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DIRECTORS

Chris Cooper - Chairman

Graham Davie - CEO

Robin Debernardi - Non Executive Director

Peter Lewinsky - Non Executive Director

Marilyn Stephens - Company Secretary

REGISTERED OFFICE

31 Market Street
South Melbourne
Victoria, Australia 3205.

OVERSEAS OFFICES

15020 North 74th Street
Scottsdale, Arizona, USA.

6047 Bristol Parkway, Suite 100
Culver City, CA 90230, USA.

11710 Plaza America Drive
Suite 2000, Reston, VA 20190, USA.

AUDITORS

Ernst & Young
120 Collins Street
Melbourne, Victoria, Australia 3000.

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 12/565 Bourke Street
Melbourne Victoria, Australia 3000.

BANKERS

The National Australia Bank.
535 Bourke Street
Melbourne, Victoria, Australia 3000.

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Redflex Red-light and Speed Camera Systems for export to the United States.

The Redflex Flash, designed and manufactured in Melbourne for world-wide markets.



DEAR SHAREHOLDERS,

The last year has been a historic one for our Company. The shareholders 12 months ago indicated that a corporate transformation was required and by appointing the new Board gave a mandate to the Directors to carry it out. The Board has worked hard all year to address various issues and is generally pleased with achievements to date whilst being acutely mindful of the tasks still in front of our Company.

Various legacy issues needed to be identified and quantified leading to large but necessary and prudent financial provisioning. Whilst a larger than expected loss for the financial year was the unavoidable outcome of this process, it must be noted that the Company achieved a \$1.3 million trading profit. The Board is confident that it has now addressed these legacy issues and shareholders can expect ongoing and increasing profitability.

The Traffic Division continues to grow strongly both in Australia and the USA where the installed base has increased by approximately 80% over the last year. Similar growth over the next 12 months is also expected together with ever increasing hardware sales to the Australian and global markets.

The Communications Division, which is largely dependent on the international aviation and defence industries, has found the environment over the last two years, for a number of well known reasons, to be commercially difficult. Whilst an immediate dramatic turnaround is unlikely, the Board believes that there are signs of significant strengthening in the global aviation and defence environment and strenuous efforts are being made both domestically and internationally to take advantage of any upturn. The Division is currently under detailed review by the Board with a view to best shaping its future direction.

During the past 12 months a close working relationship has been established between the Company and its new bankers, the National Australia Bank. The bank's financial assistance to the Company to facilitate its rapid expansion, particularly in the Traffic area, has been of fundamental importance and the Board is hopeful that the relationship is one that will grow for many years to come to the mutual benefit of both parties.

A further milestone of significance for the Company during the past 12 months has been the completion of the move by the Company to new modern premises containing state



of the art facilities located in Market Street, South Melbourne. These premises provide the headquarters for the Company and constitute a vast improvement on the previous corporate accommodation. The Company should be well served in its new home for many years to come.

The Board is pleased to welcome Mr Peter Lewinsky into its ranks as a non-executive Director. Mr Lewinsky has a broad commercial background at Board level in both the corporate and governmental arenas acquired over many years of investment banking practice. He has been working alongside the Board in a consultant capacity since early calendar 2003 and his acumen, knowledge and insight have been of great benefit to the Company and will doubtless continue to be.

Redflex is wonderfully positioned to grow and prosper both in Australia and overseas. Its products are world leading and shareholders may rest assured that the Board will continue to diligently pursue the great opportunities on offer to the Company.

I take the opportunity to thank the Company's staff for their unstinting efforts during the past year in often less than ideal circumstances. Similarly, the Board thanks the Company's shareholders for their ongoing long-standing loyal support. The Board is pleased that during the past 12 months there has been significant market recognition of the Company's improved position and is optimistic that such progress will continue into the future.

A handwritten signature in dark ink, appearing to read 'Ch. Cooper', with a horizontal line underneath.

Christopher Cooper
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

REDFLEX HOLDINGS LIMITED

Redflex enters the 2003/2004 financial year with strong growth in the USA already committed, a strong order book in the Australian Traffic operation and a healthy prospects list for the Communications division. The company is the premier supplier of digital red-light photo-enforcement systems in the USA, and has moved to take up a dominant position in the Australian market.

The current Board structure was put in place in November 2002. Since that time it has overseen a significant transformation within the company. The Board immediately recognised the requirement to deal with matters that had the potential to limit the company's growth. An appropriate mix of debt and equity funding was secured, a range of legacy and historical issues were dealt with, and there has been a strong focus on the expansion of the operations of the business.

With non-recurring items and provisions now in the past, Redflex is poised to show significant growth and deliver a strong profitable result in the 2003/04 financial year.

Against this backdrop, the following information is presented.

HIGHLIGHTS

- Revenues in the USA are growing with the increasing installed base, and the Traffic operation has moved to profitability. Year to date revenues for the current financial year are over 70% higher than for the corresponding period last year.
- At the date of this report, installed approaches in the USA are 180, compared with 101 at the same time last year.
- New sales contracts in twelve cities in the USA and renewals and extensions on a further two indicate a very strong current order book.
- Implementation capability in the USA has been expanded to sustain a rollout capacity exceeding 10 approaches per month.
- Four major new Traffic contracts were won in Australia, demonstrating Redflex' increasing success in the market.
- Strong support from shareholders and investors with \$10.6 million equity raised.
- Support from National Australia Bank with a USD debt facility for camera rollout.
- New Communications contracts with international prime contracting companies, Lockheed Martin and Northrop Grumman.
- The Communications division's first sale to the USA Department of Defence, and a further follow on contract.

GROUP RESULT SUMMARY

Trading Result

The operating profit for the group was \$1.31 million before non-recurring items and provisions, reflecting the underlying strength in the company.

Gross revenue of \$23.5 million was down 12.6 % on the previous financial year (\$26.9 million). This was due to: divestment of two business divisions; reduced revenue in the Communications Division attributable to the impact of global events and exchange rate exposures; and the move in the AUD/USD exchange rate by approximately 20% reducing the reported revenue from the growing USA Traffic business due to translation effects.

Non-recurring items totalled \$3.2 million, and provisions relating to non-trading activities were \$1.85 million, resulting in a net loss of \$3.74 million.

Non Recurring Items

There were a number of non-recurring items that had an adverse effect on the result for the full year. For the first half of the financial year, these were: the costs of pursuing a finance transaction that did not proceed to completion and restructuring costs.

The Communications division has been affected by the major shift in the AUD/USD exchange rate, which varied by approximately 20% over the course of the financial year. Redflex Communications has most of

its contracts in USD and because of the constrained financial circumstances at the time of entering into the contracts, was unable to put in place appropriate hedging instruments. The overall effect of this was approximately a \$1.76 million foreign exchange loss for the financial year.

The company now has exchange rate forward cover in place and a policy that addresses the appropriate approach to forward cover for all non-AUD contracts entered into. Consequently, exchange rate losses are regarded as non-recurring.

Provisions

The directors have taken a strong position on provisioning. Provision has been made for:

- Possible non-recovery of some loans under past structured finance transactions. The company will continue to follow up all outstanding amounts with a view to full recovery.
- The possible non-recovery of some of the proceeds of the sale of business effected in the 2001/2002 year.
- Limited recourse employee loans under the Employee Share Acquisition Scheme.

All provisions relate to non-trading activities that occurred prior to the 2002/2003 financial year.

	A\$'000
Trading Result	
Redflex Traffic Systems	2,512
Redflex Communications Systems	864
Redflex Holdings Limited	(2,062)
	<hr/> 1,314
Non Recurring Items	
Financing Costs	(1,241)
Restructuring Costs	(202)
Foreign Exchange Loss	(1,757)
Total Non Recurring	<hr/> (3,200)
Provisions relating to non trading activities	<hr/> (1,850)
Net Profit/(Loss)	<hr/> (3,736)

FINANCING ACTIVITIES

Through the year a number of successful financing activities have occurred. The USA based traffic business has required ongoing capital funding to enable it to grow at a rate consistent with the growth in the market and maintaining market share. The current growth will require additional funding to ensure that the opportunity to build the business in the rapidly growing USA market is realised.

During the year, the USA traffic business began to generate positive cash flow from operations. This is sufficient to fund the operational costs and some of the committed growth. However external ongoing funding is required to fund the capital expenditure necessary to roll out cameras to meet the Build-Own-Operate Model (BOOM) requirements. The requirement for ongoing capital funding will reduce as more cameras are installed and the revenue base grows progressively.

Through the 2002/03 financial year, an appropriate mix of debt and equity funding was put in place to meet the requirements of the company. The involvement of the National Australia Bank as a senior debt provider and the support of shareholders and investors in equity raisings through the Share Purchase Plan and associated placement underpinned the growth delivered through the year. A further standby debt facility has been available to the company.

For the year ahead, additional financing will be required and the board is considering a range of options. A mix of debt and equity will be sourced to meet the growth expectations for the group.

CHIEF EXECUTIVE OFFICER'S REPORT

REDFLEX TRAFFIC SYSTEMS USA – REVIEW OF OPERATIONS

Redflex Traffic Systems in the USA provides complete outsourced traffic photo-enforcement solutions to cities across the USA. These solutions include fixed red-light, fixed speed, mobile speed and combination speed and red-light cameras in conjunction with leading edge high volume citation processing.

The business is based on a Build-Own-Operate-Maintain (BOOM) model whereby Redflex provides all infrastructure and support for either a fixed monthly fee or a share of revenue. Contracts are typically for a five year period with options to extend by one or two years. During the contract Redflex provides a full set of services and support to the cities.

The traffic business has continued to grow in the USA with increasing momentum in sales and the rate of rolling out camera installations. Redflex Traffic Systems has committed contracts, including those already installed, in 29 cities in seven states. Of these, 180 approaches are currently installed.

Sales for the year have been exceptional, with new contracts announced since July 2002 in the cities of: Dayton, Ohio; Scottsdale, Arizona where the existing contract was renewed and extended; Southgate, California; Santa Ana, California; Monroe, North Carolina; Indian Trail, North Carolina; Inglewood, California; Marshville, North Carolina; Savannah, Georgia; Oxnard, California; El Monte, California; Upland, California; Rome, Georgia; Garden Grove, California – with an extension to the existing contract; Hawthorne, California; Toledo, Ohio, where the contract has been renewed and extended with an additional 10 approaches, a speed van, and upgrades of the existing red-light system to combination red light and speed; Cary, North Carolina and Chicago, Illinois.

Cameras will be installed in these cities progressively to meet the expectations of these new customers. The committed contracts underpin the next major stage of growth, and a strong pipeline of selections, bids and prospects should ensure that the growth in sales continues.

The rollout rate for photo enforcement systems is now expected to be well in excess of the planned 10 approaches per month. A further installation team has been formed to ensure that the rollout momentum continues.

Redflex Traffic Systems' reputation in the industry continues to grow. Many cities now see Redflex as the provider of choice for photo enforcement systems.

Redflex Traffic Systems is now clearly the number one supplier of digital traffic photo enforcement systems in the USA, as evidenced by the number of contracted systems and the rate at which new contracts are being won.

Other key events for the year include the relocation of the CEO of the Traffic division to the USA to focus on the growth opportunities and the critical implementation phase of new contracts in the USA, the filling of the key executive positions of Director of Construction to direct all aspects of the rollout of contracted cameras, and the appointment of a Financial Controller for the American operation. These appointments position the company to capitalise on the growth emerging through the sales pipeline.

REDFLEX TRAFFIC SYSTEMS IN AUSTRALIA

The Australia based Traffic business also delivered an impressive performance with contracts signed in a number of jurisdictions, and development of key opportunities.

Major new contracts announced were: Transit Lane enforcement on the Liverpool to Paramatta Transit Way; the NSW School Zone Roadside Fixed Digital Speed Cameras; Red light/Speed Combination systems for the Department of Justice in Victoria; and Point-to-point Speed cameras on the Hume Freeway. More recently the company announced the award of a new contract for supply of a back office system for the Western Australia Police Service.

The company has won projects in a competitive environment, and has demonstrated its leadership in the areas of technology, capability and support. In addition, Redflex has won work to extend and enhance existing systems.

Redflex Traffic Systems is addressing an emerging global market and will be committing resources to develop opportunities in key countries where profitable opportunities exist. The signing of a heads of agreement with a company in South Africa to represent Redflex products, and the development of



REDFLEX TRAFFIC SYSTEMS

● **Oregon, USA**
City of Beaverton
City of Beaverton Mobile Speed

● **California, USA**
Los Angeles Processing Centre
City of Ventura
City of Compton
City of Garden Grove
Culver City
San Juan Capistrano
Southgate
El Cajon
San Jose Mobile Speed
City of Fremont
Inglewood
City of Santa Ana
City of Bakersfield
City of Hawthorne
City of Upland
City of El Monte
City of Oxnard

● **Arizona, USA**
Scottsdale Processing Centre
City of Scottsdale
City of Scottsdale Mobile Speed
City of Chandler
Paradise Valley RL/Fixed Speed
Paradise Valley Mobile Speed

● **North Carolina, USA**
City of Marshville RL
City of Monroe RL
City of Cary

● **Georgia, USA**
Savannah RL

● **Ohio, USA**
City of Toledo RL
City of Dayton RL

● **Illinois, USA**
City of Chicago RL

● **Colorado, USA**
Ft Collins RL
Ft Collins Mobile Speed

● **Cape Town, South Africa**
Red Light/Speed
Image Viewing

● **Jeddah, Middle East**
Red Light Camera
Red Light/Speed
Fixed speed
Ticket Processing System

● **Riyadh, Middle East**
Red Light Camera
Red Light/Speed
Fixed speed
Ticket Processing System

● **Bahrain, Middle East**
Red Light Camera
Ticket Processing System

● **Western Australia**
Film Scanning and Ticket
Processing System

● **Queensland, Australia**
Film Scanning and Ticket
Processing System

● **Victoria, Australia**
Film Scanning and Ticket
Processing System
Digital Red Light / Speed Systems
Point to Point speed enforcement
Weigh in motion enforcement

● **New South Wales, Australia**
Fixed speed cameras
School zone speed
Tunnel fixed speed
Sydney Harbor Bridge
toll enforcement
Liverpool-Paramatta Transit Way

CHIEF EXECUTIVE OFFICER'S REPORT

projects and opportunities in the Middle East and Europe are key elements of company plans to grow its global market.

The key to keeping ahead in the emerging traffic photo enforcement market is the ongoing development of existing products and the development of new products to meet identified future needs. The R&D activities of Redflex Traffic address both of these areas. Product enhancements to reduce costs and add competitive features are constantly being developed. New products are being produced to meet existing or predicted market opportunities.

REDFLEX COMMUNICATIONS SYSTEMS

The Communications Division showed its resilience in difficult times despite reduced revenues due to the prevailing global circumstances. The division experienced a non-recurring exchange rate loss of \$1.76 million, due to the inability of the group to put in place appropriate forward cover arrangements as a result of previous constrained financial circumstances.

The result for the division has been short of expectations, and improved performance is expected in the current financial year.

Over the year progress was made in delivering complex Air Defence Communications systems to key clients, including the Royal Australian Air Force, Lockheed Martin, Northrop Grumman and Tenix Defence Systems. New contracts were signed for multi-site Air Defence Systems for Lockheed Martin and Northrop Grumman for national defence customers.

In a significant development, Redflex made its first sale of its proprietary Switchplus technology in the form of a secure conferencing bridge to the USA Army. This is expected to lead to further orders with the USA Government.

The Communications Business has a prospects list going out three years, and expects to see increases in revenue in the 2003/04 financial year based on assessed probabilities of winning identified and qualified prospects.

The aviation and defence markets for Redflex Communications have been adversely affected by the combined effects of: the terrorist attacks of September 11; the impact of wars in Afghanistan and Iraq; and the effect of global terrorism. Indications are that the worst effects are now behind us with a perceived increase in proposed acquisition activity in the Defence sector.

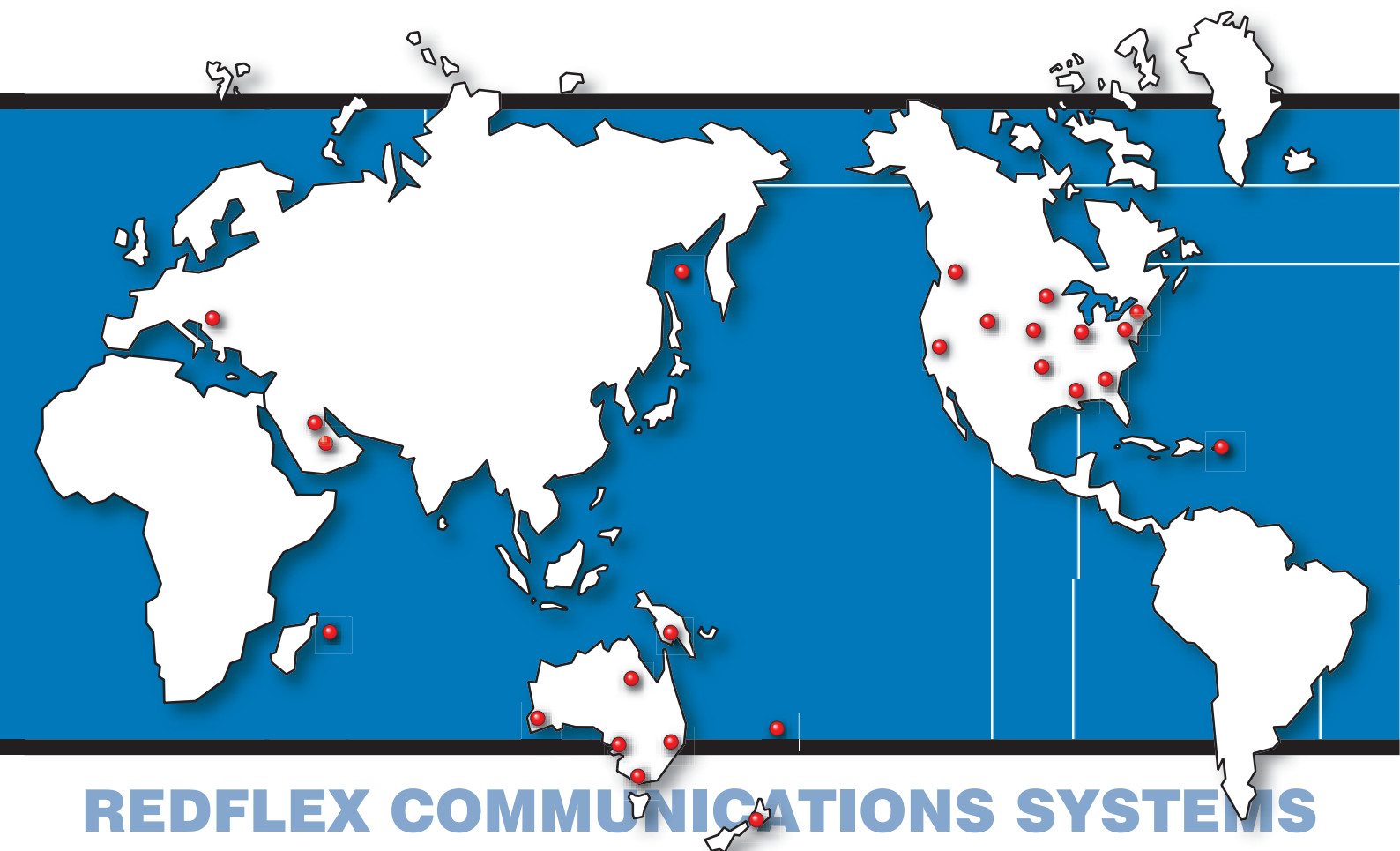
Redflex Communications engages in focused product development activities that are targeted to specific market needs or opportunities. The formal release of the Redflex third generation voice and data switching system, Switchplus Gen 3, has involved significant development to ensure that the company's products and capabilities stay at the forefront of the specialised communications area in which it operates.

BOARD CHANGES

At the commencement of the financial year, the Board comprised Mr Phillip Scanlan as Chairman, the Hon Lord John Gilbert and Mr David Heaney as non-executive directors, and Mr Graham Davie as executive director. In August, Mr Chris Cooper and Mr Robin Debernardi were appointed as non-executive directors. Shareholders confirmed their appointment at the annual general meeting in November 2002. At that meeting Messrs Scanlan, Gilbert and Heaney declined to stand for re-election and Mr Cooper was appointed Chairman. Recently Mr Peter Lewinsky has been appointed to the board as a non-executive director. The board composition, in conjunction with the professional advisers retained to provide advice on legal, financial, HR and general corporate matters, is considered adequate for the current stage of the company's development. The Board composition will be reviewed on an on-going basis under the Corporate Governance code adopted by the Board.

CORPORATE GOVERNANCE

The Board has reviewed its Corporate Governance policies and practices in the light of the release of the ASX document 'Principles of Good Corporate Governance and Best Practice Recommendations' and has made changes in some areas where the Board believes appropriate. There is a statement of the degree of compliance against this document elsewhere in the annual report.



REDFLEX COMMUNICATIONS SYSTEMS

- **California, USA**
Secure Conference, defence communications
- **New York, USA**
Secure Conference, defence communications
- **Washington, USA**
Secure Conference, defence communications
- **Alabama, USA**
Secure Conference, defence communications
- **Minnesota, USA**
Secure Conference, defence communications
- **Arkansas, USA**
Secure Conference, defence communications
- **Massachusetts, USA**
Secure Conference, defence communications
- **Kansas, USA**
Secure Conference, defence communications
- **Utah, USA**
Secure Conference, defence communications
- **Pennsylvania, USA**
Secure Conference, defence communications
- **Georgia, USA**
Secure Conference, defence communications
- **Puerto Rico, USA**
Secure Conference, defence communications
- **Port Moresby, Papua New Guinea**
Jackson Airport, Alarmon
- **Mauritius**
Mauritius Airport, ATC communications
- **Fiji**
Fiji Airport, ATC communications
- **Bahrain, Middle East**
Bahrain Defence Force, air defence
Bahrain Airport, Alarmon
- **Dubai, Middle East**
Dubai Airport, Alarmon & ATC communications
- **Croatia,**
Croatia air force, 9 sites, air defence
- **South East Asia,**
11 sites air, defence
- **Victoria, Australia**
AIR5375, air defence
Public Transport Corporation, command & control
Melbourne Airport, Alarmon
- **New South Wales, Australia**
Sydney Airport, Alarmon
ROCCS, air defence
LPA, naval communications
Roads & Traffic Authority, Integrated telephone and radio communications
- **Western Australia, Australia**
Perth Airport, Alarmon
ComSentry, naval communications
- **Northern Territory, Australia**
ROCCS, air defence
- **South Australia, Australia**
Adelaide Airport, Alarmon
- **Queensland, Australia**
Brisbane Airport, Alarmon
- **New Zealand**
Anzac Frigate simulator, voice communications system



Rick Doblanovic and Paul McCallum in front of the Air Defence System currently being tested in the new Redflex Communications lab.

CHIEF EXECUTIVE OFFICER'S REPORT

TOUCHSCREEN DIVESTMENT

The divestment of the Touchscreen division was completed in the first half of the financial year. There were residual revenues recorded for this division, and negligible profit for the period.

LITIGATION

Subsequent to the end of the financial year, patent related litigation with Locktronic was settled. Terms of the settlement are confidential.

OUTLOOK

The group has budgeted to make a substantial profit in the year ahead. For this year the board has decided not to issue a specific forecast, but will make timely reports on performance to the Australian Stock Exchange and on the company web site, www.redflex.com.au.

Your Board looks forward to delivering a strong result over the next 12 months.

The support of shareholders and investors during the year, with successful equity raisings totalling \$10.6 million through a Share Purchase Plan and placements was appreciated and allowed the achieved growth to occur.

Thank you again to shareholders, financiers, customers, suppliers, advisers and staff who have supported the company over the past year, and who have been and will continue to be the key to future success.



Graham Davie

Chief Executive Officer

30 September 2003

DIRECTORS' REPORT

YOUR DIRECTORS SUBMIT THEIR REPORT FOR THE YEAR ENDED 30 JUNE 2003.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

NAMES, QUALIFICATIONS AND SPECIAL RESPONSIBILITIES

CHRISTOPHER COOPER L.L.B., B.Com.
(Appointed 14 August 2002)

Chairman

Mr Cooper has practised as a barrister and solicitor since 1977. He has been involved in commercial real estate development, investment and management as well as being an owner and operator of aged care health facilities from 1985 to 2001. Mr Cooper is also a principal and agent manager for significant share investment portfolios and a Director and Manager of numerous private investment companies and trusts.

ROBIN DEBERNADI

(Appointed 14 August 2002)

Non Executive Director

Mr Debernadi is a prominent businessman who established and developed a range of products in a horticultural business, the success of which is that it is now known as a household name in the industry. Mr Debernadi has since been successfully engaged in commercial property developments in Victoria and Queensland, while developing a rural property in North Central Victoria. He brings substantial experience in assisting companies involved in high growth phases of their development.

GRAHAM DAVIE BSc, Grad Dip Mil Av

Chief Executive Officer

Mr Davie is the Chief Executive Officer of the Group and has previously held the position of Managing Director of the Communications business since 1993. He has had ten years experience with the RAAF in engineering design and development, maintenance engineering, software development and support, specification of major systems, and project management.

His expertise also includes airborne avionics, flight simulation, avionics automatic test equipment, air traffic control communications and control systems, airport information display systems, and development of graphics software and system support.

PHILLIP SCANLAN AM, BEc (Syd), MA
(Oxon), MBA (Harvard)

(Resigned 26 November 2002)

Non Executive Director

Mr Scanlan has been a public company director since 1984, and acted as a non-executive director and Chairman until his resignation from the Board on 26 November 2002.

DAVID HEANEY

(Resigned 26 November 2002)

Non Executive Director

Mr Heaney was a career banker and acted as a non-executive director until his resignation from the Board on 26 November 2002.

THE RT. HON. LORD JOHN GILBERT

(Resigned 26 November 2002)

Non Executive Director

Lord Gilbert was U.K. Minister of State for Defence Procurement from May 1997 to August 1999 and held many senior government positions in the UK. Lord Gilbert acted as a non-executive director until his resignation from the Board on 26 November 2002.

COMPANY SECRETARY

MARILYN STEPHENS

Ms Stephens has been the Company Secretary of Redflex Holdings Limited since it listed on the Australian Stock Exchange in February 1997. Prior to that Ms Stephens was Company Secretary to various companies within the Redflex Group for a period of 12 years.

DIRECTORS' INTERESTS

The interest of each director in the share capital of Redflex Holdings Limited, at the date of this Report, as contained in the Register of Directors' Shareholding of the Company is:

Director	Beneficial Interest over ordinary shares	Relevant Interest over ordinary shares	Options over Ordinary Shares
Chris Cooper	10,809	360,676	30,443
Robin Debernadi	120,459	2,686,393	354,380
Graham Davie	951,737	1,054,564	116,306

Directors' interests in options together with terms and conditions are set out in Notes 16 and 25.

Issue of Shares

During the year the Company issued the following shares:

1. 750,000 Ordinary Shares were issued by way of private placement at a price of \$0.55 per share fully paid.
2. 18,920,126 Ordinary Shares were issued by way of private placement at a price of \$0.4626 per share fully paid.
3. 3,305,453 Ordinary Shares were issued by way of a Share Purchase Plan at a price of \$0.4626 per share fully paid.

Issue of Options

During the year ended 30 June 2003, no options were issued or exercised other than 350,000 options issued to Mr Phillip Scanlan and Mr David Heaney, in their capacity as Directors at that time. The options were issued at an exercise price of \$1.10 and expire on 31 December 2003.

Expiration of Options

2,482,660 options issued at an exercise price of \$3.48 expired on 31 December 2002.

Earnings per share	30 June 2003	30 June 2002
Basic Earnings per Share	(6.6 cents)	0.78 cents
Diluted Earnings per Share	(6.6 cents)	0.78 cents
Weighted average number of Ordinary shares used in calculation of Earnings per Share	56,250,530	36,842,841
Net tangible asset backing per ordinary security	44 cents	60 cents

Dividends

The Company did not propose or pay any dividends in the year ended 30 June 2003 (2002 – Nil).

Summarised operating results are as follows:

The Company showed revenue from operating activities of \$23,499,913 which was down 12.6 % on the previous financial year (2002 - \$26,885,484).

The reduction in revenue was due to:

- The divestment of two business divisions which generated revenue of \$1,707,436 in the 2002 year.
- Reduced revenue in the Communications Division attributable to the impact of global events and exchange rate exposures; and
- The move in the AUD/USD exchange rate by approximately 20% reducing the reported revenue from the growing USA Traffic business and Communication division revenues within the USA due to translation effects.

DIRECTORS' REPORT

The trading profit for the group was \$1,312,942 before non-recurring items of \$3,199,828 and provisions of \$1,850,000. This resulted in a net loss of \$3,736,886.

Non-recurring items totalling \$3,199,828 included: professional and legal costs associated with a planned capital raising that was not completed, restructuring costs, and unhedged foreign exchange losses on contracts. The foreign exchange losses have arisen from Communications contracts in USD for which the group was unable to put in place adequate forward cover due to the previously constrained financial circumstances. The provisions relate to non-trading activities which are described further as Specific Expenses in Note 3 to the accounts.

The consolidated operating loss of the Consolidated Entity for the year ended 30 June 2003 after income tax was \$3,736,886 (2002 – profit of \$288,101).

The operating loss of Redflex Holdings Limited for the year ended 30 June 2003 after income tax was \$2,639,521 (2002 – loss of \$527,904).

Principal Activities

The principal activities during the financial year of entities within the Consolidated Entity were:

Operating results by business and geographical segments are as follows:

(a) Business Segments

	Corporate	Communications	Traffic	30-Jun-03 Total	30-Jun-02 Total
	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)
Revenue from sale of goods & services	406	7,382	5,211	12,999	15,880
Revenue from fee for service contracts		0	10,501	10,501	10,448
Total revenue	406	7,382	15,712	23,500	26,328
Consolidated operating profit before tax	(5,550)	61	1,753	(3,736)	288
Total assets	6,259	13,136	25,373	44,768	37,794

(b) Geographical segments

	Australia	USA	Other	30-Jun-03 Total	30-Jun-02 Total
	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)
Revenue from sale of goods & services	6,756	5,475	768	12,999	15,880
Revenue from fee for service contracts	0	10,501	0	10,501	10,448
Total revenue	6,756	15,976	768	23,500	26,328
Total assets	26,073	18,695	0	44,768	37,794

The Consolidated operating profit before tax shown in the segment information includes nonrecurring costs, provisioning against receivables and an allocation of Corporate overheads.

Revenue allocated to the Corporate Division represents revenue received from the Touchscreen business which was discontinued in September 2002.

Corporate Information

Redflex Holdings Limited is a company limited by shares that is incorporated and domiciled in Australia.

Redflex Holdings Limited has prepared a consolidated financial report incorporating the entities that it controlled during the year and as detailed in Note 10 to the accounts. The Consolidated entity employed 150 employees as at 30 June 2003 (2002: 145 employees).

Significant changes in the state of affairs

During the year ended 30 June 2003, the state of affairs of the Redflex Group changed significantly as a result of the issue of Ordinary Shares pursuant to the arrangements referred to in "Issues of Shares" above.

The funds raised pursuant to the above share issues have been used to finance the installation of equipment for Redflex's USA contracts, and improve the Group's working capital position.

The RTS Inc USA traffic operations have now reached the stage where they are generating positive cash flow and are no longer reliant on funding from Australia, other than for the capital requirements of the expansion program in installation of Company Infrastructure assets.

Likely developments and expected results

The most significant growth for the ensuing financial year is expected within the Traffic Division. The Company has set internal installation rates for cameras within the USA which can be met predominantly from existing contracts and selections. This growth will be funded from the cash generated from operations together with appropriate funding which is currently being put in place.

After balance date events

There were no after balance date events of significance not otherwise dealt with in this report except for the proposed issue of options to employees as described in Note 21.

Environmental Regulation and Performance

The Directors are not aware of any breaches of environmental legislation affecting the industry in which the Group operates.

Remuneration Policy

A remuneration Committee, currently comprising all members of the Board, has been formed for review of future remuneration arrangements for the Directors, and executive team. The Chief Executive's remuneration is approved by the Board. A policy for determining the amount and nature of emoluments and the linkage with the Company's performance is currently being finalised with senior management remunerated with a salary package comprising performance based financial incentives. The Company has sought expert advice from external advisors on appropriate levels of performance based incentives for senior management.

Emoluments of Directors of Redflex Holdings Limited

Emoluments	Base Fee \$	Other \$	Options granted at \$1.10 expiring on December 31 2003	Termination & Similar Payments \$
Phillip Scanlan	32,146	3,116	250,000	0
David Heaney	16,073	1,558	100,000	0
John W Gilbert	10,950		0	0
Robin Debernadi	0	0	0	0
Chris Cooper	0	0	0	0
Graham Davie	158,257	14,243	0	0

DIRECTORS' REPORT

Emoluments of the five most highly paid executive officers of the Company and the Consolidated Entity.

The Directors have determined the officers of the Company to be the Chief Executive Officer and heads of the business units.

Emoluments	Base Fee \$	Other \$	Options Granted (Number)
Bruce Higgins	264,068	59,911	0
Graham Davie	158,257	14,243	0
Ron Johnson	158,404	13,536	0
Ricardo Fiusco	153,889	12,500	0
Peter Harrison	130,000	11,700	0

Indemnification of Officers and Auditors

The Company has agreed to indemnify the following current Directors of the Company: G. Davie, R Debernadi, C Cooper and the following former Directors, P Scanlan, D Heaney, J. Gilbert and the Company Secretary and all executive officers of the Company and of any related body corporate, against any liability that may arise from their position within the Company. The contract of insurance prohibits disclosure of the nature of the liability indemnified.

The ultimate parent entity paid premiums in respect of Directors and Officers liability insurance during the financial year. The contract of insurance does not include details of premiums paid in respect of individual officers of the Company and prohibits disclosure of the amount of the premium paid.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify any auditor of the Company, or any related entity, against a liability incurred in their capacity as an auditor.

Directors' Meetings

Directors' meetings held and attended during the year ended 30 June 2003, and up to the date of this report were:

	No of Directors Meetings held while in office	Number of Directors Meetings attended	Audit Committee	Remuneration Committee
Graham Davie	21	21	3	3
Robin Debernadi	20	20	2	2
Chris Cooper	20	19	2	2
Phillip Scanlan	10	10	1	1
David Heaney	10	8	1	1
John Gilbert	10	7		

Ethical Standards

The Consolidated Entity has in place a Code of Conduct that identifies the appropriate professional conduct for its dealings with shareholders, management, employees and other persons. The self-regulatory measures contained within this code are important in increasing the awareness of shareholders, and others who deal with the Company, that Redflex Holdings Limited takes responsibility for its own conduct so that they may feel confident as to the integrity of the Company and its decision making processes.

This Code of Conduct has been implemented by the Board of Directors, who review compliance with the code and review its contents on an ongoing basis.

The Code currently includes standards in respect of the provision of a safe and healthy workplace, fair employment practices, compliance with business practice legislation, share trading by employees and Directors, financial reporting and dealings with customers and shareholders.

Identifying and managing business risks

The Board regularly monitors the operational and financial performance of the Company and Consolidated Entity against budget and other key performance measures. The Board also reviews and receives advice on areas of operational and financial risks. Appropriate risk management strategies are developed to mitigate all significant identified risks of the business.

Tax Consolidation

For the purposes of income taxation, the directors of Redflex Holdings Limited and its 100% Australian owned subsidiaries have decided to form a tax consolidated group. Members of the group will enter into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a prorata basis.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Redflex Holdings Limited support and have adhered to the principles of corporate governance. The company's corporate governance statement is contained in the following section of this annual report.

Signed in accordance with a resolution of the Directors.



Graham Davie

Director

Melbourne, 30 September 2003

DIRECTORS' DECLARATION

REDFLEX HOLDINGS LIMITED

ACN 069 306 216

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

In the opinion of the Directors:

the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards and Corporations Regulations 2001; and

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

Melbourne, 30 September 2003

CORPORATE GOVERNANCE STATEMENT

REDFLEX HOLDINGS LIMITED

ACN 069 306 216

The Board of Directors of Redflex Holdings Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Redflex Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities, it has established guidelines for the operation of the Board. In accordance with ASX Listing Rule 4.10.3, the Directors provide hereunder the main corporate governance practices of the Consolidated Entity:

Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

the Board shall comprise at least three directors and should always maintain a majority of non-executive directors

- the Chairman should be a non-executive director
- the Board shall comprise directors with an appropriate range of qualifications and experience; and
- the Board shall meet at least monthly and follow meeting guidelines to ensure all necessary information is available to participate in an informed discussion of all agenda items.

The Directors in office at the date of this report are

Mr Chris Cooper	Chairman, Non-executive Director
Mr Robin Debernadi	Non-executive Director
Mr Graham Davie	Chief Executive Officer

Nomination Committee

The size of the Board does not warrant a separate Nomination Committee. Any proposed Board appointments will be determined by the full Board.

Remuneration Committee

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and the executive team. The remuneration committee is currently constituted with all Directors as members.

Audit Committee

The Board has established an audit committee, which operates under a charter established by the Board. It is the Board's responsibility to ensure that an effective internal control framework operates within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, including the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the audit committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All Directors are currently on the audit committee.

The external auditor is invited to attend all audit committee meetings.

The audit committee is also responsible for directing and monitoring the internal audit function and nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half-year statutory review.

Board responsibilities

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

CORPORATE GOVERNANCE STATEMENT

REDFLEX HOLDINGS LIMITED

ACN 069 306 216

The responsibility for the operation and administration of the consolidated entity is delegated by the Board to the chief executive officer and the executive team. The Board assures that this team is adequately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the chief executive and the executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the board. To ensure this is achieved the board has a number of mechanisms in place, including:

The Board approves strategic plans, operating plans and budgets. The Board also reviews implementation by management, monitors progress against budget, including establishment and monitoring of key performance indicators for all significant business processes, designed to meet stakeholders needs and manage business risk.

The Board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity, including:

Establishment of committees to report on occupational health and safety and environmental issues and concerns;

Procedures to allow directors to seek professional independent advice at the company's expense;

Procedures to allow directors to review approval of contracts and financing arrangements including financial risk in such areas as currency, interest rate and credit policies and exposures, and to monitor management's actions to ensure they are in line with company policy.

Monitoring of the Board's Performance and Communication to Shareholders

In order to ensure the Board continues to discharge its responsibilities in an appropriate manner, the performance of all directors is reviewed annually by the Chairman.

Directors whose performance is unsatisfactory are asked to retire.

Information is communicated to shareholders through:

- The annual report which is distributed to all shareholders
- The half-yearly report which is performed by way of an ASX release.
- The annual general meeting
- ASX releases in accordance with the entity's continuous disclosure policy
- Information available on the company's website at www.redflex.com.au

STATEMENT OF FINANCIAL PERFORMANCE

FOR YEAR ENDED 30 JUNE 2003

		Consolidated Entity		Redflex Holdings Limited	
		30-Jun-03	30-Jun-02	30-Jun-03	30-Jun-02
	Note	\$	\$	\$	\$
Revenue from Ordinary Activities	2	23,516,739	26,885,484	0	0
Operating expenses					
Materials & Consumables used	3	(5,599,099)	(5,176,158)	0	0
Depreciation and amortisation expense	3	(3,706,804)	(2,726,781)	0	0
Borrowing Costs	3	(141,764)	(162,762)	0	0
Salaries & Wages Expense	3	(12,140,971)	(11,705,558)	0	0
Outlays Capitalised in Research & Development		1,653,761	1,815,380	0	0
Other expenses from Ordinary activities		(1,970,177)	(8,327,504)	(898,778)	(423,904)
Provision for Doubtful debts		(158,000)	0	0	0
Specific Expenses	3(b)	(5,190,571)	(314,000)	(1,740,743)	(104,000)
Profit (Loss) from Ordinary Activities before Tax		(3,736,886)	288,101	(2,639,521)	(527,904)
Income Tax (Expense) / Benefit attributable to Ordinary Activities	4	0	0	0	0
Net Profit / (Loss) attributable to members of Redflex Holdings Limited		(3,736,886)	288,101	(2,639,521)	(527,904)
Net exchange difference on translation of foreign statements of foreign controlled entity.		(2,926,294)	(202,580)	0	0
Equity raising costs		(67,518)	(907,217)	(67,518)	(907,217)
Total changes in equity not resulting from transactions with owners as owners		(6,730,698)	(821,696)	(2,707,039)	(1,435,121)
Basic earnings per share		(6.6 cents)	0.78 cents		
Diluted earnings per share		(6.6 cents)	0.78 cents		

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2003

		Consolidated Entity		Redflex Holdings Limited	
		30-Jun-03	30-Jun-02	30-Jun-03	30-Jun-02
	Note	\$	\$	\$	\$
Current Assets					
Cash Assets		1,070,124	401,403	105,481	1,606
Term Deposits		1,112,425	201,826	1,026,134	0
Receivables	8(a)	5,329,976	4,808,540	94,476	0
Inventories	9	10,548,366	5,748,241	0	0
Other	13	843,031	991,600	778,071	70,100
		18,903,922	12,151,610	2,004,162	71,706
Non-Current Assets					
Receivables	8(b)	265,511	1,810,300	54,279,588	42,766,803
Investments	10	0	0	3,740,142	3,740,142
Property Plant & Equipment	11	18,765,420	18,043,730	108,687	0
Capitalised Research & Development	12	6,833,546	5,788,064	0	0
		25,864,477	25,642,094	58,128,417	46,506,945
Total Assets		44,768,399	37,793,704	60,132,579	46,578,651
Current Liabilities					
Payables	14	4,429,511	3,918,187	70,817	206,398
Interest – bearing liabilities	14	769,000	292,121	516,022	292,121
Employee Provisions	15	415,416	428,541	45,862	0
		5,613,927	4,638,849	632,701	498,519
Non Current Liabilities					
Interest – bearing liabilities	14	2,171,351	0	2,171,351	0
Borrowings	14	0	0	6,665,173	3,486,587
Employee Provisions	15	339,533	433,722	123,695	0
		2,510,884	433,722	8,960,219	3,486,587
Total Liabilities		8,124,811	5,072,571	9,592,920	3,985,106
Net Assets					
Equity		36,643,588	32,721,133	50,539,659	42,593,545
Contributed Equity	16	59,733,895	49,148,260	59,733,895	49,148,260
Reserves	16	(3,128,874)	(202,580)	0	0
Accumulated Losses	17	(19,961,433)	(16,224,547)	(9,194,236)	(6,554,715)
Total Equity		36,643,588	32,721,133	50,539,659	42,593,545

STATEMENT OF CASHFLOWS

FOR YEAR ENDED 30 JUNE 2003

	Consolidated Entity		Redflex Holdings Limited	
	30-Jun-03	30-Jun-02	30-Jun-03	30-Jun-02
Note	\$	\$	\$	\$
Cash Flows from Operating Activities				
Receipts from customers	22,256,603	26,129,139	0	0
Payments to suppliers and employees	(26,352,573)	(26,389,216)	(4,198,955)	(406,133)
Interest received	78,074	123,923	13,463	0
Interest and other costs of finance paid	(146,979)	(162,762)	(141,674)	0
Net Cash Flows from (Used in) operating activities - Note 19	(4,164,875)	(298,916)	(4,327,166)	(406,133)
Cash Flows from Investing Activities				
Payments for property, plant and equipment	(6,586,731)	(7,606,610)	(215,748)	0
Sale (Acquisition) of Minority Interest in Visible Voice	0	160,044	0	0
Capitalised research and development	(1,813,539)	(1,157,065)	0	0
Net Cash Flows from (Used in) investing activities	(8,400,270)	(8,603,631)	(215,748)	0
Cash Flows from Financing Activities				
Loans to Related Parties	0	(774,858)	(8,334,099)	(9,409,186)
Bank Borrowings	2,687,373	0	2,687,373	0
Lease liability incurred	252,978	0	0	0
Shareholder loans received (paid)	(292,121)	49,296	(292,121)	49,296
Cash proceeds from share issues	10,653,154	10,306,356	10,653,154	10,306,356
Share Issue Costs	(67,518)	(907,217)	(67,518)	(907,217)
Net Cash Flows from (Used in) financing activities	13,233,866	8,673,577	4,646,789	39,249
Net Increase/(Decrease) in Cash held	668,721	(228,970)	103,875	(366,884)
Cash at Beginning of Financial Year	401,403	630,373	1,606	368,490
Cash at End of Financial Year	1,070,124	401,403	105,481	1,606
Reconciliation of Cash				
Cash at the end of the year consists of:				
Cash on hand	1,385	0	180	0
Cash at bank	1,068,739	401,403	105,301	1,606
	1,070,124	401,403	105,481	1,606

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 30 JUNE 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

This financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with. The accounting policies adopted are consistent with those of the previous year. The financial report has been prepared in accordance with the historical cost convention.

Principles of Consolidation

The Consolidated financial statements are those of the consolidated entity, comprising Redflex Holdings Limited (the parent company) and all entities controlled by the company during the year. The financial statements of subsidiaries are prepared for the same accounting period as the parent company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

The companies comprising the Redflex Group

Redflex Holdings Limited is the Chief Entity. Refer to note 10 for details of all entities comprising the Consolidated Entity

Funding requirements and the basis of preparing the financial report

The financial report has been prepared using the going concern convention which contemplates the continuing orderly commercialisation by the Group of its technologies. The ongoing growth in group revenue, particularly in relation to the USA Traffic Division, will require additional working capital. The Company believes this funding will be sourced from its bankers, financiers and/or shareholders.

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks readily convertible to cash within two working days at nominal value, net of any outstanding bank overdrafts where offset arrangements exist.

Research and Development Costs

Research and development costs are deferred only where they are expected to give rise to significant future benefits. Such costs are amortised over future periods on a basis related to those expected future benefits. The commencement date for amortisation is the date of commissioning the product and capitalised costs are amortised over a ten year period.

Research and Development Syndication

The Group's entitlement to research and development funding and obligations related thereto were finalised during the prior financial year.

Foreign Currencies

Transactions in foreign currencies of entities within the Consolidated Entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the Consolidated Entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract. Except for certain foreign currency options, all resulting exchange rate differences arising upon settlement or restatement are recognised as revenues and expenses for the year.

All exchange differences arising on settlement or re-statement are brought to account in determining the profit or loss for the financial year, and transactions costs, premiums and discounts on forward currency contracts are deferred and amortised over the life of the contract. Premiums on foreign currency options are expensed as incurred.

The USA traffic entity is considered financially and operationally independent of the parent entity. Accordingly the financial reports of the overseas operations are translated using the current rate method and any exchange differences are taken directly to the foreign currency translation reserve.

Leases

Leases are classified at their inception as either financial or operating leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are treated as financial leases and capitalised at the present value of the minimum lease payments and disclosed as property, plant & equipment. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the term of the lease. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in the operating results.

Property Plant & Equipment

Cost and Valuation

Items of property plant and equipment comprising a class of non-current assets are brought to account at cost and have not been revalued.

Depreciation

Depreciation rates are adopted as follows:

- Leasehold Improvements: 20% pa straight line
- Furniture & Fittings: 13-18% pa reducing balance
- Property, Plant & Equipment : Straight line over a period of seven years
- The depreciation rates are consistent with the prior year.

Taxes

Income Taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent that timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related income tax benefit, calculated at current rates, is treated as a future income tax benefit or deferred income tax. Tax benefits arising from net timing differences and carry forward tax losses are not brought to account as the benefit which has not been brought to account will only be obtained if:

- (i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (iii) no changes in tax legislation adversely affect the Consolidated Entity in realising the benefit.

Earnings per share

Basic EPS is calculated as net profit attributable to members divided by the weighted average number of ordinary shares, adjusted for any bonus element where applicable. Diluted EPS is calculated as the net profit attributable to members, adjusted for costs of servicing equity, the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses, and other non-discretionary changes in revenue and expenses during the period that would result from the dilution of potential ordinary shares divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Investments

All investments are non-current and are carried at the lower of cost and recoverable amount.

Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include salaries and wages, sick leave and long service leave.

Any liabilities expected to be settled within twelve months are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash flows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

The consolidated entity has adopted the revised Accounting Standard AASB 1028 "Employee Benefits" which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. The effect of the revised policy is immaterial.

Recoverable Amounts

Non-current assets have not been revalued to an amount above their recoverable amount, and in determining the recoverable amount, cash flows are not discounted, and where carrying values exceed this recoverable amount, assets are provided for.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Control of the goods has passed to the buyer.

Rendering of Services

Where the contract outcome can be reliably measured:

- control of a right to be compensated for the services has been attained and the stage of completion can be reliably measured. Stage of completion is measured by reference to the material costs and labour hours incurred to date as a percentage of total material costs and estimated labour hours for each contract.

Where the contract outcome cannot be reliably measured:

- revenue is recognised only to the extent that costs have been incurred.

Interest revenue

Control of the right to receive the interest payment.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Financial Instruments

The Consolidated Entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows. The interest rate risk and fair market valuation of financial instruments are shown in note 26

Recognised financial instruments	Accounting Policies	Terms and Conditions
(i) Financial Assets		
Receivables – Trade	Trade receivables are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are on 30 day terms
Receivables – Controlled Entities	Amounts (other than trade debts) receivable from related entities are carried at nominal amounts due. Interest (when charged) is taken up as income on an accrual basis.	Loans are at call and non interest bearing.
Receivables – Other Corporations	Amounts (other than trade debts) receivable from non related parties/entities are carried at nominal amounts due. Interest (when charged) is taken up as income on an accrual basis.	Loans and interest outstanding, if any, are at call.
Term deposits	Short term deposits are predominantly in USD and converted at year end rates. They are stated at the lower of cost and net realisable value. Interest is recognised when earned.	Short term deposits have an average maturity of 90 days and effective interest rates of between 1% and 2%.
Security Deposit	Security deposits are stated at the lower of cost and net realisable value. Interest is recognised when earned.	Security deposits remain for the term of the lease and achieve effective interest rates of ~2%.
(ii) Financial Liabilities		
Bank Borrowings	Bank borrowings are in USD, converted at year end exchange rates and carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate plus margin.
Payables	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Consolidated Entity.	Trade liabilities are normally settled between 30 and 60 days.
Amount payable to Controlled Entities	Loans from related parties are carried at the principal amount. Interest (when charged by the lender) is taken up as an expense on an accrual basis.	Loans are at call and non interest bearing.
Amount payable to Shareholders	Loans from shareholders are carried at the principal amount. Interest is taken up as an expense on an accrual basis.	Loans are at call and non interest bearing.
(iii) Equity		
Ordinary Shares	Issued and paid-up capital is recognised at the fair value of the consideration received by the company.	The Company is authorised to issue up to 200,000,000 Ordinary Shares. Details of shares issued and the terms and conditions of options outstanding over Ordinary Shares at balance date are set out in Note 16.

NOTE 2 REVENUE FROM ORDINARY ACTIVITIES**Revenue from operating activities:**

Revenue from sale of goods & services	12,997,964	15,880,270	0	0
Revenue from fee for service contracts	10,501,949	10,447,748	0	0
Total revenue from operating activities	23,499,913	26,328,018	0	0

Revenues from outside the operating activities:

Interest from other persons	16,826	123,923	0	0
Sundry Income	0	433,543	0	0
Total revenue from outside the operating activities	16,826	557,466	0	0
Total revenue from ordinary activities	23,516,739	26,885,484	0	0

NOTE 3 EXPENSES AND LOSSES

Movements in Work In Progress	(4,239,665)	11,672	0	0
Operating lease rental	340,971	363,286	0	0
Other expenses from operating activities	5,868,871	7,952,546	898,778	423,904
	1,970,177	8,327,504	898,778	423,904

Depreciation of plant & equipment	2,938,747	2,199,465	0	0
Amortisation of intangibles	768,057	527,316	0	0
	3,706,804	2,726,781	0	0

Materials & Consumables used	5,599,099	5,176,158	0	0
Interest expense other persons and corporations	141,764	162,762	0	0
Outlays capitalised in Intangibles	(1,653,761)	(1,815,380)	0	0
Salaries & wage expense	12,140,971	11,705,558	0	0
Provision for Doubtful debts	158,000	0	0	0
Specific expenses	5,190,571	314,000	1,740,743	104,000
Total expenses from ordinary activities	27,253,625	26,597,383	2,639,521	527,904

Specific Expenses:

Profit from Ordinary activities before income tax expense includes the following expenses whose disclosure is relevant in explaining the financial performance of the entity:

During the previous Financial Year the company disposed of a business where consideration for the sale of the business includes payment from future royalties. The Directors have reassessed and provided for the carrying value of the future receivable due to the uncertainty relating to the receipt of future royalties.

	1,250,000	210,000	1,250,000	0
Provision for writedown of receivables emanating from past Structured Finance transactions.	350,000	0	100,000	0

Notes to the Financial Statements for the year ended 30 June 2003	Consolidated Entity		Redflex Holdings Limited	
	30-Jun-03	30-Jun-02	30-Jun-03	30-Jun-02
	\$	\$	\$	\$
Foreign exchange losses arising from inability to hedge foreign currency receivables. The Company did not have the capacity to hedge these longer term receivables until establishing a relationship with its current bankers early in 2003. All future receivables under these contracts are covered by an option to hedge using foreign exchange options at a rate of AUD/USD 0.625	1,756,768	0	0	0
During the year the company incurred non-recurring costs comprising:				
Costs associated with planned debt/equity financing activity in the USA that was not completed when a more favourable financing option became available	1,240,949	0	0	0
and costs associated with group restructuring.	202,111	0	0	0
Provision for unrecovered loan balances relating to the ESAS loan scheme.	390,743	104,000	390,743	104,000
Total Specific Expenses	5,190,571	314,000	1,740,743	104,000

Disposal of Business

During the previous financial year Redflex Holdings Limited entered into an agreement to divest its wholly owned subsidiary, Visible Voice Pty Ltd and its 100% interest in the Visible Voice Unit Trust, where part of the consideration for the sale included reimbursement for losses subsequent to 1 January 2002 together with the book value of the Trust net assets. The consideration comprised an initial cash consideration of \$160,044, payments of \$551,192 due within the next twelve months, future IVR services for \$200,000 and future royalties of \$731,236 from prospective future sales.

Sales of \$431,650 and a non-recurring operating loss of \$806,277 were recorded against the consolidated results for the previous financial year.

Assets and liabilities disposed of were:

Cash balances	0
Inventory	108,007
Other assets	1,022,788
Fixed assets	117,604
Losses refunded	473,364
Total assets	1,721,763
Creditors & accrued liabilities	96,352
Total liabilities	96,352
Sale Consideration received	160,044
Sale Consideration receivable	1,482,671
Profit on Sale of business	17,304

NOTE 4 INCOME TAX**(a) Carried Forward Tax Losses:**

The prima facie income tax on the profit (loss) from operations is reconciled to the income tax (expense)/benefit as follows:

Profit/(Loss) from Operations before Income Tax	(3,736,886)	288,101	(2,639,521)	(527,904)
The prima facie tax, using tax rates applicable in Australia of 30% (2002 - 30%), on profit (loss) from operations differs from the accounts as follows:				
Prima facie tax on profit (loss) from operations	(1,121,066)	86,430	(791,856)	(174,208)
Tax effect of permanent differences	(430,500)	(468,297)	781,629	0
Under (over) provision in prior years	(305,055)	0	0	0
Carried forward (losses offset) benefits created	1,246,511	381,867	(10,227)	174,208
Income Tax Expense	0	0	0	0
Future income tax benefits from carry forward income tax losses not brought to account	4,218,654	2,972,143	390,561	400,788

The above future income tax benefit which has not been brought to account will only be obtained if:

- (i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (iii) no changes in tax legislation adversely affect the Consolidated Entity in realising the benefit
- (iv) the company has no franking credits.

During the year ended 30 June 1995 the Company sought and obtained a favourable private tax ruling relating to the eligibility of the carried forward tax losses. As a result of issues identified in calculating these tax losses, the Company has sought advice as to whether income derived by the Company from R&D Syndication is of a revenue or capital nature for taxation purposes, and also as to the extent to which the tax losses available to the Company are able to be used to offset that income. On the basis of advice received the Company does not believe that any contingent liability exists regarding the eligibility of carried forward tax losses.

Tax Consolidation

For the purposes of income taxation, the directors of Redflex Holdings Limited and its 100% Australian owned subsidiaries have decided to form a tax consolidated group. Members of the group will enter into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a prorata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

NOTE 5 REMUNERATION OF DIRECTORS

The Directors of the Redflex Holdings Limited during the year were:

- Chris Cooper (appointed 14 August 2002)
- Robin Debernadi (appointed 14 August 2002)
- Graham Davie
- John Gilbert (resigned 26 November 2002)
- Phillip Scanlan (resigned 26 November 2002)
- David Heaney (resigned 26 November 2002)

Remuneration, including superannuation, paid or payable or otherwise made available in respect of the financial year to all Directors of Redflex Holdings Limited directly or indirectly, from the entity or any related party.

Remuneration, including superannuation, paid or payable or otherwise made available in respect of the financial year, to all Directors of each entity in the Consolidated Entity, directly or indirectly, by the entities of which they are Directors or any related party.

Number of Directors of Redflex Holdings Limited whose remuneration including superannuation contributions fell within the following bands

			236,343	621,409
	961,738	1,151,616		
\$0 - \$9,999			2	1
\$10,000 - \$19,999			2	1
\$20,000 - \$29,999				2
\$30,000 - \$39,999			1	1
\$90,000 - \$99,999				
\$130,000 - \$139,999				
\$160,000 - \$169,999				1
\$170,000 - \$179,999			1	
\$300,000 - \$349,999				1

Mr Chris Cooper and Mr Robin Debernadi declined to accept Directors fees during the year.

NOTE 6 REMUNERATION OF EXECUTIVE OFFICERS

Remuneration received or due and receivable by executive officers of the Consolidated Entity whose remuneration including superannuation is \$100 000 or more, from entities in the Consolidated Entity or a related party, in connection with the management of the affairs of the entities in the Consolidated Entity whether as an executive officer or otherwise.

976,509	805,956
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Remuneration received or due and receivable by executive officers of the Company whose remuneration including superannuation is \$100,000 or more, from the Company or any related party, in connection with the management of the affairs of the Company or any related party, whether as an executive officer or otherwise.

344,440	0
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Number of executive officers of the Consolidated Entity and the Company whose remuneration falls within the following bands:

\$130,000 - \$139,999

1

\$140,000 - \$149,999

1

\$150,000 - \$159,999

1

\$160,000 - \$169,999

1

\$170,000 - \$179,999

2

2

0

\$300,000 - \$349,999

1

1

NOTE 7 AUDITOR'S REMUNERATION

Amount received or due and receivable by Ernst & Young for:

Auditing the financial report of the entity and subsidiaries.

97,585

101,882

97,585

101,882

Auditing of separate financial statements for subsidiaries within Australia

28,000

22,000

0

0

Auditing of separate financial statements for subsidiaries outside Australia

112,327

0

0

0

Assurance services in relation to Rights Issue Prospectus

0

55,000

0

55,000

Other advisory services

18,900

78,797

0

0

256,812**257,679****97,585****156,882**

NOTE 8 RECEIVABLES**(a) Current**

Trade Debtors	4,950,266	3,706,956	0	0
Other Debtors	793,417	765,525	193,723	0
Other Corporations	290,293	336,059	446,753	0
Provision for non-recovery	(704,000)	0	(546,000)	0
	5,329,976	4,808,540	94,476	0

(b) Non Current

Controlled entities	0	0	54,091,829	42,117,716
Other Corporations	1,779,511	2,020,300	1,241,759	649,187
Provision for non-recovery	(1,514,000)	(210,000)	(1,054,000)	0
	265,511	1,810,300	54,279,588	42,766,903
	5,595,487	6,618,840	54,374,064	42,766,903

Recovery of loans to employees under the Employee Share Acquisition Scheme

Redflex Holding Ltd has made loans to eligible employees to assist in the acquisition of shares in Redflex. These loans have been made pursuant to the Employees Share Acquisition Scheme, approved by shareholders and are classified as Other Debtors.

A provision of \$250,000 has been made for the potential non-recovery of parts of these loans, which may arise where the amount due is less than the market value of the shares acquired, and for which the loan matures within twelve months. At 30 June 2003, this amount would potentially apply to:

- loans associated with the issue of 84,225 shares where the shares were issued at \$2.60
- loans associated with the issue of 15,537 shares where the shares were issued at \$3.40.
- loans associated with the issue of 73,465 shares where the shares were issued at \$1.66
- loans associated with the issue of 26,400 shares where the shares were issued at \$1.52
- loans associated with the issue of 79,935 shares where the shares were issued at \$0.60

Based on a market price of \$0.90 as at the date of the preparation of these accounts, the net potential reduction to employee's loans is \$ 252,000 should all of these loans become repayable at that time.

NOTE 9 INVENTORIES

Raw Materials – at cost	1,221,367	2,296,230	0	0
Work in Progress – at cost	5,932,392	1,692,727	0	0
Infrastructure Components – at cost	3,394,607	1,759,284	0	0
	10,548,366	5,748,241	0	0

NOTE 10 INVESTMENTS**Shares in controlled entities**

Shares in controlled entities	Country of Incorporation	% Owned		Investment in Subsidiary	
Controlled Entities of Redflex Holdings Limited				\$	\$
Redflex Limited	Aust	100	100	3,356,669	3,356,669
Aerospace Systems Ltd	Aust	100	100	100,003	100,003
Silverlene (R&D) Pty Ltd	Aust	100	100	283,470	283,470
Redflex Traffic Systems Inc	USA	100	100	1	1
				3,740,143	3,740,143

Controlled Entities of Redflex Limited

Redflex Touchscreens Pty Ltd	Aust	100	100
Redflex Communications Systems Pty Ltd	Aust	100	100
Redflex Management Services Pty Ltd	Aust	100	100
Redflex Finance Pty Ltd	Aust	100	100
Aerospace JVCO (Australia) Ltd	Aust	100	100
Taglink Pty Ltd	Aust	100	100
Tiripa Pty Ltd	Aust	100	100
APR Investments Pte Ltd (a)	Singapore	100	100
Redprime Pty Ltd	Aust	100	-

Controlled Entities of Redflex Communications Systems Pty Ltd

Redflex Communication Systems Inc	USA	100	100
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Controlled Entities of Redflex Traffic Systems Inc

Redflex Traffic Systems Pty Ltd	Aust	100	100
Traffic Safety Systems Inc	USA	100	100

(a) This Company is not audited by Ernst & Young, the Redflex Holdings Limited's auditors.

NOTE 11 PROPERTY PLANT & EQUIPMENT

Furniture and Fittings	747,581	498,942	72,375	0
Leasehold Improvements	355,699	336,093	69,263	0
Plant and Equipment	25,574,747	22,182,556	74,110	0
	26,678,027	23,017,591	215,748	0
Less Accumulated depreciation				
Furniture and Fittings	(473,042)	(241,089)	(32,337)	0
Leasehold Improvements	(200,297)	(159,302)	(40,319)	0
Plant and Equipment	(7,239,268)	(4,573,470)	(34,405)	0
	(7,912,607)	(4,973,860)	(107,061)	0
Total Written Down Amount	18,765,420	18,043,730	108,687	0

Furniture and Fittings

Carrying amount at beginning	257,855	0
Inter-group transfer	0	72,375
Additions	248,639	0
Disposals	0	0
Depreciation Expense	(231,955)	(32,337)
	274,539	40,038

Leasehold Improvements

Carrying amount at beginning	176,791	0
Inter-group transfer	0	158,993
Additions	19,606	0
Disposals	0	(89,730)
Depreciation Expense	(40,995)	(40,319)
	155,402	28,944

Plant & Equipment

Carrying amount at beginning	17,609,086	0
Inter-group transfer	0	74,110
Additions	3,392,190	0
Disposals	0	0
Depreciation Expense	(2,665,797)	(34,405)
	18,335,479	39,705
Total Written Down Amount	18,765,420	108,687

Plant and equipment included an amount of \$Nil relating to Capital Works In Progress at year end. (2002 -\$1,581,858).

The Company's banker provides a USD 3.3 million loan facility which is secured by a Mortgage Debenture over the assets and undertakings of Redflex Holdings Limited and its subsidiaries.

NOTE 12 CAPITALISED RESEARCH & DEVELOPMENT

Research and Development Expenditure

Capitalised (at Cost)	8,628,920	6,815,380	0	0
Less accumulated amortisation	(1,795,373)	(1,027,316)	0	0
	6,833,547	5,788,064	0	0

NOTE 13 OTHER ASSETS

Current -

Prepayments	328,031	476,600	263,071	70,100
Security Deposit	515,000	515,000	515,000	0
	843,031	991,600	778,071	70,100

NOTE 14 PAYABLES & INTEREST BEARING LIABILITIES**(a) Current – Payables**

Trade Creditors	3,527,923	2,118,155	0	0
Other Creditors	901,588	1,800,032	70,817	206,398
	4,429,511	3,918,187	70,817	206,398

Current – Interest Bearing Liabilities

Bank Borrowings	516,022	0	516,022	0
Lease liability	252,978	0	0	0
Amount Payable to Shareholders	0	292,121	0	292,121
	769,000	292,121	516,022	292,121

(b) Non-current - Borrowings

Bank Borrowings	2,171,351	0	2,171,351	0
Amount Payable to Controlled Entities	0	0	6,665,173	3,486,587
	2,171,351	0	8,836,524	3,486,587
	7,369,862	4,210,308	9,423,363	3,985,106

The Company's banker provides a USD 3.3 million loan facility which is secured by a Mortgage Debenture over the assets and undertakings of Redflex Holdings Limited and its subsidiaries. Of this amount USD 1.75 million was drawn at June 30 2003.

NOTE 15 EMPLOYEE PROVISIONS**(a) Current**

Provision for Employee Benefits	415,416	428,541	45,862	0
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(b) Non-current

Provision for Employee Benefits	339,533	433,722	123,695	0
	754,949	862,263	169,557	0

NOTE 16 CONTRIBUTED EQUITY**Issued and paid up capital**

67,623,720 Ordinary Shares fully paid, (2002 - 44,648,141 Shares)	59,733,895	49,148,260	59,733,895	49,148,260
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Options

6,261,796 Quoted Options (2002: 8,744,456)	0	0	0	0
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Unquoted Employee Options (2002-220,000)

Number

	Grant Date	Vesting Date	Expiry Date	Exercise Price
100,000 unquoted options	16/9/1998	16/9/1998	16/9/2003	\$0.57
40,000 unquoted options	8/8/1999	8/8/1999	8/8/2004	\$2.57
60,000 unquoted options	20/5/2001	20/5/2001	20/5/2006	\$1.52
20,000 unquoted options	11/1/2001	11/1/2001	11/1/2006	\$1.66

220,000 unquoted options**Movements in Shares on Issue**

	Number of Shares	\$	Number of Shares	\$
Beginning of the Financial Year	44,648,141	49,148,260	32,125,145	39,749,121
Issued during the year by -				
Private Placement	19,670,126	9,124,050	3,599,500	3,167,560
Rights Issue	0	0	8,923,496	7,138,796
Share Purchase Plan	3,305,453	1,529,103	0	0
Less Transaction Costs	0	(67,518)	0	(907,217)
End of the Financial Year	67,623,720	59,733,895	44,648,141	49,148,260

Foreign Currency Translation Reserve

Beginning of the Financial Year	(202,580)	0	0	0
Effect of Exchange rate movement on translation	(2,926,294)	(202,580)	0	0
End of the Financial Year	(3,128,874)	(202,580)	0	0

Movements in Issued Capital

(a) Ordinary Shares

During the year:

- 750,000 Ordinary Shares were issued by way of private placement at a price of \$0.55 per share fully paid.
- 18,920,126 Ordinary Shares were issued by way of private placement at a price of \$0.4626 per share fully paid.
- 3,305,453 Ordinary Shares were issued by way of a Share Purchase Plan at a price of \$0.4626 per share fully paid.

(b) During the year ended 30 June 2003, no options were issued or exercised other than 350,000 options issued to Mr Phillip Scanlan and Mr David Heaney, in their capacity as Directors at that time. The options were issued at an exercise price of \$1.10 and expire on 31 December 2003.

	Consolidated Entity		Redflex Holdings Limited	
	30-Jun-03	30-Jun-02	30-Jun-03	30-Jun-02
Notes to the Financial Statements for the year ended 30 June 2003	\$	\$	\$	\$

(c) Redflex Employee Share Acquisition Scheme and Redflex Employee Option Plan

Redflex Holdings Limited has established the Redflex Employee Share Acquisition Scheme and the Redflex Employee Option Plan. Options are allocated to employees based on seniority with management discretion permissible.

The terms of the Employees Share Acquisition Scheme provide for loans to eligible employees of up to 95% of the issue price of shares in Redflex Holdings Ltd, repayable in five years. The terms of these loans provide, amongst other things, that the final amount payable shall not exceed the market value of the shares purchased under the loan arrangement.

(d) During the year ended 30 June 2003 no shares or options were granted to employees. Subsequent to year end options were offered to nine senior staff members.

(e) 2,482,660 options issued at an exercise price of \$3.48 expired on 31 December 2002.

NOTE 17 ACCUMULATED LOSSES

Balance at Beginning of year	(16,224,547)	(16,512,648)	(6,554,715)	(6,026,811)
Net Profit (Loss) attributable to members of Redflex Holdings Limited	(3,736,886)	288,101	(2,639,521)	(527,904)
Balance at End of Year	(19,961,433)	(16,224,547)	(9,194,236)	(6,554,715)

NOTE 18 LEASE COMMITMENTS

Operating Lease

Operating Lease Commitments Payable not later than one year	1,504,732	995,962	0	0
Later than one year but no later than two years	1,501,843	1,059,151	0	0
Later than two years but not later than five years	2,691,306	2,148,421	0	0
Later than five years	0	412,707	0	0
	5,697,881	4,616,241	0	0

NOTE 19 STATEMENT OF CASH FLOWS

Reconciliation of Profit (Loss) from ordinary activities after tax, to net cash inflow from operations

Net Profit/(Loss) after Income Tax	(3,736,886)	288,101	(2,639,521)	(527,904)
Non Cash Flow Items				
Depreciation Expense	2,938,747	2,199,465	107,061	0
Amortisation of Intangibles	768,057	527,316	0	0
Provision for Employee Entitlements	(107,314)	(11,308)	169,557	0
Provision for non-recovery of receivable	2,008,000	210,000	1,600,000	0
Change in Operating Assets and Liabilities				
Decrease/(Increase) in Term Deposits	(910,599)	0	(1,026,134)	0
Decrease/(Increase) in Receivables – Non current	240,788	(927,511)	(1,694,576)	(69,479)
Decrease/(Increase) in Receivables - current	(1,076,867)	(890,054)	(707,972)	0
Decrease/(Increase) Inventories	(4,800,125)	(553,399)	0	0
Increase/(Decrease) in Payables	511,324	(1,141,526)	(135,581)	191,250
Net Cash Inflow/(Outflow) from Operating Activities	(4,164,875)	(298,916)	(4,327,166)	(406,133)

Consolidated Entity		Redflex Holdings Limited	
30-Jun-03	30-Jun-02	30-Jun-03	30-Jun-02
\$	\$	\$	\$

NOTE 20 SUPERANNUATION COMMITMENTS

The Consolidated Entity has arranged Group superannuation plans whereby the employee and the employer contribute varying amounts of superannuation, depending on an employee's remuneration package. In other cases employees have nominated other funds to which the Consolidated Entity contributes at the direction of the employee.

In addition, the Consolidated Entity had during the year ended 30 June 2003 a statutory responsibility to contribute 9% of an employee's salary, which is also paid to a number of funds as directed by each employee.

All of the economic entities' responsibilities in respect to superannuation commitment relating to the year ended 30 June 2003 have been discharged. All relevant Superannuation funds are Accumulation Funds and accordingly there is no unfunded liability as at this date.

NOTE 21 EMPLOYEE BENEFITS

Subsequent to year end and before the date of this report, and in accordance with the existing employee option plan, Redflex Holdings Limited has taken a decision to issue options over the ordinary shares of Redflex Holdings Limited to certain executives of group entities. The options are proposed to be issued for nil consideration, and granted in accordance with performance guidelines established by the directors of the holding company.

The directors propose to grant Options over ordinary shares to key executives and directors as part of the Company's overall incentive policies. The intent is to align the interests of key executives to those of shareholders, to encourage the levels of commitment necessary to grow the company and to promote a focus on longer term employment for the benefit of the Company.

The Options are proposed to be issued in accordance with the existing Redflex Employee Option Plan on the following terms:

- (a) One third of the Options will vest on 1 February 2004;
- (b) One third will vest on 1 February 2005;
- (c) One third will vest on 1 February 2006;
- (d) Options can not be exercised until after the vesting date.
- (e) The options expire after 5 years;
- (f) 1,800,000 of the options are at an exercise price of \$0.50
- (g) The exercise price of the remaining options is nominally \$0.58 and increases at the rate of 3% per annum (compounding) until the time of exercise.
- (h) Options that have not vested cannot be exercised after termination of employment.

The Options, entitling the holder to subscribe for one ordinary share, will form a separate class of unlisted Employee Options. The maximum number to be issued is 5,985,000, of which 900,000 are proposed to be issued to the executive director and 420,000 are proposed to be issued to non-executive directors subject to shareholder approval which will be sought at the Company's forthcoming Annual General Meeting.

The aggregate employee liability is described in note 15 above.

NOTE 22 CONTINGENT LIABILITIES**Indemnity Guarantees**

A bank has issued Indemnity Guarantees against which Letters of Set Off are in place:

70,000 115,535

The Company's bankers have issued other Indemnity Guarantees of:

27,450 158,305

The guarantees have been issued in respect of rental deposits and bid bonds.

Structured equity funding for Visible Voice Unit Trust

Redflex Holdings Ltd (Redflex) entered into a licensing arrangement with an investment partnership in June 2000 which provided, amongst other things:

1. A one-off four year license fee paid to Redflex of \$10 million whereby the partnership is licensed certain rights over the Visible

	Consolidated Entity		Redflex Holdings Limited	
	30-Jun-03	30-Jun-02	30-Jun-03	30-Jun-02
Notes to the Financial Statements for the year ended 30 June 2003	\$	\$	\$	\$

Voice software. This amount is held on deposit to secure financiers to the Syndicate and Redflex's obligations per (4) below.

2. Payments of \$2.6 million by the partnership to Redflex to commercialise Visible Voice during the years ended 30 June 2000 and 30 June 2001; and
3. Royalty payments by Redflex over the term of the license of a minimum of \$375,000, and up to 12% of gross sales applicable to certain geographical regions;
4. An obligation in the form of a put option for Redflex to subscribe for equity in the partnership, for an amount of no more than the proceeds of (1) above
5. The issue of 500,000 options to acquire 500,000 shares in Redflex Holdings Ltd, exercisable at \$4.98 per converted option between 30 June 2004 and 30 June 2005.

In relation to the above, contingent liabilities exist in the form of remaining minimum royalties guaranteed by Redflex of \$225,000, between 30 June 2003 and 30 June 2004; and claims that may be substantiated by the partnership in circumstances where Redflex is in breach of the agreements entered into.

The cash proceeds of \$10 million referred to in (1) above and accrued interest has not been booked as income or as an asset in the books of Redflex as a corresponding liability exists for the put option referred to in (4) above. At no time, barring any breach of the agreement, will Redflex's obligations exceed the amount of cash on deposit and accordingly no contingent liability exists in this regard.

Redflex has since divested VisibleVoice, however, under the terms of the transaction documents that effected the transaction, VisibleVoice and Redflex may have continuing obligations beyond the divestment.

In accordance with the terms of the transaction, the Company has been advised by the manager of the partnership, that the Australian Taxation Office has issued amended assessments, to each partner, which disallow the deductions claimed by each partner. At this stage, the Company understands that investors will object to the ATO's revised assessments. The Company has sought professional advice on the implications of the ATO's actions, and the directors advise that at this stage they do not believe that the issue of the revised assessments by the ATO has given rise to any liability of the Company under the transaction.

NOTE 23 STATEMENT OF OPERATIONS BY SEGMENTS

(a) Primary - Business Segments

	Corporate Communications		Traffic	30-Jun-03 Total	30-Jun-02 Total
	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)
Revenue from customers outside the Consolidated entity					
Revenue from sale of goods & services	406	7,382	5,211	12,999	15,880
Revenue from fee for service contracts		0	10,501	10,501	10,448
Interest revenue	17			17	124
Other	0	0	0	0	434
Total segment revenue	423	7,382	15,712	23,517	26,886
Consolidated operating profit before tax	(5,550)	61	1,753	(3,736)	288
Total segment assets	6,259	13,136	25,373	44,768	37,794
Acquisition of property plant & equipment	0	311	6,275	6,586	7,606
Depreciation	0	271	2,667	2,938	2,200
Other Non cash expenses	0	417	351	768	527
Total segment liabilities	4,012	1,902	2,210	8,124	5,073

Notes to the Financial Statements for the year ended 30 June 2003	Consolidated Entity		Redflex Holdings Limited	
	30-Jun-03	30-Jun-02	30-Jun-03	30-Jun-02
	\$	\$	\$	\$

(b) Secondary - Geographical Segments	Australia	USA	Other	30-Jun-03 Total	30-Jun-02 Total
	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)
Revenue from sale of goods & services	6,756	5,475	768	12,999	15,880
Revenue from fee for service contracts	0	10,501	0	10,501	10,448
Total revenue	6,756	15,976	768	23,500	26,328
Total assets	26,073	18,695	0	44,768	37,794

The Consolidated operating profit before tax shown in the segment information includes nonrecurring costs, provisioning against receivables and an allocation of Corporate overheads.

Revenue allocated to the Corporate Division represents residual revenue received from the Touchscreen business which was discontinued in September 2002.

NOTE 24 EARNINGS PER SHARE

Basic earnings per share	(6.6 cents)	0.78 cents
Diluted earnings per share	(6.6 cents)	0.78 cents
Weighted average number of Ordinary Shares on issue used in calculation of basic earnings per share.	56,250,530	36,842,841

NOTE 25 RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated. These transactions relate to the day to day activities between companies in the Group and the following amounts represent the net movements in loans during the year.

Provision of interest free unsecured loans to wholly owned Subsidiaries

from related entities	6,412,195	3,486,587
to related entities	54,091,829	42,117,716

The Ultimate holding Company is Redflex Holdings Limited.

Relevant interests of Directors of Redflex Holdings Limited, including director related entities, at balance date

	Ordinary Shares		Options over Ordinary Shares	
Chris Cooper	360,676	349,867	30,443	30,443
Robin Debernadi	2,686,393	2,633,157	354,380	354,380
Graham W Davie	1,054,564	1,037,234	116,306	122,827

	Consolidated Entity		Redflex Holdings Limited	
	30-Jun-03	30-Jun-02	30-Jun-03	30-Jun-02
Notes to the Financial Statements for the year ended 30 June 2003	\$	\$	\$	\$

Variations in equities during the year ended 30 June 2003 related to equities predominantly bought under the Share Purchase Plan during November 2002.

During the year the Company secured a funding facility with Second Tee Pty Ltd. Mr Robin Debernadi and Mr Chris Cooper are Directors of Redflex Holdings Limited and directors of Second Tee Pty Ltd and have a financial interest in Second Tee Pty Ltd. In October 2002 Redflex Holdings borrowed AUD 3.3 million at an interest rate of 12% pa. The loan was repaid in January 2003 from the proceeds of the equity raising.

A redrawable facility of \$2.15 million existed with Second Tee Pty Ltd at the end of the financial year and has been redrawn subsequent to year end. The facility is secured by a charge over the assets and undertakings of the Company and certain subsidiaries. The security has been subordinated to the National Australia Bank which has provided additional funding facilities to the Group.

The Directors consider that the transaction was conducted on an arms length basis and on normal commercial terms.

NOTE 26 FINANCIAL INSTRUMENTS

a) Interest Rate Risk

(i) Financial Assets

	Floating Interest Rate		Non Interest bearing	
Cash	1,070,124	401,403	0	0
Receivables – trade	0	0	4,950,266	4,472,481
Short Term deposits	1,112,425	201,826	0	0
Receivables – Other Corporations	0	0	645,221	2,146,359
Total Financial Assets	2,182,549	603,229	5,595,487	6,618,840

The weighted average interest rate relating to term deposits is 1%.

(ii) Financial Liabilities

	Floating Interest Rate		Non Interest bearing	
Bank Borrowings	2,687,373	0	0	0
Payables	0	0	4,682,489	3,918,187
Amount payable to Shareholders	0	292,121	0	0
Total Financial Liabilities	2,687,373	292,121	4,682,489	3,918,187

The weighted average interest rate relating to bank borrowings is 4.9%

b) Net fair values

(i) Financial Assets

	Carrying amount per Statement of Financial Position		Aggregate net fair value	
Cash	1,070,124	401,403	1,070,124	401,403
Receivables – Trade & Other	4,950,266	4,472,481	4,950,266	4,472,481
Receivables – Other Corporations	645,221	2,146,359	645,221	2,146,359
Term deposits	1,112,425	201,826	1,112,425	201,826
Total Financial Assets	7,778,036	7,222,069	7,778,036	7,222,069

Notes to the Financial Statements for the year ended 30 June 2003	Consolidated Entity		Redflex Holdings Limited	
	30-Jun-03	30-Jun-02	30-Jun-03	30-Jun-02
	\$	\$	\$	\$
(ii) Financial Liabilities				
Bank Borrowings	2,687,373	0	2,687,373	0
Payables	4,682,489	3,918,187	4,682,489	3,918,187
Amount payable to Shareholders	0	292,121	0	292,121
Total Financial Liabilities	7,369,862	4,210,308	7,369,862	4,210,308

c) Credit Risk Exposure

- The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet.
- Redflex Holdings Limited, on behalf of the Communications business, has taken out Foreign Currency options totalling USD 1.92 million pertaining to future receivables arising from future milestones to be invoiced which are both known and denominated in USD. The USD receivables will fall due at varying times in the ensuing financial year and are priced at AUD/USD 62.5 cents. The options will be exercised if the AUD/USD rate on the due dates is above the strike price. Should the AUD/USD be below the strike price the options will be allowed to lapse and the more favourable rates taken on the day. All premiums relating to the options have been expensed in the current year.

NOTE 27 SUBSEQUENT EVENTS

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

INDEPENDENT AUDITOR'S REPORT



120 Collins Street
Melbourne VIC 3000
Australia

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Melbourne VIC 3001

Tel: 61 3 9288 8000
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Independent audit report to members of Redflex Holdings Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Redflex Holdings Limited (the Company) and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Redflex Holdings Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Redflex Holdings Limited and the consolidated entity at 30 June 2003 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Stuart Alford
Partner
Melbourne
Date: 30 September 2003

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW)

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. This information is current as at 25 September 2003

There were 3,389 holders of fully paid Ordinary Shares. The voting rights attached to these shares are such that every member present in person or represented by proxy or representative shall have one vote and on a poll every member present or by proxy or representative shall have one vote for every share held.

The distribution schedule of holders of fully paid Ordinary Shares is:

Holding range	No of Holders	Units	Percent
1 – 1000	368	265,485	0.39%
1001 – 5000	1,440	4,037,330	5.96%
5001 – 10000	660	4,970,928	7.34%
10001 – 100000	844	23,047,927	34.03%
100001 – over	77	35,402,050	52.28%
	3,389	67,723,720	100.0%

The names and percentage holding of the twenty largest holders of fully paid Ordinary Shares are:

	Units	Percent
Investaco Pty Ltd	3,158,680	4.66%
Ms Cheng Man Oy	2,406,366	3.55%
Invia Custodian Pty Limited (Black A/C)	2,370,738	3.50%
Invia Custodian Pty Limited (Thirty Five A/C)	2,250,000	3.32%
Vertex Bianca Nominees Pty Ltd	1,734,680	2.56%
Mr Melford Henry Russell	1,621,272	2.39%
Nellstar Pty Ltd	1,432,339	2.11%
Coningsby Nominees Pty Ltd	1,199,693	1.77%
O Connor Holdings Pty Ltd	1,080,848	1.60%
Commsec Pty Ltd	960,000	1.42%
Mr Graham Davie	890,948	1.32%
Silverlene Pty Ltd	713,934	1.05%
Dorion Holdings Pty Ltd	687,000	1.01%
Invia Custodian Pty Limited (White A/C)	660,839	0.98%
Equity Trustees Limited	655,532	0.97%
Quincetree Pty Ltd	616,471	0.91%
J P Morgan Nominees Australia	516,771	0.76%
O Connor Holdings Pty Ltd	511,809	0.76%
Ronoldings Pty Ltd	500,000	0.74%
Exton International Pty Ltd	500,000	0.74%
Total top 20 shareholders	24,467,920	36.12%
Remaining shares	43,255,800	63.88%
	67,723,720	100.0%

112 shareholders hold less than a marketable parcel of shares comprising 500 shares.

The names of substantial shareholders who have notified the company in accordance with section 671B of the Corporations Act 2001 are:

Thorney Holdings Pty Ltd – 5,451,577 shares

OPTION HOLDER INFORMATION

ASX ADDITIONAL INFORMATION

At 25 September 2003 there were 1,767 holders of options over fully paid Ordinary Shares, exercisable on or before 31st December 2003 at an exercise price of \$1.10. The names and percentage holding of the twenty largest holders of options are:

	Units	Percent
Thorney Holdings Pty Ltd	475,000	7.6%
J P Morgan Nominees Australia	306,667	5.0%
Mr Phillip Scanlan	250,000	4.0%
Vertex Bianca Nominees Pty Ltd	218,993	3.5%
Equity Trustees Limited	212,500	3.4%
Mr John Randal McDonnell	206,982	3.3%
Thistle Custodians Pty Ltd	205,420	3.3%
Commsec Pty Ltd	179,220	2.9%
Mr Roderick McKinnon Leister	153,802	2.5%
Coningsby Nominees Pty Ltd	115,308	1.8%
Mr Alan Baker	112,667	1.8%
Surfpen Pty Ltd	108,263	1.7%
O'Connor Holdings Pty Ltd	107,553	1.7%
Mr Brian Russell Tully & Mrs Margaret Gale Tully	106,281	1.7%
Mr David Heaney	100,000	1.6%
Mr Mark James Stemmer	100,000	1.6%
Mr Graham Davie	99,829	1.6%
Mrs Patricia Adell McDonnell	96,394	1.5%
Me Edward Protasewicz	92,834	1.5%
Landy Consulting Pty Ltd	91,125	1.5%
Total top 20 option holders	3,338,838	53.3%
Remaining options	2,922,958	46.7%
	6,261,796	100.0%

At 25 September 2003 there were 7 holders of Unquoted Employee Options over Ordinary Shares, exercisable before dates and at prices as per the Employee Option Plan.:

Holding range	No of Holders	Units	Percent
10001 – 100000	7	140,000	100.00

The register of securities is kept by Computershare Investor Services Pty Ltd at Level 12, 565 Bourke Street Melbourne.

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REDFLEX
HOLDINGS

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