



# Half Year Report

For the Six Month Period Ended  
30<sup>th</sup> September 2009

## **Chairman's Review**

Dear Shareholders

On behalf of the Board and the Company I would once again like to thank shareholders for their continued support and encouragement.

### **Results**

In the Half Year Report for the six month period ended 30<sup>th</sup> September 2009 in accordance with recommended reporting practice, we have shown the results for the UK operation and the impact of the sale transaction separately under the heading Discontinued Operations. This enables us to show the performance of the core continued operations without distortion caused by the one time impact of the loss on disposal of the UK business or the distortion in comparison if we included the UK results for the three months until the sale in the Group results when a full six months results were included in the prior year.

For the continued operations I am pleased to announce that the Company has increased sales by 11% to \$1,962,218. This has enabled us to generate a surplus from continued operations of \$114,877, however after including the impact of the loss on disposal of the UK operation and the small UK operating loss for the period until sale the overall loss for the Group in the period to 30<sup>th</sup> September 2009 was \$191,985.

### **Project Delays**

I announced at the AGM that we anticipated being profitable for the first half of the year and remaining so for the rest of the year, but I qualified this statement by saying there are two major risks in our projections. Firstly we often have delays in reaching milestones required for invoicing and we don't use an accrual system to recognise revenues before milestones are invoiced. Secondly a unrealistically high NZ\$ against the US\$ can act as a handbrake on our results. Unfortunately both these risks have adversely impacted our performance in the first half of 2009.

We had anticipated delivering two more milestones for Santa Clarita than we were eventually able to realise in the period. The work on these milestones and the overall project however is well advanced. We anticipate approximately 70% of the project is completed however only 55% of the milestone payments had been invoiced at 30<sup>th</sup> September.

Given the impact of the delays in delivery of the two Santa Clarita milestones, and the impact of the exchange rate, we are satisfied with the operating results for the first half. The first two milestones in the new contract with Tri Delta Transit (ECCTA) in San Francisco were successfully delivered and project revenue was augmented by strong sales of new equipment and services to existing customers in excess of \$500,000.

### **Impact of the Strong NZ Dollar**

The strong New Zealand dollar has reduced the local currency we have generated from our US sales activity. The impact would be softened if a significant proportion of our costs were derived in US dollars but unfortunately this is not the case.

The strong New Zealand dollar adversely impacts not only our sales revenue but also our income. We prepared our budgets for 2009 assuming an exchange rate of NZ\$1 = US\$0.5750; the exchange rate when the budgets were prepared. The exchange impact of the stronger NZ\$ compared to our budgeted exchange rate has caused a reduction in actual revenue of \$213,751 in our first half results. This not only adversely impacts our operating results but also creates problems with cash flow management.

Due to the uncertainty of being successful in achieving sales in USA through tender processes and the long delays from tender to being awarded we cannot realistically hedge the currency. Even when we have won a tender the delays we often experience in meeting milestones and getting paid make conventional currency hedging almost impossible. For a small exporter being paid in US\$, with virtually no natural hedging, the volatility of the NZ\$ with over 30% strengthening in the last 6 months is very disheartening.

### **Delisting From NZX**

At the last AGM held on 25<sup>th</sup> August 2009 Connexionz shareholders voted unanimously to cease listing the Company's stock on the NZX Alternative Exchange. As part of the resolution Connexionz was obliged to investigate and recommend an alternative trading platform to enable shareholders to trade Connexionz shares. After a thorough investigation of alternatives the Board approved Unlisted as the new trading platform to be adopted by Connexionz Limited. Connexionz stock began trading on Unlisted on 1<sup>st</sup> December 2009.

Following de-listing from the NZX Alternative Exchange Connexionz Limited will continue to keep its shareholders informed by way of announcements of information via its website.

This is consistent with our continuing commitment to the spirit of continuous disclosure.

Merry Christmas to all,



Craig Boyce  
Chairman

## **Chief Executive Officer's Review**

### **Operations & Development**

The first half of the 2010 financial year has produced a number of challenges for Connexionz as we have strived to coordinate the development activities for the Santa Clarita and Tri Delta Transit projects with the production and implementation requirements expected in our milestone commitments. At times we have struggled with the uncertainty in development activities and coordinating supply from third parties that are necessary to ensure timely production and delivery according to planned milestones. This has resulted in a delay in the delivery of two milestones for Santa Clarita, which were planned to be delivered in the first half of this year. In response to these demands we have placed a much greater emphasis on project implementation both in terms of process improvement and through resource allocation. Recognising we will need more resources dedicated to implementation we have hired an experienced Project Engineer who will support the implementation activity in Santa Clarita and Tri Delta Transit, as well as ensure our planning and implementation processes are up to the standards of world class performance our customers expect us to deliver.

Despite the delays in delivering the milestones Santa Clarita Transit remain very satisfied with the service provided by Connexionz, the level of communication and the quality of the solution we are delivering. Connexionz personnel have on several instances provided support and services outside the original project scope to support this key customer. Connexionz is committed to ensure the system, when fully operational, exceeds the benefits expected by Santa Clarita and is a first class reference site for future sales on the West Coast of the USA.

### **Strategic Activity**

While our focus has been heavily centred on operational activities, we have also commenced two critical strategic activities this half year. We have begun a strategic review process with a third party facilitator and supported by New Zealand Trade & Enterprise to clearly define our purpose aiming to ensure sustainable success. We will then develop action plans aligned to this purpose which will enable us to achieve the sustained peak performance we are seeking. We expect to be able to share the outputs of this work at the next Annual General Meeting.

Connexionz has taken the first steps in a collaborative arrangement with NZi3, the Information and Communications Technology Innovation Institute which is based at the University of Canterbury, to explore and develop our product offering. There is a strong desire to perform our product development work internally, but it is recognised that our resources are limited and these resources are currently fully engaged in delivery of the development tasks required for major projects currently in progress. Consequently it was agreed Connexionz would look at external parties able to provide the necessary expertise, with the available resources and a willingness to work with Connexionz on developing our

product portfolio. This collaborative arrangement with NZi3 will enable Connexionz access to some of the best of New Zealand's ICT academic expertise and provide a fusion with our industry expertise to enhance and expedite our development initiatives.


### **Sales & Marketing**

At the beginning of 2009 we initiated several activities to improve the quality and effectiveness of our sales and marketing activity in the US. We engaged in a market research project which has enabled us to improve our customer knowledge and identify new sales prospects. Additionally our Sales Director, Robert Burke, has spent considerably more time this year, in the US, in front of customers. Consequently, the name Connexionz is more widely known among the public transport industry in the US and we have a much better ability to identify bid prospects. However, the sales cycle we operate in is very slow and the benefits of this investment will not be realised in the short term. We continue to actively pursue bid opportunities in our target market and since 1<sup>st</sup> April have submitted seven bids in the US.

### **Outlook**

As previously discussed the delays in delivering milestones for Santa Clarita and the impact of the strong New Zealand dollar have impacted our half year results. We expect the exchange rate to adversely impact revenue over the remainder of the financial year. Given the impact of the delays in the Santa Clarita project experienced thus far we now anticipate that the final project sign off may not occur until after the end of our financial year, which would further negatively impact revenue. Furthermore the longer than projected development cycle for the new system components have inevitably resulted in the additional costs. Collectively these factors are likely to undermine our ability to generate sufficient income to recoup the losses resulting from the sale of the UK operation by 31<sup>st</sup> March 2010.

To conclude, it has been a challenging half year for Connexionz, though we have continued to make progress as an organisation and have demonstrated considerable innovation and tenacity to enable us to meet our customer demands. The period through to the end of the financial year will be firmly focused on the delivery of the remaining Santa Clarita milestones and making considerable progress on the Tri Delta Transit project. This will not only improve our balance sheet but will give us improved market credibility in the US, and when the product is finally delivered to these customers we will truly have an "off the shelf" product which will provide virtually all the core requirements sought by our customers in the US.



Roger Carruthers  
Chief Executive Officer

## Consolidated Income Statement For the Six Months ended 30 September 2009

	<b>Group Six Months to 30-Sep-09 (Unaudited) \$</b>	<b>Group Six Months to 30-Sep-08 (Unaudited) \$</b>
<b>Continuing Operations</b>		
Revenue	1,905,622	1,745,600
Other Gains & Losses	-	33,847
Raw Materials and Consumables Used	(653,662)	(508,060)
Depreciation and amortisation expenses	(55,775)	(11,508)
Employee Benefits Expense	(510,113)	(341,338)
Finance Costs	(26,446)	(48,032)
Consulting Expense	(16,389)	(105,056)
Other Expenses	<u>(528,360)</u>	<u>(463,239)</u>
Profit Before Tax	114,877	302,213
Income Tax Expense	<u>-</u>	<u>-</u>
Profit from Continued Operations	114,877	302,213
<b>Discontinued Operations</b>		
(Loss) from Discontinued Operations	<u>(306,862)</u>	<u>(251,055)</u>
<b>(LOSS)/PROFIT FOR THE PERIOD</b>	(191,985)	51,158
(Loss)/Profit Attributable to:		
Owners of the Company	<u>(191,985)</u>	<u>51,158</u>
<b>Earnings per Share</b>		
From Continuing and Discontinued Operations		
Basic (cents per share)	<u>(0.80)</u>	<u>0.22</u>
Diluted (cents per share)	<u>(0.69)</u>	<u>0.22</u>
From Continuing Operations		
Basic (cents per share)	<u>0.48</u>	<u>1.28</u>
Diluted (cents per share)	<u>0.41</u>	<u>1.28</u>

## Consolidated Statement of Comprehensive Income For the Six Months ended 30 September 2009

	<b>Group Six Months to 30-Sep-09 (Unaudited)</b>	<b>Group Six Months to 30-Sep-08 (Unaudited)</b>
	\$	\$
<b>(Loss) Profit for the Period</b>	(191,985)	51,158
<b>Other Comprehensive Income</b>		
Exchange Differences on Translating Foreign Operations	-	-
Exchange Differences Arising During the Period	-	20,729
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u>(191,985)</u>	<u>71,887</u>
Total Comprehensive Income Attributable to:		
Owners of the Company	<u>(191,985)</u>	<u>71,887</u>

## Consolidated Statement of Changes in Equity For the Six Months ended 30 September 2009

	<b>Share Capital</b>	<b>Foreign Currency Translation Reserve</b>	<b>Accumulated Deficit</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Balance at 1<sup>st</sup> April 2008</b>	4,352,704	-	(4,259,867)	92,837
Profit (Loss) for the Period		-	51,158	51,158
Other Comprehensive Income for the Period		20,729	-	20,729
Total Comprehensive Income for the Period		20,729	51,158	71,887
Issue of Ordinary Shares for Consulting Services Performed	15,000	-	-	15,000
Issue of Ordinary Shares for Directors Fees	28,593	-	-	28,593
<b>Balance at 30<sup>th</sup> September 2008 (Unaudited)</b>	4,396,297	20,729	(4,208,709)	208,317
Payment of Preference Share Dividends	-	-	(13,782)	(13,782)
Profit (Loss) for the Period		-	159,301	159,301
Other Comprehensive Income for the Period		15,351	-	15,351
Total Comprehensive Income for the Period		15,351	159,301	174,652
Issue of Convertible Non-participating Preference Shares	381,000	-	-	381,000
<b>Balance at 31<sup>st</sup> March 2009</b>	4,777,297	36,080	(4,063,190)	750,187
Payment of Preference Share Dividends	-	-	(3,931)	(3,931)
Profit (Loss) for the Period		-	(191,985)	(191,985)
Other Comprehensive Income for the Period		(36,080)	36,080	-
Total Comprehensive Income for the Period		(36,080)	(155,905)	(191,985)
Issue of Ordinary Shares for Consulting Services Performed	25,255	-	-	25,255
Issue of Ordinary Shares for Directors Fees	31,833	-	-	31,833
<b>Balance at 30<sup>th</sup> September 2009 (Unaudited)</b>	4,834,385	-	(4,223,026)	611,359

## Consolidated Statement of Financial Position As at 30 September 2009

	Group 30-Sep-09 (Unaudited)	Group 31-Mar-09	Group 30-Sep-08 (Unaudited)
	\$	\$	\$
<b>Assets</b>			
<i>Non-Current Assets</i>			
Deferred Taxation	-	2,184	-
Non-current trade receivables	162,835	162,835	348,272
Property, plant and equipment	59,323	106,273	136,255
Other intangible assets	660,626	951,921	705,005
Total Non-Current Assets	<u>882,784</u>	<u>1,223,213</u>	<u>1,189,532</u>
<i>Current Assets</i>			
Cash	81,803	25,454	6,340
Inventories	290,988	237,107	81,644
Trade and other receivables	346,866	672,448	1,131,452
Taxation refund due	511	511	1,098
Prepayments	144,639	99,256	490,769
Total Current Assets	<u>864,807</u>	<u>1,034,776</u>	<u>1,711,303</u>
Total Assets	<u>1,747,591</u>	<u>2,257,989</u>	<u>2,900,835</u>
<b>Equities and Liabilities</b>			
<i>Capital and Reserves</i>			
Issued Capital	4,834,385	4,777,297	4,396,297
Accumulated Deficit	(4,223,026)	(4,063,190)	(4,208,709)
Foreign Currency Translation Reserve	-	36,080	20,729
Total Equity	<u>611,360</u>	<u>750,187</u>	<u>208,317</u>
<i>Non-Current Liabilities</i>			
Income in Advance	130,788	-	-
Total Non-Current Liabilities	<u>130,788</u>	-	-
<i>Current Liabilities</i>			
Bank overdraft	-	113,853	138,641
Directors Loans	80,000	80,000	249,000
Employee benefits	110,984	76,092	74,363
Trade and other payables	814,459	1,237,857	2,230,514
Total Current Liabilities	<u>1,005,443</u>	<u>1,507,802</u>	<u>2,692,518</u>
Total Liabilities	<u>1,136,231</u>	<u>1,507,802</u>	<u>2,692,518</u>
Total Equity and Liabilities	<u>1,747,590</u>	<u>2,257,989</u>	<u>2,900,835</u>

## Cash Flow Statement For The Six Months Ended 30 September 2009

	<b>Group Six Months to 30-Sep-09 (Unaudited)</b>	<b>Group Six Months to 30-Sep-08 (Unaudited)</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	2,451,988	1,704,658
Interest received	-	42
Payments to suppliers and employees	(2,210,731)	(1,504,837)
Interest and other finance costs paid	(26,420)	(48,032)
Income tax paid	-	(3)
<b>Net cash provided by operating activities</b>	<u>214,837</u>	<u>151,828</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property Plant & Equipment	(17,830)	(1,876)
Purchase of Intangible Assets	(156,290)	(154,856)
Proceeds from Disposal of Business	149,609	-
Cash Balances Sold in Disposal of Business	(22,624)	-
<b>Net cash used in investing activities</b>	<u>(47,135)</u>	<u>(156,732)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of loans from directors	-	55,000
Proceeds from issue of share capital	2,500	-
Dividends Paid to Preference Share Holders	-	-
<b>Net cash provided by financing activities</b>	<u>2,500</u>	<u>55,000</u>
<b>Net increase in cash and cash equivalents</b>	170,202	50,096
<b>Cash and cash equivalents as at beginning of period</b>	<u>(88,399)</u>	<u>(190,041)</u>
<b>Cash and cash equivalents as at end of period</b>	<u><u>81,803</u></u>	<u><u>(139,945)</u></u>

## **Notes to the Financial Statements**

### **1. Accounting Policies**

#### **Reporting Entity**

Connexionz Limited ("the Company") is a profit oriented entity incorporated and domiciled in New Zealand, registered under the Companies Act 1993.

The Company and its wholly owned subsidiaries comprise the Connexionz Group ("the Group").

The Company is an issuer for the purposes of the Financial Reporting Act 1993.

#### *Basis of preparation*

The unaudited interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand Equivalent to International Accounting Standard 34 (NZ IAS 34) "Interim Financial Reporting" and International Accounting Standard 34 (IAS 34) "Interim Financial Reporting".

The financial statements for the six months ended 30 September 2009 are unaudited.

These financial statements have been prepared under the same accounting policies and method of computation as the Company's Annual Report as at 31 March 2009 and should be read in conjunction with the financial statements and related notes included in the Company's Annual Report for the year ended 31 March 2009.

The financial statements were approved by the Board of Directors on 3<sup>rd</sup> December 2009.

The information is presented in New Zealand dollars.

### **2. Seasonality or Cyclicity**

Seasonality or cyclicity had no significant impact on the interim results

### **3. Unusual Transactions Due To Nature, Size Or Incidence That Affects Accounts**

In June 2009 the Company entered into contracts to supply a real-time passenger information (RTPI) system for the Eastern Contra Costa Transit Authority, California, USA. The contracts are worth approximately US\$1.5m in capital and maintenance sales.

### **3. Unusual Transactions Due To Nature, Size Or Incidence That Affects (Continued)**

On 8<sup>th</sup> July 2009 the Board of Directors entered into a sales agreement to dispose of the Group's United Kingdom subsidiaries, Connexionz UK Limited and Connexionz Investments Limited. The sale arrangement was completed with existing UK management to structure a management buy out. Whilst Connexionz will no longer own the UK operations, the arrangement will ensure the Connexionz brand will be retained in the UK and Europe, as the new UK organisation will retain the name Connexionz UK and will distribute Connexionz products in the UK and Europe. Additionally Connexionz will have distribution rights for any products developed by the new UK organisation in North America and Australasia.

### **4. Changes In Estimates or Amounts Reported in Prior Periods**

There have been no changes in estimates or amounts reported in prior years that would have a material effect on the amounts reported in the current interim period.

### **5. Issuances, Repurchases and Repayments Of Debt And Equity Securities**

On June 3 2009, 570,881 new ordinary shares were issued. 150,000 and 100,000 shares were issued to Craig Boyce and Bruce Sheppard respectively as remuneration for their services as Directors during the 12 months ending 31 March 2009. 38,333 shares were issued to Richard Riley as remuneration for his service as Director during the final four month period of the year ending 31 March 2009, after he resigned his role as Managing Director and for a previously unpaid term in quarter one 2007. 30,000 shares were issued to Tony Kan as remuneration for his service as Director during the final quarter of the year ending 31 March 2009, after he resigned his role as Finance Director and for a previously unpaid term in quarter one 2007. A further 195,568 shares and 56,980 shares were issued to Richard Riley and Tony Kan respectively as remuneration for their services as Managing Director and Finance Director over the same period.

### **6. Discontinued Operations**

The UK operations were divested on 8<sup>th</sup> July 2009, and from that date the wholly owned subsidiaries Connexionz UK Limited and Connexionz Investments Limited ceased to form part of the Connexionz Group. A loss on disposal of \$306,862 was recognised on the sale of the related net assets sold. The disposal of the UK operations is consistent with the Group's long-term policy to focus resources in the United States where we have proven success, see the best opportunity for further growth, and at the same time mitigate the risk inherent in a continued presence in Europe.

The details of the assets and liabilities disposed of and the combined results of the discontinued operations included in the income statement are set out below.

## 6. Discontinued Operations (Continued)

	Group Six Months to 30-Sep-09 \$	Group Six Months to 30-Sep-08 \$
Revenue	383,092	424,290
<b>Total Revenue</b>	<u>383,092</u>	<u>424,290</u>
Expenses	400,556	675,345
Profit (Loss) Before Tax	(17,463)	(251,055)
Attributable income tax expense	-	-
	<u>(17,463)</u>	<u>(251,055)</u>
Gain (Loss) on disposal of operation	(289,399)	-
Profit (Loss) from discontinued operations	<u>(306,862)</u>	<u>(251,055)</u>
	<b>Group</b>	<b>Parent</b>
	<b>Six Months</b>	<b>Six Months</b>
	<b>to</b>	<b>to</b>
	<b>30-Sep-09</b>	<b>30-Sep-09</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Advance to subsidiaries	-	127,500
Cash	22,624	-
Inventories	30,488	-
Trade and other receivables	247,007	238,012
Prepayments	31,062	-
<b>NON-CURRENT ASSETS</b>		
Advance to subsidiaries	-	127,500
Deferred taxation	1,099	-
Property, plant and equipment	52,568	-
Other intangible assets	405,154	-
<b>CURRENT LIABILITIES</b>		
Trade and other payables	298,338	-
<b>RESERVES</b>		
Foreign Currency Revaluation Reserve	16,114	-
<b>Net assets disposed of</b>	<u>475,549</u>	<u>493,012</u>
Gain (Loss) on disposal	(289,399)	(306,862)
	<u>186,150</u>	<u>186,150</u>
<b>CONSIDERATION</b>		
Consideration paid in cash or cash equivalents	140,250	140,250
Deferred sale proceeds	45,900	45,900
	<u>186,150</u>	<u>186,150</u>
<b>NET CASH INFLOW ON DISPOSAL</b>		
Consideration received in cash or cash equivalents	140,250	-
Less cash or cash equivalent balances disposed of	(22,624)	-
	<u>117,626</u>	<u>-</u>

## 7. Net Cash Flow From Operating Activities

	<b>Group Six Months to 30-Sep-09 (Unaudited)</b>	<b>Group Six Months to 30-Sep-08 (Unaudited)</b>
	\$	\$
<b>Reconciliation of (loss)/profit for the period to net cash flows from operating activities:</b>		
<b>(Loss)/profit after tax for the period</b>	(191,985)	51,158
Adjustment For non-cash items:		
Depreciation of property, plant and equipment	12,211	10,999
Impairment of other intangible assets	-	-
Impairment of goodwill	-	-
Amortisation of other intangible assets	43,563	509
Non cash share based payments	57,088	43,593
Deferred tax movement	2,184	522
Loss on Divestment of Discontinued Operations	289,399	-
Foreign Exchange Working Capital Movements	15,896	-
<b>Changes in net assets and liabilities:</b>		
<b>(Increase)/decrease in assets:</b>		
Trade and other receivables (current)	106,675	(409,400)
Inventories	(84,369)	16,356
Taxation refund due	-	3
Trade and other receivables (non current)	-	-
Prepayments	(76,445)	-
<b>Increase/(decrease) in liabilities:</b>		
Trade and other payables	(125,060)	218,175
Employee entitlements	34,892	6,518
Contract Income in Advance	130,788	213,395
<b>Net cash inflow /(outflow) from operating activities</b>	<u>214,837</u>	<u>151,828</u>

## **8. Dividends Paid**

A dividend at the rate of 12% per share amounting to a total dividend of \$15,641 was paid on June 15<sup>th</sup> 2009. No dividends were paid on ordinary shares during the period.

## **9. Material Events Subsequent to the Interim Period**

No material events have occurred during the period.

## **10. Changes in Contingent Assets, Liabilities Since Last Annual Balance Date**

No changes in contingent assets or contingent liabilities have occurred since the last balance date.

## Directory

### Directors

*Craig David Boyce*  
2 Seaspray Lane  
Sumner  
Christchurch 8081  
New Zealand

*Robert Brian Burke*  
Sales Director  
14 Riverside Lane  
Tai Tapu  
Christchurch 7645  
New Zealand

*Anthony (Tony) Norman Len Joe Kan*  
7 Pewter Place  
Northwood  
Christchurch 8051  
New Zealand

*Richard Arnold Riley*  
36 Rhodes St  
Merivale  
Christchurch 8014  
New Zealand

*Bruce Raymond Sheppard*  
5 Musick Point Road  
Bucklands Beach  
Auckland 2012  
New Zealand

### Solicitors

*Anthony Harper*  
Anthony Harper Building  
47 Cathedral Square  
P O Box 2646  
Christchurch 8015  
New Zealand

### Auditor

*Deloitte*  
32 Oxford Tce  
P O Box 248  
Christchurch 8015  
New Zealand

### Registry

*Link Market Services Limited*  
138 Tancred St  
P O Box 384  
Ashburton 7700  
New Zealand