



Half Year Report

For the Six-month period ending 30 September 2007

NZAX Code: CNX

Level 1 Building 2, 1 Show Place
P O Box 36 248 Addington, Christchurch
Ph +64 (3) 339 4536 Fax +64 (3) 339 4537
www.connexionz.co.nz

Chairman's Review

Dear Shareholders

The company has increased sales during the six months ended 30 September 2007 by 92% to \$1.2m however it has also incurred a loss of \$356,025.

The loss was due to the following:

- The board's decision to write down \$214,099 of its intangible assets (thus the six-month operating loss was \$141,926)
- Unavoidable delays to the deployment of the Charlottesville contract
- Additional costs for the development required to fulfil the Reading Borough Council project; and
- The decision of the Greater Manchester Public Transport Executive, for the time being, to discontinue support to maintain their Real Time Passenger Information (RTPI) system while they review their strategic plans.

On the other hand, for the first time, Connexionz is simultaneously deploying three contracts, being Charlottesville, and the University of Virginia in USA and Reading Borough Council in UK, collectively worth approximately \$2.2m. Consequently the company has had to incur considerable expenses in equipment and component purchases in addition to undertake technology development. These projects will be completed during 2008.

In the US, buyers are required to mitigate their risk in purchasing RTPI systems with Federal Funding, by requiring the supplier to put up a performance bond. Usually the bond is 100% of the system's value. We were therefore encouraged to be involved with these contracts as a result of the NZ Treasury's Export Credit Office agreed to guarantee our performance bonds in the US. Before they were prepared to grant the guarantees, the Export Credit Office scrutinised the company's track record in successfully deploying its systems around the world. The NZ government support through these performance bonds allows Connexionz to bid for larger systems in this market.

The company has recently moved to acquire the remaining 50% in our UK subsidiary Connexionz Investments Ltd as both the board and the UK shareholders agreed that it was in the company's best interests for the UK operation to be a part of one global organisation. The Connexionz Investments Ltd shareholders accepted 1,875,000 newly-issued Connexionz shares for their 50% holding based on 25 cents per share.

In summary, the company is financially stronger than it was a year ago, sales have risen markedly and it is deploying three projects at once. With growth comes the need for further capital. The board will be moving to address this need in the short term.

A handwritten signature in black ink, appearing to read "Craig Boyce".

Craig Boyce, Chairman

Managing Director's Review

At the time of writing this report I have been in this role for almost six months. Although I have been a board member since 2000 I have found that getting closer to the "coal face" has given me a fresh perspective of Connexionz that has taken me to depths of technology never before experienced as a part of my hitherto career in transport. I have certainly embarked on a steep learning curve that has given me greater insight into the business dynamics at Connexionz.

CASH CONSTRAINTS

I now appreciate the unique pressures that come to bear in the daily functioning of our business; the more significant of these is the pressure on our cash flows that largely arises from growth in our business as there is a significant drag from the time a contract is awarded through to procurement and eventually revenue.

Connexionz has clearly established itself as a credible niche supplier within the small to medium RTT (Real Time Transit) market in the USA. Following our acquisition in the UK we are gaining momentum in this market. Whilst growth is our primary focus our success will place unprecedented demand on our available cash. Without a realistically targeted cache we will not be in any position to grow the company at an acceptable rate to achieve a financial performance that meets our stakeholders' fair expectations and at the same time provide confidence and piece of mind.

TECHNOLOGY AND USER BENEFITS

As I have had little direct involvement in the performance of Connexionz in the period under review I will take this opportunity to share with you a perspective of Connexionz technology. I am sure that we have all marvelled at the apparent sophistication in bringing live coverage, including graphic imagery, of sporting events into our living rooms such as The America's Cup regattas. You may be surprised and impressed to learn that, although without the pageantry, Connexionz system supports equally impressive advanced technological solutions in its domain for the provision of RTT (Real Time Transit) solutions. It is truly worth your spending some time to take in these qualities. You are welcome to visit us at any time to share in this dimension.

Public Transit (bus, train and boat) regulators have an insatiable appetite for RTT solutions; Connexionz system provides a cost effective user friendly communications solution accessible to the public by means of Connexionz BusFinder™ street side displays, internet (Web) and telephone (cell and landline) links as an IVR (Interactive Voice Response) or text display. I am sure that you will have heard us promote the "public" side of our RTT solutions on many previous occasions however what you will be less aware of is the sophisticated "back room" management and operational features accessible to service providers. Data is collated specific to the customers needs, including the retention of historical data, reporting on the service performance of the provider. Having had the opportunity on a number of occasions to interrogate these outputs I am impressed by the sound logic, professional presentation and layout that our system developers and engineers have created. I believe that we can be justifiably proud of our involvement with a product that resembles in many ways considerably higher profile software that is available in the wider market.

CONTRACTS AND SALES ACTIVITY

Connexionz is a relatively young company (under ten years old) by many standards; the trials and tribulations that we have experienced to date are not unique to Connexionz and appear to be no different to many other technology companies that have endeavoured to promote their product to the world. Distance to our markets, whilst a fac-

tor, is not, on its own significant however our relative business size does impact on our market acceptability and therefore reduces our prospects. The appointment of an experienced part time OE (Original Equipment) agent in the USA has heightened our profile that has provided us with the opportunity to be more responsive for the prospecting of projects. For the first time we have three projects under simultaneous deployment and further, as in no period previous, we have no fewer than 10 prospective proposals under active consideration in the USA. The UK has won an NZD1.1m order to provide replacement in-bus systems from Reading Borough Council. Additional recurring revenue will be received when the Reading SLA (Service Level Agreement) is instituted as from August 2008.

In the past 18 months there has been a significant lift in interest from the USA for enhancing Public Transit services that has largely been influenced by environmental pressures, traffic congestion, availability of funding and the genuine appeal of making passenger travel a more secure and reliable experience. These initiatives are focused on the retention of existing rider-ship. Regrettably in the past and to some extent the present, earlier supporters of RTT systems have had good reason to be sceptical of the promises made by our industry; it stands on record that a large number of systems have failed to meet promised expectations. Connexionz record stands; all systems that have been deployed to date are fully functional and meet the customer's expectation.

SYSTEMS DEVELOPMENT

Software development is an ongoing essential component to our future success and prosperity however at the same time there is a considerable investment (in excess of \$500,000 per annum) associated with it; the need for development is driven by a number of factors – customer's current and futuristic expectations, improved and increased functionality, obsolescence and changes to component and systems software and competitor pressure. Traditionally Connexionz has expensed all Development costs as they have occurred which has had a detrimental effect on our trading results and has failed to recognize the value of our intellectual property within our balance sheet. In consultation with our Auditors we have implemented the appropriate disciplines to correctly measure legitimate Development in the current and future years to ensure that this investment is correctly identified.

As we gain more after sales experience from our customers it is becoming abundantly clear that there are opportunities available to us to provide a range of support services that has previously been viewed by our customers as being desirable for them to manage in-house. As a part of our ongoing engagement in monitoring and training the clear message is that there is a shortfall in the availability of a suitable labour resource. We are currently preparing a business plan that will promote Connexionz not only as a supplier of maintenance services but in the on-going provision of quality assurance on behalf customers that will involve the evaluation of data integrity, interrogation of outputs and initiating appropriate remedies.

OUTLOOK

It is my belief that Connexionz has a bright future however to reach our goals it is imperative that we retain the confidence and support of our shareholders.

A handwritten signature in black ink, appearing to read "Richard Riley", is written in a cursive style.

•Richard Riley, Managing Director

Income Statement

For the six months ended 30 September 2007

	Notes	Connexionz Consolidated Six Months to 30/9/07	Connexionz Six Months to 30/9/07	Connexionz Consolidated Six Months to 30/9/06	Connexionz Six Months to 30/9/06
Revenue					
Sales		1,197,168	594,020	621,839	621,839
Other Income		63,067	150,237	14,147	13,659
Total Revenue		1,260,235	744,257	635,986	635,498
Less Expenses					
Depreciation and Amortisation expenses		50,759	25,508	27,439	27,439
Finance costs		14,883	14,883	14,498	14,498
Other Expenses	1	1,550,618	918,269	911,580	852,092
Total Expenses		1,616,260	958,660	953,517	894,029
(Deficit) for the period		(356,025)	(214,403)	(317,531)	(258,531)
Attributable to:					
Equity holders of the parent		(303,148)	(214,403)	(288,147)	(258,531)
Minority Interest		(52,877)	-	(29,384)	-
(Deficit) for the period		(356,025)	(214,403)	(317,531)	(258,531)

Notes

- 1** Other Expenses include all direct costs including cost of goods sold and sub-contracted maintenance costs.

Statement of Change in Equity

For the six months ended 30 September 2007

	Connexionz Consolidated Six Months to 30/9/07 225,272	Connexionz Consolidated Six Months to 30/9/06 245,041
Equity at Start of Period		
SURPLUS & REVALUATIONS		
Recognised revenue and expenses		
Net (deficit) for period		
Equity holders of the parent	(303,148)	(288,147)
Minority interests	(52,877)	(29,384)
	<hr/>	<hr/>
Total Recognised revenue and expenses	(356,025)	(317,531)
	<hr/>	<hr/>
TOTAL EQUITY AT END OF PERIOD	<u>(130,753)</u>	<u>(72,490)</u>

Balance Sheet

As at 30 September 2007

	Connexionz Consolidated Six Months to 30/09/07	Connexionz Six Months to 30/09/07	Connexionz Consolidated Six Months to 30/09/06	Connexionz Consolidated Twelve Months to 31/03/07
Non-Current Assets				
Property, plant and equipment	161,791	81,408	92,914	184,563
Other intangible assets				
Intellectual property – Development cost	246,819	277,650	388,145	8,225
Patents	57,019	-	-	74,074
Software	355	355	6,724	3,954
Goodwill	-	-	118,552	214,099
Investment in subsidiaries	-	355,885	-	-
Advance to subsidiaries	-	137,400	-	-
Total Non-current Assets	465,984	852,698	606,335	484,915
Current Assets				
Cash and cash equivalents	21,974	20,812	95,664	9,055
Inventory	70,134	70,134	141,072	53,427
Trade and other receivables	520,656	190,731	500,651	983,975
Resident with holding tax	218	218	218	218
Advance in subsidiaries	-	137,401	-	-
Total current assets	612,982	419,296	737,605	1,046,675
TOTAL ASSETS	1,078,966	1,271,994	1,343,940	1,531,590
Current Liabilities				
Bank overdraft	228,123	198,256	226,047	146,231
Directors Loans	50,912	50,912	-	-
Employee benefits	65,203	65,203	59,443	65,203
Trade and other payables	1,070,878	859,311	916,722	1,094,884
Advance from subsidiaries	-	-	214,218	-
Total current liabilities	1,415,116	1,173,682	1,416,430	1,306,318
NET ASSETS	(336,150)	(98,312)	(72,490)	225,272
Equity				
Share capital	3,687,950	3,687,950	2,959,874	3,687,950
Other reserves	(253)	-	-	(253)
Accumulated (deficit)	(4,003,924)	(3,589,638)	(3,002,980)	(3,531,912)
Shareholders interest	(316,227)	98,312	(43,106)	155,785
Minority shareholders' interest	(19,923)	-	(29,384)	69,487
Total Equity	(336,150)	98,312	(72,490)	225,272

Statement of Cash Flows

For the six months ended 30 September 2007

	Six Months To 30/09/2007	Six Months To 30/09/2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from Customers	1,397,760	341,940
Cash paid to suppliers and employees	(2,071,345)	(169,833)
Cash generated from operations	(673,585)	172,107
Interest Received	44	488
Taxation refund due	-	(218)
Interest Paid	(14,883)	(14,498)
Net cash (outflow) inflow from operating activities	(688,424)	157,879
CASH FLOWS FROM INVESTING ACTIVITIES		
Advance in Subsidiaries	(204,757)	184,834
Disposal of Fixed and Intangible Assets	402,696	-
Acquisition of Fixed and Intangible Assets	(313,104)	(461,573)
Net cash (outflow) inflow from investing activities	(115,165)	(276,739)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issues	728,076	-
Increase in Reserves	(253)	-
Net cash inflow (outflow) from financing activities	727,823	-
Net increase (decrease) in cash and cash equivalents	(75,766)	(118,860)
Cash and cash equivalents as beginning of period	(130,383)	11,523
Cash and cash equivalents as end of period	(206,149)	(130,383)

Company Directory

Registered office:

Connexionz Ltd
P O Box 36 248
Floor 1
Building 2
1 Show Place
Addington
Christchurch
New Zealand

Any questions relating to this report should contact:

Tony Kan
Ph +64 (27) 433 9745
Fax +64 (3) 323 7793
tony.kan@connexionz.co.nz