<b>Total non-current assets</b>		13,680	5,486	12,268
<b>Current assets</b>				
Inventories		3,569	3,438	2,813
Trade and other receivables	8	10,262	6,836	8,909
Current income tax liabilities		-	50	-
Deferred tax		461	355	461
Cash and cash equivalents		2,098	5,696	3,513
<b>Total current assets</b>		16,390	16,375	15,696
<b>Total assets</b>		30,070	21,861	27,964
<b>Current Liabilities</b>				
Trade and other payables		4,118	2,224	4,656
Current income tax liabilities		969	-	46
Deferred income		1,741	909	1,581
<b>Total current liabilities</b>		6,828	3,133	6,283
<b>Total liabilities</b>		6,828	3,133	6,283
<b>Equity</b>				
Share capital		15,254	15,046	15,092
Reserves		(147)	(147)	(147)
Retained earnings		8,135	3,829	6,736
<b>Total equity</b>		23,242	18,728	21,681
<b>Total equity and liabilities</b>		30,070	21,861	27,964

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

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008**

		<b>6 Months Ended 30 September 2008 (unaudited) US\$'000</b>	<b>6 Months Ended 30 September 2007 (unaudited) US\$'000</b>	<b>12 Months Ended 31 March 2008 (audited) US\$'000</b>
	<b>Notes</b>			
<b>Cash flows from operating activities</b>				
Cash receipts from customers		12,532	11,969	25,947
Cash paid to suppliers and employees		(11,297)	(7,394)	(17,277)
<b>Cash generated from operations</b>		<b>1,235</b>	<b>4,575</b>	<b>8,670</b>
Interest paid		(2)	(2)	(11)
Income tax refund/(payment)		327	(754)	(1,474)
Net cash flows from operating activities	10	<u>1,560</u>	<u>3,819</u>	<u>7,185</u>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(934)	(906)	(1,691)
Purchases of intangible assets (software & IP)	7	(236)	(837)	(167)
Investment in product development	7	(1,208)	-	(1,571)
Issue of convertible loan		-	(500)	-
Outflow on acquisition of Applied Watch Technologies LLC		(650)	-	(3,984)
Repayment of Applied Watch pre-acquisition loan		-	-	(595)
Proceeds from disposals		-	60	60
Interest received		20	109	187
Net cash used in investing activities		<u>(3,008)</u>	<u>(2,074)</u>	<u>(7,761)</u>
<b>Cash flows from financing activities</b>				
Proceeds from exercise of share options		123	422	435
Net cash flows from financing activities		<u>123</u>	<u>422</u>	<u>435</u>
Net increase/(decrease) in cash and cash equivalents		<u>(1,325)</u>	<u>2,167</u>	<u>(141)</u>
Cash and cash equivalents at beginning of period		<u>3,513</u>	<u>3,549</u>	<u>3,549</u>
Exchange (losses)/gains on cash and cash equivalents		(90)	(20)	56
Cash acquired on acquisition		-	-	49
Cash and cash equivalents at end of period		<u>2,098</u>	<u>5,696</u>	<u>3,513</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 2008**

	Share Capital US\$'000	Foreign Currency Translation Reserve US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
<b>Balance as at 1 April 2007 (audited)</b>	14,519	(147)	3,069	17,441
Final instalment of shares issued in partial consideration of nCap licence	55	-	-	55
Capital raised from exercise of share options	472	-	-	472
Share option compensation expense	-	-	122	122
Share options exercised	-	-	(68)	(68)
Retained profit for the period	-	-	706	706
<b>Balance as at 30 September 2007 (unaudited)</b>	15,046	(147)	3,829	18,728
Capital raised from exercise of share options	46	-	-	46
Share option compensation expense	-	-	191	191
Share options exercised	-	-	(15)	(15)
Retained profit for the period	-	-	2,731	2,731
<b>Balance as at 31 March 2008 (audited)</b>	15,092	(147)	6,736	21,681
Capital raised from exercise of share options	162	-	-	162
Share option compensation expense	-	-	230	230
Share options exercised	-	-	(39)	(39)
Retained profit for the period	-	-	1,208	1,208
<b>Balance as at 30 September 2008 (unaudited)</b>	15,254	(147)	8,135	23,242

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

## NOTES TO THE HALF YEAR 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 Level 2, Building A, The Millennium Building Phase 2, 600 Great South Road, Ellerslie, Auckland 1051, 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 27 October 2008.

### 2. Significant accounting policies

These consolidated interim financial statements for the six months ended 30 September 2008 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 2008.

### 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.

6 Months ended 30 September 2008 (unaudited)	North America	Europe, Middle East, Africa	Asia Pacific	Unallocated	Consolidated
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue:					
External sales	8,468	3,914	10,088	-	22,470
Inter-segment sales	-	-	(8,931)	-	(8,931)
<b>Total revenue</b>	<b>8,468</b>	<b>3,914</b>	<b>1,157</b>	<b>-</b>	<b>13,539</b>
Results:					
Operating profit	339	157	1,290	-	1,786
Finance income - net	-	-	-	-	18
<b>Profit before taxation</b>	<b>339</b>	<b>157</b>	<b>1,290</b>	<b>-</b>	<b>1,804</b>

<b>6 Months ended 30 September 2007 (unaudited)</b>	<b>North America</b>	<b>Europe, Middle East, Africa</b>	<b>Asia Pacific</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>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
<b>Profit before taxation</b>	<b>197</b>	<b>92</b>	<b>647</b>	<b>-</b>	<b>1,043</b>

<b>12 Months ended 30 September 2008 (audited)</b>	<b>North America</b>	<b>Europe, Middle East, Africa</b>	<b>Asia Pacific</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Revenue:					
External sales	13,450	7,168	15,874	-	36,492
Inter-segment sales	-	-	(12,281)	-	(12,281)
<b>Total revenue</b>	<b>13,450</b>	<b>7,168</b>	<b>3,593</b>	<b>-</b>	<b>24,211</b>
Results:					
Operating profit	337	282	3,700	-	4,319
Finance income – net	-	-	-	-	177
<b>Profit before taxation</b>	<b>337</b>	<b>282</b>	<b>3,700</b>	<b>-</b>	<b>4,496</b>

#### 4. Expenses

	<b>6 Months Ended 30 September 2008 (unaudited) US\$'000</b>	<b>6 Months Ended 30 September 2007 (unaudited) US\$'000</b>	<b>12 Months Ended 31 March 2008 (audited) US\$'000</b>
<b>All from continuing operations</b>			
<b>Profit before taxation is stated after charging / (crediting):</b>			
Wages and salaries expense	4,118	2,183	6,260
Depreciation of property, plant and equipment	448	290	659
Amortisation of intangible assets	503	376	795
Bad and doubtful debt expense	(1)	111	462
Operating lease rentals	263	207	467
Directors' fees	113	118	245
Share option compensation charge	229	104	313
Unrealised foreign exchange (gains)/losses	124	(60)	(47)
Realised foreign exchange (gains)/losses	(14)	(12)	(68)

## 5. Income tax expense

	6 Months Ended 30 September 2008 (unaudited) US\$'000	6 Months Ended 30 September 2007 (unaudited) US\$'000	12 Months Ended 31 March 2008 (audited) US\$'000
<b>Profit before tax</b>	1,804	1,043	4,496
Profit on ordinary activities multiplied by standard rate of corporation tax in New Zealand 30% (September 2007: 33%) (March 2008:33%)	541	344	1,484
Effects of:			
Foreign tax differences	(4)	(64)	182
Adjustment to tax in respect of the prior year	(255)	37	(439)
Deferred tax restated at 30%	-	-	46
Non assessable expenses/(income)	314	20	(214)
<b>Income tax expense</b>	596	337	1,059

## 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 2008 (unaudited)			As at 30 September 2007 (unaudited)			As at 31 March 2008 (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	1,208			706			3,437		
<b>Basic EPS</b> Earnings attributable to ordinary shareholders	1,208	14,976	8.07	706	14,904	4.74	3,437	14,909	23.05
<b>Effect of dilutive securities</b> Options <sup>(1)</sup>	-	1,666	-	-	1,405	-	-	1,702	-
<b>Diluted EPS adjusted earnings</b>	1,208	16,642	7.26	706	16,309	4.33	3,437	16,611	20.69

(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 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
Additions	4,997	93	808	797	6,695
Disposal	-	(24)	-	-	(24)
<b>At 31 March 2008 (audited)</b>	7,057	1,173	1,842	1,211	11,283
Additions	-	236	1,208	-	1,444
<b>At 30 September 2008 (unaudited)</b>	7,057	1,409	3,050	1,211	12,727
<b>Amortisation</b>					
<b>At 1 April 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
Charge for the period	-	138	97	184	419
Disposal	-	(24)	-	-	(24)
<b>At 31 March 2008 (audited)</b>	40	632	255	477	1,404
Charge for the period	-	146	227	130	503
<b>At 30 September 2008 (unaudited)</b>	40	778	482	607	1,907
<b>Net book amount</b>					
At 30 September 2008 (unaudited)	7,017	631	2,568	604	10,820
At 30 September 2007 (unaudited)	2,020	586	876	121	3,603
At 31 March 2008 (audited)	7,017	541	1,587	734	9,879

## 8. Trade and other receivables

	Note	As at 30 September 2008 (unaudited) US\$'000	As at 30 September 2007 (unaudited) US\$'000	As at 31 March 2008 (audited) US\$'000
Trade receivables		9,018	5,066	7,858
Less: provision for impairment of receivables		-	(195)	(117)
		9,018	4,871	7,741
Other receivables		713	376	123
Prepayments		531	397	321
Receivables from related parties		-	428	724
Convertible advance	9	-	764	-
		10,262	6,836	8,909

## 9. Convertible advances

- a. As at 30 September 2007, the Group had advanced \$261,000 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 period to 31 March 2008 the distribution company ceased operation and was unable to pay its debts. No value could be attributed from the debenture. As a result management considered the debt non recoverable and it was written off.

- b. As at 30 September 2007 the group had advanced \$503,000 (including interest) to Applied Watch Technologies LLC (Applied Watch) to assist with its working capital requirements. Interest was charged at 6.5% per annum, compounding monthly. On 15<sup>th</sup> October 2007 the company announced the acquisition of 100% of the capital in Applied Watch and the loan was repaid.

## 10. Net cash flow from operating activities

	6 Months Ended 30 September 2008 (unaudited) US\$'000	6 Months Ended 30 September 2007 (unaudited) US\$'000	12 Months Ended 31 March 2008 (audited) US\$'000
<b>Continuing operations</b>			
Profit after tax	1,208	706	3,437
Less			
Depreciation and amortisation	966	666	1,454
Current share option compensation charge	230	104	313
(Gain) on disposal	-	(56)	(48)
Interest income	(20)	(109)	(187)
Foreign exchange (gain)	90	20	(56)
Impact on working capital from acquisition	-	-	(783)
Deferred consideration for Applied Watch Technologies acquisition	650	-	(584)
Non-cash movement in working capital	-	-	142
Changes in working capital excluding the effects of acquisition			
Inventories	(756)	(316)	227
Trade and other receivables	(1,353)	2,772	457
Trade and other payables	545	32	2,813
<b>Total net cash inflow from operating activities</b>	<b>1,560</b>	<b>3,819</b>	<b>7,185</b>

## 11. Contingent liabilities and contingent assets

The Group had no contingent liabilities or contingent assets as at 30 September 2008 (September 2007: Nil, March 2008: Nil).