

REDFLEX HOLDINGS LIMITED

ABN: 96 069 306 216

APPENDIX 4D

ASX REPORT FOR THE HALF YEAR ENDED

31 DECEMBER 2007

**REDFLEX HOLDINGS LIMITED**  
**ABN: 96 069 306 216**

**APPENDIX 4D**  
**REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET AND LODGED WITH THE AUSTRALIAN  
SECURITIES EXCHANGE**

The company has recorded revenue from continuing operations of \$42.67 million which was up 32.3 % on the corresponding first half of the previous financial year. The net profit before tax for the Group from continuing operations was \$6.87 million compared to the previous corresponding half year profit of \$5.09 million, an increase of 35.0%. The net profit after tax for the Group from continuing operations was \$4.72 million compared to the previous corresponding half year profit of \$3.337 million, an increase of 41.4%.

The increase in revenue arose predominantly from the growth in the Redflex Traffic photo enforcement business in the USA.

|  |    |                     |    | \$000                          |
|--|----|---------------------|----|--------------------------------|
| <b>Results from continuing operations</b>                      |    |                     |    |                                |
| Revenue from continuing operations                             | up | 32.3%               | to | 42,666                         |
| Profit before tax attributable to members                      | up | 35.0%               | to | 6,871                          |
| Profit after tax attributable to members                       | up | 41.4%               | to | 4,720                          |
| <b>Basic Earnings per share</b>                                |    |                     |    |                                |
| Basic EPS from continuing activities                           | up | 40.3%               | to | 5.29 cents                     |
| Diluted EPS from continuing activities                         | up | 39.5%               | to | 5.12 cents                     |
| <b>Net tangible assets per share</b>                           | up | 0.6%                | to | 66.6 cents                     |
| <b>Dividends (distributions)</b>                               |    |                     |    |                                |
|  |    | Amount per security |    | Franked amount<br>per security |
| Final dividend   |    | 3.5 cents           |    | 3.5 cents                      |
| Interim dividend   |    | Nil                 |    | Nil                            |
| No dividends were paid or proposed in respect of the half year |    |                     |    |                                |

## REDFLEX HOLDINGS LIMITED

### OPERATING AND FINANCIAL REVIEW

#### Group Overview

Redflex Holdings Limited has been in business since 1995. The company was originally involved in a number of research and development activities and was listed on the ASX in January 1997. Over the last few years, the digital Traffic camera photo enforcement business has been highly successful, with the company now enjoying market leadership in the North American market from a Build Own Operate and Maintain business model (BOOM). This business model is now contracted in more than 190 cities over 20 states within the USA.

The company also operates from within Australia, a digital Traffic camera photo enforcement business which supplies world markets with camera and back office products. Revenue for this entity arises from sales of product and services.

The digital Traffic camera photo enforcement business is capital intensive and delivers recurring revenues from programs with cities within the USA. This has now become the core business for the company, after the sale of the Communications business, which allows the full focus and resources of the company to be applied to the Traffic business.

#### Traffic Highlights

The Redflex Group is exclusively focused on its Traffic systems business, which entails the provision of photo enforcement related products and services – in the USA through Redflex Traffic Systems Inc, and in Australia and the rest of the world through Redflex Traffic Systems Pty Ltd. The major highlights for the half year were:

- 57 new USA contracts since 1 July 2007;
- 1,064 cameras installed at 31 December 2007, an increase of 187 in six months;
- Contracts in 2 new states since 1 July 2007;
- New speed programs in Louisiana and Tennessee;
- The award of a large contract for 86 RedLight/Speed cameras to Qatar;
- New and enhanced technologies in cameras, sensors, back office and remote camera management.

#### USA Traffic Operations

Redflex continues to grow in the rapidly expanding market in the USA, with increased sales and an increase in the rate of new camera system installations.

Redflex now has contracts in 20 states with two new states, Mississippi and Nevada, added since 1 July 2007. In addition, Redflex saw growth in the speed market with the Department of Public Safety (DPS) pilot program in Arizona, as well as new speed programs in Louisiana and Tennessee.

Contracts with new cities have been signed at a record rate again in the current financial year. 57 new contracts have been signed since 1 July 2007. This compares with 59 for the whole of the 2006/2007 financial year, 26 in the 2005/2006 financial year, and 10 for the 2004/2005 financial year. The environment remains competitive, yet Redflex has maintained and grown its Number 1 position in the US market, with around 50% of the installed base of photo enforcement cameras in the USA, based on the best information available from public sources.

At 31 December 2007, the number of camera installations had grown to 1064, an increase of 187 over the 877 cameras installed at the end of June 2007. This is consistent with the 'over 360' indication given at the 2007 annual general meeting for the expected number of camera installations in the 2007/2008 financial year.

Each new contract requires a significant amount of work to set up the program and incorporate the specific requirements of the city. The Redflex team has grown to accommodate this challenge and continues to keep up with an accelerating demand for these new cities to be implemented and activated.

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The new contracts signed since 1 July 2007 are:

|                       |                      |                     |
|-----------------------|----------------------|---------------------|
| Tempe, AZ             | New Lenox, IL        | Moreno Valley, CA   |
| Columbus, MS          | Lewisville, TX       | Northlake, IL       |
| St Charles, IL        | Edmundson, MO        | Hurst, TX           |
| Bedford, TX           | Baker, LA            | Mesquite, TX        |
| Killeen, TX           | Allen, TX            | Haltom, TX          |
| Southlake, TX         | Tomball, TX          | Roanoke, TX         |
| Star Valley, AZ       | Arizona DPS, AZ      | Glendale, CA        |
| Oroville, CA          | Bremerton, WA        | Fife, WA            |
| Monroe, WA            | Granite Shoals, TX   | Forney, TX          |
| Mountlake Terrace, WA | South Holland, IL    | Broussard, LA       |
| Selmer, TN            | Peoria, AZ           | Richton Park ,IL    |
| Countryside, IL       | Oakland, CA          | Victorville, CA     |
| Beverly Hills, CA     | Carrollton, TX       | North Las Vegas, NV |
| Hayward, CA           | San Carlos, CA       | Stickney, IL        |
| Mount Carmel, TN      | Gurnee ,IL           | Palos Heights, IL   |
| Festus, MO            | Rancho Cucamonga, CA | Citrus Heights, CA  |
| Geneva, IL *          | Carol Stream, IL *   | Aurora, IL *        |
| Redlands, CA *        | Chillicothe, OH *    | Burien, WA *        |
| Balch Springs, TX *   | Belmont, CA *        | Port Lavaca, TX *   |

\*Contracts signed since 1 January 2008

### USA Legislative and Legal Challenges

Legislative issues and legal challenges continue to be a risk to the business. The legislative and legal issues are complex and require ongoing investment and management to ensure that our leading position in the photo enforcement industry is protected and advanced. We are managing this risk through a number of ongoing initiatives, and expect to do so for the foreseeable future. We continue to manage these situations through the use of attorneys who are experts in legal issues, by the use of lobbyists in circumstances where this is appropriate, and by providing assistance to cities in dealing with issues. We take a proactive approach to identifying potential issues and proposing solutions to cities as part of our overall service offering. We also assess the appropriateness of the legislative framework in new states prior to committing to contracts in those states. There have been some positive developments in this area in recent times.

In January 2008, the Ohio Supreme Court ruled that municipalities have the power under home rule authority granted by the Constitution of Ohio to enact civil penalties for traffic signal light or speeding violations, provided a city does not alter statewide traffic regulations. This underpins our existing operations and provides a clear way forward for future opportunities in that state. It is also seen as a positive for a number of legal cases that involve Redflex and cities in Ohio.

Supportive legislation was passed in Texas which protects the programs that came under legislative scrutiny as reported last year.

However, several programs that have been temporarily suspended in Minnesota, North Carolina and Iowa have not yet been reinstated due to the complexities of the legislative or legal issues involved.

Redflex has been named as a co-defendant in a number of law suits brought against cities by individuals contesting their infringements. Redflex attorneys are working closely with the cities' attorneys in these cases.

### International Traffic Operations

Redflex Traffic Systems in Australia continues to perform well. A highlight of the year was a major success in the Middle East with the award of a large project to supply 86 Red-Light/Speed Cameras to Qatar. The traffic safety program in Qatar is one of the largest programs in the region. Additional orders have been achieved and we are hopeful of expanding our relationship with the Ministry of the Interior.

The Red-light/Speed Camera Program for South Australia has been a great success. The cameras are installed and operating, the back-office is processing the notices, and the Digital Camera Management System is controlling the cameras through an on-line network. Subsequently, we have received a number of orders for new cameras which are now being delivered. We provide a high level of support for the program in South Australia.

Redflex continues to supply enforcement camera systems to the Roads and Traffic Authority of New South Wales (RTA). New orders were received for Speed Cameras, Bus Lane Cameras, and Toll Enforcement Cameras. The RTA has also deployed the Redflex Digital Camera Management System to control their cameras on-line.

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Also in New South Wales, the BORDERcam system for the enforcement of border crossings with Queensland to prevent the introduction of cattle ticks has been installed. The system monitors all vehicles heading in a southbound direction, to identify "vehicles of interest" to the investigators.

Redflex added the Northern Territory as a customer with a contract for Red-light/Speed cameras to be installed at various intersections throughout Darwin. Subsequently, we received a contract to supply mobile LASERcam speed cameras and back-office solutions.

Redflex continues its partnership with the Victorian Government with the installation of additional Railway Crossing Enforcement Camera trial sites. This follows the success of the Redflex Railway Crossing Enforcement Cameras in Western Australia and the two previous studies in Victoria.

Redflex has recently been awarded a two camera Redlight pilot system for Auckland, New Zealand.

### Technology

Redflex Research and Development continues to achieve significant milestones. High performance, high resolution cameras have been deployed and are now extensively installed around the world. Redflex systems have world-leading independent secondary speed checking systems. These act as a double safeguard for ourselves and our customers, and the red-line system confirms the speed of a vehicle from video captured in real-time. New in-road sensors have been developed for highly accurate detection, combined with fully integrated non-intrusive detection systems. A next generation Lasercam system has been developed. New compact enclosures have been developed with unobtrusive pole-mount systems and small auxiliary camera systems. This allows our programs to increase prosecution rates by allowing facial photographs from multiple positions, in large and complex intersections, in the United States. Back-office development continues with new systems installed and the Digital Camera Management System delivered to the USA, NSW and South Australia.

### Redflex Group Developments

The inaugural dividend for Redflex Holdings Limited was paid during the half, in conjunction with the operation of the Dividend Reinvestment Plan (DRP). The take-up of approximately 55% in the DRP was seen as a strong indication of shareholder support for the company.

In December 2006, Redflex had proceedings initiated against it in relation to the Interactive Telephony Partnership, an ongoing matter which has been detailed in the notes to the annual accounts for the past four years. Redflex has indicated an intention to defend the proceedings. Recently the court ordered that the parties engage in a mediation process, which is due to take place in the near future.

### Outlook

Redflex has again maintained its dominant position in the US market. We intend to maintain that position through the strength of our customer relationships, the quality and scope of our service offering, and through product and technology developments, to stay at the forefront of our industry.

Our forecast for the full year, of around \$15 million Net Operating Profit Before Tax remains unchanged. Our expectation of installing over 360 camera systems in the USA for the full financial year also remains unchanged.

We expect to continue with our policy of one dividend payment per year, payable in November based on the results of operations for the current financial year.

The Australian based operation has had a number of significant successes both in Australia and elsewhere during the year, and we have seen strong prospects and opportunities identified into the future. The growing base of long term revenue for maintenance and support services provides stability and support for the business.

We remain optimistic about the size of the potential market and the rate at which it is growing. We continue to believe that Redflex is strongly positioned to take advantage of the global market for Traffic Photo Enforcement as it builds out progressively.

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### Operating results for the half year

The company showed revenue from continuing operations of \$42.666 million which was up 32.3% on the corresponding first half of the previous financial year (H1 2007 - \$32.2 million). The increase in revenue was predominantly due to an increase in the number of revenue generating camera installations within our USA Build Own Operate and Maintain business and strong sales from the Australian operation.

The increased revenue and profits arose despite a 13.8% adverse movement in the average AU\$/US\$ exchange rates between the comparative periods.

#### Segment revenue from continuing operations is:

| Revenue from continuing activities        | First half FY08<br>\$000 | First half FY07<br>\$000 | % change<br>\$000 |
|---|--------------------------|--------------------------|-------------------|
| USA Traffic business                      | 34,017                   | 25,301                   | 34.4%             |
| Australian traffic business               | 8,595                    | 6,651                    | 29.2%             |
| Head Office Interest income               | 54                       | 286                      | (81.1%)           |
| <b>Revenue from continuing operations</b> | <b>42,666</b>            | <b>32,238</b>            | <b>32.3%</b>      |

#### The earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations is:

| EBITDA                       | First half FY08<br>\$000 | First half FY07<br>\$000 | % change     |
|------------------------------|--------------------------|--------------------------|--------------|
| EBITDA from Traffic business | 16,223                   | 13,819                   | 17.4%        |
| Head Office costs            | (1,358)                  | (1,580)                  | (14.1%)      |
| <b>EBITDA</b>                | <b>14,865</b>            | <b>12,239</b>            | <b>21.4%</b> |

#### The pretax profit from continuing operations is:

| PreTax Profit                                   | First half FY08<br>\$000 | First half FY07<br>\$000 | % change     |
|---|--------------------------|--------------------------|--------------|
| PreTax profit from Traffic business             | 8,237                    | 6,685                    | 23.2%        |
| Head Office costs                               | (1,366)                  | (1,594)                  | (14.3%)      |
| <b>PreTax Profit from continuing operations</b> | <b>6,871</b>             | <b>5,091</b>             | <b>35.0%</b> |

#### The net profit after tax from continuing operations is:

| After Tax Profit                             | First half FY08<br>\$000 | First half FY07<br>\$000 | % change     |
|--|--------------------------|--------------------------|--------------|
| <b>Net profit from continuing operations</b> | <b>4,720</b>             | <b>3,337</b>             | <b>41.4%</b> |

## DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2007

The names of the company's directors in office during the half-year and until the date of this report are:

- Christopher Cooper (Chairman)
- Robin Debernardi
- Graham Davie
- Peter Lewinsky
- Roger Sawley
- Karen Finley

## Review and results of operations – H1 FY2008

The Group experienced an increase in revenue and before and after tax profits from continuing operations during the first half of the 2007/2008 year.

For the first half of the 2007/2008 year:

- Revenues: \$42.666 million - up 32.3% on the corresponding period in the previous financial year.
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA): \$14.865 million – up 21.4% on the corresponding period last year.
- Net profit before tax: \$6.871 million – up 35.0% on the corresponding period last year.
- Net profit after tax: \$4.720 million – up 41.4% on the corresponding period last year.

In the USA, Redflex Traffic Systems now has over 190 contracts with cities across 20 states, with 48 of those contracts signed in the first half of FY2008. Subsequent to 31 December 2007 Redflex has contracted with a further 9 cities.

## Financing Activities

Existing funding facilities place the company in a strong financial position going forward with the ability to maintain and increase current installation rates. Capital expenditure required for planned growth is expected to be fully fundable from net operating activities and debt facilities.

## Events subsequent to 31 December 2007

There have been no events of a material nature subsequent to 31 December 2007 that are likely to have an impact on the results and not otherwise dealt with in this report.

## Rounding

The amounts contained in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

## Auditor's Independence

The company has received the Auditor's Independence Declaration dated 25 February 2008.

Signed in accordance with a resolution of the directors.



**Graham Davie**

Director

Melbourne, 25 February 2008

## **Auditor's Independence Declaration to the Directors of Redflex Holdings Limited**

In relation to our review of the financial report of Redflex Holdings Limited for the half-year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

*Ernst & Young*  
Ernst & Young



David Petersen  
Partner  
25 February 2008



# REDFLEX HOLDINGS LIMITED

## INCOME STATEMENT

### FOR THE HALF YEAR ENDED 31 DECEMBER 2007

|   | Note | Consolidated Entity |                    |
|---|------|---------------------|--------------------|
|   |      | 31-Dec-07<br>\$000  | 31-Dec-06<br>\$000 |
| <b>Continuing Operations</b>  |      |                     |                    |
| Sale of goods and services  |      | 12,747              | 6,776              |
| Revenue from fee for service contracts  |      | 29,833              | 25,184             |
| Finance revenue   |      | 86                  | 278                |
| <b>Total Revenue</b>  |      | <b>42,666</b>       | <b>32,238</b>      |
| Cost of sales   |      | 8,206               | 4,334              |
| Cost of fee for service contracts   |      | 7,960               | 6,330              |
| <b>Cost of Goods sold</b>   |      | <b>16,166</b>       | <b>10,664</b>      |
| <b>Gross Profit</b>   |      | <b>26,500</b>       | <b>21,574</b>      |
| Sales and marketing related expenses  |      | 4,942               | 2,445              |
| Administrative related expenses   |      | 5,712               | 5,719              |
| Program management costs  |      | 981                 | 1,171              |
| Amortisation of intangibles   |      | 533                 | 344                |
| Depreciation on fee for service contract assets   |      | 6,555               | 5,767              |
| Depreciation - other  |      | 180                 | 178                |
|   |      | <b>18,903</b>       | <b>15,624</b>      |
| <b>Profit from continuing operations before tax and financing costs</b>                                       |      | <b>7,597</b>        | <b>5,950</b>       |
| Interest  |      | 726                 | 859                |
| <b>Profit from continuing operations before tax</b>   |      | <b>6,871</b>        | <b>5,091</b>       |
| Income tax expense  |      | 2,151               | 1,754              |
| <b>Profit After Tax from continuing operations</b>  |      | <b>4,720</b>        | <b>3,337</b>       |
| <b>Loss after tax from discontinued operations</b>  | 4    | <b>0</b>            | <b>(2,201)</b>     |
| <b>Net profit attributable to members of the parent</b>   |      | <b>4,720</b>        | <b>1,136</b>       |
| <b>Earnings per share (cents per share)</b>   |      |                     |                    |
| - basic for profit for half year attributable to ordinary equity holders of the parent company                |      | 5.29 cents          | 1.29 cents         |
| - basic for profit from continuing operations attributable to ordinary equity holders of the parent company   |      | 5.29 cents          | 3.77 cents         |
| - diluted for profit for the half year attributable to ordinary equity holders of the parent company          |      | 5.12 cents          | 1.27 cents         |
| - diluted for profit from continuing operations attributable to ordinary equity holders of the parent company |      | 5.12 cents          | 3.67 cents         |
| - dividends per share attributable to ordinary equity holders of the parent company                           |      | Nil                 | Nil                |

REDFLEX HOLDINGS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2007

|  | Consolidated Entity |                |
|--|---------------------|----------------|
| Note   | 31-Dec-07           | 30-June-07     |
|  | \$000               | \$000          |
| <b>Current Assets</b>  |                     |                |
| Cash and Cash Equivalents  | 8,302               | 10,179         |
| Security Deposits  | 653                 | 653            |
| Trade and Other Receivables  | 13,778              | 16,967         |
| Inventories  | 11,003              | 8,458          |
| Prepayments  | 1,021               | 555            |
| <b>Total Current Assets</b>  | <b>34,757</b>       | <b>36,812</b>  |
| <b>Non-Current Assets</b>  |                     |                |
| Property Plant & Equipment   | 69,996              | 59,032         |
| Deferred Tax Asset   | 9,905               | 5,680          |
| Intangible Assets and Goodwill                                     | 8,366               | 7,449          |
| <b>Total Non-Current Assets</b>                                    | <b>88,267</b>       | <b>72,161</b>  |
| <b>Total Assets</b>  | <b>123,024</b>      | <b>108,973</b> |
| <b>Current Liabilities</b>   |                     |                |
| Trade and Other Payables   | 15,070              | 11,359         |
| Interest Bearing Borrowings  | 5 24,217            | 391            |
| Income Tax Payable   | 2,361               | 1,961          |
| Provisions   | 1,120               | 965            |
| <b>Total Current Liabilities</b>                                   | <b>42,768</b>       | <b>14,676</b>  |
| <b>Non Current Liabilities</b>                                     |                     |                |
| Interest Bearing Borrowings  | 5 861               | 21,334         |
| Deferred Tax Liability   | 10,766              | 6,480          |
| Provisions   | 139                 | 128            |
| <b>Total Non Current Liabilities</b>                               | <b>11,766</b>       | <b>27,942</b>  |
| <b>Total Liabilities</b>   | <b>54,534</b>       | <b>42,618</b>  |
| <b>Net Assets</b>  | <b>68,490</b>       | <b>66,355</b>  |
| <b>Equity attributable to equity holders of the parent company</b> |                     |                |
| Contributed Equity   | 83,161              | 81,243         |
| Reserves   | (8,007)             | (6,659)        |
| Accumulated Losses   | (6,664)             | (8,229)        |
| <b>Total Equity</b>  | <b>68,490</b>       | <b>66,355</b>  |

# REDFLEX HOLDINGS LIMITED

## CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

|   | Consolidated Entity |                 |
|---|---------------------|-----------------|
|   | 31-Dec-07           | 31-Dec-06       |
| Note  | \$000               | \$000           |
| <b>Cash Flows from Operating Activities</b>                           |                     |                 |
| Receipts from customers   | 45,533              | 33,204          |
| Payments to suppliers and employees                                   | (25,287)            | (24,402)        |
| Interest received   | 86                  | 286             |
| Interest paid   | (726)               | (868)           |
| Income tax paid   | (1,864)             | (2,922)         |
| <b>Net Cash Flows from (used in) Operating Activities</b>             | <b>17,742</b>       | <b>5,298</b>    |
| <b>Cash Flows (used in) from Investing Activities</b>                 |                     |                 |
| Purchase of property, plant and equipment                             | (21,001)            | (12,643)        |
| Proceeds from sale of discontinued operations net of cash disposed of | 0                   | 3,350           |
| Capitalised development costs   | (1,493)             | (1,248)         |
| <b>Net Cash Flows (used in) from Investing Activities</b>             | <b>(22,494)</b>     | <b>(10,541)</b> |
| <b>Cash Flows from Financing Activities</b>                           |                     |                 |
| Bank borrowings   | 3,991               | 1,907           |
| Proceeds from issue of ordinary shares                                | 191                 | 219             |
| Lease liability incurred  | 177                 | 0               |
| Dividends paid  | (1,299)             | 0               |
| <b>Net Cash Flows from Financing Activities</b>                       | <b>3,060</b>        | <b>2,126</b>    |
| <b>Net Decrease in Cash held</b>                                      | <b>(1,692)</b>      | <b>(3,117)</b>  |
| Effect of exchange rate changes on cash                               | (185)               | (145)           |
| Cash at beginning of period   | 10,179              | 11,564          |
| <b>Cash and Cash equivalents at end of period</b>                     | <b>8,302</b>        | <b>8,302</b>    |
| <b>Reconciliation of Cash</b>   |                     |                 |
| Cash at the end of the period consists of:                            |                     |                 |
| Cash at Bank  | 6,979               | 4,032           |
| Deposits at Call  | 1,323               | 4,270           |
|   | <b>8,302</b>        | <b>8,302</b>    |

REDFLEX HOLDINGS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

| Consolidated Entity   | Contributed Equity<br>\$000 | Foreign Currency<br>Translation<br>Reserve<br>\$000 | Employee Equity<br>Benefits Reserve<br>\$000 | Accumulated<br>Losses<br>\$000 | Consolidated<br>Entity<br>\$000 |
|---|-----------------------------|---|--|--------------------------------|---------------------------------|
| <b>At 1 July 2006</b>   | <b>80,959</b>               | <b>(1,176)</b>                                      | <b>2,612</b>                                 | <b>(11,262)</b>                | <b>71,133</b>                   |
| Profit for the period   | 0                           | 0   | 0  | 1,136                          | 1,136                           |
| Currency translation differences                              | 0                           | (3,812)   | 0  | 0                              | (3,812)                         |
| <b>Total recognised income and<br/>expense for the period</b> | <b>0</b>                    | <b>(3,812)</b>                                      | <b>0</b>                                     | <b>1,136</b>                   | <b>2,676</b>                    |
| Share based payments  | 0                           | 0   | 323  | 0                              | 323                             |
| Exercise of employee options                                  | 220                         | 0   | 0  | 0                              | 220                             |
| <b>At 31 December 2006</b>                                    | <b>81,179</b>               | <b>(4,988)</b>                                      | <b>2,935</b>                                 | <b>(10,126)</b>                | <b>69,000</b>                   |
| <br>  |                             |   |  |                                |                                 |
| <b>At 30 June 2007</b>  | <b>81,243</b>               | <b>(10,014)</b>                                     | <b>3,355</b>                                 | <b>(8,229)</b>                 | <b>66,355</b>                   |
| Profit for the period   | 0                           | 0   | 0  | 4,720                          | 4,720                           |
| Currency translation differences                              | 0                           | (1,763)   | (1)  | (19)                           | (1,783)                         |
| <b>Total recognised income and<br/>expense for the period</b> | <b>0</b>                    | <b>(1,763)</b>                                      | <b>(1)</b>                                   | <b>4,701</b>                   | <b>2,937</b>                    |
| Share based payments  | 0                           | 0   | 416  | 0                              | 416                             |
| Dividends paid  | 0                           | 0   | 0  | (3,136)                        | (3,136)                         |
| Proceeds from dividend<br>reinvestment plan                   | 1,726                       | 0   | 0  | 0                              | 1,726                           |
| Exercise of employee options                                  | 192                         | 0   | 0  | 0                              | 192                             |
| <b>At 31 December 2007</b>                                    | <b>83,161</b>               | <b>(11,777)</b>                                     | <b>3,770</b>                                 | <b>(6,664)</b>                 | <b>68,490</b>                   |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

### NOTE 1 CORPORATE INFORMATION

Redflex Holdings Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

The nature of the operations and principal activities of the Group are described in Note 3.

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation of the financial report

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position, and financing and investing activities of the consolidated entity as the full financial report. The half-year financial report should be read in conjunction with the annual financial report of Redflex Holdings Limited as at 30 June 2007.

It is also recommended that the half-year financial report be considered together with any public announcements made by Redflex Holdings Limited and its controlled entities during the half-year ending 31 December 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

#### (a) Basis of Preparation

The condensed half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, including Australian Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements. The financial report has also been prepared on a historical cost basis. The financial report is presented in Australian dollars.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007.

#### (b) Changes in Accounting Policies

There have been no changes in accounting policies during the half year ended 31 December 2007.

#### (c) New Accounting Standards and Interpretations

New or amended Australian Accounting Standards and Interpretations that were applicable to the company from 1 July 2007 did not have any impact on the condensed half-year financial report for the half-year ended 31 December 2007.

## REDFLEX HOLDINGS LIMITED

### NOTE 3 SEGMENT INFORMATION

The Group's primary reporting format is business segments and its secondary format is geographical segments.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and services different markets.

The Traffic Division operates within two key markets, the USA and Australia. The USA Traffic business is predominantly a Build Own Operate and Maintain business providing fully outsourced traffic enforcement programs to cities and townships. The Australian and International Traffic business involves the sale of traffic enforcement products to those markets.

The primary segmental split segregates the business units into revenue from recurring fee for service business and revenue related to the sale of goods and services. The Corporate Division represents the Group's Head Office which is based in Melbourne, Australia.

Operating results by business and geographical segments are as follows:

| Business Segments   | Continuing Operations |               |                 | Total          |
|---|-----------------------|---------------|-----------------|----------------|
|   | Corporate             | USA based     | Australia based |                |
|   | \$000                 | \$000         | \$000           | \$000          |
| <b>Revenue</b>  |                       |               |                 |                |
| Revenue from sale of goods and services to external customers | 0                     | 4,184         | 8,563           | 12,747         |
| Revenue from fee for service contracts                        | 0                     | 29,833        | 0               | 29,833         |
| Interest Income   | 54                    | 0             | 32              | 86             |
| Inter-segment revenue   | 0                     | 0             | 11,485          | 11,485         |
| <b>Total segment revenue</b>                                  | <b>54</b>             | <b>34,017</b> | <b>20,080</b>   | <b>54,151</b>  |
| Inter-segment elimination                                     |                       |               |                 | (11,485)       |
| <b>Total Consolidated Revenue</b>                             |                       |               |                 | <b>42,666</b>  |
| <b>Result</b>   |                       |               |                 |                |
| Earnings Before Interest Tax Depreciation & Amortisation      | (1,358)               | 12,416        | 3,807           | 14,865         |
| Depreciation  | (8)                   | (6,555)       | (172)           | (6,735)        |
| Amortisation  | 0                     | (79)          | (454)           | (533)          |
| <b>Segment result</b>   | <b>(1,366)</b>        | <b>5,782</b>  | <b>3,181</b>    | <b>7,597</b>   |
| Unallocated expenses  |                       |               |                 | 0              |
| <b>Profit before tax and finance charges</b>                  |                       |               |                 | <b>7,597</b>   |
| Finance charges   |                       |               |                 | (726)          |
| <b>Profit before income tax</b>                               |                       |               |                 | <b>6,871</b>   |
| Income Tax Expense  |                       |               |                 | (2,151)        |
| <b>Net profit for the half year</b>                           |                       |               |                 | <b>4,720</b>   |
| <b>Assets and Liabilities</b>                                 |                       |               |                 |                |
| Segment assets  | 9,322                 | 89,284        | 24,418          | 123,024        |
| Unallocated assets  | 0                     | 0             | 0               | 0              |
| <b>Total assets</b>   | <b>9,322</b>          | <b>89,284</b> | <b>24,418</b>   | <b>123,024</b> |
| Segment liabilities   | 1,147                 | 44,984        | 8,403           | 54,534         |
| Unallocated liabilities                                       | 0                     | 0             | 0               | 0              |
|   | <b>1,147</b>          | <b>44,984</b> | <b>8,403</b>    | <b>54,534</b>  |

# REDFLEX HOLDINGS LIMITED

## Operating results by business and geographical segments (continued)

| Half year ended 31 December 2006                            | Continuing Operations |               |                 |                | Discontinued Operations | Total Operations |
|---|-----------------------|---------------|-----------------|----------------|-------------------------|------------------|
|   | Corporate             | USA based     | Australia based | Total          |                         |                  |
| Business Segments   | \$000                 | \$000         | \$000           | \$000          | \$000                   | \$000            |
| <b>Revenue</b>  |                       |               |                 |                |                         |                  |
| Revenue from sale of goods & services to external customers | 0                     | 117           | 6,659           | 6,776          | 3,498                   | 10,274           |
| Revenue from fee for service contracts                      | 0                     | 25,184        | 0               | 25,184         | 0                       | 25,184           |
| Interest income   | 255                   | 0             | 23              | 278            | 0                       | 278              |
| Inter-segment revenue                                       | 0                     | 0             | 8,306           | 8,306          | 0                       | 8,306            |
| <b>Total segment revenue</b>                                | <b>255</b>            | <b>25,301</b> | <b>14,988</b>   | <b>40,544</b>  | <b>3,498</b>            | <b>44,042</b>    |
| Inter-segment elimination                                   |                       |               |                 |                | 0                       | (8,306)          |
| <b>Total Consolidated Revenue</b>                           |                       |               |                 |                | <b>3,498</b>            | <b>35,736</b>    |
| <b>Result</b>   |                       |               |                 |                |                         |                  |
| Earnings Before Interest Tax                                | (1,580)               | 10,513        | 3,306           | 12,239         | 381                     | 12,620           |
| Depreciation & Amortisation                                 |                       |               |                 |                |                         |                  |
| Depreciation  | (14)                  | (5,747)       | (184)           | (5,945)        | (94)                    | (6,039)          |
| Amortisation  | 0                     | 0             | (344)           | (344)          | (357)                   | (701)            |
| Writedown on disposal of discontinued operations            |                       | 0             | 0               | 0              | (760)                   | (760)            |
| <b>Segment result</b>                                       | <b>(1,594)</b>        | <b>4,766</b>  | <b>2,778</b>    | <b>5,950</b>   | <b>(830)</b>            | <b>5,120</b>     |
| Unallocated expenses  |                       |               |                 | 0              | 0                       | 0                |
| <b>Profit before tax and finance charges</b>                |                       |               |                 | <b>5,950</b>   | <b>(830)</b>            | <b>5,120</b>     |
| Finance charges   |                       |               |                 | (859)          | (7)                     | (866)            |
| <b>Profit before income tax</b>                             |                       |               |                 | <b>5,091</b>   | <b>(837)</b>            | <b>4,254</b>     |
| Income Tax Expense  |                       |               |                 | (1,754)        | (1,364)                 | (3,118)          |
| <b>Net profit for the half year</b>                         |                       |               |                 | <b>3,337</b>   | <b>(2,201)</b>          | <b>1,136</b>     |
| <b>Assets and Liabilities</b>                               |                       |               |                 |                |                         |                  |
| Segment assets  | 12,119                | 81,665        | 16,294          | 110,078        | 0                       | 110,078          |
| Unallocated assets  | 0                     | 0             | 0               | 0              | 0                       | 0                |
| <b>Total assets</b>   | <b>12,119</b>         | <b>81,665</b> | <b>16,294</b>   | <b>110,078</b> | <b>0</b>                | <b>110,078</b>   |
| Segment liabilities   | 3,849                 | 34,666        | 2,563           | 41,078         | 0                       | 41,078           |
| Unallocated liabilities                                     | 0                     | 0             | 0               | 0              | 0                       | 0                |
| <b>Total liabilities</b>                                    | <b>3,849</b>          | <b>34,666</b> | <b>2,563</b>    | <b>41,078</b>  | <b>0</b>                | <b>41,078</b>    |

## REDFLEX HOLDINGS LIMITED

### Geographical Segments

The Consolidated Entity's geographical segments are determined by the Group's assets and operations. The following table represents revenue and certain asset information regarding geographical segments for the half years ended 31 December 2007 and 2006.

#### Half year ended 31 December 2007

| Revenue   | USA based<br>\$000 | Australia based<br>\$000 | Other<br>\$000 | Total<br>\$000 |
|---|--------------------|--------------------------|----------------|----------------|
| Revenue from sale of goods & services to external customers | 4,184              | 20,048                   | 0              | 24,232         |
| Finance Income  | 0                  | 86                       | 0              | 86             |
| Revenue from fee for service contracts                      | 29,833             | 0                        | 0              | 29,833         |
| <b>Total revenue from continuing operations</b>             | <b>34,017</b>      | <b>20,134</b>            | <b>0</b>       | <b>54,151</b>  |
| Inter-segment sales   |                    |                          |                | (11,485)       |
| <b>Segment revenue</b>                                      |                    |                          |                | <b>42,666</b>  |

#### Half year ended 31 December 2006

| Revenue   | USA based<br>\$000 | Australia based<br>\$000 | Other<br>\$000 | Total<br>\$000 |
|---|--------------------|--------------------------|----------------|----------------|
| Revenue from sale of goods & services to external customers | 117                | 18,455                   | 0              | 18,572         |
| Finance Income  | 0                  | 286                      | 0              | 286            |
| Revenue from fee for service contracts                      | 25,184             | 0                        | 0              | 25,184         |
| Less revenue from discontinued operations                   | 0                  | (3,498)                  | 0              | (3,498)        |
| <b>Total revenue from continuing operations</b>             | <b>25,301</b>      | <b>15,243</b>            | <b>0</b>       | <b>40,544</b>  |
| Inter-segment sales   |                    |                          |                | (8,306)        |
| <b>Segment revenue</b>                                      |                    |                          |                | <b>32,238</b>  |



## REDFLEX HOLDINGS LIMITED

### NOTE 4 DISCONTINUED OPERATIONS IN PRIOR YEAR COMPARATIVES

On 6 December 2006 the company divested the operations of Redflex Communication Systems, a company that designs, integrates and installs voice and data communication systems for the commercial and defence markets, to allow the full focus and resources of the company to be applied to the digital Traffic camera photo enforcement business.

The results for Redflex Communications systems for the period to the point of sale are:

|  | <b>To 6 December<br/>2006<br/>\$000</b> |
|--|---|
| Revenue  | 3,498                                   |
| Expenses   | <u>(3,575)</u>                          |
|  | <b>(77)</b>                             |
| Loss on divestment of discontinued operations                                      | <u>(760)</u>                            |
| <b>Profit (loss) before tax from discontinued operations</b>                       | <b><u>(837)</u></b>                     |
| <b>Income tax expense</b>  |   |
| - tax on taxable profit on sale of discontinued operations                         | <u>(1,364)</u>                          |
| <b>Net profit (loss) for the half year attributable to discontinued operations</b> | <b><u>(2,201)</u></b>                   |

The net cash flows of Redflex Communication Systems are as follows:

|  | <b>To 6 December<br/>2006<br/>\$000</b> |
|--|---|
| <b>Net cash flows from discontinued operations</b> |   |
| Operating activities                               | 357                                     |
| Net Cash Inflow                                    | <u>357</u>                              |

Earnings per share for operation classified as a discontinued operation are as follows:

|  | <b>To 6 December<br/>2006<br/>\$000</b> |
|--|---|
| <b>Earnings per share from discontinued operations</b> |   |
| For basic earnings per share                           | (2.47) cents                            |
| For diluted earnings per share                         | (2.40) cents                            |

### NOTE 5 INTEREST BEARING BORROWINGS

Redflex Traffic Systems Inc, a 100% owned subsidiary of Redflex Holdings Limited, has a US\$25 million (AU\$29.5 million) secured revolving credit facility to fund the growth within the USA Traffic Division. BMO Capital Markets was granted a first and only priority senior security interest over all the assets of Redflex Traffic Systems Inc and its subsidiaries. The facility expires in August 2008 but is expected to be renewed prior to that date. Discussions with BMO on a new expanded facility are well advanced.

# REDFLEX HOLDINGS LIMITED

## NOTE 6 ISSUED AND QUOTED SECURITIES AT END OF CURRENT PERIOD

|  | Total number      | Number quoted     | Issue price per security | Amount paid up per security |
|--|-------------------|-------------------|--------------------------|-----------------------------|
| <b>Ordinary securities</b>                                 |                   |                   |                          |                             |
| <b>Issued at 30 June 2007</b>                              | <b>88,975,228</b> | <b>88,975,223</b> |                          |                             |
| Changes during current period                              |                   |                   |                          |                             |
| (a) Increases through issues                               |                   |                   |                          |                             |
| Issue of shares under Dividend Reinvestment Plan           | 642,978           | 642,978           | \$2.6851                 | \$2.6851                    |
| Issue of Shares arising from Performance Rights            | 347,288           | 347,288           |                          |                             |
| Conversion of employee options during current period       | 295,000           | 295,000           | \$0.65 average           | \$0.65 average              |
| (b) Decreases through returns of capital, buybacks         |                   |                   |                          |                             |
|  | 0                 | 0                 |                          |                             |
| <b>Issued at 31 December 2007</b>                          | <b>90,260,494</b> | <b>90,260,489</b> |                          |                             |
| <b>Options</b>   |                   |                   |                          |                             |
| <b>Issued at 30 June 2007</b>                              | <b>1,489,000</b>  | <b>0</b>          |                          |                             |
| Conversion of RDFAS employee options during current period | (295,000)         | 0                 |                          |                             |
| <b>Issued at 31 December 2007</b>                          | <b>1,194,000</b>  | <b>0</b>          |                          |                             |
| <b>Performance Rights</b>                                  |                   |                   |                          |                             |
| <b>Issued at 30 June 2007</b>                              | <b>1,545,659</b>  | <b>0</b>          |                          |                             |
| Performance to 1 October 2007 – converted to shares        | (347,288)         | 0                 |                          |                             |
| Performance to 1 October 2007 – lapsed                     | (2,942)           | 0                 |                          |                             |
| Performance to 1 October 2010                              | 516,318           | 0                 |                          |                             |
| Performance to 1 October 2010 – forfeited                  | (7,121)           | 0                 |                          |                             |
| <b>Issued at 31 December 2007</b>                          | <b>1,704,626</b>  | <b>0</b>          |                          |                             |

## REDFLEX HOLDINGS LIMITED

### **NOTE 7      CONTINGENCIES**

There has been no change in contingent assets or liabilities since 30 June 2007.

### **NOTE 8      EVENTS AFTER BALANCE SHEET DATE**

There were no significant events subsequent to 31 December 2007 and prior to the date of this report that have not been dealt with elsewhere in this report.

**DIRECTORS' DECLARATION FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

In accordance with a resolution of the directors of Redflex Holdings Limited, I state that:

In the opinion of the directors,

- (a) the financial report of the consolidated entity:
  - (i) gives a true and fair view of the financial position as at 31 December 2007 and the performance for the half-year ended on that date of the consolidated entity, and
  - (ii) complies with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001, and
  
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'G. Davie', written in a cursive style.

**Graham Davie**

Director

Redflex Holdings Limited

ABN 96 069 306 216

25 February 2008

To the members of Redflex Holdings Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Redflex Holdings Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### *Directors' Responsibility for the half-year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Redflex Holdings Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Redflex Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the six months ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Ernst & Young*

Ernst & Young



David Petersen

Partner

Melbourne

25 February 2008