



Immediate Release

15 NOVEMBER 2005

ENDACE LIMITED

ENDACE MAIDEN INTERIM RESULTS

Endace Limited (the "Company" or "Endace") (AIM : EDA), a company specialising in network interface devices and related computer systems for network security and measurement applications, is pleased to announce its maiden interim results for the six months ended 30 September 2005. This follows the Company's successful admission to the Alternative Investment Market (AIM), a market regulated by the London Stock Exchange, in June of this year.

Highlights

- Successful admission to AIM in June 2005, raising £8m (gross) (US\$14m)
- Revenues grew on a like for like basis by 62% to US\$4.35 million (2004: \$2.7m)
- Profit before tax of \$133,000
- Direct sales forces now established in the US and Europe, and a new Asian distributor in South Korea has been appointed
- Customer numbers grew by 59% to 146 customers in the six months to 30 September 2005
- Customer spread is also increasing, with 57% of total sales generated by top 10 customers, compared with 66% in the year ending 31 March 2005

Note: The results presented in the Admission document dated 10 June 2005 were shown on a pro-forma basis consolidating the accounts of all Endace companies as if they had been under common ownership within a formal legal group for the previous three years. Under the principles of merger accounting the comparatives for 1 April 2004 to 30 September 2004 include only Endace Technology Ltd. The comparatives for the period ended 31 March 2005 cover Endace Technology Ltd only for period 1 April 2004 to 23 November 2004 and the formal legal entity from 23 November 2004 to 31 March 2005 which includes all group companies. To enable better trend analysis we have referred to the Pro-forma financial results which assumed the Endace group structure was in place from 1 April 2004.

Selwyn Pellett, CEO of Endace, commented:

"Endace's achievement of generating a pre-tax profit for our inaugural interim results as a listed company is very pleasing, exceeding the Board's expectations of a small loss for the period. This is particularly satisfactory given the historical pattern of revenues being weighted towards the second half of the financial year. Robust growth continues to be captured by Endace for a fourth consecutive year, underscored by strong sales in all markets including significant new clients -- particularly in Europe -- while containing costs.

"The proceeds from our IPO in June have been put to immediate use, enabling enhanced R&D initiatives, margin improvements and the purchase of product development tools. Endace's elevated profile has also assisted marketing efforts globally which, combined with favourable market conditions and internet data trends, has generated the positive results announced today."

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About Endace:

Endace (www.endace.com) is a network security company with a market-leading technology. It is focused on the design and sale of specialised network interface devices and related computer systems for network security and measurement applications. The technology uses proprietary software, firmware and hardware, which has been developed over the last nine years. Endace's global customers operate high speed, critical networks with exacting security requirements and include western government security agencies, international telecommunication companies, some of the world's largest Internet service providers and major corporations. Founded in late 2001 in Hamilton, New Zealand, Endace has been profitable with positive operating cashflows since 2002.

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Overview

Endace produced an encouraging result in the six months to 30 September 2005 and has continued to deliver on its stated objectives. Our core network security business continues to grow, benefiting from heightened market awareness of the requirement for network protection and acceleration solutions, particularly during these times of need for international security. To the best of our knowledge, Endace remains the only specialist security data capture company with products able to tap most commercial networks. Operational and manufacturing efficiencies have been implemented, innovative new product lines developed and sales channels established. This has fed through to the increased sales and profit announced today. The Company is now well positioned to scale and take advantage of its competitive position within favourable market conditions.

Financial

Revenue in the first half of the year to 30 September 2005 was \$4.4 million in line with expectations, compared to pro-forma \$2.7 million in the same period last year, showing growth of 62%.

Group overhead expenses were \$3.3 million, which was below management expectations.

As a result, profit before tax in the first half of the financial year was \$133,000.

Operating review

Q1 was focused on delivering higher production yields, increasing manufacturing capacity in anticipation of the growing order book and delivering more robust product designs. The effect has already been improved margins, decreasing lead times and increased product reliability to customers. This required investment in test equipment, research, development and production staff and design for manufacturability, which was funded out of the IPO proceeds.

Improved quality and margins: Our key manufacturing goals have been achieved resulting in improved manufacturing pass rates and a significantly decreased field failure rate, compared with the period to 31 March 2005. The Company's quality controls for the delivery of its products have improved, leading to higher margins on sales. Over time this will translate into higher brand value due to higher reliability with less customer involvement in issue resolution. The cost of goods is also trending downwards as increased volumes allow for some improvement in purchasing power within the supply chain.

Increased sales force and personnel support: The other significant focus for the period was to build the global sales force and distribution networks, which progressed throughout the period and will continue for the remainder of the financial year. Budgeted field sales staff in Europe and the US were in place by the end of Q2 with some technical support and channel management still to be added during Q3. Europe, the US and Asia have expanded in line with expectations and maintained almost exactly their pre-listing revenue splits. During the period further key hires have been secured within marketing and product management.

As previously announced, John Scott was appointed as non-executive Chairman on 1 September 2005. Mr. Scott takes over from the Company's founder, Ian Graham, who is now able to focus on leading Endace's R&D strategy as Chief Technology Officer.

Robust operational advancements: The management focus for Q2 was the continued expansion of sales infrastructure and introduction of new Management Information Systems (MIS) designed to handle the projected growth in business. The Company has invested in and now installed a new Enterprise Resource Planning (ERP) system, Microsoft Axapta, with productivity gains already evident. Two other initiatives related to MIS were the introduction of Salesforce (a hosted CRM system) and XSol (workforce automation) used for automating internal work flow. The combination of these systems has delivered increased visibility, productivity and efficiency to the Company and is now the foundation upon which the Company can scale substantially.

With streamlined production and logistics, experienced sales people now in the field and MIS deployed company-wide, management has now released resources into the sales, marketing and product development areas to capitalise on the historically larger second half year purchasing cycle.

Significant new customers: Good sales in Europe and the US have resulted in four new customers joining the Company's largest ten accounts. These new customers continued the trend of broadening the customer base, thereby reducing our exposure to certain key accounts.

Among the new entrants to the top ten customers is a leading PC manufacturer who is partnering with Endace in a specific engagement in the financial services market.

Of the 54 new customers added during the period, in the US, which has the largest sales force in place, the customer base increased by 25. Europe grew by 21 customers and Asia increased by 9 customers. As most sales in Asia are via distributors, this increase does not fully represent end-customer expansion.

The customer summary below highlights sales development over the past 6 months:

	6 months to 30/09/05	12 months to 31/03/05
No. of customers	146	92
Top 10 as % of total sales	57%	66%
Average unit sale price	\$5,014	\$4,262

Reduced sales cycle: Endace has continued its drive to reduce "time to first order", measured as the time from first contact to receiving a production order. In general, this appears to be coming down with most customers, helped through the introduction of Endace's new MIS global infrastructure.

New Distributor: A distribution agreement was signed in September 2005 with BOW Technology in South Korea which was accompanied by a significant first order. Established in 1991, BOW Technology is a leading equipment developer and supplier for test & measurement and cable & telecommunication industries. BOW Technology was selected because of the specific market knowledge it has gained through the distribution of Net Optics, a synergistic US optical splitter company.

Opportunities

Favourable market trends: The rapid migration to higher bandwidth networks and the desire for increased CPU off-load capability have emerged as significant customer trends. Opportunities have developed in these areas as higher internet usage at individual and corporate levels is starting to fill available network capacity. Traditional monitoring technologies can no longer cope with the sheer volume of data that must now be captured and analyzed in real time.

The biggest selling product range is Gigabit Ethernet but there is now significant interest in our higher bandwidth 10 Gigabit Ethernet product range to fulfil these demands.

New product development: Endace is expanding into new segments, answering needs as the market develops. Key initiatives relate to the need for either higher port density per card (the number of network connections a single card can monitor) or the need for lower price point products where full line rate data capture is less critical.

NX Platform - new platform product: This product is designed to increase speed to market for independent software vendors. It has the appropriate Endace card (to match the network), a high performance server and the appropriate co-processor (to complement the card). These are all preconfigured with easy to use software tools developed by Endace to access the full potential of the card and the co-processor. Security software companies (Independent Software Vendors) will find it much easier and faster to deliver leading edge products to their end customers.

Outlook

Endace has seen four years of solid growth and the indications are that, as in earlier years, this will continue into the second half of the year. The Company has had a good start to Q3 and has increased visibility of future revenue through the introduction of sales, financial and operational management information systems. The Company's US and European sales teams are now in place, new distributors are being added, and the historically stronger second half-year purchasing cycle is on track to continue.

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Independent review report to Endace Limited

Introduction

We have been instructed by the company to review the financial information which comprises consolidated balance sheet, consolidated profit and loss account consolidated statement of cash flows and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibility

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listings Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing annual accounts where any change, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of control and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Service Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We have no relationship with or interest in the Company or any of its subsidiaries other than in our capacity as accountants and tax advisers.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2005.

Our review was completed on 14 November 2005 and our review opinion is expressed as at that date.

Chartered Accountants

Auckland

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Unaudited 6 months ended 30 Sept 2005 US\$'000	Note 1 12 months ended 31 March 2005 US\$'000	Unaudited 6 months ended 30 Sept 2004 US\$'000
Turnover		4,346	4,380	904
Cost of sales		(1,112)	(583)	(1)
Gross profit		3,234	3,797	903
Selling and administrative expenses		(2,108)	(1,844)	(799)
Research and development		(1,207)	(1,686)	(59)
Other operating income – government grants		50	337	176
Operating (loss) /profit		(31)	604	221
Net interest income/(expense)		164	(35)	-
Profit on ordinary activities before taxation		133	569	221
Tax on profit on ordinary activities	8	(79)	(265)	(73)
Retained profit for the financial period		54	304	148
Earnings per share	3			
- basic		US Dollar 0.004	US Dollar 0.033	US Dollar 0.016
- diluted		US Dollar 0.004	US Dollar 0.032	US Dollar 0.016

CONSOLIDATED BALANCE SHEET

		Unaudited As at 30 Sept 2005 US\$'000	Note 1 As at 31 March 2005 US\$'000	Unaudited As at 30 Sept 2004 US\$'000
Fixed assets	Note			
Intangible assets		2,354	2,450	117
Tangible assets		1,182	596	346
		<u>3,536</u>	<u>3,046</u>	<u>463</u>
Current assets				
Stock		463	170	-
Debtors	4	2,661	4,392	448
Short term deposits		7,588	46	-
Cash at bank and in hand		1,612	318	30
		<u>12,324</u>	<u>4,926</u>	<u>478</u>
Creditors – amounts falling due within one year	5	(661)	(2,594)	(452)
Convertible debt	10	-	(1,291)	-
Net current assets		<u>11,663</u>	<u>1,041</u>	<u>26</u>
Total assets less current liabilities		15,199	4,087	489
Creditors – amounts falling due after more than one year		-	(81)	-
Net assets		<u>15,199</u>	<u>4,006</u>	<u>489</u>
Capital and reserves				
Share capital	7	16,182	3,281	-
Other reserve		(2)	15	-
Retained earnings	9	(981)	710	489
Total shareholders' funds		<u>15,199</u>	<u>4,006</u>	<u>489</u>

CONSOLIDATED CASH FLOW STATEMENT

		Unaudited 6 months ended 30 Sept 2005 US\$'000	Note 1 12 months ended 31 March 2005 US\$'000	Unaudited 6 months ended 30 Sept 2004 US\$'000
Net cash (outflow)/ inflow from operating activities	6	(1,028)	565	162
Returns on investments and servicing of finance				
Interest received		181	4	-
Interest paid		(17)	(39)	-
Net cash inflow/(outflow) from returns on investments and servicing of finance		164	(35)	-
Taxation		(214)	(359)	-
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(738)	(447)	(143)
Net cash outflow for capital expenditure and financial investment		(738)	(447)	(143)
Management of liquid resources				
(Increase) in short-term deposits with banks		(7,542)	(46)	-
Financing				
Issue of ordinary share capital (net of IPO costs)	7	12,901	82	-
Payment of Dividend	9	(1,757)	-	-
(Decrease)/increase in borrowings		(492)	111	(5)
Net cash inflow/(outflow) from financing		10,652	193	(5)
Increase/ (Decrease) in net cash		1,294	(129)	14
Reconciliation to net (debt)/cash				
Net (debt)/cash at 1 April		(1,466)	1	1
Increase/(decrease) in net cash		1,294	(129)	14
Movement in short term deposits		7,542	46	-
Movement in borrowings		492	(111)	5
Other non-cash changes	10	1,291	(1,291)	-
Exchange adjustments		47	18	10
Net cash/(debt) at period end		9,200	(1,466)	30

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. Basis of preparation

Endace Ltd, the holding company for all Endace companies, was incorporated on 21 June 2004.

On 23 November 2004, the formal legal group structure was established by the issue of 2,895,000 Class B shares in the newly established Endace Limited to the existing shareholders of Endace Technology Limited and Endace Measurement Systems Limited. Prior to 23 November 2004, Endace Technology Limited and Endace Measurement Systems Limited were not under a formal legal group structure.

Merger accounting was used by Endace Ltd to acquire Endace Technology Limited. Endace Measurement Systems Limited has been accounted for using the acquisition method of accounting.

The comparatives for period ended 31 March 2005 cover Endace Technology Ltd and Endace Ltd from 1 April 2004 to 23 November 2004 and the formal legal entity from 23 November 2004 to 31 March 2005 which include all Endace companies.

The comparative information for the period ended 31 March 2005 has been extracted from audited financial statements, prepared in accordance with New Zealand GAAP and in New Zealand dollars. This information has been translated into US dollars and prepared in accordance with UK GAAP.

The period 1 April 2004 to 30 September 2004 contains Endace Technology Ltd and Endace Ltd.

2. Principal Accounting Policies

The interim financial statements has been prepared in accordance with the historical cost convention and generally accepted accounting practice in the UK.

The principal accounting policies that materially affect the measurement of financial performance and financial position of the Group are set out in Admission Document to the Alternative Investment Market (AIM), Part IV Accountants' Report on the Group.

3. Earnings per share

On 9 June 2005, the existing 18,540,000 ordinary shares were consolidated by converting every 2 shares into 1 share resulting in 9,270,000 ordinary shares.

On 15 June 2005 4,938,272 ordinary shares were issued pursuant to a private placement in connection with Endace Ltd's admission to AIM.

On 23 June 2005 473,596 ordinary shares were issued to NetHawk Oyj pursuant to the conversion of the convertible note referred to in Note 10 of the accounts.

The weighted average number of shares for the period ending 30 September 2004 and 31 March 2005 have been based on shares in issue on 9 June 2005 to enable comparability.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	Unaudited 6 months ended 30 September 2005 US\$'000			Note 1 12 months ended 31 March 2005 US\$'000			Unaudited 6 months ended 30 September 2004 US\$'000		
	Earnings US\$'000	Weighted Average Number of shares '000	Per- share amount US\$	Earnings US\$'000	Weighted Average Number of shares '000	Per- share amount US\$	Earnings US\$'000	Weighted Average Number of shares '000	Per-share amount US\$
Basic EPS									
Earnings attributable to ordinary shareholders	54	12,431	0.004	304	9,270	0.033	148	9,270	0.016
Effect of dilutive securities									
Options	-	190	-	-	111	-	-	-	-
Diluted EPS									
Adjusted earnings	54	12,621	0.004	304	9,381	0.032	148	9,270	0.016

4. Debtors

	Unaudited As at 30 Sept 2005 US\$'000	Note 1 As at 31 March 2005 US\$'000	Unaudited As at 30 Sept 2004 US\$'000
Amounts falling due within one year			
Deferred tax	53	55	-
Trade debtors	2,079	1,968	443
Other debtors	-	1,452	-
Amounts recoverable on long term contracts	303	277	-
Prepayments	226	618	5
Derivative financial instruments	-	22	-
	<u>2,661</u>	<u>4,392</u>	<u>448</u>

5. Creditors – Amounts falling due within one year

	Unaudited As at 30 Sept 2005 US\$'000	Note 1 As at 31 March 2005 US\$'000	Unaudited As at 30 Sept 2004 US\$'000
Bank and other borrowings	-	458	-
Trade creditors	121	858	301
Income tax	(204)	214	47
Other tax and social security payable	(21)	50	(51)
Accruals and deferred income	765	1,014	155
	<u>661</u>	<u>2,594</u>	<u>452</u>

6. Cash flow from operating activities

Reconciliation of operating profit to net cash (outflow)/inflow from operating activities:

	Unaudited 6 months ended 30 Sept 2005 US\$'000	Note 1 12 months ended 31 March 2005 US\$'000	Unaudited 6 months ended 30 Sept 2004 US\$'000
Continuing operations			
Operating (loss)/ profit	(31)	565	221
Depreciation charge	142	133	47
Amortisation	69	57	2
Share option expense	38	261	-
(Increase) in stocks	(293)	(75)	-
Increase/(decrease) in debtors	1,474	(1,659)	175
(Decrease)/increase in creditors	(2,427)	1,283	(283)
Total net cash (outflow)/ inflow from operating activities	(1,028)	565	162

7. Movements in share capital

	Unaudited 6 months ended 30 Sept 2005 US\$'000	Note 1 12 months ended 31 March 2005 US\$'000	Unaudited 6 months ended 30 Sept 2004 US\$'000
Opening balance/shares issued on incorporation	3,281	-	-
Shares issued on acquisition of EMS Ltd and ETL Ltd	-	3,044	-
Shares repurchased	-	(420)	-
Shares sold	-	502	-
Share option scheme 2 exercise of options	25	-	-
Directors' fees convert to shares	26	-	-
NetHawk convertible note convert to shares	1,178	-	-
Placing of 4,938,272 new ordinary shares at 162 pence per share	14,088	-	-
Exchange difference	(88)	155	-
IPO costs	(2,328)	-	-
At period end	16,182	3,281	-

8. Tax on profit from ordinary activities

The tax for the period is higher than the standard rate of corporation tax in New Zealand (33%). The differences are explained below:

	Unaudited 6 months ended 30 Sept 2005 US\$'000	Note 1 12 months ended 31 March 2005 US\$'000	Unaudited 6 months ended 30 Sept 2004 US\$'000
Profit on ordinary activities before tax	133	569	221
Profit on ordinary activities multiplied by standard rate of corporation tax in New Zealand 33%	44	188	73
Effects of: Expenses not deductible for tax purposes and timing differences	35	77	-
	<u>79</u>	<u>265</u>	<u>73</u>

9. Retained earnings

	Unaudited 6 months ended 30 Sept 2005 US\$'000	Note 1 12 months ended 31 March 2005 US\$'000	Unaudited 6 months ended 30 Sept 2004 US\$'000
At 1 April	710	78	322
Exchange difference opening balance	(58)	67	19
Share options issued	70	311	-
Share options forfeited	-	(50)	-
Dividend paid	(1,757)	-	-
Retained profit	<u>54</u>	<u>304</u>	<u>148</u>
Period end	<u>(981)</u>	<u>710</u>	<u>489</u>

On 28 April 2005, the Group declared a dividend of US\$ 1,757,000. This was subsequently converted into shareholders' loan accounts on 9 May 2005. Shareholders' loan accounts were paid out of IPO proceeds on 24 June 2005.

10. Convertible debt

In March 2005 Endace Limited was advanced a loan of 1,000,000 Euro from NetHawk Oyj, a company incorporated in Finland. Interest was charged at 3% per annum (compounded on a monthly basis). The advance was secured by way of a non-exclusive, non-transferable, royal free licence to manufacture and sell products containing Group network analysis technologies. On 23 June 2005 473,596 ordinary shares were issued to NetHawk Oyj following the conversion of the convertible note.