TZ Limited
ABN 26 073 979 272

20 October 2010

Lodged by ASX Online

The Manager
Company Announcements Office
ASX Ltd.
Level 4, 20 Bridge Street
Sydney, NSW 2000

Dear Sir/Madam

2010 ANNUAL REPORT

It has come to the attention of TZ Limited (the "Company") that the copy of the Company's Annual Report that was uploaded to the ASX Company Announcements Platform on 15 October 2010 contained some incorrect page number references and that the Independent Auditor's Declaration of Independence and the Independent Auditors' Report to Members were slightly blurred. These errors have been rectified in the attached copy.

The Company confirms that these errors do not appear in the printed copies of the Annual Report which were dispatched on 15 October 2010.

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Limited

2010 annual report

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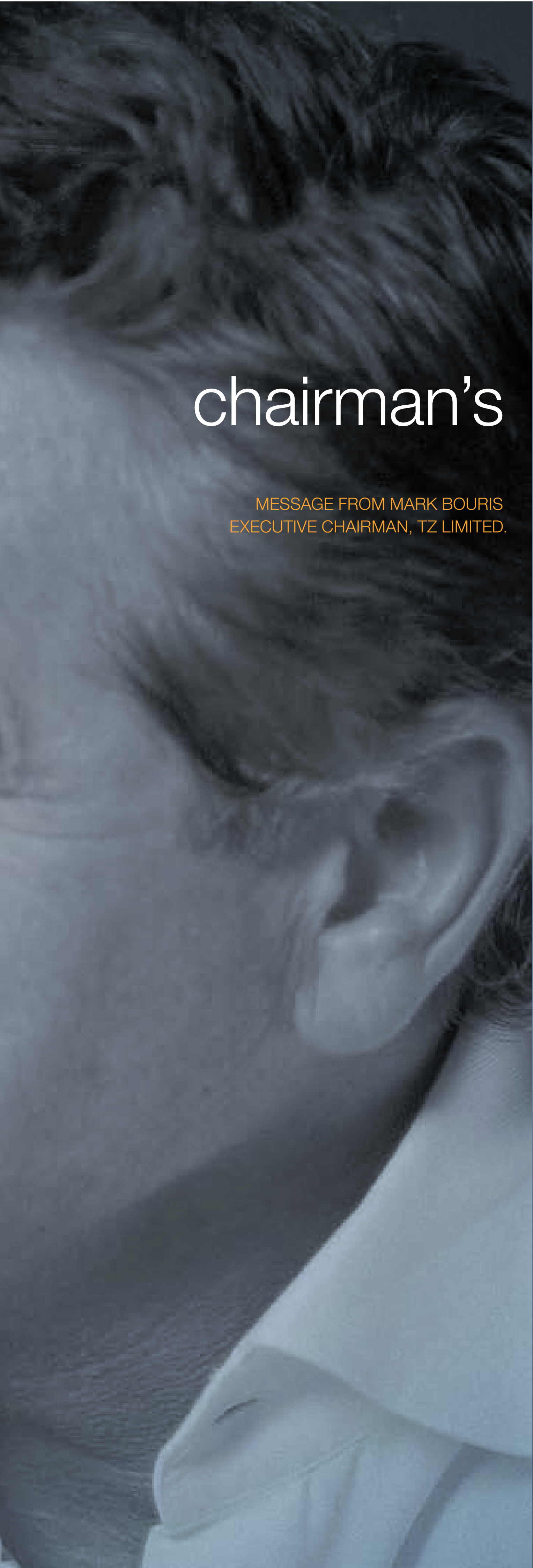
its technology, its people.”



chairman's report

MESSAGE FROM MARK BOURIS
EXECUTIVE CHAIRMAN, TZ LIMITED.

When I was first appointed to the board of TZ Limited in June 2009, I was confronted with the company's state of affairs. Time has passed on.

At the beginning of this calendar year, once the accounts were audited and lodged with ASIC and the Annual General Meeting was held, I had the luxury of time to reflect on the technology and people that had stuck by TZ Limited throughout the difficult times.

The people I refer to extend from staff and shareholders, business partners to customers and suppliers who all had made significant investment in TZ Limited and its technology at the time.

TZ Limited has the two fundamental ingredients for success, people and technology.

Once the group was financially restructured it was time to concentrate on the people and the technology.

In terms of technology, when I stepped through the uniqueness of how shaped memory alloys are incorporated into a very simple yet effective locking system, one can see where the years of research and investment has gone.

Taking that technology and imbedding a microchip with the ability to despatch commands, sense environmental conditions and to relay back data, I take the view that not only is the fastener unique but it has the ability to be ubiquitous with as many applications as there are doors, drawers or enclosures that need to be opened, closed and managed in the world.

Indeed, that is a very powerful invention and it belongs to TZ Limited. This technology is well documented and protected through the TZI stable of patents.

But all of this has become far more compelling with the advent of this concept called the "internet of things".

The "internet of things" is simply "connectivity" of one thing to another using the internet.

Throughout economic history "connectivity" has been the energy that amplifies commerce.

For example, "connectivity" through proliferation of the railway systems in North America in the 19th century amplified the industrial revolution and the commerce there from.
It made North America an economic powerhouse.

The "connectivity" of the internet, particularly through the new devices that are available today, will amplify commerce in the world as we know it.

So, the proposition of the "internet of things" is to say the least, extraordinary.

It's about connecting things through which commerce will be amplified and it's now global, far more powerful than any localised transport revolution.

Your company is at the forefront of capitalising on this phenomenon.
All we needed to do was:

- To restructure the company, that's all but done.

- Identify an application for the fastener to be commercialised. That's done; in fact we have 2 commercial applications in the data centre segment and the accountable mail segment.

- Reach agreement with distribution partners who have global reach. That is done, with Anixter and Pitney Bowes both of whom have adopted our technology into their market segments with a great deal of enthusiasm.

- Build an execution rhythm for manufacturing, installation and maintenance. I can proudly say that rhythm is now complete and is known as the TZ Rhythm and with all its subsets including sales rhythm, operational rhythm and maintenance rhythm. As ubiquitous as the TZ Devices are, our rhythm must be able and mobile enough to execute every time and on time notwithstanding the market segments we enter into. I am now confident that is the case.

That's where the people come in. It has taken the best part of a year to work out how to restructure the people in the organisation.

This has resulted in new hires, a large number of redundancies, some voluntary and some forced, and a major reshuffle of roles where appropriate.

It's also required a far better working relationship between the PDT campus and the TZI campus in Chicago. I am proud to say that they are both working well together.

Our aim is to have at any point in time 2 applications live and being distributed by 2 global leaders in distribution of that particular market segment.

Whilst at the same time we will also aim to have 2 new applications designed, tested and ready for rollout with 2 new global distribution partners and finally to have at least one prototype of a considered application being devised.

I can confidently say that that this is currently the case today.

TZ Limited has come a long way and all staff, from my fellow board members to every single person in the Group, which includes people in the Ukraine, London and across North America representing either PDT or TZI, should be congratulated and thanked for their personal belief in the technology and the company and each other.
Their perseverance is a model worth studying.

TZ Limited has very strong leadership in TZI and PDT. Both of these subsidiaries now have high quality accountability structures, clear goals and a transparency that allows measurement of performance.

Whilst on the subject of PDT, which is where the bulk of our people are employed, I think a special note of thanks needs to go to Mark Schwartz and his brilliant team, extended as it is, for being able to continue being profitable during the Global Financial Crisis and indeed to grow the business beyond our expectations.

Without PDT's free cash flow from their profitability TZI would have experienced greater strain in its early period in 2009 than it otherwise did. I am pleased to say that TZI is no longer in that position of reliance. PDT has a significant array of successful blue chip clients in electronics, medical and consumer segments.

Leveraging PDT's client base with TZ Technology is now a priority for the Group and we already have a number of examples where this happened throughout the year. The Dell Adamo is but one example of such a successful outcome.

Whilst the 2010 year came off the tail end of the global financial crisis and a severe lack of capital and equity markets, TZ Limited managed to secure significant equity swaps for debt and fresh capital in the form of convertible notes. The financial event worth noting is that debt from convertible notes was reduced by a factor of nearly 40%.

This is further evidence of belief in TZ Technology and people via the capital market. We still have a long way to go with market confidence and our objective must be to build awareness of just how good this company can be at every level and that process starts with this annual report.

I am a true believer in TZ, its technology, its people and now its working rhythms. I am excited about the future and I am privileged to be involved in what I consider to be an extraordinarily bright future for this company.

Mark Bouris

MARK BOURIS

“this is why we at TZ
continue to believe that,
“*The Way to Predict the Future is to Invent It*.”

dickory rudduck

MESSAGE FROM DICKORY RUDDUCK
EXECUTIVE DIRECTOR &
FOUNDER/INVENTOR, TZ LIMITED.

Inception: 1998

In the late 90s, I had my Big Idea. It was an idea so big that I thought I was dreaming to think it could succeed. But with the encouragement of my esteemed partner and co-founder, John Wilson, I drafted three inventive patents and embarked on a journey to bring them to commercial reality.

The first “Fixing and Release” patent described devices with integrated electronic chips that could be manipulated remotely in 3D space using a force or a message. The second patent for a “Multi-Function Tool” introduced the concept of a universal tool using software to locate, authorize and control these devices.

Finally, the third patent for “Products with Multiple Functions” addressed incorporating this remote manipulation technology into everyday products.

These patents established the world of “Telezygology” – the science of remote fastening as a new way of assembling and controlling everyday objects. Because the concept of remote assembly was so unexpected and promising in the way it could improve existing products we quickly attracted the attention of major businesses in the United States and Europe.

This response showed that small pieces of remotely controlled distributed intelligence with the ability to create movement for locks, closures, seals and valves could offer completely new business opportunities across all manufacturing verticals including industrial, marine and aerospace.

Delivery: 2010

Today, the Internet has become the most pervasive technology event on Earth and it seems like TZ's vision was just waiting for it. This new world has made TZ even more relevant and more vital to the new business strategies that are changing the global commercial landscape.

For instance, using the Internet for communications delivery, TZ Technology now has global reach. Today, our core electronics are three times smaller and significantly more powerful than previously imagined making the decentralized aspect of our technology more and more practical. After all, even the most mundane objects like light bulbs now have embedded electronics controlling and optimizing function.

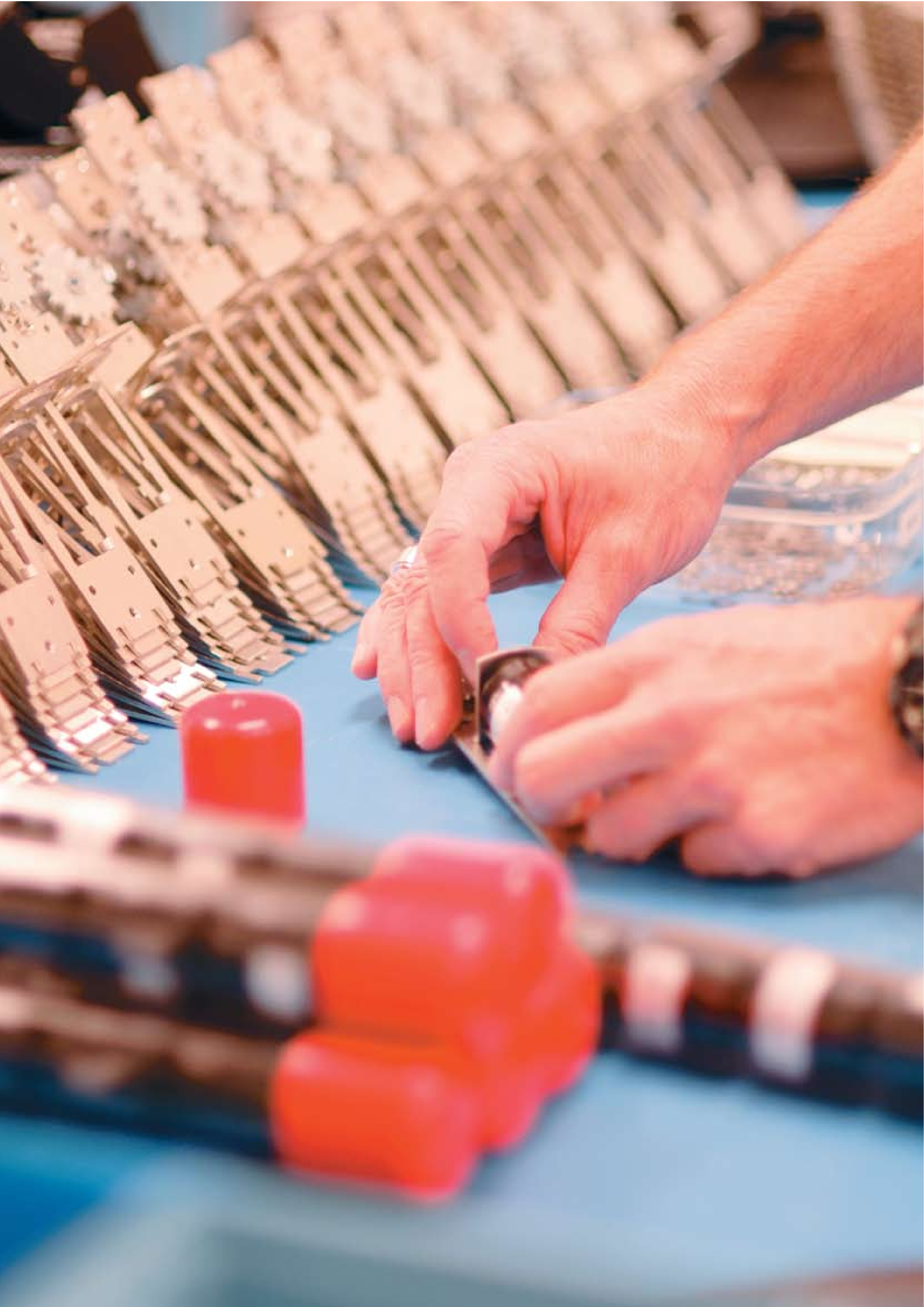
Today's huge amount of available data has created an entirely new set of business parameters around privacy and infrastructure protection. Wireless technology is evolving to the point that all objects will be connected and become part of the "Internet of Things." And through this, TZ continues to grow, charting its market course and discovering new opportunities for current and future devices.

The distributed intelligence of TZ Devices in the context of the '"Internet of Things" foretells a future where all objects on Earth will have an IP address and be managed through the Internet. This new thinking will extend TZ's reach to new levels of control over the systems managing and running the world's infrastructure. With cloud computing and our software platforms, TZ has the capability to integrate with enterprise solutions and become part of the global infrastructure for protection, maintainability and reconfiguration.

Today, we have delivered effectively what we dreamed. We have over 200 patents under prosecution. We use Smart Materials to provide actuation. We have developed relevant protocols to communicate with multi-function tools like the smart phone through an over-arching software architecture that reaches into the Internet to control anything, anywhere on the planet. There are no other devices like ours in production and we are out in front of the technological curve. I am proud to have been asked to join the Board and be part of a team under the business leadership of our Chairman, Mark Bouris who genuinely believes in the technology and its potential.

Last century we didn't anticipate the impact of the Internet explosion or the profound effects of cloud computing, but our vision has clearly taken advantage of these changes. I also believe that what is coming in the future, but is not yet clearly visible, will continue to work to our advantage.

I believe that at the very extremities of the network, remotely controlled devices with integrated intelligence capable of manipulating things in space will be integral to building and maintaining the infrastructure of the built world. This is why we at TZ continue to believe that, "The Way to Predict the Future is to Invent It."



"the world now needs TZ Technology and the Board, Management, Staff and Shareholders of TZ will ensure that TZ is successful."

kenneth ting

MESSAGE FROM KENNETH TING
EXECUTIVE DIRECTOR &
COMPANY SECRETARY, TZ LIMITED.

I've spent nearly all my working life in the technology sector either in commercializing new technology or raising capital to fund commercialization.

My passion for technology meant I often spent long periods overseas because nearly all the technology companies I worked with were not Australian.
When I was first introduced to TZ in May 2009, I was very reluctant to be involved.

I initially believed that inventions with global application rarely come from Australia. However, after doing due diligence on TZ Technology, I became convinced that TZ was a rare opportunity for me to finally be part of an Australian company with world beating disruptive technology.

To me, TZ is unique in that it owns technology that is applicable across many diverse industries.

Since the advent of the Internet, the world has changed rapidly with increasing connectivity.

People want to feel connected not just to other people but to their things. In September 2009, the "Internet of Things" was identified by Richard MacManus, the Editor in Chief of ReadWriteWeb as one of the Top five web trends of 2009.

Similarly in July 2010, Internet analyst Laurie Lamberth, said that the "Internet of Things" will likely be "one of the most important technological advances of this century".

Imagine a world where everyday things are connected so that you can control and monitor them through your mobile phone or laptop.

A world where everyday items can actually make intelligent decisions because they can capture data about their environment and respond.

For example, your alarm clock wakes you a little later as it knows that your bus is going to be late because your clock can 'speak' to the bus' GPS devices.

If everyday objects can communicate with each other we can live more enjoyable and efficient lives.

With TZ Technology there is now a better way of fastening, securing and maintaining valuable assets enabling people to control and monitor their "things" 24 hours a day.

The World now needs TZ Technology and the Board, Management, Staff and Shareholders of TZ will ensure that TZ is successful.

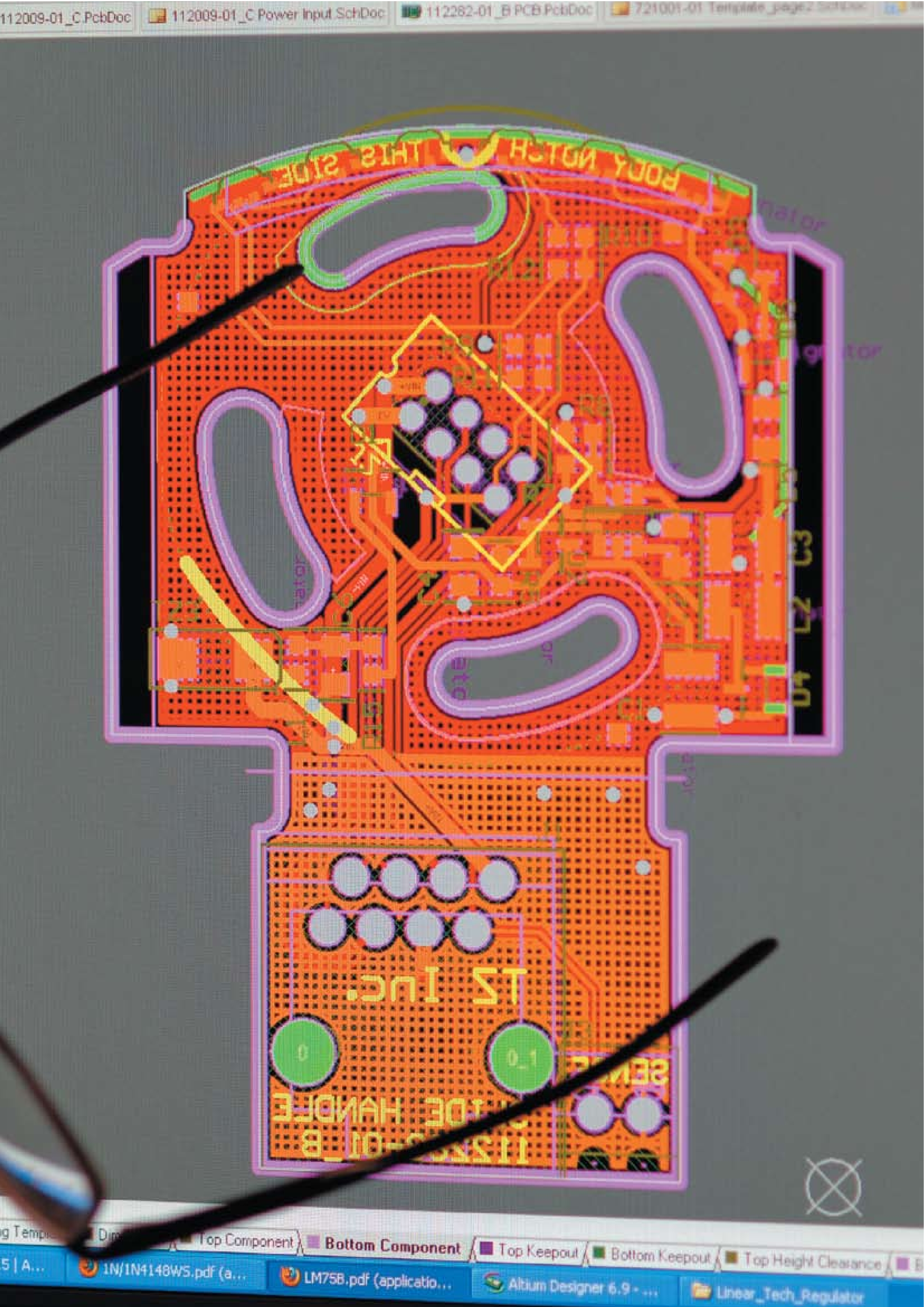
When Mark Bouris and I became directors of TZ there were many legacy issues pertaining to the capital, organization and operating structure of TZ which needed to be resolved before TZ could successfully commercialize its technology.

Much of the last 15 months since Mark and I joined the Board has been spent resolving these issues and to reinforcing partnerships with leading companies to support distribution and commercialization of our products.

It has not been an easy process and certainly a much more difficult experience then working in any of the start-up technology companies I have been involved with.

I must pause to say a big thank you to our Chairman because without his leadership this very difficult journey would not have been possible.

We are now in a position where I believe, with nearly all of the legacy issues resolved, we have a solid platform and the right timing for explosive growth.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"reinventing the fundamental building blocks that underpin the way we secure, service, maintain and repair the world today."

john wilson

MESSAGE FROM JOHN WILSON
PRESIDENT & CEO,
TELEZYGOLOGY, INC.

Firstly, I'd like to thank the shareholders, Mark Bouris and Ken Ting for their commitment and efforts to overcome the difficulties of the last 12 months and to providing an opportunity for the TZI team to pull together and re-build this organization into something we can truly be proud of. Without the strength and conviction of the Board and a particularly strong Chairman, we would never have been able to navigate through and overcome the significant challenges of the past year.

Since taking up the reins as CEO of Telezygology Inc. in May of this year, the last four months have been an operational whirlwind with substantial changes to the way we do business. The truth is that the business needed a change, it needed a shot of adrenalin, and something to bring back the belief and passion that drove the development of this company in the early days.

When I look back at the late 90's, when Dickory first pitched the idea of intelligent fastening to me, the thought of integrating micro-processors into fastening devices seemed like a radical step. Nevertheless he convinced me that with Moore's Law and the relentless miniaturization of micro-chip technology, almost everything in the world would be getting smarter so why not fasteners?

What intrigued me to leave a senior executive role at James Hardie to join Dickory and start TZ wasn't just the novel thinking of integrating a chip into a fastening device but the real genesis of the idea; it was about reinventing the fundamental building blocks that underpin the way we secure, service, maintain and repair the world today.

The coupling of machines with sensors, software control and computers has transformed many aspects of manufacturing and has profoundly changed the way we do things.

Apply that same philosophy at the most granular device level and think sensors, software, electronics, computing power and remote actuation and it's hard not to get excited about the potential this Company's technology can deliver.

I never questioned Dickory's vision or technology direction. He always told me that "invention needed to make sense in the world in which it is finished, not the world in which it started" and that we would find smart people along our journey with the collective skills to make the technology concept a reality.

Well, over the last 12 years, we've had a fantastic team of technologists, engineers and innovators who have made what we have today possible and it was their belief, energy, passion and absolute commitment to the vision that drove them to that success.

It's that same belief and passion I want to permeate throughout the organization. When I think about what we were able to achieve in the early days with essentially concepts and prototypes and I look to the proprietary hardware and software offerings we have today that demonstrate the vision is real ... I'm energized by the possibilities.

I'm here today, because of what I believe we can achieve.

We have done some great things in the last few months and there are many initiatives that we are hard at work to implement.

We've reinvented the business with three focused business units each with a clear offer to targeted market segments. We have aligned the organization to deliver simple and compelling value propositions to a customer base that truly values what we offer.

We've refined our products, branded them and launched a concerted marketing effort to build awareness of our products, technology and capability.

We've worked hard to consolidate our partner relationships and to proactively collaborate far more closely with them at the customer level to help to drive sales.

We are in a phase of rebuilding - rebuilding our market offerings, our competencies, our organization, our people and most of all our passion and drive. Rome wasn't built in a day but it was built stone by stone and we are now building the foundations for a successful business.

To the team at TZ, I thank you for your support and absolute commitment of time, energy and effort to live up to the high expectations I have set. We can do this!!

"our success is built
on the great group of
professionals I have the
privilege to work with."

mark schwartz

MESSAGE FROM MARK SCHWARTZ
PRESIDENT & CEO, PDT, INC.

It seems a lifetime since I left Motorola to start PDT with my partner Scott Semenik. Frankly, friends and family thought we were nuts.

Our office was my basement, our funding was on our VISA cards and our clients could be counted on one hand. I lost more than a little sleep.

That was 15 years ago. Today, PDT is one of the world's leading product development companies with 100 people, 9 offices worldwide and hundreds of clients. Better still, every year since that first one has been profitable.

Fiscal 2010 has followed suit. Our focus on leveraging Product Strategy into our suite of services is paying off. We're getting involved further 'up stream' in the product planning and business planning cycles of product developments.

Naturally, this allows us to help shape the direction of a project which, in turn, leads to more development opportunities.

Despite a spluttering world economy, we've posted strong numbers. We've exceeded our initial plan by 13% and expanded our customer base with a healthy mix of Medical (51%), Military/Public Safety (20%) and Consumer Goods (29%).

I'm also especially pleased, given U.S. unemployment figures, that we've been able to create several new positions by expanding our service offerings in the areas of Product Strategy, Military Project Management and Software Development.

Surprisingly, we've found that the military community is actually quite small and everyone seems to know everyone else.

So this year we've added an industry expert to our business development team. Our contacts and insight now give us instant credibility in this highly visible and active market with sales growing substantially.

Fortunately, we've always had many electronics manufacturing clients, so software development was a natural progression for us.

We've put on a highly experienced software manager and doubled our software team which has led to some of the largest product development programs in our history. And since success breeds success, we expect the number and size of our software development programs to continue to grow.

Naturally, our success is built on the great group of professionals I have the privilege to work with. This includes not just the Technical team but also our hardworking Marketing and Sales staff who continue to attract great projects and customers.

Thanks to these people we get more than our share of excellent opportunities which allows us to work on cutting edge products and new technologies that keep our designers and engineers excited and our knowledge base state-of-the-art.

I should also thank our new Board and Chairman for seeing PDT as an integral part of TZ's overall strategy and playing an important part in TZ's commercialization and new product offers.

This year has also seen us grab headlines for design work and thought leadership in the product development space with publications such as Crain's Chicago Business, Product Design and Development, Medical Design, Today's Medical Developments, Medical Design Technology, Military Information Technology, Designfax, FierceWireless, Computerworld, and Talent Management Magazine featuring us.

We've won accolades, too – some fourteen awards for product design, across a diverse range of products from a surgical wound care device and consumer electronics to office products.

I'm pleased to say that fiscal 2010 was a strong year and I expect we'll continue that pattern in 2011. If I'd known fifteen years ago how well things would turn out, I might have gotten more sleep.

“inventions need to make sense in the world in which they are finished, not the world in which they are started.”

Dickory Rudduck, Executive Director, TZ Limited and Inventor.

Getting the fundamentals right

- Rationalizing the business operations
- Reconstructing the Company accounts
- ASX Relisting
- Restructuring debt through successful negotiations with QVT

Targeting the business for the future

- Realigning the business with defined segment offerings through key channel partners:
    - Infrastructure Protection, Inc.
    - Packaged Asset Delivery, Inc.
    - Aerospace Asset Maintainability, Inc.

Design that wins awards and customers

- PDT multiple awards
- Growing the medical devices segment
- Design innovation: Dell Adamo, Perkins Brailer

Creating compelling value propositions

- Developing and launching the TZ Infrastructure Protection product suite
- Developing and launching the Packaged Asset Delivery offering
- Resolving the license dispute and relaunching the FutureWall™ System

Building productive partnerships

- Anixter partnership strengthened through introduction of Infrastructure Protection product solutions
- Intanova joint venture to relaunch FutureWall™ System
- IOPC appointed as reseller to support commercialization of TZ Courier™

highlights

"We have done some great things in the last few months and there are many initiatives that we are hard at work to implement.

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John Wilson, President & CEO, Telezygology, Inc.

Getting the fundamentals right

Following the appointment of the new TZ Limited Board of Directors and subsequent review of operations, the Board set about actively implementing plans to ensure the short term viability of the business, while being mindful of the longer-term growth strategies previously underpinning shareholder support.

"the proposition of the *internet of things* is to say the least, extraordinary."

Mark Bouris, Executive Chairman, TZ Limited.

Having stabilized operations and executed an interim plan to move the Company towards achieving positive cash flow, the Directors began raising capital to fund growth in line with previous expectations.

The Board has also achieved progress in a number of other areas since June 2009 including:

Rationalizing the business operations

The Board has raised capital funds in two tranches. This was crucial to the company's short term survival and instrumental in its long term success in North America.

With extremely limited resources, the Board has managed TZ Limited's cash flow on a daily basis to ensure effective operation.

Operational achievements include readjusting the company's business plan, consolidating the company's position with distribution partners and customers, reducing overheads without compromising the roll-out strategy, launching a new offering to the data centre market, and supporting the integration of TZ Technology into what is currently the world's thinnest Dell laptop computer.

Restructuring the Company Accounts

Reconstructing the company accounts and lodging them and an audited report with the Australian Securities Exchange in December 2009.

ASX Relisting

TZ Limited has recommenced listing on the Australian Stock Exchange having satisfied all ASX requirements.

Restructuring debt through successful negotiations with QVT

A moratorium with QVT who agreed not to seek recourse or impose default penalties in relation to payment of interest due on its convertible notes. In addition the Board negotiated the conversion of a portion of QVT's convertible notes to equity and more recently the securement of an additional loan facility of US$4,100,000 with QVT Fund LP and Quintessence Funds LP to support continued operations.

Targeting the business for the future

In May 2010, founding partner John Wilson was appointed CEO of TZI to overcome previous strategic issues. John's first order of business was to restructure TZI to better address the needs of TZI's global markets and customers. As an outcome of a detailed strategic review, three new autonomous business units were created; each dedicated to deliver specific infrastructure hardware and software solutions to targeted segments through well defined and branded product solution suites.

Infrastructure Protection Inc.

Dedicated to delivering solutions to targeted customers primarily in the data centre market, oriented around new levels of physical security, protection and remote control over global IT and Telecommunication assets.

The business will be initially characterized by its Praetorian and Centurion system offerings with further planned extensions to this platform together with the on-going strategic distribution relationship with Anixter International Inc.

Maarten van Duijn was appointed head of this business unit, bringing with him over 17 years international experience in the IT and Telecom industries.

Packaged Asset Delivery Inc.

This business is focused on offering automated "last mile" parcel delivery infrastructure to customers across a range of usage scenarios, including corporate mail management, management of parcel delivery for high density residential complexes and automated secure parcel pick-up at retail outlets.

International Office Products Cooperative (IOPC), a manufacturer of modular furniture systems and a supplier to the government and major corporate clients, was appointed as a Value Added Reseller of its TZ Courier™ product to support commercialization.

Anthony White was appointed as interim business leader for this unit and brings with him a broad range of expertise across business development, strategic business analysis, international marketing, project management and software development.

Aerospace Asset Maintainability Inc.

After a long study of the opportunities in Aerospace the Board had decided the imperative for the business unit is to seek out partnership and licensing relationships with OEM suppliers to support market entry and adoption.
These relationships will be designed to take best advantage of the significant investment in the development of aerospace compliant intelligent latching and fastening systems that TZI has made in previous years.

TZI is moving quickly to reactivate technology licensing opportunities that were reasonably well advanced prior to the activity in this segment being put on hold in May last year.

Design that wins awards and customers

Product Development Technologies

PDT received wide acclaim from award programs including the highly prestigious IDEA Award sponsored by BusinessWeek, the Industrial Designers Society of America (IDSA®), Target and Autodesk. PDT's design and development work also won recognition including Design Journal's Platinum "Award for Design Excellence" (ADEX) for the S1 Audio NxSET™ Neck Level Headphone Set and Design Journal's Platinum "Award for Design Excellence" (ADEX) for the Chiron Technology Iris Touch 200 IP Security Dialler Interface.

Despite the challenging economic environment, PDT continued to perform well. The integration of TZI products for two of their Fortune 500 clients is a concrete example of the synergies between the Group companies.

PDT's presence in the fast-growing medical device category was strengthened through a number of programs for telemedicine applications. PDT's recent membership in The Continua Health Alliance connects PDT to a wide network of innovative companies actively involved in telemedicine.

PDT continues to shift customer verticals from consumer electronics to medical, military and public safety. A number of high profile products developed with PDT have also launched this year including the Dell Adamo laptop, Perkins Brailler and Cardinal Orwell™.

The recently released Dell Adamo XPS, the world's thinnest laptop, features TZ's Tube Actuator that enables electronic unlatching within the extreme size constraints. Whilst the Adamo XPS is targeted at the high-end of the market with relatively low volumes, the Company believes there are many other volume applications for this commercially proven TZ Actuator. PDT played a significant part in the development of both the Adamo and the Adamo XPS.

Creating compelling value propositions

Over the year, TZI has developed and launched a raft of new products including the Infrastructure Protection System Solutions comprising the TZ Praetorian™ and TZ Centurion™ Systems and its Packaged Asset Delivery Solutions, TZ Courier™ and TZ Concierge™. In addition, the Company relaunched its FutureWall™ System universal building platform technology in Australia.

TZ Praetorian™ System

Four new hardware products were developed to collectively make up the TZ Praetorian™ micro-protection system with a focus on extending 3rd party access control to the cabinet level in the data centre market. The system was commercially launched in September 2009 and has been well received with several pilot installations completed and a significant pipeline developing.

TZ Centurion™ System

Following the launch of the TZ Praetorian™ System, in late April 2010 TZI introduced its IP based stand-alone TZ Centurion™ System at the InterOp Business Technology Expo in Las Vegas. Interest for the system has been strong and a number of beta site installations have been deployed in Europe and the US.

TZ Centurion™ Server

A beta version of the new TZ Centurion™ Server scalable software platform has been released for initial beta site testing. This enterprise level software enables data center customers to effectively protect and monitor multiple Centurion deployments and multi-site installations remotely from a central location.

The introduction of this significant software platform represents a new business milestone for TZI into high value added services of software customization, software integration, maintenance and service solutions to complement and enhance the existing hardware offerings.

TZ Packaged Asset Delivery Solutions

In mid-2009, development work commenced on a sophisticated intelligent locker system comprising a series of TZ locking devices, networking hardware and umbrella software application. Developed to address the delivery of accountable mail in corporate and residential environments, the system, now branded as TZ Courier™, addresses many of the identified issues associated with last mile parcel delivery including improved chain of custody, audit trail tracking and increased user convenience.

FutureWall™ System

Under a newly formed joint venture, Intanova Pty Limited, TZ relaunched the FutureWall™ System in Australia and announced a new national Distribution relationship with Iken Commercial Interiors Pty Limited at the prestigious Saturday In Design event in Melbourne in early August. The FutureWall™ System has a credible track record of successful interior fit-outs over the last six years from high-end corporate offices to government departments throughout Australia.

Building productive partnerships

Anixter International Inc

Anixter International Inc is a leading global supplier of communications and security products.

Through a joint development agreement with Anixter, TZI has developed and launched the TZ Praetorian™ System to address the opportunity for micro-security at the cabinet level in the data center market.

The TZ Praetorian™ System was recently noted in Anixter's 2009 annual report as one the two innovative new solutions delivered by Anixter's Infrastructure Solutions Lab based on feedback from their customers.

Pilot installations of the TZ Praetorian™ System have performed flawlessly since installation in late 2009 and have helped to increase the awareness of TZI's infrastructure protection offerings and their ability to deliver new levels of physical security and controlled access

Anixter is also distributing on a non-exclusive basis the TZ Centurion™ System, which has been well received by the market. Collectively the early adopter customers such as institutional, government and telecommunications sector including Washington University Genome, the Church of Jesus Christ of Latter-day saints in Utah, the State of Nebraska, and BlueLock Cloud Hosting.

International Office Products Cooperative (IOPC)

Under the reseller agreement with IOPC, IOPC integrates the TZ Courier™ hardware and software infrastructure into a secure storage locker system which IOPC on-sells to its government and corporate users. IOPC also intends to distribute the System through its national network of system furniture dealers.

IOPC has recently entered into an agreement with Pitney Bowes Management Services (PBMS) for the supply of a 28 modular locker system based on the TZ Courier™ platform which will be promoted by PBMS under their Intelligent Locker System brand.

The first commercial implementation of the Intelligent Locker System was installed at Safeway Inc. (NYSE:SWY) headquarters in Pleasanton, California in early 2010.

Further orders are anticipated as PBMS rolls out the system to an extensive client base that includes major insurance agencies, healthcare providers, colleges and universities, banks, government agencies and Fortune 500 companies.

Intanova

A newly incorporated joint venture company, Intanova Pty Limited ("Intanova") was established by TZI and parties associated with the senior managers of the former Australian license holder of the FutureWall™ System.

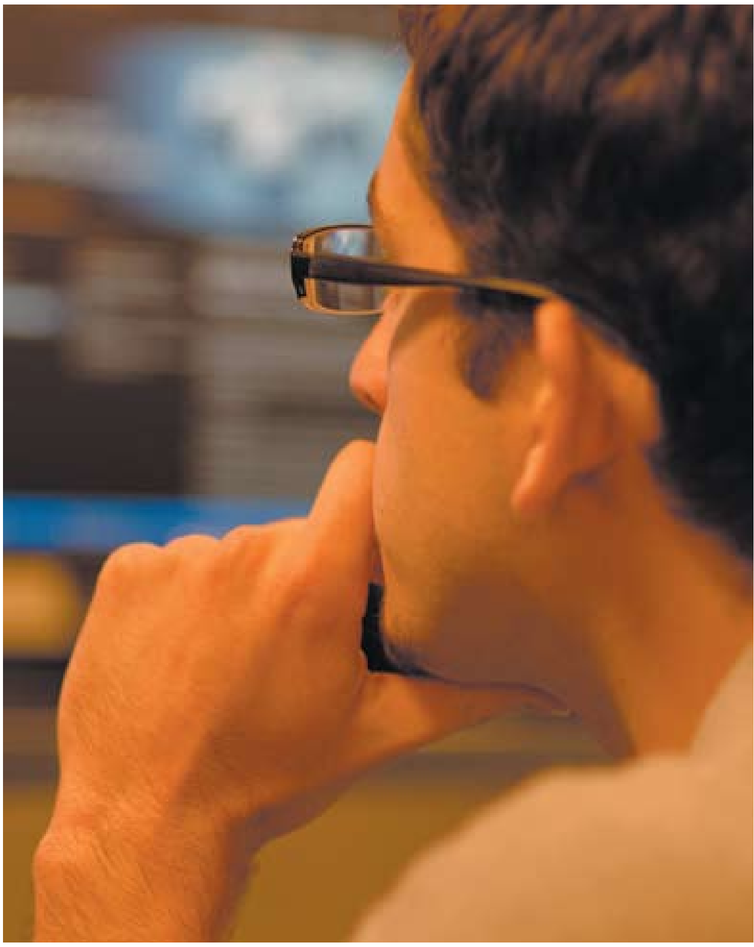
Intanova will leverage the existing awareness and acceptance of the FutureWall™ System in the marketplace and will carry on the business of marketing, supply and installation of interior fit-out solutions in Australia and New Zealand.

The business will also actively seek broader licensing and commercialisation opportunities for the FutureWall™ System in new territories.

Cardinal Health

Designed and engineered by PDT as part of a significant product development initiative with Cardinal Health, the FDA approved Cardinal Orwell™, represents the next generation in surgical fluid collection and disposal systems.

The Orwell™ system also features a TZ intelligent locking device to enable the disposal station to be properly docked before the waste disposal process commences.



Limited

2010 financial statements

CONTENTS

DIRECTORY

TZ Limited

& Controlled Entities

ABN 26 073 979 272

DIRECTORS

Mr. Mark Bouris

Mr. Kenneth Ting

Mr. Dickory Rudduck

COMPANY SECRETARY

Mr. Kenneth Ting

REGISTERED OFFICE

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Sydney NSW 2000

Telephone +61 2 9222 8890

Website: www.tz.net

Email: info@tz.net

BANKERS

St George Bank Limited

Level 3, 1 Chifley Square

Sydney NSW 2000

AUDITORS

BDO Audit (NSW-VIC) Pty Limited

Level 19, 2 Market Street

Sydney NSW 2000

SOLICITORS

Landerer & Company

Level 31, 133 Castlereagh Street

SYDNEY NSW 2000

SHARE REGISTRY

Computershare Investor Services Pty Limited

452 Johnston Street

Abbotsford VIC 3067

Tel: +61 3 9415 5000

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STOCK EXCHANGE

Australian Securities Exchange

Code: TZL

The Directors of TZ Limited present their report on the consolidated entity (Group), consisting of TZ Limited and its controlled entities for the financial year ended 30 June 2010.

Directors

The details of Directors of the Company during the year, and to the date of this report are:

Mark Bouris	Executive Chairman
Kenneth Ting	Executive Director & Company Secretary
Dickory Rudduck	Executive Director - Appointed 14 May 2010
Willem de Vlugt	Non–Executive Director - Resigned 31 May 2010

Principal Activities

The principal activities of the consolidated entity during the financial year were:

(i) The development of intelligent devices and smart device systems that enable the commercialisation of hardware and software solutions for the management, control and monitoring of business assets and the provision of associated value added services through Telezygology Inc (TZI).

(ii) Providing a fee for service product design and engineering consulting through Product Development Technologies Inc (PDT).

All of the operations of the consolidated entity are based in the United States of America, United Kingdom and Ukraine.

Operating Results

The operating loss after income tax for the year ended 30 June 2010 for the consolidated entity was $26,347,322 (2009: $24,408,497).

Directors commentary on operating results:

The Company has achieved significant milestones during the past year since the new Board was appointed, successfully re-listing the company and securing an additional facility with QVT to allow it to continue to fund operations, while also dealing with litigation on numerous fronts. The Company's financial position was also substantially strengthened through the debt to equity swap with QVT.

The Company's reputation and relationships with major suppliers, joint development partners and customers was repaired and strengthened through the hard work of both senior management and the Board members to bring back confidence and establish strong business platforms and strategies to build upon.

The Company was also able to secure interim funding to enable the development of new product offerings to support current market participation. This investment has been valuable and has made the significant difference between TZ being a viable company going forward and being the company in June 2009 that was teetering on failure.

The Directors have also faced numerous challenges with regards to the lack of adequate books and records for the Company. However, they remain committed to the task of justifying the financial statements and presenting records that are a true and fair representation of the Company, and are in accordance with all applicable accounting standards. Refer Note 4 for further details of adjustments made to prior year numbers.

The Board has also focused its attentions on the under-performing TZI business and has worked to develop a go-forward business strategy following a detailed business review which involved scrutinizing past strategies, identifying resource needs to capitalize on the growth opportunities and marshalling the right leadership with the capacity, backbone and determination to make this Company a success.

Overview of Operations

TZI was re-structured in May 2010 with the appointment of one of the original founders, John Wilson, to Chief Executive Officer to drive the business forward. Three autonomous business units were defined, each dedicated to delivering specific infrastructure hardware and software solutions to targeted market segments:

(i) Infrastructure Protection, Inc. provides affordable and highly scalable micro-security and environmental monitoring solutions that deliver protection and control of IT and telecommunication assets.

(ii) Packaged Asset Delivery, Inc. offers innovative logistics solutions that automate "last mile" parcel delivery for customers across a range of usage scenarios, including corporate mail management, management of parcel delivery for high density residential complexes and automated secure parcel pick-up at retail outlets.

(iii) Aerospace Asset Maintainability, Inc. seeks to license IP and technology to aerospace and defence OEMs enabling the development of intelligent latching systems that provide for remote access control, audit and traceability of aerospace assets.

Infrastructure Protection, Inc. (IXP)

In April 2009, TZI established a joint development relationship with Anixter International Inc. (Anixter) to develop a cabinet level security solution for the IT and data centre market. This solution, now marketed as the TZ Praetorian™ system was launched in September 2009 and is exclusively distributed by Anixter world-wide. The development of this new system was undertaken to meet a perceived need in the market as identified by Anixter customer feedback.

Following the launch of the TZ Praetorian™ system in late April of this year, TZI launched its stand-alone TZ Centurion™ System at the InterOp Business Technology Expo in Las Vegas. Interest for this System solution has been strong and a number of beta site installations have been deployed. Early adopter clients include installations with institutional, government and telecommunication customers including Washington University Genome, the Church of Jesus Christ of Latter-day Saints in Utah, the State of Nebraska, and BlueLock Cloud Hosting.

A beta version of its new TZ Centurion™ Server scalable software platform based on Microsoft technology has been also released for initial pilot testing. The new infrastructure software enables TZI's data center customers to protect their large scale, multi-site, and remote IT assets. The introduction of this significant new and associated software offering represents a major milestone in TZI's ability to deliver a high value add software solution to compliment previous hardware oriented offerings.

The IXP business strategy has been focused on establishing TZ solutions as being the dominant brand for micro-protection at the rack and cabinet enclosure level providing total hardware and software suite of products that can deliver security, monitoring and compliance at an affordable level. Accordingly, IXP has embarked on three business initiatives that the Directors believe will support significant sales growth:

(i) Penetration within the existing market segment through geographic expansion from the predominant US centric business focus into a global business with supporting sales infrastructure in Europe, Asia and Australia.

(ii) Expansion into new market segments with new and existing infrastructure solutions such as into Healthcare and Entertainment where similar customer needs have been identified.

(iii) Value added product extensions to better serve existing data centre customers including B2B web portal integration, development of new sensors and capabilities and integration with in-cabinet micro-surveillance cameras.

Packaged Asset Delivery, Inc. (PAD)

In August 2009, TZI entered into a reseller agreement with International Office Products Cooperative (IOPC) to develop and commercialise an intelligent and secure mail delivery and exchange system for the corporate client market. This system is now marketed as TZ Courier™.

In June of this year, IOPC secured a supply relationship with Pitney Bowes Management Services, Inc. (PBMS) for a custom designed TZ Courier™ system comprising a standard 28 locker module. The system has been formally launched by PBMS and is currently marketed to PBMS' corporate managed mail services clients as their Intelligent Locker System.

Overview of Operations (continued)

Packaged Asset Delivery, Inc. (PAD) (continued)

Under the supply agreement between IOPC and PBMS, IOPC supplies the locker systems with integrated TZI electronic locking and control hardware including application software. Value added services such as software customization, system maintenance and remote technical support are provided by the PAD business unit to PBMS and its corporate clients.

The first successful PBMS commercial implementation was installed at Safeway Inc. (NYSE:SWY) headquarters in Pleasanton, California in May 2010. Further orders are anticipated as PBMS rolls out the system to an extensive client base that includes major insurance agencies, healthcare providers, colleges and universities, banks, government agencies and Fortune 500 companies.

The Directors believe that the participation of PBMS provides a solid foundation to create a dominant offering to the corporate mail segment and drive sales growth for TZ Courier™.

Outside of the corporate mail sector, PAD is in the process of extending the current platform infrastructure to enable new offerings into new market segments where similar customer needs prevail. An offer to the high density residential market, to be marketed as TZ Concierge™, is anticipated in the near term.

Aerospace Asset Maintainability, Inc.

There has been significant investment in the development of aerospace compliant intelligent latching and fastening systems and in establishing relationships with OEM and tier suppliers over the last six (6) years.

Due to heavy compliance and regulatory requirements in the Aerospace and Defence industries, the Directors believe that the most prospective avenue to commercialize TZI technology is in partnership with major OEM enablers and the Aerospace Asset Maintainability business unit (AAM) has been specifically established to pursue this path forward.

Prospective AAM commercialization partners, by their nature, will progress down a relatively conservative path likely to involve the following stages:

Market Validation:
Initially, commercialisation partners will seek to embark on development projects designed to validate the technology in specific application areas and to test commercial and technical feasibility. It is envisaged that the AAM business unit will enter into a collaborative development partnership with these enablers to develop a number of application concepts utilizing the technology. These concepts would then be test marketed with prospective customers to gauge the level of commercial interest. In forming these relationships, AAM will seek to establish commercial terms whereby these enablers would fund AAM to undertake these development tasks for a fixed project fee or contribution thereto.

License Relationship:
Once commercially validated, and prior to these enablers progressing to product commercialization, it is envisaged that these enablers will seek to gain a proprietary hold on the exploitation of the technology more than likely on an exclusive basis for a defined application area and territory. AAM will seek to formulate licensing and commercial deals on the following terms:

(i) Upfront payment for the exclusive intellectual property rights to exploit the technology;

(ii) Direct supply of actuators and licensing of elements of the software;

(iii) On-going hardware royalties and software maintenance fees based on a percentage of AAM licensed product and software sales.

DIRECTORS' REPORT (CONTINUED)

Overview of Operations (continued)

Intanova

The Directors successfully resolved a long-standing dispute between TZI and Techbuilt Interiors Pty Limited in relation to licencing rights pertaining to TZI's FutureWall System and associated IP and technology.

As a result a newly incorporated joint venture company, Intanova Pty Limited ("Intanova"), was established to leverage the existing awareness and acceptance of the FutureWall System in the marketplace. Intanova now carries on the business of marketing, supply and installation of interior fit-out solutions in Australia and New Zealand. The business is also actively seeking broader licensing and commercialisation opportunities for the FutureWall System in new territories.

PDT

PDT has continued to perform well and be profitable despite the weak world economy, posting strong numbers that exceeded its initial plan by 13%, and expanding its customer base with a healthy mix of Medical (51%), Military/Public Safety (20%) and Consumer Goods (29%).

Contrary to current US unemployment figures, PDT has also been able to hire several new positions, expanding its service offerings in the areas of Product Strategy, Military Project Management and Software Development.

PDT's design and development work has continued to win recognition and awards, including Design Journal's Platinum "Award for Design Excellence" (ADEX) for the S1 Audio NxSET (tm) Neck Level Headphone Set, and Design Journal's Platinum "Award for Design Excellence" (ADEX) for the Chiron Technology Iris Touch 200 IP Security Dialler Interface, bringing the total awards to nine for the fiscal year.

Conclusion

The Directors would like to thank the TZ and PDT operations team lead by John Wilson and Mark Schwartz for their dedicated contributions.

Special thanks is extended to our shareholders for their support and patience so the Directors could to do what was absolutely required to secure and stabilise the company.

The Directors feel the constructive developments over the past year are significant steps towards building the TZI business fitness, supporting PDT growth and to delivering positive near term results for the Company.

Significant Changes in State of Affairs

During the year the Group issued 13,369,048 fully paid ordinary shares. Of this total 13,250,000 were issued to QVT in accordance with resolution 9 from the 2009 AGM, as full consideration for 12,000 $1,000 Series I convertible notes, and $1,250,000 in other liabilities owing to QVT as a result of expense payments that had been made on behalf of the Group. The remaining 119,048 fully paid ordinary shares were issued at $0.42 each to raise $50,000.

Likely Developments

The particular information required by s299 (1) of the Corporations Act (2002) has not been included in this report, as the inclusion of such information is likely to result in unreasonable prejudice to the Company.

Dividends

No dividend has been paid or declared since the commencement of the financial year (2009: nil). The Directors do not recommend the payment of a dividend.

Information on Directors

Mr Mark Bouris

Chairman and Executive Director

Mr Bouris has been involved in the finance and property sectors for over 25 years. In 1996 he founded Wizard Home Loans – which became one of Australia's largest non-bank lenders. From1996 to 2004 Mr Bouris introduced four substantial capital partners to that business. The money was raised with subscription from Publishing and Broadcasting Ltd, E Corp Limited, Deutsche Asset Management Ltd (representing four Australian Industry funds) and ABN Amro Australia Limited. All of these entities became equal shareholders in the group holding company Australian Financial Investments Group Ltd. Each of the above shareholders had two board seats and Mr Bouris was executive chairman.

Australian Financial Investments Group Ltd made a major acquisition in 2002 from ABN Amro Australia Limited when it acquired Australian Mortgage Securities Ltd (AMS). AMS was a global leader in issuance of Residential Mortgage Backed Securities. Following the acquisition of AMS, Mr Bouris chaired that part of the business and attended the global road shows in raising those funds.

In 2004, General Electric acquired the Australian Financial Investments Group Ltd, and its subsidiary company Wizard Home Loans Ltd, from companies associated with Mr Bouris, Publishing and Broadcasting Ltd, E Corp Limited, Deutsche Asset Management Ltd (representing four Australian Industry funds) and ABN Amro Australia Limited. Mr Bouris was retained as non-executive chairman by General Electric until February 2009 when his tenure terminated.

In July 2004 Mr Bouris was appointed Adjunct Professor (Banking & Finance and Business Law & Tax) at the University of NSW and also sits on the Australian School of Business Advisory Council Board. He is also an industry leader on consumer protection issues, having chaired the Federal Government's enquiry into E-Commerce and consumer protection in 2001.

Mr Bouris is the founder and Chairman of Yellow Brick Road (YBR), a financial advisory firm. The primary function of YBR is providing financial advice and accounting services. YBR owns a number of accounting practices and one legal practice. In addition, it owns financial planning businesses and insurance broking businesses. YBR advises a range of clients from small business to large business in most aspect of finace, tax, fund raising, accounting and audit. Mr Bouris is a fellow at the Institure of Chartered Accountants and YBR has 40 professionally qualified staff in its Sydney head office , along with a growing retail network of 35 licenced distributors throughout Australia.

Interests in Shares & Options

Ordinary Shares	800,000	Rights	800,000	Options	3,000,000

Mr Kenneth Ting

Executive Director and Company Secretary

Mr Kenneth Ting has a background in accounting, law and investment banking with a focus on the commercialisation of technology and public and private equity raisings. Mr Ting joined Deutsche Bank in 1997 after 4 years at PricewaterhouseCoopers Corporate Finance and Tax division. He was Vice President of Technology Investment Banking at Deutsche Bank and worked in Deutsche Bank's Sydney, San Francisco and London offices.

Mr Ting has a passion for technology and has worked with technology companies throughout his career. He has been involved in the completion of over $5 Billion in M&A, private equity and IPO assignments in Australia, USA and Europe. His industry specialisation is in the electronics manufacturing, software, IT services, telecommmunication and Internet sectors.

Mr Ting holds a Bachelor of Commerce and Bachelor of Law with First Class Honors from Adelaide University and is a member of the Institute of Chartered Accountants. Mr Ting is currently an Associate Director of Nextec Strategic Capital, a Technology Investment Banking firm based in Sydney. He is also a director of an international telecommunications company which he founded in 2002.

Interests in Shares & Options

Ordinary Shares	672,725	Rights	600,000	Options	2,250,000

Information on Directors (continued)

Dickory Rudduck

Executive Director

Mr. Rudduck is a prolific inventor and is the founder and source behind TZ Limited's technology and thinking. An Architect by profession, Mr. Rudduck established and built a successful Sydney based industrial architectural practice over a 20-year consulting career.

Mr. Rudduck is recognised as a respected industrial and interior designer with past corporate clients such as Deloitte and Touche, Barclays Bank, Warners and Alcatel. At one stage, Mr. Rudduck managed the design of over one million square metres of industrial space for Slough Estates, one of the largest industrial property developers in the world.

The success of his consulting practice enabled Mr. Rudduck to focus on his interest in innovation and invention and allowed him to establish Intellectual Exchange Pty Ltd in 1996, with the objective of developing intellectual property with global relevance and application. Since then, Mr. Rudduck has successfully commercialised many of his creations, the most lucrative being patented furniture systems with revenues in excess of $40 Million. He has explored a diverse range of patented concepts from electronic hardware and software developments, building and construction systems to even sporting inventions. Some of his innovations include an on-board video switch and software for the IBM PC, a low cost housing solution for developing countries and a multi-functional golf tee that integrates a pencil and eraser within the "tee" form.

Interests in Shares & Options

Ordinary Shares	992,498	Options	-

Directors Meetings

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial year were:

	No. of Meetings Held	No. of Meetings Attended
Mark Bouris	7	7
Kenneth Ting	7	7
Willem de Vlugt	5	5
Dickory Rudduck	2	2

Remuneration Report - Audited

The remuneration report for the year ended 30 June 2009 has been prepared using the limited books and records available. 30 June 2010 information was readily available and has been confirmed with key managment personnel.

The Remuneration Report is set out under the following mainheadings:

1. **Principles used to determine the nature and amount of remuneration**
2. **Details of remuneration**
3. **Services agreements**
4. **Share–based compensation**

1. Principles Used To Determine The Nature And Amount Of Remuneration

The performance of the consolidated Group depends upon the quality of the Directors and Executives. The philosophy of the Directors in determining remuneration levels is to:

(i) Set competitive remuneration packages to attract and retain high calibre employees;

(ii) Link executive rewards to shareholder value creation; and

(iii) Establish appropriate demanding performance hurdles for variable executive remuneration.

Remuneration policies have not been directly linked to the company's performance in the past. As a result of resolution 11 from the 2009 AGM, the Company has now introduced a Director and Executive Equity Plan to attract, retain, motivate and reward senior executives and Directors, including non-executive Directors, of the Company.

The Board reviews and is responsible for the Group's remuneration policies, procedures and practices.

At the 2009 AGM approval was granted to establish the Director and Executive Equity Plan to attract, retain, motivate and reward senior executives and Directors (including non-executive Directors) of the Company (collectively the "Participants") by issuing either or both Rights and Options to the Participants to allow the Participants to acquire fully paid ordinary class shares in the Company upon exercising the Rights or Options, as the case may be. The exercise of each Right or Option entitles the holder of that Right or Option, as the case may be, to acquire one fully paid ordinary class share in the capital of the Company.

Under the Director and Executive Equity Plan, the number of Rights and Options that may be issued to a Participant and the performance criteria and hurdles to be met prior to the issue or exercise of such Rights and Options is to be set by the board of Directors of the Company in reliance on the advice of an independent remuneration consultant.

The structure of Non–Executive Director and Executive Director remuneration is separate and distinct as follows:

(a) Non–Executive Directors' Remuneration

Fixed remuneration

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain Directors of a high calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of Non–Executive Directors shall be determined from time-to-time by a general meeting. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from shareholders, and takes into account the fees paid to Non–Executive Directors of comparable companies, when undertaking the annual review process.

The constitution provides that the remuneration of Non– Executive Directors will not be more than the aggregate fixed sum determined by a general meeting of shareholders. The aggregate remuneration has been set at an amount of $500,000 per annum, which had been set at the annual general meeting of shareholders held on 30 November 2006.

Remuneration Report (continued)

Variable Remuneration:

The Group provides Directors with incentives designed to align their remuneration with the interests of shareholders. This is done through issuing options and rights to acquire ordinary shares in the Group. The number and the terms of the options and rights issued are determined by the Directors and approved by shareholders in a general meeting of members.

(b) Group Executive and Executive Director remuneration

Remuneration consists of fixed remuneration and variable remuneration, which comprises short–term and long–term incentive schemes.

Fixed Remuneration

Fixed remuneration is reviewed annually by the Directors. The process consists of a review of relevant comparative remuneration in the employment market and within the Group and, where appropriate, external independent advice on policies and practices is obtained by the Board.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms and are offered the opportunity to enter into "salary sacrifice" arrangements with the Group where appropriate. It is intended that the manner of payment chosen will be optimal for the recipient without creating additional cost for the Group.

Variable Remuneration

Long–Term Incentives

The Group provides long–term incentives to senior Executives in a manner that aligns this element of remuneration with the creation of shareholder value. Executives and other employees can be issued with options and rights to acquire shares in the Group. The number and the terms of the options and rights issued are determined by the Directors after consideration of the employee's performance and their ability to contribute to the achievement of the Group's objectives.

As the options and rights confer a right but not an obligation on the recipient of the options, the Directors do not consider it necessary to establish a policy in relation to the person limiting his or her exposure to risk as a consequence of owning the options or rights.

2. Details of Remuneration

Details of the remuneration of the Key Management Personnel (as defined in AASB 124 Related Party Disclosures) are set out in Table 1 which follows.

The Key Management Personnel of TZ Limited, including the Directors and the following consolidated Group Executives, have authority and responsibility for planning, directing and controlling the activities of the Group.

These Executives comprise the Group Executives who make or participate in making decisions that affect the whole, or a substantial part, of the business or who have the capacity to affect significantly the Group's financial standing.

Remuneration Report (continued)

Table 1: Details of Remuneration - Directors and Key Personnel

(1a) Year ended 30 June 2010

	Short Term Benefits		Post Employment Benefits		Share Based Payments			% of Remuneration	
	Cash Salary, Fees & Allowances	Cash Bonuses	Super	Prescribed Benefits	Options	Rights	Total	Performance Based	Options & Rights
Year ended 30 June 2010									
Non-Executive Directors									
Willem de Vlugt (resigned 31 May 2010)	76,845	-	-	-	-	67,200	144,045	0.0%	46.7%
Executive Directors									
Mark Bouris	472,264	-	-	-	355,750	871,399	1,699,413	11.7%	72.2%
Kenneth Ting	398,163	-	-	-	266,813	653,549	1,318,525	11.3%	69.8%
Dickory Rudduck (appointed 14 May 2010) *	181,732	-	-	-	-	-	181,732	0.0%	0.0%
Other Key Management Personnel									
Mark Schwartz	389,018	-	-	6,504	-	-	395,522	0.0%	0.0%
John Wilson (appointed 17 May 2010)	45,000	-	-	-	-	-	45,000	0.0%	0.0%
John Freese (COO until 17 May 2010)	188,703	-	-	5,085	-	-	193,788	0.0%	0.0%
Timothy Koehler	129,396	-	-	3,531	-	-	132,927	0.0%	0.0%
Robert Pagorek (resigned 10 August 2009)	57,850	-	-	1,446	-	-	59,296	0.0%	0.0%
	1,938,971	**-**	**-**	**16,566**	**622,563**	**1,592,148**	**4,170,248**		

* Dickory Rudduck's remuneration includes $165,143 in short term benefits received for the period prior to his appointment as an Executive Director.

Remuneration Report (continued)

Table 1: Details of Remuneration - Directors and Key Personnel

(1b) Year ended 30 June 2009

The following table has been prepared on the basis of information available at the time of preparing these Financial Reports (Refer to Note 1 - Basis of Preparation):

	Short Term Benefits		Post Employment Benefits		Share Based Payments			% of Remuneration	
	Cash Salary, Fees & Allowances	Cash Bonuses	Super	Prescribed Benefits	Options	Rights	Total	Performance Based	Options & Rights
Year ended 30 June 2009									
Non-Executive Directors									
Michael Otten (resigned 18 June 2009)	212,336	-	-	-	-	-	212,336	0.0%	0.0%
Willem de Vlugt	-	-	-	-	-	-	-	0.0%	0.0%
Executive Directors									
Andrew Sigalla (resigned 2 June 2009)	864,776	-	10,098	-	-	-	874,874	0.0%	0.0%
John Falconer (resigned 18 June 2009)	110,092	-	-	-	-	-	110,092	0.0%	0.0%
Mark Bouris	-	-	-	-	-	-	-	0.0%	0.0%
Kenneth Ting	-	-	-	-	-	-	-	0.0%	0.0%
Other Key Management Personnel									
Chris Kelliher (resigned 5 May 2009)	347,966	-	-	-	-	-	347,966	0.0%	0.0%
Mark Schwartz	430,854	131,389	-	11,829	-	-	574,072	22.9%	0.0%
Dickory Rudduck	357,283	-	-	-	-	-	357,283	0.0%	0.0%
John Freese	210,832	-	-	5,271	-	-	216,103	0.0%	0.0%
Timothy Koehler	157,010	-	-	3,926	-	-	160,936	0.0%	0.0%
Robert Pagorek (resigned 10 August 2009)	337,316	-	-	4,434	-	-	341,750	0.0%	0.0%
David Feber (ceased 11 November 2008)	356,987	-	-	3,025	-	-	360,012	0.0%	0.0%
	3,385,452	**131,389**	**10,098**	**28,485**	**-**	**-**	**3,555,424**		

Remuneration Report (continued)

3. Service Agreements

Other than as noted below, there are presently no agreements setting out the terms and conditions of the appointment and retirement of Directors.

The Directors and other Key Management Personnel that have service contracts in place, or another agreement detailing remuneration and the other terms of employment, are summarised below:

Dickory Rudduck - Executive Director (appointed 14 May 2010) and CTO Telezygology Inc.

Agreement commencement date: 1 June 2010 Term: 1 Year

Maximum Benefit: US$180,000

Entitlements:

- Allowance totaling $12,220 for the benefit of purchasing COBRA health insurance;
- Payment at $150 per hour for consultancy services up to 60 hours per month;
- Payment as a Director of Telezygology, Inc. and TZ Limited that will not exceed $15,000 per month when combined with COBRA benefit and consultancy fees.

Notice Period: 3 months

Mark Schwartz - CEO PDT Inc.

Agreement Commencement Date: 1 December 2008 Term: 3 Years

Base Salary: US$360,000

Notice Period: 6 months

John Wilson - CEO Telezygology Inc. (appointed CEO 17 May 2010)

Agreement Commencement Date: 1 September 2009 Term: No fixed term

Agreement Amendment Date: 17 May 2010

Base Salary: AUD$360,000

Notice Period: By negotiation

Tim Koehler - CFO Telezygolgoy Inc.

Agreement Commencement Date: 1 February 2008 Term: No fixed term

Base Salary: US$120,000

Notice Period: By negotiation

Robert Pagorek (CFO Resigned 10 August 2009)

Agreement Commencement Date: 6 August 2008 Term: No fixed term

Base Salary: US$300,000

Entitlements:

- Signing bonus of $50,000
- Salary increases to US$320,000 if listed on the NASDAQ.
- Options based upon financial performance.

Notice Period: 60 days

Remuneration Report (continued)

4. Share Based payment compensation - Options

The number of options held by all Key Management Personnel including Directors and the most highly remunerated Group Executives, are as follows:

	Opening Balance	Granted as Compensation	Options Expired	Options Exercised	Closing Balance	Vested and Exercisable	Unvested
At 30 June 2010							
Non–Executive Directors							
Willem de Vlugt (resigned 31 May 2010)	-	450,000	(450,000)	-	-	-	-
Executive Directors							
Mark Bouris	-	3,000,000	-	-	3,000,000	-	3,000,000
Kenneth Ting	-	2,250,000	-	-	2,250,000	-	2,250,000
Dickory Rudduck	10,000	-	-	-	10,000	10,000	-
Other Key Management Personnel							
Mark Schwartz	85,000	-	-	-	85,000	85,000	-
Timothy Koehler	35,000	-	-	-	35,000	35,000	-
John Freese	172,500	-	-	-	172,500	172,500	-
Robert Pagorek (resigned 10 August 2009)	66,666	-	-	-	66,666	66,666	-
John Wilson	-	-	-	-	-	-	-
	369,166	5,700,000	(450,000)	-	5,619,166	369,166	5,250,000

Vesting conditions for Options Granted as Compensation during the year

The options are separated into three tranches and exercise periods:

(i) The first tranche of 1,750,000 Options (1,000,000 Mark Bouris and 750,000 Kenneth Ting) will be exercisable in the period from 1 July 2011 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2011, the date that is 30 days after the date of that listing) to and including 30 June 2016, at an exercise price of $1.00 per Option.

(ii) The second tranche of 1,750,000 Options (1,000,000 Mark Bouris and 750,000 Kenneth Ting) will be exercisable in the period from 1 July 2012 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2012, the date that is 30 days after the date of that listing) to and including 30 June 2017, at an exercise price of $2.00 per Option.

(iii) The third tranche of 1,750,000 Options (1,000,000 Mark Bouris and 750,000 Kenneth Ting) will be exercisable in the period from 1 July 2013 (or, if securities in the Company or any related body corporate of the Company are listed on the NASDAQ prior to 1 July 2013, the date that is 30 days after the date of that listing) to and including 30 June 2018, at an exercise price of $3.00 per Option.

The options granted are not subject to the satisfaction of performance conditions. The grants were made under the Director and Executive Equity Plan to attract, retain, motivate and reward senior executives and Directors (including non-executive Directors) of the Company. The options will lapse if not exercised by the respective expiry date or if employment ceases (apart from if due to death, incapacity or redundancy). There are no other vesting conditions in respect of these options.

4. Share Based payment compensation - Options (continued)

The number of options held by all Key Management Personnel including Directors and the most highly remunerated Group Executives, are as follows (a):

	Opening Balance	Granted as Compensation	Options Expired	Options Exercised	Closing Balance	Vested and Exercisable	Unvested
At 30 June 2009							
Non–Executive Directors							
Michael Otten (resigned 18 June 2009)	200,000	-	-	-	200,000	200,000	-
Willem de Vlugt	-	-	-	-	-	-	-
Executive Directors							
Andrew Sigalla (resigned 2 June 2009)	-	-	-	-	-	-	-
John Falconer (resigned 18 June 2009)	200,000	-	-	-	200,000	200,000	-
Mark Bouris	-	-	-	-	-	-	-
Kenneth Ting	-	-	-	-	-	-	-
Other Key Management Personnel							
David Feber (ceased 11 November 2008)	600,000	-	-	-	600,000	600,000	-
Dickory Rudduck	-	10,000	-	-	10,000	10,000	-
Mark Schwartz	75,000	10,000	-	-	85,000	85,000	-
Timothy Koehler	25,000	10,000	-	-	35,000	25,000	10,000
John Freese	35,000	137,500	-	-	172,500	172,500	-
	1,135,000	167,500	-	-	1,302,500	1,292,500	10,000

Vesting conditions for Options Granted as Compensation during the year

The only vesting condition attached to the options granted as compensation during the year is that the employee remains employed by the Group up to and including the vesting date. The options granted are not subject to the satisfaction of performance conditions and were granted for the purpose of attracting, retaining, motivating and rewarding senior executives of the Company.

(a) This report has been prepared using information available at the time of preparing the 2010 Financial Report (Refer to Note 1 (w)).

Remuneration Report (continued)

4. Share Based payment compensation - Rights

The number of rights held by all Key Management Personnel including Directors and the most highly remunerated Group Executives, are as follows:

	Opening Balance	Granted as Compensation	Rights Expired or Foreited	Rights Exercised	Closing Balance	Vested and Exercisable	Unvested
At 30 June 2010							
Non–Executive Directors							
Willem de Vlugt (resigned 31 May 2010)	-	200,000	(120,000)	-	80,000	80,000	-
Executive Directors							
Mark Bouris	-	1,600,000	-	-	1,600,000	800,000	800,000
Kenneth Ting	-	1,200,000	-	-	1,200,000	600,000	600,000
Dickory Rudduck	-	-	-	-	-	-	-
	-	3,000,000	(120,000)	-	2,880,000	1,480,000	1,400,000

Based on the information that is available, no rights were granted or held during the period 1 July 2008 to 30 June 2009.

Terms of grant of rights

In accordance with resolutions 12, 13 and 15 of the 2009 AGM, rights were granted to the Directors under the Director and Executive Equity Plan. The grant of rights formed part of the remuneration of the Directors and was based upon advice from an independent remuneration consultant.

A total of 3,000,000 rights were granted with a zero exercise price. Of the total, 1,480,000 were exercisable immediately after approval was given at the AGM, and 120,000 were forfeited. This parcel of 1,480,000 rights was not subject to a performance hurdle. At the time that the Directors remuneration packages were reviewed the circumstances confronting the company precluded it from being able to pay appropriate cash remuneration, and this issue of rights was in recognition of the level of commitment they had shown since their appointment. The balance of 1,400,000 is subject to the satisfaction of a Performance Hurdle and exercisable from and including 1 July 2011 to 30 June 2012 provided the Performance Hurdle is satisfied. The rights will lapse if not exercised by the respective expiry date or if employment ceases (apart from if due to death, incapacity or redundancy). There are no other vesting conditions in respect of these rights.

Performance Hurdle

The performance hurdle that must be satisfied before the second tranche of rights can be exercised is satisfaction of each of the following conditions:

(i) the Company completing a capital raising during the year ended 31 December 2010 raising at least $5,000,000;
(ii) the effective management of the litigation to which the Company is currently party;
(iii) the progressive development of the current Information Technology platforms of the Group and effective engagement of the Company's management located in the USA &;
(iv) expansion of the Group's market extension into Europe and other regions of the world over the period to 30 June 2011.

4. Share Based payment compensation - Options

Details of the terms and conditions of options granted to key management personnel and executives as compensation during the reporting period are as follows:

At 30 June 2010	No. options granted	Value at grant date (3)	No. options vested during the year	% Vested during the year	% Expired or Forfeited during the year	% Available for vesting in future years	Fair value per option at grant date	Exercise price	Amount paid or payable	Expiry date	Date exercisable
Non–Executive Directors											
Willem de Vlugt (resigned 31 May 2010)											
- Tranche 1	150,000	86,325	-	0%	100%	0%	$0.58	$1.00	-	30-Jun-16	1/07/2011
- Tranche 2	150,000	95,400	-	0%	100%	0%	$0.64	$2.00	-	30-Jun-17	1/07/2012
- Tranche 3	150,000	90,480	-	0%	100%	0%	$0.60	$3.00	-	30-Jun-18	1/07/2013
Executive Directors											
Mark Bouris											
- Tranche 1	1,000,000	575,500	-	0%	0%	100%	$0.58	$1.00	-	30-Jun-16	1/07/2011
- Tranche 2	1,000,000	636,000	-	0%	0%	100%	$0.64	$2.00	-	30-Jun-17	1/07/2012
- Tranche 3	1,000,000	603,200	-	0%	0%	100%	$0.60	$3.00	-	30-Jun-18	1/07/2013
Kenneth Ting											
- Tranche 1	750,000	431,625	-	0%	0%	100%	$0.58	$1.00	-	30-Jun-16	1/07/2011
- Tranche 2	750,000	477,000	-	0%	0%	100%	$0.64	$2.00	-	30-Jun-17	1/07/2012
- Tranche 3	750,000	452,400	-	0%	0%	100%	$0.60	$3.00	-	30-Jun-18	1/07/2013
Dickory Rudduck	-		-	-	-	-	-	-	-	-	-
Other Key Management Personnel											
Mark Schwartz	-		-	-	-	-	-	-	-	-	-
Timothy Koehler	-		-	-	-	-	-	-	-	-	-
John Freese	-		-	-	-	-	-	-	-	-	-
John Wilson	-		-	-	-	-	-	-	-	-	-
	5,700,000	**3,447,930**	**-**								

(1) There are no service or performance conditions attached to the options granted during the year other than continued employment at vesting date, which is not required in limited circumstances.

(2) All options granted during the reporting period were granted on 26 February 2010.

(3) The value of options granted during the period differs to the expense recognised as part of each key management persons' or executives' remuneration in (1a) of the Remuneration Report because this value is the grant date fair value calculated in accordance with AASB 2 Share-based Payment.

4. Share Based payment compensation - Rights

Details of the terms and conditions of rights granted to key management personnel and executives as compensation during the reporting period are as follows:

At 30 June 2010	No. rights granted	Value at grant date (4)	No. rights vested during the year	% Vested during the year	% Expired or Forfeited during the year	% Available for vesting in future years	Fair value per right at grant date	Exercise price	Amount paid or payable	Expiry date	Date exercisable
Non–Executive Directors											
Willem de Vlugt (resigned 31 May 2010)	200,000	168,000	80,000	40%	60%	0%	$0.84	$Nil	$Nil	30-Jun-12	26-Feb-10
Executive Directors											
Mark Bouris											
- Tranche 1	800,000	672,000	800,000	100%	0%	0%	$0.84	$Nil	$Nil	30-Jun-12	26-Feb-10
- Tranche 2	800,000	672,000	-	0%	0%	100%	$0.84	$Nil	$Nil	30-Jun-12	01-Jul-11
Kenneth Ting											
- Tranche 1	600,000	504,000	600,000	100%	0%	0%	$0.84	$Nil	$Nil	30-Jun-12	26-Feb-10
- Tranche 2	600,000	504,000	-	0%	0%	100%	$0.84	$Nil	$Nil	30-Jun-12	01-Jul-11
Dickory Rudduck	-	-	-	-	-	-	-	-	-	-	-
	3,000,000	**2,520,000**	**1,480,000**								

(1) All rights granted during the reporting period were granted on 26 February 2010.

(2) The only service condition attached to the rights granted during the year is continued employment at vesting date, which is not required in limited circumstances.

(3) Before the second tranche of rights can be exercised a performance condition must be met which is the satisfaction of each of the following conditions:
- (i) the Company completing a capital raising during the year ended 31 December 2010 raising at least $5,000,000;
- (ii) the effective management of the litigation to which the Company is currently party;
- (iii) the progressive development of the current Information Technology platforms of the Group and effective engagement of the Company's management located in the USA &;
- (iv) expansion of the Group's market extension into Europe and other regions of the world over the period to 30 June 2011.

(4) The value of rights granted during the period differs to the expense recognised as part of each key management persons' or executives' remuneration in (1a) of the Remuneration Report because this value is the grant date fair value calculated in accordance with AASB 2 Share-based Payment.

END OF AUDITED REMUNERATION REPORT

Indemnification and Insurance of Directors and Officers

The Group has taken out an insurance policy indemnifying Directors and officers for the financial year.

Significant events after the end of the reporting period

Matters or circumstances that have arisen since the end of the financial year which significantly affected or may significant affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years are disclosed in Note 24.

Share Options

At the date of this report, options over unissued shares or interests of the Company are as follows:

Grant Date	Expiry Date	Exercise Price	Number of Options
18-Jan-08	18-Jan-11	$3.75	100,000
18-Jan-08	19-Jan-11	$3.75	195,000
20-Jan-08	20-Jan-11	$3.00	149,000
8-Feb-08	7-Feb-11	$6.00	75,000
1-Jan-08	31-Dec-10	$6.00	310,125
24-Oct-08	24-Oct-11	$2.50	850,000
Jan 08 to Aug 08	Jan 11 to Aug 11	$6.00	116,666
Feb 07 to Jan 08	May 11 to Feb 13	$3.75 - $6.00	90,000
Jan 08 to Nov 08	Nov 11 to Dec 11	$6.00	142,250
24-Oct-08	24-Oct-11	$2.50	150,000
15-May-09	15-May-12	$2.50	65,000
19-Feb-08	19-Feb-13	$1.00	3,000,000
5-Mar-10	5-Mar-11	$1.00	150,000
26-Feb-10	30-Jun-16	$1.00	1,750,000
26-Feb-10	30-Jun-17	$2.00	1,750,000
26-Feb-10	30-Jun-18	$3.00	1,750,000
			10,643,041

Rights

At the date of this report, rights issued under the Directors and Executives Equity Plan are:

Grant Date	Exercise Period Start Date	Expiry Date	Exercise Price	Number of Rights
26-Feb-10	1-Jul-11	30-Jun-12	$Nil	800,000
26-Feb-10	1-Jul-11	30-Jun-12	$Nil	600,000
				1,400,000

In accordance with Resolution 12(a)(ii) from the 2009 Annual General Meeting, these rights are subject to the satisfaction of Performance Hurdles.

Ordinary Shares Issued on Exercise of Rights

The following ordinary shares of TZ limited were issued since the end of the financial year as a result of the exercise of rights issued under the Directors and Executives Equity Plan:

Date Rights Granted	26-Feb-10
Issue Price of shares	$Nil
Number of shares issued	1,480,000

Environmental Issues

The consolidated entity’s operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Corporate Governance

The Directors are responsible for the corporate governance practices of the Company. The main corporate governance practices that were in operation during the financial year are set out in the Corporate Governance section of these financial statements.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

Auditor’s Independence Declaration

The Company’s independent auditor has provided an independence declaration for the year ended 30 June 2010, a copy of the declaration is attached to and forms part of the Directors’ report.

Signed this 30th day of September 2010 in accordance with a resolution of the Board of Directors.

Mark Bouris
Director

Kenneth Ting
Director

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DECLARATION OF INDEPENDENCE BY SIMON COULTON TO THE DIRECTORS OF TZ LIMITED

As lead auditor of TZ Limited for the year ended 30 June 2010 I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of TZ Limited and the entities it controlled during the period.

Simon Coulton
Director

BDO

BDO Audit (NSW-VIC) Pty Ltd

Sydney, 30 September 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

		Consolidated Entity	
		2010	**2009**
	Note	**$**	**$**
Revenue from continuing operations	2	17,616,103	17,696,230
Direct material	3	(814,583)	(1,883,421)
Direct employment related expenses	3	(5,580,877)	(6,059,801)
Subcontractors	3	(4,577,198)	(3,380,618)
Company overheads	3	(456,572)	(1,227,536)
Other cost of sales	3	(160,639)	(196,270)
Gross profit		6,026,234	4,948,584
Interest Revenue	2	19,412	523,675
Other income	2	60,084	585,265
(Loss)/Gain on movement in fair value of derivative liability	3	(6,158,048)	13,798,200
Loss on conversion of convertible notes	3	(5,627,277)	-
Gain on issue of shares to extinguish liabilities	3	1,108,279	-
Doubtful debts and impairment losses	3	-	(16,236,418)
Employment related expenses		(6,558,494)	(11,189,207)
Occupancy expenses		(933,930)	(609,368)
Communications expenses		(247,304)	(377,513)
Depreciation	3	(987,281)	(977,515)
Amortisation of intangibles	3	(1,240,901)	(1,062,171)
Professional & corporate servcies		(4,894,072)	(2,540,002)
Travel and accomodation		(513,992)	(2,077,942)
Development costs		(113,665)	(2,964,131)
Finance costs		(5,005,778)	(4,169,214)
Other expenses		(1,446,018)	(1,614,902)
	3		
Loss before income tax	3	**(26,512,751)**	**(23,962,659)**
Income tax (benefit) / expense	5	(165,429)	445,838
Net loss for the year		(26,347,322)	(24,408,497)
Other comprehensive (loss) / income			
Foreign currency translation differences		(1,705,795)	1,317,666
Other comprehensive (loss) / income for the year attributable to owners of the parent entity net of tax		(1,705,795)	1,317,666
Total comprehensive (loss) / income for the year attributable to owners of the parent entity net of tax		**(28,053,117)**	**(23,090,831)**

* The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Continued operations			
Basic loss per share (cents)	6	(0.49)	(0.50)
Diluted loss per share (cents)	6	(0.49)	(0.50)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

		Consolidated Entity		
			Closing	Opening
		2010	2009	2009
	Note	$	$	$
CURRENT ASSETS				
Cash and cash equivalents	18	232,358	565,818	23,909,009
Trade and other receivables	7	4,482,501	2,834,539	9,455,904
Work in progress	8	567,393	687,107	56,794
TOTAL CURRENT ASSETS		5,282,252	4,087,464	33,421,707
NON-CURRENT ASSETS				
Property, plant and equipment	9	1,974,293	3,027,185	2,586,200
Intangible assets	10	24,543,062	25,826,995	25,354,488
Deferred tax asset	5	635,224	408,095	113,332
TOTAL NON-CURRENT ASSETS		27,152,579	29,262,275	28,054,020
TOTAL ASSETS		32,434,831	33,349,739	61,475,727
CURRENT LIABILITIES				
Trade and other payables	11	5,237,497	6,879,995	3,249,206
Provisions	12	86,500	103,961	499,101
Other financial liabilities	13	6,665,047	10,265,528	973,969
TOTAL CURRENT LIABILITIES		11,989,044	17,249,484	4,722,276
NON-CURRENT LIABILITIES				
Trade and other Payables	11	533,130	684,536	763,574
Other financial liabilities	13	14,213,342	-	20,133,710
Deferred tax liabilities	5	829,091	782,516	1,426,354
TOTAL NON-CURRENT LIABILITIES		15,575,563	1,467,052	22,323,638
TOTAL LIABILITIES		27,564,607	18,716,536	27,045,914
NET ASSETS		**4,870,224**	**14,633,203**	**34,429,813**
EQUITY				
Contributed Equity	14	130,675,256	114,726,786	113,726,786
Reserves	15	(706,147)	999,648	(318,018)
Accumulated losses	15	(125,098,885)	(101,093,231)	(78,978,955)
TOTAL EQUITY		**4,870,224**	**14,633,203**	**34,429,813**

* The above Statement of Financial Position should be read in conjunction with the accompanying

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Consolidated Entity	Contributed Equity				
	Issued Capital	Other Contributed Equity	Foreign Currency Translation Reserve	Accumulated losses	Total
	$	$	$	$	$
Balance at 1 July 2008	**112,579,931**	**2,368,394**	**(5,250,426)**	**(49,194,310)**	**60,503,589**
Adjustments due to correction of prior period errors (Note 4)	1,146,855	(2,368,394)	4,932,408	(29,784,645)	(26,073,776)
Restated total equity at the beginning of the financial year	**113,726,786**	**-**	**(318,018)**	**(78,978,955)**	**34,429,813**
Foreign currency translation reserve differences	-	-	1,317,666	-	1,317,666
Other comprehensive income					
Loss for the year	-	-	-	(24,408,497)	(24,408,497)
Total comprehensive income	-	-	1,317,666	(24,408,497)	(23,090,831)
Transactions with owners in their capacity as owners					
Issue of capital during the period	1,000,000	-	-	-	1,000,000
Share-based payment	-	-	-	2,294,221	2,294,221
	1,000,000	-	-	2,294,221	3,294,221
Balance at 30 June 2009	**114,726,786**	**-**	**999,648**	**(101,093,231)**	**14,633,203**
Balance at 1 July 2009	114,726,786	-	999,648	(101,093,231)	14,633,203
Foreign currency translation reserve differences	-	-	(1,705,795)	-	(1,705,795)
Other comprehensive income					
Loss for the year	-	-	-	(26,347,322)	(26,347,322)
Total comprehensive income	-	-	(1,705,795)	(26,347,322)	(28,053,117)
Transactions with owners in their capacity as owners					
Issue of capital during the period	1,100,000	-	-	-	1,100,000
Conversion of Convertible Notes	10,080,000	-	-	-	10,080,000
Shares issued to extinguish liabilities	-	4,768,470	-	-	4,768,470
Share-based payment	-	-	-	2,341,668	2,341,668
	11,180,000	**4,768,470**	**-**	**2,341,668**	**18,290,138**
Balance at 30 June 2010	**125,906,786**	**4,768,470**	**(706,147)**	**(125,098,885)**	**4,870,224**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	Consolidated Entity 2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		16,465,006	18,040,779
Payments to suppliers and employees		(20,865,225)	(32,454,302)
Interest received		63,221	898,372
Interest paid		(27,480)	(60,404)
Income tax refund (paid)		12,309	(197,458)
Net Cash Flows Used in Operating Activities	18(b)	**(4,352,169)**	**(13,773,013)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for plant and equipment		(256,300)	(1,027,156)
Payment for intangible assets		(1,577,239)	(510,924)
Proceeds from sale of plant and equipment		4,028	-
Net Cash Used in Investing Activities		**(1,829,511)**	**(1,538,080)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issues		50,000	1,000,000
Proceeds from convertible note issue		6,441,000	-
Repayment of borrowings		(680,058)	(366,441)
Proceeds from borrowings		221,190	538,694
Payment to former directors' related entities		-	(9,544,052)
Net Cash Flows from / (used in) Financing Activities		**6,032,132**	**(8,371,799)**
Net (decrease) / increase in cash held		(149,548)	(23,682,892)
Cash at beginning of the year		565,818	23,909,009
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(183,912)	339,700
Cash at the End of Period	18(a)	**232,358**	**565,818**

* The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. SUMMARY OF ACCOUNTING POLICIES

Corporate Information

The financial statements of TZ Limited for the year ended 30 June 2010 were authorised for issue in accordance with a resolution of the directors and covers the consolidated entity consisting of TZ Limited and its subsidiaries as required by the Corporations Act 2001. Separate financial statements for TZ Limited as an individual entity are no longer presented as a consequence of a change to the Corporations Act 2001. However, limited financial information for TZ Limited as an individual entity is included in note 20.

The financial statements are presented in Australian currency.

TZ Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The address of the registered office and principal place of business is Level 11, 1 Chifley Square, Sydney 2000.

Basis of Preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have been prepared on a historical cost basis, except for derivatives, which have been measured at fair value through profit and loss.

(a) Principles of Consolidation

The consolidated financial statements comprise the financial statements of TZ Limited and its subsidiaries ("the Group") at 30 June each year . Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Potential voting rights that are currently exercisable or convertible are considered when assessing control. Consolidated financial statements include all subsidiaries from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Subsidiaries are accounted for in the parent entity financial information in Note 20.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(b) Going Concern

The financial report has been prepared on a going concern basis. At 30 June 2010 the Group's current liabilities exceeded current assets by $6,706,792 (2009: $13,162,020). For the year ended 30 June 2010 the Group incurred losses after income tax of $26,347,322 (2009: $24,408,497) and net cash outflows from operating activities for the year ended 30 June 2010 were $4,352,169 (2009: $13,773,013).

The current board of Directors and Key Management Personnel have invested considerable resources into the development of the Groups products and commercial partnerships with Anixter and Pitney Bowes. Market share in core segments that the Group operates is predicted to be strong on the back of the commerical partners dominance in these segments, and the coming years sales forecasts are reflective of this. General economic turn-around expected in 2011 and 2012 should stimulate further market growth particularly in the infrastructure areas where the Group operates.

The group has favourable forecasts and, without the extraordinary cash draw downs that were experienced during the 2009 Financial Year, the Directors are hopeful that the consolidated entity will strengthen over the coming 12 months.

The ability of the Group to continue as a going concern is dependent on the ability of the group to raise additional share capital, the continued support of the group's lenders and shareholders and the ability to generate future profits and positive cash flows that have been forecast.

(c) Business Combinations

The acquisition method of accounting is used to account for all business combinations, except in instances where reverse acquisition accounting applies. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the group on acquisition date. Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the group obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

For each business combination, the group measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed when incurred. Transaction costs arising on the issue of equity instruments are recognised directly in equity and transaction costs arising on the issue of debt as part of the consideration are accounted for in accordance with note 1(v).

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(c) Business Combinations (continued)

Where the group obtains control of a subsidiary that was previously accounted for as an equity accounted investment in associate or jointly controlled entity, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss. Where the group obtains control of a subsidiary that was previously accounted for as an available-for-sale investment, any balance on the available-for-sale reserve related to that investment is recognised in profit or loss as if the group had disposed directly of the previously held interest.

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the entity's incremental borrowing rate as the discount rate.

(d) Income Tax

The income tax expense (benefit) for the year comprises current income tax expense (benefit) and deferred tax expense (benefit).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (benefit) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set–off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set–off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(f) Property, Plant and Equipment

Property, plant and equipment is included at cost, less where applicable, any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it does not exceed the recoverable amount.

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Office Furniture and Equipment	15% - 35%
Leasehold Improvement	20% - 33%
Motor Vehicles	20%
Plant & Equipment	20%

(g) Inventories and Work in Progress

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all direct materials, direct labour and an appropriate portion of variable and fixed overheads. Fixed overheads are allocated on the basis of normal operating capacity. Costs are assigned to inventories using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling cost of completion and selling expenses.

Work in Progress

Work in progress is recognised in accordance with revenue recognition policies (Refer Note 1 (m)) and is based on the percentage of completion method.

(h) Trade Receivables

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment include financial difficulties of the debtor, default payments or debts more than 180 days overdue. On confirmation that the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(h) Trade Receivables (continued)

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and are not, in the view of the directors, sufficient to require the derecognition of the original instrument.

(i) Accounts payable

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. These amounts are unsecured and have 30 - 60 day payment terms.

(j) Employee entitlements

The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the consolidated entity has a present obligation to pay resulting from employees’ services provided up to balance date. The provision has been calculated at nominal amounts and includes related on-costs.

The liability for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees’ services provided up to the balance date.

Wages and Salaries, Annual Leave and Sick Leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the end of the reporting period are recognised in other liabilities or current provisions in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable.

Long Service Leave
Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Commissions and Bonuses Payable
The Group recognises an expense and a liability for bonuses and commissions when the entity is contractually obliged to make such payments or where there is past practice that has created a constructive obligation.

(k) Leases

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortised on a straight line basis over the expected economic life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(l) Foreign Currency Transactions and Balances

Functional and Presentation Currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the functional and presentation currency of TZ Limited.

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

The functional currencies of the overseas subsidiaries is USD. At the end of the reporting period, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of TZ Limited at the closing rate at the end of the reporting period and income and expenses are translated at the weighted average exchange rates for the year. All resulting exchange difference are recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(m) Revenue Recognition

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Rendering of Services

Revenue from engineering design services is recognised in accordance with the percentage of completion method. The stage of completion is measured by reference to total costs incurred to date as a percentage of estimated total costs for each contract. Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest and Dividend Income

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established. All revenue is stated net of the amount of goods and services tax (GST).

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(n) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(o) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Refer Note 10.

(p) Contributed Equity

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(q) Share-Based Payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or options over shares ("equity-settled transactions"). The Director and Executive Equity Plan also gives Directors and Senior Executives the opportunity to participate in company's equity in exchange for their services.

(r) Fair Values

Fair values may be used for financial asset and liability measurement as well as for sundry disclosures.

The fair value of financial instruments not traded in an active market is determined using valuation techniques. Assumptions used are based on observable market prices and rates at balance date. Estimated discounted cashflows are used to determine fair value of the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(s) Earnings Per Share

(i) Basic Earnings Per Share

Basic earnings per share is determined by dividing the operating profit/ (loss) after income tax by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted Earnings Per Share

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

(t) Intangible Assets

(i) Goodwill

Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Impairment losses on goodwill cannot be reversed. Refer to Note 10 for carrying value of goodwill.

(ii) Trade Names

Trade names have an indefinite useful life and are carried at cost less accumulated impairment losses. Refer Note 10 for carrying values.Trade names are reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(iii) Other Intangible Assets

Patents

Expenditure directly attributable to the registration of patents is capitalised at cost and is amortised over the useful life of between 15 - 20 years. Amortisation expenses are shown in the Statement of Comprehensive Income as Amortisation of Intangibles. The carrying value of patents is reviewed annually for impairment. Refer to Note10 for carrying values.

Customer Relationships

Customer relationships acquired as part of a business combination are recognised separately from goodwill and are carried at their fair value at date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on a straight line basis over the estimated useful life of between 10 - 15 years. Amortisation expenses are shown in the Statement of Comprehensive Income as Amortisation of Intangibles. Refer Note 10 for carrying values.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(iii) Other Intangible Assets (continued)

Research and Development Costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalised if the product or service is technically feasible, adequate resources are available to complete the project, it is probable that future economic benefits will be generated and expenditure attributable to the project can be measured reliably. Expenditure capitalised comprises costs of materials, services, direct labour and an appropriate portion of overheads.

Other development costs are expensed when they are incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and any impairment losses, and are amortised over the period of expected future sales from the related projects which vary from 3 - 11 years.

The carrying value of development costs is reviewed annually when the asset is not yet available for use, or when events or circumstances indicate that the carrying value may be impaired. Carrying values can be found in Note 10.

Re-acquired Right (Intevia Licence)

Re-acquired rights are initially recognised at cost, then amortised over their expected useful life of 13.5 years. Amortisation is recognised in the Statement of Comprehensive Income as Amortisation of Intangibles. The carrying value of reacquired rights is reviewed annually for impairment. Carrying values can be found in Note 10.

(u) Investments and Other Financial Assets

Investments in subsidiaries are accounted for in the consolidated financial statements as described in note 1(a) and in the parent entity financial information in note 20.

(v) Financial liabilities

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the loans and borrowings using the effective interest method.

Under the terms of the Convertible Note Subscription Deed and the subsequent amendments, the conversion price is the lower of (a) the agreed conversion price and (b) the issue price of any subsequent share issue during the term of the convertible notes. As a result of this clause the note holders equity risk is eliminated, and therefore the instruments are treated as debt instruments with an embedded derivative.

The fair value of the debt portion of the convertible notes is determined after calculating the fair value of the embedded derivative on inception. The debt portion is subsequently measured at amortised cost and the embedded derivative financial instrument is measured at fair value at each reporting date with any movement in fair value reported in profit or loss. Issue costs are apportioned between the liability and equity components of convertible notes based on the allocation of proceeds to the debt and equity components (if any) when the instruments are first recognised. Refer also to Note 4.2 for changes to prior year figures.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(w) Critical Accounting Estimates and Judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make estimates, judgements and assumptions based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the group. Actual results may differ from the estimates.

The key estimates and judgements made by the directors include:

(i) Correction of errors

The 2010 Financial Statements are presented based on the information available at the time of issuance, and requests have been made to the previous board of Directors, former accountant and former auditor for additional information regarding various transactions as identified in notes 4 and 7. In the event that new information becomes available, adjustments may be required in the future.

(ii) Impairment of related party loans, other advances and sundry debtors.

As disclosed in Notes 3 and 7, during and prior to the 2009 financial year, significant loans were made to former directors and related parties.

These loans and receivables were fully provided against for the purposes of the 2009 Financial Report and their recoverability remains unknown at the time of preparing this report for the year ended 30 June 2010. Litigation has commenced in relation to the recovery of $13,230,526 of these loans and receivables. A contingent asset has been disclosed, refer to Note 21 for further details.

(iii) Valuation of embedded derivatives and convertible note debt portion

At the time of preparing the 2009 Financial Statements, the convertible notes were treated as compound financial instruments in accordance with AASB 132, and were split between debt and equity. The fair value of the liability portion of the convertible notes was determined using a market rate of interest for an equivalent non-convertible note and stated on an amortised cost basis until conversion or maturity. The remainder of the proceeds was allocated to the conversion option and treated as equity. Issue costs were apportioned between the liability and equity components based on the allocation of proceeds to the liability and equity components when the instruments were recognised.

However, after further review of the relevant agreements between the TZ Limited and QVT, it was deemed necessary to restate the comparatives and change the way the convertible notes are accounted for.

The terms of the Convertible Note Subscription Deed are such that the note holders are able to convert to equity at the conversion date at the lower of: (a) the agreed conversion price; and (b) the issue price of any subsequent share issue during the term of the convertible note.

The convertible notes, as a result of this clause which eliminates the note holder's equity risk, are therefore debt instruments which host an embedded derivative in accordance with AASB 132.

Upon inception, the derivative element of the convertible notes is separated and valued in accordance with AASB 139. Thereafter the derivative is designated as fair value through profit and loss, and accordingly is fair valued at the end of each reporting period, with any movement in the fair value reported through profit and loss.

The convertible note debt portion is measured at fair value on inception and subsequently measured at amortised cost.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(w) Critical Accounting Estimates and Judgements (continued)

To value the derivative, the Black Scholes valuation method was used. In doing so, a judgement was made that the conversion price, although impossible to predict due to the terms of the convertible note deed, could reasonably be assumed to be the current conversion price at the date the valuation is performed. At 30 June 2010 this was $0.39 which is the value of the most recent share issue for TZ Limited. Judgement and estimation was also exercised regarding other valuation inputs such as life of the derivative and share price volatility.

The carrying values at 30 June 2010 of the derivative and convertible note liabilities are $9,061,958 and $11,075,075 respectively (2009: derivative $712,200 and convertible note $8,260,861) as detailed in Note 13.

(iv) Impairment of Intangibles

Key assumptions regarding impairment and details of the assessment that has been performed are disclosed in Note 10.

(x) New Accounting Standards for Application in future periods

During the year the group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory apart from Interpretation 19, the amendment to AASB 8 that is included in AASB 2009-5 and the updates to AASB 7 which have been early adopted. The Group has made formal written elections to early adopt these changes.

The following new / amended accounting standards and interpretations have been issued but are not mandatory for financial year ended 30 June 2010. They have not been adopted in preparing the financial statements for the year ended 30 June 2010 and are expected to impact the entity in the period of initial application. The entity intends to apply these standards from application date as indicated below. A discussion of the requirements and their impact on the Group is as follows:

i) AASB 2009-5 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process" (issued May 2009) - impacts annual reporting periods commencing on or after 1 January 2010. Amendments to AASB 107 "Statement of Cash Flows" clarifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as cash flows from investing activities. Initial adoption of this amendment will have no impact as the entity only recognises cash flows from investing activities for expenditures that result in a recognised asset in the statement of financial position. Amendments to AASB 136 "Impairment of Assets" clarifies that CGUs to which goodwill is allocated cannot be larger than an operating segment as defined in AASB 8 Operating Segments before aggregation. There will be no impact as these requirements are only required to be applied prospectively to goodwill impairment calculations for periods commencing on or after 1 July 2010.

ii) AASB 2009-8 "Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions" (issued July 2009) - applies to annual reporting periods beginning on or after 1 January 2010. This amendment clarifies the scope and accounting for group cash-settled share-based payment transactions in the individual financial statements of an entity receiving the goods/services when that entity has no obligation to settle the share-based payment transaction. There is expected to be no impact as there are no share-based payment transactions where the entity receives goods or services with no corresponding obligation to settle the share-based payment transaction.

iii) AASB 9 "Financial Instruments" (issued December 2009) - applies to annual reporting periods beginning on or after 1 January 2013. This amends the requirements for classification and measurement of financial assets. Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(x) New Accounting Standards for Application in future periods (continued)

iv) AASB 2010-3 and AASB 2010-4 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" - amending AASB 1, AASB 3, AASB 7, AASB 101 & AASB 134 and Interpretation 13, was issued in June 2010. These changes are only applicable for annual reporting periods commencing on or after 1 January 2011, but the changes to AASB 7 have been early adopted. There will be no impact on initial adoption in relation to AASB 3 "Business Combinations" as these requirements are only required to be applied prospectively. The impact of early adopting AASB 7 "Financial Instruments: Disclosures" is none in relation to amounts recognised in the financial statements as the amendments result in fewer disclosures only. For AASB 101 "Presentation of Financial Statements", which requires a detailed reconciliation of each item of other comprehensive income may be included in the statement of changes in equity or in the notes to the financial statements, there will no impact on initial adoption as a detailed reconciliation of each item of OCI has always been included in the statement of changes in equity.

v) AASB 2009-10 "Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132]" - applies retrospectively to annual reporting periods beginning on or after 1 February 2010. This applies where rights or options are issued, granting a fixed number of shares for a fixed amount in a different currency to the functional currency. The amendment clarifies that such transactions must be treated as equity. No assessment has been made of the impact of these changes.

vi) AASB Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments" (issued December 2009) - has been early adopted. This Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability are 'consideration paid' to be recognised at the fair value of the equity instruments issued, unless their fair value cannot be measured reliably, in which case they are measured at the fair value of the debt extinguished. Any difference between the carrying amount of the financial liability extinguished and the 'consideration paid' is recognised in profit or loss. There will be no further impact to the financial statements as the equity instruments issued on 26 February 2010 as consideration to extinguish liabilities in relation to expenses paid on TZL's behalf by QVT, and for accrued interest for 2008 and 2009, and the issue on 26 March 2010 for the conversion of $12m of the Series I Notes, were measured at fair value. This application has resulted in derecognition of liabilities of $4,477,808 relating to accrued interest charges, and $2,448,941 of expenses paid by QVT on TZL's behalf, and a gain on settlement of $1,108,279 (refer to Note 3) through profit and loss for the year ended 30 June 2010. $4,768,470 of Other Contributed Equity and $1,050,000 of issued capital has been recognised in relation to the extinguishment of these liabilities (refer note 14(i-ii)) In addition a loss of $5,627,277 (refer to Note 3) was recognised on the conversion of 12,000 $1,000 convertible notes which represented the difference between the carrying value of the convertible note liability of $4,452,723 and the fair value of the shares issued to extinguish the liability of $10,080,000 (refer to note 14(i)).

vii) AASB 2009-5 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process" (issued May 2009) - the AASB 2009-5 Amendment to AASB 8 regarding disclosure of segment assets and liabilities has also been early adopted. Refer to note 19 for details.

	Note	Consolidated Entity 2010 $	2009 $
2. REVENUES AND OTHER INCOME			
Sales & Service Revenue		17,308,056	17,696,230
Royalties		308,047	-
Interest		19,412	523,675
Total Revenue		17,635,515	18,219,905
Other Income			
Foreign Exchange (Loss) / Gain		(17,175)	585,265
Other Income		77,259	-
Total Other Income		60,084	585,265
3. EXPENSES			
Loss from Continuing Activities Includes:			
Cost of Goods Sold		(11,589,869)	(12,747,645)
(Loss)/gain on movement in fair value of derivative liability		(6,158,048)	13,798,200
Loss on conversion of convertible notes		(5,627,277)	-
Gain on issue of shares to extinguish liabilities		1,108,279	-
Loss on disposal of redundant laboratory equipment		(157,438)	-
Amortisation - Intellectual Property	10	(1,240,900)	(1,062,171)
Depreciation of property, plant and equipment	9	(987,282)	(977,515)
Bad and Doubtful Debts Expense		-	(48,082)
Impairment Losses			
- Intangible Assets		-	(438,339)
- Loans to Related Parties & other cash advances	7	-	(9,544,052)
- Sundry Debtors from prior year	7	-	(6,205,945)
Finance Cost		(5,005,778)	(4,169,214)

4. CORRECTION OF ERRORS

4.1 Review of Opening Balance Sheet accounts - 1 July 2009

The board of Directors of have recently undertaken a review of the past consolidated financial statements of TZ Limited with a view to substantiating the assets and liabilities to be reported in the financial statements for the year ended 30 June 2010.

The investigative work performed included a review dating back to the 2004 Financial Statements, specifically in relation to the reverse takeover of Telezygology Inc. on 8 January 2004 and scrutinizing the accounting entries that were recorded at the time that have impacted the financial statements on and since that date.

4. CORRECTION OF ERRORS (continued)

The key areas of interest throughout the review were:

- the acquisition of Telezygology Inc. in 2004;
- the acquisition of PDT Holdings Inc. in 2005;
- the re-acquisition of the Intevia Licence in 2007, and
- various consolidation entries that have been recorded over the years.

The investigative work that was performed indicated that the accounting for these transactions was either done incorrectly, or that insufficient records have been maintained to enable the substantiation of the amounts recorded.

The Directors have written to the previous board members, the previous accountant and the previous auditor requesting additional information regarding these transctions. At the date of this report, no responses have been received that would indicate that the treatment that was adopted for the purposes of the Preliminary Final Report for the year ended 30 June 2010 that was lodged with the ASX on 31 August 2010, which resulted in a $25m write down of the consolidated group intangible assets, was unwarranted. Therefore, the corrections have been carried through to the annual report, and are included in the consolidated financial statements for the year ended 30 June 2010.

Details of the errors that were identified and corrected are below:

4.1(a) Acquisition of Telezygology Inc - 8 January 2004

The consideration for the transaction included the issue of 70,734,446 ordinary shares in TZL with a value of $0.11 per share, being the market value immediately prior to the consolidation, adjusted for the two 5:1 share conversions that occurred.

The transaction was reported in the financial statements using a value per share of $0.25. This anomaly resulted in the goodwill generated by the transaction being overstated in the financial statements by $9,902,822 (70,734,446 x $0.14). This was corrected against issued capital.

4.1(b) Acquisition of PDT Holdings Inc. (“PDT”) 11 March 2005

The audited US financial statements of PDT for the financial year ended 30 June 2005 and for the half yearly accounts for the period ended 31 December 2005 report that 'push-down' accounting was applied in accounting for the acquisition of PDT by TZL.

Push-down accounting is a mandatory method of accounting under US GAAP whereby the financial statements of the acquired subsidiary reflect the fair value of assets and liabilities acquired, and the goodwill which would have otherwise been recognised on consolidation is therefore recognised in the subsidiary’s books.

Intangible assets relating to the acquisition were therefore brought to account in the PDT financial statements at fair value. As Australian GAAP (AIFRS) does not provide for push-down accounting, on consolidation the entries should be reversed in the subsidiary’s books and recorded at a consolidated level.

The review of this transaction indicates that the goodwill on acquisition arising on consolidation of $7,161,384 appears to have previously (2009 and prior years) been be double counted given the amounts recorded in PDT’s own statement of financial position do not appear to have been eliminated. This amount is not substantiated by any of the documents that have been reviewed from the time of the transaction. Therefore, on consolidation $7,161,384 of goodwill has been credited against retained earnings to correct this apparent error.

In addition, an amount of $6,466,991 for goodwill arising from the PDT acquisition has been historically classified as intellectual property in the group financial statements. As such, a reclassification has been made of $6,466,991 from intellectual property to goodwill.

4. CORRECTION OF ERRORS (continued)

4.1(c) Reacquisition of the Intevia Licence 22 January 2007

TZI and Textron Inc. ("Textron") had an agreement regarding the use by Textron of intellectual property owned by TZI. This right was effectively reacquired by TZI on 22 January 2007 for consideration of USD$200,000 plus costs of USD$25,645 (AUD$279,066) and the issue of 19,362,404 ordinary shares in TZL.

The share price used to value the ordinary shares issued as consideration appears to correctly reflect the listed share price at the date of the transaction, being $0.56. However, deferred acquisition costs of $2.6m and other amounts totalling $1,017,224 are recorded in the books of TZL and the consolidated entity respectively as a result of this acquisition. These amounts could not be substantiated by the work performed.

The review of this transaction has indicated that the accounting for the purchase has resulted in an overstatement of consolidated intangible assets of $3,299,433, being the difference between the amount previously reported $14,421,445 and the amount calculated in the review of $11,122,012. This error has been corrected by debiting accumulated losses and crediting intangible assets.

Furthermore, the Intevia Licence has historically been reported as Goodwill in the consolidated entity, and after reviewing the available information it would seem more appropriate to record the asset as a reacquired right in the financial statements of TZI. As such, a reclassification has been made of $10,037,718 from goodwill to a reacquired right.

4.1 (d) Various consolidation entries recorded in the financial statements

A number of journal entries have been recorded over the years on consolidation of the TZL Group which have resulted in a carrying amount of intellectual property. From the books and records available, the nature of many of these entries is unclear and unsupported.

The net impact on the financial statements of these unsupported consolidation entries is a $5,005,677 overstatement of intangible assets, and accumulated losses. This apparent error has been corrected by debiting accumulated losses and crediting intangible assets.

4.2 Amendment to the terms of Convertible Notes issued

The terms of the Convertible Note Subscription Deed are such that the note holders are able to convert to equity at the conversion date at the lower of: (a) the agreed conversion price; and (b) the issue price of any subsequent share issue during the term of the convertible note.

The convertible notes, as a result of this clause which eliminates the note holders equity risk, are therefore debt instruments which host an embedded derivative in accordance with AASB 132.

Upon inception, the derivative element of the convertible note is separated and valued in accordance with AASB 139. Thereafter the derivative is valued at the end of each reporting period, with any movment in the fair value reported through the profit and loss. The debt portion is measured at fair value upon inception and subsequently measured at amortised cost. The accounting above has not been performed correctly in prior years.

The error has been corrected by restating each of the affected financial statement line items for the previous year. This resulted in an increase in interest expense of $1,177,373, a decrease in convertible note liability of $12,933,431, an increase in derivative instrument liability of $712,200, a decrease in equity of $2,368,394 and the recognition of a $13,798,200 gain in the movement of the fair value of the derivative liability.

As a result of the change in recognition described above and at note 1 (w)(iii), tax effect accounting has been corrected accordingly. As a result defered tax liabilities have reduced from $799,082 to $Nil.

4. CORRECTION OF ERRORS (continued)

4.3 Capitalisation of Development Costs

During the period 19 March 2005 to 30 June 2009 development costs in the amount of $601,899 were incorrectly expensed. During the the preparation of the Finanical Statements for the year ended 30 June 2010, this error was identified and has been corrected in the prior period by reducing accumulated losses by the net of the development costs and accumulated amortisation of $44,238, and increasing Intangible Assets in the Statement of Financial Performance.

4.4 Amortisation of the Intevia Licence

The useful life of the Intevia Licence has been reassessed as finite and it is being amortised over 13.5 years. An adjustment has been recorded in the prior period to bring to account $1,906,765 in amortisation up to and including 30 June 2009. $846,879 was recorded as amortisation expense in 2009 and the balance of $1,059,886 was recorded against accumulated losses.

4.5 Withholding Tax on Interest Payable

Under the terms of the Convertible Note Subscription Deed, in the event that withholding tax is payable on any interest payments to QVT, TZ Limited is required to gross up the interest payments such that QVT receives the same amount of interest that would have been received if withholding tax was not applicable. The comparatives have been restated to show accrued withholding tax and additional interest expense for the year ended 30 June 2009 of $290,322 and accrued withholding tax and increased accumulated losses of $88,938 for the year ended 30 June 2008.

Furthermore, the Deed provides that in the event that QVT receives a benefit, in the form of a tax credit, QVT will reimburse TZ Limited for this amount. A contingent asset has been recorded at Note 21.

4.6 Foreign Currency Translation Reserve

A review of the movements in the foreign currency translation reserve has been undertaken and based on the information available, the balance of the foreign currency translation reserve has been restated at 30 June 2009. There is no impact on the net assets of the company with the increase in the foreign currency translation reserve of $3,555,403 resulting in an increase in accumulated losses.

4.7 Share Based Payment Expense

A review of share based payments for the financial year ended 30 June 2009 was undertaken which has resulted in the recognition of share based payments expense in 2009 of $2,294,221. Further details are in Note 26.

4.8 Share issue costs adjustment

Unsubstantiated share issue costs of $11,049,675 have been reclassified by crediting issued capital and debiting accumulated losses as management felt this was the most conservative treatment in the circumstances.

	Consolidated Entity	
	2010	2009
	$	$

5. INCOME TAX

Deferred tax expense

Deferred tax (benefit)/expense	(165,429)	445,838
	(165,429)	445,838

The amount provided in respect of income tax differs from the amount prima facie payable on the operating result. The difference is reconciled as follows:

Prima facie income tax on the operating result before income tax at 30% (2009: 30%)	(7,953,825)	(7,188,798)
Tax Effect:		
Tax losses not recognised	8,278,787	7,601,508
Difference in overseas tax rates	(490,391)	33,128
Income tax (benefit)/expense attributable to result	(165,429)	445,838

The taxation benefits of tax losses and timing differences not brought to account will only be obtained if:

(a) assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;

(b) conditions for deductibility imposed by the law are complied with; and

(c) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

Deferred tax assets

Deferred tax assets comprise temporary differences attributable to:

Amounts recognised in profit or loss	-	-
Doubtful debts	59,424	50,353
Allowance / reserve	(380,346)	(950,727)
Fixed assets	155,174	-
Other intangibles	114,663	89,788
Tax losses	686,309	1,218,682
	635,224	408,096

		Consolidated Entity	
5. INCOME TAX (continued)		2010	2009
		$	$
Deferred tax liabilities			
Deferred tax liabilities comprise temporary differences attributable to:			
Amounts recognised in profit or loss		-	-
Fixed assets		-	70,674
Goodwill		829,091	711,842
		829,091	782,516

6. EARNINGS PER SHARE

		2010	2009
Continuing Operations			
Earnings used in the calculation of basic and dilutive from continuing operations		(26,347,322)	(24,408,497)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share:		53,268,007	48,520,421

For the purpose calculating the diluted earnings per share the denominator has excluded the number of options as the effect would be anti-dilutive.

7. TRADE AND OTHER RECEIVABLES

		2010	2009
Current:			
Trade Debtors		3,993,048	2,496,198
Allowance for doubtful debts		(152,565)	(129,276)
Sundry Debtors	(a)	-	35,669
		3,840,483	2,402,591
Other Debtors and Prepayments		642,018	431,948
		4,482,501	2,834,539

(a) Assets subject to impairment

Also included in current receivables are the following assets that are subject to impairment losses:

	2010	2009
Sundry Debtors	6,205,945	6,205,945
Loans to related parties & other advances	9,544,052	9,544,052
Less impairment provision	(15,749,997)	(15,749,997)
Net carrying value	**-**	**-**

The value of Sundry Debtors, Loans to related parties and other advances were reviewed for impairment at 30 June 2009 and 30 June 2010. These loans were fully provided against these balances for the year ended 30 June 2009, and recoverability remains uncertain at 30 June 2010. The Group is currently pursuing recovery of $13.2m of the above balances which relate to loans to former directors and their related parties (Refer Note 21), and a Supreme Court hearing is scheduled to commence 22 November 2010.

8. WORK IN PROGRESS

	2010	2009
Uncompleted / Unbilled Jobs	567,393	687,107

9. PROPERTY, PLANT AND EQUIPMENT

		Consolidated Entity	
		2010	2009
		$	$
Office Furniture and Equipment		349,592	554,050
Leasehold Improvements		937,557	1,444,782
Motor Vehicles		-	5,657
Plant & Equipment		687,143	1,022,694
Total Property, Plant & Equipment	(a)	1,974,292	3,027,183
Total Cost		6,147,381	6,661,351
Accumulated Depreciation		(4,173,088)	(3,634,165)
Total Property, Plant & Equipment		1,974,293	3,027,185
Movements During the Year			
Office Furniture and Equipment			
Beginning of Year		554,050	656,332
Additions		136,318	152,420
Disposals		(18,650)	(2,782)
Depreciation Expense		(285,243)	(363,983)
Net Foreign Currency Adjustment on Translation		(36,883)	112,063
End of Year		349,592	554,050
Leasehold Improvements			
Beginning of Year		1,444,782	1,173,248
Additions		79,444	367,763
Disposals		(108,021)	-
Depreciation Expense		(380,360)	(310,796)
Net Foreign Currency Adjustment on Translation		(98,288)	214,566
End of Year		937,557	1,444,782
Motor Vehicles			
Beginning of Year		5,657	24,337
Depreciation Expense		(5,144)	(24,465)
Net Foreign Currency Adjustment on Translation		(513)	5,786
End of Year		-	5,657
Plant & Equipment			
Beginning of Year		1,022,694	732,283
Additions		124,467	420,533
Disposals		(66,375)	-
Depreciation Expense		(316,535)	(278,271)
Net Foreign Currency Adjustment on Translation		(77,108)	148,149
End of Year		687,143	1,022,694

(a) QVT Fund LP and Quintessence Fund L.P. ("QVT") entered a loan agreement with Telezygology Inc. on 13 July 2010. The Loan Facility is secured by a first ranking charge over all of the assets of the Company. Refer to Note 24 for the material terms of the loan.

		Consolidated Entity	
		2010	2009 (1)
10. INTANGIBLES		$	$
Goodwill		10,847,635	11,525,942
Other Intangible Assets		12,353,810	12,789,235
Trade Names		1,341,617	1,511,818
Total Intangibles	(a)	24,543,062	25,826,995

(1) The opening balance sheet for the year ended 30 June 2009 was restated which resulted in a decrease of $26,634,701 in the carrying value of intangible assets. Refer to Note 4 for further details.

Movements During the Year

		2010	2009
Goodwill			
Beginning of Year		11,525,942	10,756,714
Net Foreign Currency Adjustment on Translation		(678,306)	769,228
End of Year		10,847,636	11,525,942
Other Intangible Assets	(b)		
Beginning of Year	(c)	12,789,235	13,441,518
Additions - capitalised development costs		1,582,477	-
Additions - other		19,752	451,895
Amortisation Expense		(1,240,900)	(1,062,170)
Net Foreign Currency Adjustment on Translation		(796,753)	(42,008)
End of Year		12,353,810	12,789,235
Trade Names			
Beginning of Year		1,511,818	1,281,780
Additions		-	21,175
Net Foreign Currency Adjustment on Translation		(170,201)	208,863
End of Year		1,341,617	1,511,818

(a) QVT Fund LP and Quintessence Fund L.P. ("QVT") entered a loan agreement with Telezygology Inc. on 13 July 2010. The Loan Facility is secured by a first ranking charge over all of the assets of the Company. Refer to Note 24 for the material terms of the loan.

(b) Intevia Licence - included in the opening balance of other intangible assets is technology and know how that is collectively refered to as the 'Intevia Licence'. The right to exploit this technology was reacquired from Textron Inc (Note 4.1c) on 22 January 2007. The licence is carried at cost less accumulated amortisation and is being amortised over its useful life of 13.5 years.

10. INTANGIBLES (continued)

	Consolidated Entity	
	2010	2009
	$	$
(c) Movement of Other Intangible Assets during the year:		
Re-acquired Right (Intevia Licence)		
Opening carrying amount	8,679,066	9,463,202
Amortisation expense	(717,278)	(846,879)
Net Foreign Currency Adjustment on Translation	(536,403)	62,743
End of Year	7,425,385	8,679,066
Patents		
Opening carrying amount	1,402,445	970,024
Additions	19,751	451,895
Amortisation expense	(108,208)	(21,033)
Net Foreign Currency Adjustment on Translation	(86,350)	1,558
End of Year	1,227,638	1,402,445
Development Costs		
Opening carrying amount	-	-
Additions	1,582,477	-
Amortisation expense	(142,170)	-
Net Foreign Currency Adjustment on Translation	(5,014)	-
End of Year	1,435,293	-
Customer Relationships		
Opening carrying amount	2,707,724	3,008,292
Additions	-	-
Amortisation expense	(273,244)	(324,618)
Net Foreign Currency Adjustment on Translation	(168,987)	24,050
End of Year	2,265,493	2,707,724

Impairment Testing of Cash-generating Units Containing Goodwill

Goodwill and trade names (indefinite lives) have been allocated to the following cash-generating units:

	Consolidated	
	2010	2009
Carrying amounts of goodwill and trade names	$	$
PDT Holdings Inc	7,428,023	7,978,809
Telezygology Inc	4,761,229	5,058,950
	12,189,252	13,037,759

	Consolidated	
	2010	2009
10. INTANGIBLES (continued)	$	$
Other intangible assets have been allocated to the following cash-generating units:		
Carrying amounts of other intangible assets		
PDT Holdings Inc	2,538,853	2,989,151
Telezygology Inc	9,814,957	9,800,084
	12,353,810	12,789,235

The recoverable amount of all cash-generating units is based on value-in-use calculations which use cash flow projections based on budgets approved by management covering a 5 year period. The growth rate used in these budgets does not exceed the long-term average growth rate for the business in which cash-generating units operate.

Key assumptions used for value-in-use calculations for PDT Holdings Inc are as follows:

PDT Holdings Inc:

- **Discount rate**

  The discount rate used was 16.7%

  This rate was calculated using a model based on the weighted cost of debt and equity.

- **Gross Margins**

  Budgeted gross profit margins are between 28.4% and 29.6%.

  Historically Gross Profit Margin has been approximately 30%

- **Revenue growth rates**

2011	10%
2012 – 2015	5%

Management believes these growth rates are conservative and they are confident the forecasted revenue growth can be achieved. Revenue growth for the year ended 30 June 2010 was 18%.

Management determined budgeted gross margin is based on past performance and its expectations for the future. Discount rates used are pre-tax and are specific to relevant segments and countries in which they operate.

The recoverable amount of the goodwill and trade names of PDT is estimated to be $15,282,060 which exceeds the carrying amount at 30 June 2010 by $7,854,037. If a discount rate of 28.6% was used instead of 16.7%, the recoverable amount of goodwill and trade names would equal the carrying amount.

10. INTANGIBLES (continued)

Key assumptions used for value-in-use calculations for Telezygology Inc are as follows:

Telezygology Inc:

- **Discount rate**

  The discount rate used was 16.5%

  This rate was calculated using a model based on the weighted cost of debt and equity.

- **Gross Margins**

  Budgeted gross profit margins are between 51.2% and 60.3%.

  For the year ended 30 June 2010 the Gross Profit Margin was 64.2%

- **Revenue growth rates**

  The revenue growth rate for 2011 is based on management forecasts, with subsequent years projecting forward from the forecasted base.

2011	655%
2012	140%
2013	84%
2014	57%
2015	37%

The forecasted and projected revenues for upcoming financial years show significant growth, and an overall sales level well above what TZI has experienced previously. There are several factors contributing to the workup of the financial information, and the material points are noted below:

- TZI's products/solutions for these business units have only recently been commercialised, with little or no sales in prior financial years.
- The data centre micro-security market is estimated to be a $1.5 billion market that will grow at 4%-6% annually in the near term.
- Fomalisation of commercial partnerships with the signing of key distribution and reseller agreements.

Management believes these growth rates are achievable and they are confident the forecasted revenue growth can be achieved.

Management determined budgeted gross margin is based on expectations for the future after redetermining the product strategy for TZI and securing commercial partnerships for distribution. Discount rates used are pre-tax and are specific to relevant segments and countries in which they operate.

The recoverable amount of the intangibles assets of TZI is estimated to be $22,620,537 which exceeds the carrying amount at 30 June 2010 by $8,044,351. If a discount rate of 44.4% was used instead of 16.5%, the recoverable amount of goodwill would equal the carrying amount.

11. PAYABLES

	Consolidated Entity 2010 $	2009 (1) $
Current		
Trade Payables	2,348,825	2,370,043
Interest Payable	951,522	3,267,945
Sundry Payables	996,588	847,831
Deferred Revenue	530,705	-
Lease Incentive Liability	111,110	107,246
Employee Expense Payables	298,747	286,930
Total Current Payables	5,237,497	6,879,995

The above amounts all relate to normal unsecured creditors incurred in the normal course of the Company's business operations and are within the credit terms of each relevant supplier or service provider, except for interest payable which relates to the company's convertible notes as discussed in Note 13.

(1)The opening balance sheet for the year ended 30 June 2009 was restated which resulted in an increase of $97,167 in the carrying value of trade and other payables. Refer to Note 4 for further details.

	2010 $	2009 (1) $
Non-Current		
Lease Incentive Liability	533,130	684,536

12. PROVISIONS

The nature of provisions is discussed at Note 1 (j).

	2010 $	2009 (1) $
Current		
Employee Entitlements	86,500	103,961

13. OTHER FINANCIAL LIABILITIES

	2010 $	2009 (1) $
Current		
Bank Loans - Secured (a)	741,356	1,292,467
Convertible Note - Debt portion (b)	5,177,857	8,260,861
Derivative Instrument Liabilities (b)	745,834	712,200
Total Current Borrowings	6,665,047	10,265,528
Non-Current		
Convertible Note - Debt portion (b)	5,897,218	-
Derivative Instrument Liabilities (b)	8,316,124	-
	14,213,342	-

(1) The opening balance sheet for the year ended 30 June 2009 was restated which resulted in a decrease of $658,094 in the carrying value of other financial liabilities. Refer to Note 4 for further details.

13. OTHER FINANCIAL LIABILITIES (continued)

(a) Bank Loan

The bank loans are secured by a mortgage over the assets of PDT Inc Group.

The unused facility at 30 June 2010 was $632,585 (2009: $167,387). Refer note 22 (c)

(b) Convertible Notes

Series I

The convertible notes were issued under the terms of a Convertible Note and Option Subscription Deed dated 24 December 2007. 24,000 notes were issued each with a face value of $1,000. The notes have a 5 year term, were convertible at the lower of (a) the agreed conversion price; and (b) the issue price of any subsequent share issue during the terms of the convertible notes. At the time of issue the conversion price was $4 per share. The notes pay interest at a rate of 10%.

On 31 December 2008 as a result of the company's failure to pay interest due to the noteholder of $2,213,333 the company was in default of certain conditions associated with the convertible note deed and in accordance with its rights under the deed, on 1 June 2009 the lender issued a notice requiring the company to redeem the convertible notes amounting to $24,000,000 plus any accrued interest.

On 18 June 2009 an agreement was entered into with the noteholder under which the terms of payment for the outstanding interest were renegotiated to 17 July 2009, the default notice was withdrawn (subject to certain conditions) and good faith negotiations were to be entered into in relation to the orderly repayment of the outstanding debt.

The company subsequently reached an agreement with the lender in order to remedy the default and renegotiate the terms of the convertible note deed, which was approved by the company's shareholders at the 2009 annual general meeting. The 24,000 convertible notes held by QVT were reorganised so that the conversion price was reduced from $4.00 per ordinary share in the company to $1.00 per ordinary share for 12,000 convertible notes and to $1.20 per ordinary share for the remaining 12,000 notes.

As at 30 June 2009, as the company did not have a right at the year end to defer settlement for a period of atleast 12 months after the end of the reporting period, the convertible notes were classified as current liabilities.

Series II

The convertible notes were issued under the terms of the convertible note subscription deed dated 16 July 2009 and amended 13 October 2009. Up until 30 June 2010, 5,241,000 were issued each with a face value of $1. The notes have a fixed expiry date of 15 July 2010 and are convertible at the lesser of: (i) $1.00; and (ii) the lowest price at which ordinary shares may be issued by TZL after 15 July 2009 and prior to conversion.Interest will accrue on each Series II Convertible Note at 10% per annum, payable annually in arrears or on the date the Convertible Note is redeemed.

Subsequent to the reporting date on 15 July 2010 the company announced that (a) 3,918,500 convertible notes had been converted into 10,000,924 ordinary shares at an issue price of $0.42 per share; (b) the conversion of 822,500 convertible notes would take place at a conversion price of $0.3913 once and if any necessary shareholders approvals are obtained at the 2010 AGM; and (c) the remaining 500,000 convertible notes would be redeemed by the company on 13 October 2010. Furthermore, on 22 July 2010, a further 90,000 convertible notes were converted to 228,836 ordinary shares at $0.42 per share. After this conversion, a balance of 732,500 convertible notes will convert at a later time as identified in (b) above.

Series III

1,714 Series III convertible notes with a face value of $1,000 were issued under the terms of an Issue and Amendment Deed with QVT Funds dated 23 April 2010. The notes have a five year term and are convertible at a variable rate, being the lesser of: (i) $1.00; and (ii) the issue price of any subsequent share issue during the terms of the convertible notes. Interest will accrue on each Series III note at 10% per annum, payable on 31 December each year.

As per the terms above the current conversion price of all three series of convertible notes is $0.39, being the value of the most recent share issue for TZ Limited. Refer to Note 4.2 and Note 1(v) and 1(w)(iii) for further details.

	Consolidated Entity	
	2010	2009 (1)
14. CONTRIBUTED EQUITY	$	$
Fully paid ordinary shares (i)	125,906,786	114,726,786
Other contributed equity (ii)	4,768,470	-
	130,675,256	**114,726,786**
(i) Fully paid ordinary shares		
Opening Balance 1 July 2009	114,726,786	113,726,786
Shares Issued During the Year:		
16 June 2009 (a)	-	1,000,000
7/01/2010 (b)	1,050,000	-
30/06/2010 (c)	50,000	-
26/03/2010 (d)	10,080,000	-
Closing Balance 30 June 2010	**125,906,786**	**114,726,786**
	No.	**No.**
Opening Balance 1 July 2009	49,479,325	48,479,325
16 June 2009 (a)	-	1,000,000
7/01/2010 (b)	1,250,000	-
30/06/2010 (c)	119,048	-
26/03/2010 (d)	12,000,000	-
Closing Balance 30 June 2010	**62,848,373**	**49,479,325**

(a) The Company issued 1,000,000 fully paid ordinary shares for $1.00 each.

(b) The Company issued 1,250,000 fully paid ordinary shares. The fair value of the shares was calculated to be $1,050,000 being the 1,250,000 ordinary shares multiplied by $0.84, the deemed fair value of shares on 26 February 2010, the deemed settlement date.

(c) The Company issued 119,048 fully paid ordinary shares for $0.42 each.

(d) As approved by shareholders at the 2009 Annual General Meeting, the Company converted 12,000 Series I Convertible Notes with a total face value of $12,000,000 to 12,000,000 ordinary shares. The fair value of the shares was calculated to be $10,080,000 being the 12,000,000 ordinary shares multiplied by $0.84, the deemed fair value of shares on 26 March 2010, the date the conversion notice was received and the shares were issued.

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Ordinary Shares have no par value.

(ii) Other contributed equity

In accordance with resolution 9(c) from the 2009 AGM, the Company agreed to issue QVT shares to settle amounts outstanding in relation to the 2008 and 2009 interest payments and costs paid by QVT on behalf of the Company. At the date of this report these shares have not been issued, however, for reporting purposes, the liabilities were extinguished and replaced by other contributed equity based on the deemed fair value of the shares at extinguishment date (26 February 2010)

Fair value of shares to be issued to settle:

- 2008 & 2009 Interest on Convertible Notes of $4,477,808	3,761,360	-
- costs paid by QVT on behalf of the Group totalling $1,198,941	1,007,110	-
	4,768,470	**-**

	Consolidated Entity	
	2010	2009
14. CONTRIBUTED EQUITY (continued)	No.	No.
(iii) Unquoted Options		
Opening Balance	10,508,541	9,508,541
Options Issued		
17 June 2009 (e)	-	1,000,000
26 February 2010 (g)	5,700,000	-
5 March 2010 (f)	150,000	-
Options Exercised		
Up to 30 June 2009	-	-
Up to 30 June 2010	-	-
Options Expired / Forfeited		
Up to 30 June 2009	-	-
Up to 30 June 2010	(5,715,500)	-
Closing Balance	**10,643,041**	**10,508,541**

(e) The Company issued 1,000,000 options to subscribe for 1,000,000 fully paid ordinary shares at an exercise price of $0.75 at any time before the expiry date of 15 June 2010.

(f) The Company issued 150,000 options to subscribe for 150,000 fully paid ordinary shares at an exercise price of $1.00 at any time before the expiry date of 29 March 2011.

(g) The Company granted a total of 5,700,000 options to the Directors under the Director and Executive Equity Plan which was approved by shareholders at the 2009 Annual General Meeting. These have been included in the 2010 share based payment, refer Note 26.

(iv) Rights	No.	No.
Opening Balance	-	-
Rights Issued		
27 February 2010 (g)	3,000,000	-
Rights Exercised		
Up to 30 June 2010	-	-
Rights Expired / Forfeited		
Up to 30 June 2010	(120,000)	-
Closing Balance	**2,880,000**	**-**

(g) In accordance with resolutions 12, 13 and 15 of the 2009 AGM, rights were granted to the Directors under the Director and Executive Equity Plan. The grant of rights formed part of the remuneration of the Directors and was based upon advice from an independent remuneration consultant. A total of 3,000,000 rights were granted with a zero exercise price. Of the total, 1,480,000 were exercisable immediately after approval was given at the AGM, and 120,000 were forfeited. The balance of 1,400,000 is subject to the satisfaction of a Performance Hurdle and exercisable from and including 1 July 2011 to 30 June 2012 provided the Performance Hurdle is satisfied. Refer to Remuneration Report for Performance Hurdle details.

(1) The opening balance sheet for the year ended 30 June 2009 was restated which resulted in an increase of $4,446,285 in the carrying value of contributed equity. Refer to Note 4 for further details.

14. CONTRIBUTED EQUITY (continued)

(v) Uncalled Capital

No calls are outstanding at year end. All issued shares are fully paid.

(vi) Terms and Conditions of Unquoted Options

All unquoted options are held by the group's lenders, prior or current Directors, employees and consultants to the Company or their associates. Each option entitles the holder to subscribe for one fully paid share in the Company at the exercise price per share at any time from the date of issue until expiry of the options subject to various vesting dates.

(vii) Capital Management

Management controls the capital of the Group in order to ensure that the Group can fund its operations and continue as a going concern. Its capital includes ordinary share capital; share options and reserves; and financial liabilities, supported by financial assets.

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions through payment of dividends to its shareholders. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

The Group's gearing ratio at the balance sheet date is shown below :

	Consolidated Entity	
Gearing Ratios	**2010**	**2009**
	$	**$**
Net debt	20,646,031	9,699,710
Total equity	4,870,224	14,633,203
Total capital	**25,516,255**	**24,332,913**
Gearing Ratio	81%	40%

Net debt is comprised of cash less other financial liabilities.

The gearing ratio has increased significantly as a result of (a) the increase in fair value of the derivative liabilities; (b) the amortisation of the convertible note debt portion and issue of Series II & III notes; and (c) current year losses.

	Consolidated Entity	
	2010	2009 (1)
15. RESERVES AND ACCUMULATED LOSSES	$	$
Reserves		
Foreign Currency Translation Reserve	(706,147)	999,648
Total Reserves	(706,147)	999,648
Movements During the Year:		
Foreign Currency Translation Reserve		
Opening Balance	999,648	(318,018)
Adjustment Arising from the Translation of Foreign Controlled Entities' Financial Statements	(1,705,795)	1,317,666
Closing Balance	(706,147)	999,648

The foreign currency translation reserve is used to record exchange differences on translation of foreign controlled subsidiaries. The reserve is recognised in the income statement when the investment is disposed of.

Accumulated Losses		
Opening Balance	(101,093,231)	(78,978,955)
(Loss) attributable to owners of the parent entity	(26,347,322)	(24,408,497)
Share based payment expense	2,341,668	2,294,221
Closing Balance	(125,098,885)	(101,093,231)

(1) The opening balance sheet for the year ended 30 June 2009 was restated which resulted in a decrease of $4,932,408 in the carrying value of foreign exchange reserve and an increase of $28,030,057 in the carrying value of accumulated losses. Refer to Note 4 for further details.

16. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The names of persons who were Directors of the Company at any time during the year are:

(i) Non–Executive Director

Mr. Willem de Vlugt	Resigned 31 May 2010

(ii) Executive Directors

Mr. Mark Bouris	Appointed 18 June 2009
Mr. Kenneth Ting	Appointed 18 June 2009
Mr. Dickory Rudduck	Appointed 14 May 2010

(b) Other Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Mr. Mark Schwartz	President and CEO, PDT Holdings Inc.
Mr. Dickory Rudduck	Chief Technical Officer, Telezygology Inc.
Mr. John Wilson	President and CEO, Telezygology Inc. (appointed 17 May 2010)
Mr. Timothy Koehler	Chief Financial Officer, Telezygology Inc. and PDT Holdings Inc.
Mr. John Freese	Chief Operating Officer, Telezygology Inc. (until 17 May 2010)
Mr. Robert Pagorek	Chief Financial Officer, Telezygology Inc. (resigned 10 August 2010)

(c) Key Management Personnel Compensation

	Consolidated Entity	
	2010	2009
	$	$
Short–Term Benefits	1,938,971	3,516,840
Other Benefits - Long Term	16,566	38,583
Share–Based Payments	2,214,711	-
Total	4,170,248	3,555,423

(d) Equity Instrument Disclosures Relating to Key Management Personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section 4 of the remuneration report contained in the Directors report.

(d) Equity Instrument Disclosures Relating to Key Management Personnel (continued)

(ii) Option holdings

The number of options over ordinary shares in the Group held during the financial year by Directors and other Key Management Personnel of the Group, including their related parties, are set out below.

	Opening Balance	Granted as Compensation	Options Expired	Options Exercised	Closing Balance	Vested & Exercisable	Unvested
2010							
Non–Executive Directors							
Willem de Vlugt*	-	450,000	(450,000)	-	-	-	-
Executive Directors							
Mark Bouris	-	3,000,000	-	-	3,000,000	-	3,000,000
Kenneth Ting	-	2,250,000	-	-	2,250,000	-	2,250,000
Dickory Rudduck	10,000	-	-	-	10,000	10,000	-
Key Management Personnel							
Mark Schwartz	85,000	-	-	-	85,000	85,000	-
Timothy Koehler	35,000	-	-	-	35,000	35,000	-
John Freese *	172,500	-	-	-	172,500	172,500	-
John Wilson	-	-	-	-	-	-	-
Robert Pagorek *	66,666	-	-	-	66,666	66,666	-
	369,166	5,700,000	(450,000)	-	5,619,166	369,166	5,250,000
2009							
Non-Executive Directors							
Michael Otten**	200,000	-	-	-	200,000	200,000	-
Willem de Vlugt	-	-	-	-	-	-	-
Executive Directors							
Mark Bouris	-	-	-	-	-	-	-
Kenneth Ting	-	-	-	-	-	-	-
Andrew Sigalla**	-	-	-	-	-	-	-
John Falconer**	200,000	-	-	-	200,000	200,000	-
Key Management Personnel							
Chris Kelliher	-	-	-	-	-	-	-
David Feber**	600,000	-	-	-	600,000	600,000	
Dickory Rudduck	-	10,000	-	-	10,000	10,000	-
Mark Schwartz	75,000	10,000	-	-	85,000	85,000	-
Robert Pagorek **	-	66,666	-	-	66,666	66,666	-
John Freese	35,000	137,500	-	-	172,500	172,500	-
Timothy Koehler	25,000	10,000	-	-	35,000	25,000	10,000
	1,135,000	234,166	-	-	1,369,166	1,359,166	10,000

* Resigned during the year ended 30 June 2010 and no longer as a member of key management personnel.

** Resigned during the year ended 30 June 2009 and no longer as a member of key management personnel.

(d) Equity Instrument Disclosures Relating to Key Management Personnel (continued)

(iii) Rights

The number of rights issued in the Group to Directors and other Key Management Personnel of the Group, including their related parties, are set out below.

	Opening Balance	Granted as Compensation	Rights Expired	Rights Exercised	Closing Balance	Vested & Exercisable	Unvested
30 June 2010							
Non–Executive Directors							
Willem de Vlugt*	-	200,000	(120,000)	-	80,000	80,000	-
Executive Directors							
Mark Bouris	-	1,600,000	-	-	1,600,000	800,000	800,000
Kenneth Ting	-	1,200,000	-	-	1,200,000	600,000	600,000
Dickory Rudduck	-	-	-	-	-	-	-
Key Management Personnel							
Mark Schwartz	-	-	-	-	-	-	-
Timothy Koehler	-	-	-	-	-	-	-
John Freese	-	-	-	-	-	-	-
John Wilson	-	-	-	-	-	-	-
Robert Pagorek *	-	-	-	-	-	-	-
	-	3,000,000	(120,000)	-	2,880,000	1,480,000	1,400,000

* Resigned during the year ended 30 June 2010 and no longer as a member of key management personnel.

** Resigned during the year ended 30 June 2009 and no longer as a member of key management personnel.

Based on the information that is available, no rights were granted or held during the period 1 July 2008 to 30 June 2009.

(e) Shareholdings

The numbers of shares in the Group held during the financial year by Directors and other Key Management Personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

	Opening Balance	Granted as Compensation	Other Changes	Received in period on exercise of rights/options	Closing Balance	Balance Held Nominally
30 June 2010						
Non–Executive Directors						
Willem de Vlugt*	-	-	-	-	-	-
Executive Directors						
Mark Bouris	-	-	-	-	-	-
Kenneth Ting	72,725	-	-	-	72,725	-
Dickory Rudduck	1,100,000	-	(107,502)	-	992,498	978,596
Key Management Personnel						
Mark Schwartz	80,016	-	-	-	80,016	80,016
Timothy Koehler	-	-	-	-	-	-
John Freese *	5,000	-	-	-	5,000	5,000
John Wilson	58,142	-	-	-	58,142	58,142
	1,315,883	-	- 107,502	-	1,208,381	1,121,754
30 June 2009						
Non–Executive Directors						
Michael Otten**	38,640	-	-	-	38,640	38,640
Willem de Vlugt	-	-	-	-	-	-
Executive Directors		-				
Mark Bouris	-	-	-	-	-	-
Kenneth Ting	-	-	72,725	-	72,725	-
Andrew Sigalla**	1,362,950	-	696,589	-	2,059,539	2,059,514
John Falconer**	395,273	-	213,000	-	608,273	608,273
Key Management Personnel						
Chris Kelliher	413,035	-	-	-	413,035	413,035
David Feber**	-	-	-	-	-	-
Dickory Rudduck	1,340,000	-	(240,000)	-	1,100,000	1,100,000
Mark Schwartz	126,016	-	(46,000)	-	80,016	80,016
John Freese	-		5,000	-	5,000	5,000
	3,675,914	-	701,314	-	4,377,228	4,304,478

* Resigned during the year ended 30 June 2010 and no longer as a member of key management personnel.

** Resigned during the year ended 30 June 2009 and no longer as a member of key management personnel.

Loans to Key Management Personnel

No loans have been advanced to Key Management Personnel for the year ended 30 June 2010.

Various funds were withdrawn from the Company by Key Management Personnel and their related parties during the period up to and including 30 June 2009. These amounts are subject to litigation and further details are not provided at this time. The loans have been fully provided against until the outcome of the litigation is known. Refer to Notes 7 (a) and 21 for additional information.

17. RELATED PARTY TRANSACTIONS

(a) Transactions with Related Parties of Key Management Personnel

The following transactions occurred with entities that are either controlled by key management personnel or where key management personnel have significant influence:

i) Accounting Services

Accounting fees charged by Yellow Brick Road Accounting and Wealth Management Pty Limited (Mark Bouris) for the year ended 30 June 2010 were $335,087 (2009: $Nil). These fees included a substantial amount of additional work required regarding the lack of books and records and the need to recreate the ledgers for the company for the year ended 30 June 2009. Amounts payable, which are included in the totals above, as at 30 June 2010 are $50,415 (2009: $Nil).

Accounting fees charged by Dunbar Associates Pty Limited (John Falconer) for the year ended 30 June 2010 were $Nil (2009: $322,720)

ii) Consultancy Services

Consultancy fees charged by IX Consulting Pty Limited (John Wilson) for the year ended 30 June 2010 were $107,526 (2009:$Nil)

Consultancy fees charged by No Compromises Pty Limited (Michael Otten) for the year ended 30 June 2010 were $Nil (2009:$160,000)

iii) Rent and Serviced Office Expenditure

Rent and serviced office expenditure paid to State Capital Property Pty Limited (Mark Bouris) relating to TZ Limited's registered office at Level 11, 1 Chifley Square Sydney for the year ended 30 June 2010 was $140,931 (2009: $Nil)

iv) Insurance

The Directors and Officers Insurance Policy was arranged by YBR General Insurance Brokers Pty Limited (Mark Bouris) during the year ended 30 June 2010. The total premium paid was $57,532 which included a fee to YBR General Insurance Brokers Pty Limited of $7,500 (2009: $Nil)

v) Travel

Total booking fees paid to The Surf Travel Company Holdings Pty Ltd (Mark Bouris) for travel expenses for the year ended 30 June 2010 was $165,353 which included booking fees of $1,571 (2009: $Nil). Additional commissions were paid directly to Surf Travel Company Holdings Pty Limited by the hotels and airlines providing the services.

The above transactions are all undertaken on mutually agreed terms and conditions.

No security is held over any related party balance owing and the amounts will be settled in cash.

	Consolidated Entity	
	2010	2009
	$	$

18. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of Cash

For the purpose of the cash and cash equivalents in the balance sheet and cash flow statement, cash includes:		
Cash at Bank	232,358	232,254
Deposit on Call	-	333,564
	232,358	**565,818**

(b) Reconciliation of 'Net Cash Flow used in Operating Activities' with 'Net Loss from Continuing Operations'

Loss after Income Tax	(26,347,322)	(24,408,497)
Non-Cash Flows in Loss		
Depreciation	987,281	977,515
Amortisation of Intangibles	1,240,901	1,062,171
Unrealised Exchange Loss/(Gain)	17,174	(22,796)
Share-Based Payments	2,341,668	2,294,221
Interest accrued on convertible notes	4,978,297	4,108,810
Doubtful Debts and Impairment Losses	-	16,236,418
Unrealised loss/(gain) in movement of fair value of derivative liability	6,158,048	(13,798,200)
Unrealised loss on conversion of convertible notes	5,627,277	-
Gain on settlement of debt for equity swap	(1,108,279)	-
Changes in Assets and Liabilities		
Increase in Trade Debtors	(1,473,561)	(1,862)
Increase in Prepayments and Other Debtors	(174,401)	(229,906)
Decrease/(Increase) in Work in Progress	119,714	(630,312)
Increase in Deferred Tax Asset	(227,130)	(294,763)
Increase in Creditors and Accruals	3,467,234	1,686,235
Decrease in Employee Entitlements	(5,645)	(108,209)
Increase/(Decrease) in Deferred Tax Liability	46,575	(643,838)
Cash Flows Used in Operations	**(4,352,169)**	**(13,773,013)**

(i) Non-cash financing and investing activities - for details of liabilities settled in shares refer to Note 1(x)(vi) and Note 14.

19. SEGMENT INFORMATION

The group has adopted AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the chief operating decision maker.

Description of Segments

The Consolidated entity's predominant activities is the licensing of its patented intellectual property and operating software, as well as providing application engineering and technology development services to manufacturers in the automotive, aerospace and construction industries.

Management has determined the operating segments based on reports reviewed by the executive management committee for making strategic decision. The executive management committee comprises the executive directors, chief executive officer, chief financial officer and divisional managers. The committee monitors the business based on product and geographic factors and have identified two reportable segments.

PDT Holdings Inc

PDT Group operates its engineering and design division predominantly in the USA, whilst maintaining a presence in the UK and the Ukraine.

Telezygology Inc

TZI's primary role is the development and commercialisation of hardware and software products primarily in the US market.

These reportable segments are same as the Financial Report for the Half-Year Ended 31 December 2009.

Segment Reporting - Operating Segments at June 2010

	PDT (USA) $	TZI (USA) $	Total 2010 $
Segment revenue from external customers	16,608,409	1,007,694	17,616,103
Inter-segment revenue	185,563	199,071	384,634
Other income & revenue	21,972	(17,972)	4,000
EBITDA	1,938,928	(2,565,477)	(626,549)
Head office revenue / income			75,496
Head office costs			(18,727,738)
Depreciation & Amortisation			(2,228,182)
Interest expenses			(5,005,778)
Income tax benefit			165,429
Net Loss for the period			(26,347,322)

19. SEGMENT INFORMATION (continued)

Segment Reporting - Operating Segments at June 2009

	PDT (USA) $	TZI (USA) $	Total 2009 $
Segment revenue from external customers	15,775,591	1,920,640	17,696,231
Inter-segment revenue	1,136,693	630,666	1,767,359
Other income & revenue	13,829	25,276	39,105
EBITDA	1,364,767	(12,955,925)	(11,591,158)
Head office revenue / income			14,868,035
Head office costs			(4,842,301)
Impairment loss			(16,188,336)
Depreciation & Amortisation			(2,039,686)
Interest expenses			(4,169,214)
Income tax expense			(445,838)
Net Loss for the period			(24,408,498)

The executive management committee monitors segment performance based on EDITDA. This measure excludes non-recurring expenditure such as restructuring costs and goodwill impairments and also excludes share-based payment expenses. This performance measure differs from the previous annual financial statements for the financial year ended 30 June 2009 which reflected segment result based on net income before taxation.

No information is disclosed for segment assets and liabilities as no measure of segment assets or liabilities is regularly provided to the executive management committee with the exception of trade creditors which are circulated for cash flow planning purposes. This is permitted by an amendment to AASB 8 that is included in AASB 2009-5.

Basis of accounting for transactions between segments

Inter-segment revenue comprises sales between segments which are on arm's length terms. Segment revenues from external customers are measured in accordance with accounting policy 1(m).

Entity wide disclosures

Major customers

Revenues of $6,579,421 (2009: $3,972,147) are derived from one major customer of PDT (2009: two customers). Individually these revenues amount to more than 10% of the group's revenues from external customers.

19. SEGMENT INFORMATION (continued)

Segment Reporting - Operating Segments at June 2009

Products and services

Revenues from external customers for each group of similar products and services is as follows:

	Original Equipment Manufacturer Product Sales	Infrastructure Protection Product	Design Engineering Service Sales	Other	Total
	$	$	$	$	$
2010					
Revenues from external customers	499,047	308,592	16,361,009	447,455	**17,616,103**
2009					
Revenues from external customers	1,630,226	27,511	15,438,125	600,369	**17,696,231**

Geographical information

Revenues by geographical location is as follows:

	Revenues from external customers	
Geographic location	**2010**	**2009**
	$	$
Australia	162,557	15,060
United States	13,332,083	14,259,096
United Kingdom	1,083,121	668,406
Canada	2,674,840	1,783,029
Israel	-	205,282
Norway	69,969	520,046
Korea	45,590	85,237
Hong Kong	95,232	116,775
Italy	-	4,416
Germany	-	38,884
Taiwan	152,711	-
	17,616,103	**17,696,231**

	Parent Entity	
	2010	2009
20. PARENT ENTITY INFORMATION	$	$

The following details information related to the parent entity, TZ Limited, at 30 June 2010. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	2010 $	2009 $
Current assets	287,119	503,688
Non-current assets	47,275,555	47,196,769
Total assets	47,562,674	47,700,457
Current liabilities	7,997,771	13,074,790
Non-current liabilities	14,213,340	-
Total Liabilities	22,211,111	13,074,790
Contributed equity	130,675,256	114,726,786
Retained earnings / (accumulated losses)	(105,323,694)	(80,101,119)
Total equity	25,351,562	34,625,667
Loss for the year	(27,564,243)	(46,100,819)
Total comprehensive income / (loss) for the year	(27,564,243)	(46,100,819)

21. CONTINGENT LIABILITIES & ASSETS

Contingent Assets	2010 $	2009 $
Litigation proceedings - Australia (a)	14,056,943	13,940,236
Reimbursment from QVT of withholding tax(b)	582,259	-
Net Contingent Asset	14,639,202	13,940,236

(a) A hearing is scheduled in the Supreme Court of New South Wales for 22 November 2010. The group is seeking to recover $13,230,536 loans to and receivables from directors and related entities, plus costs to 30 June 2010 of $826,406. Due to the sensitive nature of the proceedings, further details can not be disclosed at this time. It is anticipated that significant additional costs will be incured between now and the completion of the Supreme Court Hearing. The costs are undetermined at this point in time. One of the defendents, Mr Andrew Sigalla, has recently been declared a bankrupt, however, the company does have the Court's leave to proceed with its claim. The contingent asset will remain in the accounts until the earlier of (i) a decision being handed down in the hearing that is due to commence in the Supreme Court; and (ii) receipt of evidence that the bankrupt's estate is not sufficient to satisfy the claim.

(b) Under the terms of the Convertible Note Subscription Deed, in the event that withholding tax is payable on any interest payments to QVT, TZ Limited is required to gross up the interest payments such that QVT receives the same amount of interest that would have been received if withholding tax was not applicable. Furthermore, the Deed provides that in the event that QVT receives a benefit, in the form of a tax credit, QVT will reimburse TZ Limited for this amount.

21. CONTINGENT LIABILITIES & ASSETS (continued)

Contingent Liabilities

(i) A Sigalla Claim

A claim was received by the Group from former director Andrew Sigalla in the amount of A$1,160,000 plus health care and related Visa costs which Mr Sigalla claims is owing to him and ZMS Investments Pty Limited. The claim is made in respect of Mr Sigalla's resignation as an employee in June 2009. A statement of claim has been received from the plaintiffs and the Group has filed a defence denying liability for the claim. Mr Sigalla is now a bankrupt and his trustee has not yet elected whether to proceed or not with the claim.

(ii) Bombard Technologies Inc. claim

Product Development Technologies Inc (PDT) had commenced recovery action against Bombard Technologies Inc (Bombard) for unpaid work owing. Bombard filed a counterclaim for damages of USD$1,300,000 claiming that PDT had failed to meet specifications required by Bombard for the development of a recreational watercraft. PDT has chosen to defend the allegations, and Andreou & Casson Ltd, Illinois is the attorney appointed to the matter.The judge recently ordered that both parties re-plead their cases. PDT filed its amended complaint and Bombard has filed a Motion to Dismiss in response. The parties are currently briefing this Motion to Dismiss and a ruling is set for 6 October 2010. At the current time Bombard has not re-filed its counter-suit for breach of contract, but that may happen depending on what the outcome is of the Motion to Dismiss.

(iii) Security Deposit Claim against First National Bank of Joliet

PDT Holdings Inc (PDTH) sued the First National Bank of Joliet for collection of its security deposit in the amount of USD$44,566, plus costs of this suit. PDTH alleged breach of contract, conversion, unjust enrichment, and the IL Interest Act. This suit came after much negotiation regarding the security deposit. Discovery is complete and the parties will convene with the judge for a pre-trial conference on 18 October 2010. If the pre-trial conference does not result in a settlement, the parties will set a trial date.

(iv) Security for costs

QVT posted a security of $250,000 for costs on behalf of TZ Limited with the Supreme Court in relation to the hearing scheduled for November. The security will only become repayable to QVT if Mr Sigalla is awarded costs and the security is drawn upon as a result of the hearing. If this does not occur, the $250,000 will be refunded directly to QVT.

22. FINANCIAL INSTRUMENTS

Financial Risk Management Policies

The Group's financial instruments consist mainly of borrowings (including convertible notes), derivative financial liabilities, current accounts with banks, accounts receivable and payable.

Treasury Risk Management

Management considers on a regular basis the financial risk exposures and evaluates treasury management strategies in the context of the most recent economic conditions and forecasts.

The overall risk management strategy seeks to meet the Group's financial targets, whilst minimising potential adverse effects on financial performance.

Management operates under policies approved by the Board of Directors who approve and review risk management policies on a regular basis. These include future cash flow requirements.

22. FINANCIAL INSTRUMENTS (continued)

Financial Risk Exposures and Management

The main risks the Group are exposed to through its financial instruments are market risk (interest rate risk & foreign currency risk), credit risk and liquidity risk.

a) Market Risk

Market risk arises from the use of interest bearing, tradeable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

i) Interest Rate Risk

The Group is exposed to interest rate risk through financial assets and financial liabilities. It is the Group's policy to eliminate interest rate risk over the cash flows on its long-term debt finance through the use of fixed rate instruments.

The Group invests surplus cash in term deposits with fixed returns. The Board makes investment decisions after considering advice received from professional advisors.

The group monitors its interest rate exposure continuously.

Sensitivity Analysis

Sensitivity analysis of reasonable possible variances of +/- 1% in relation to interest rate risk the above risks is disclosed in the following table, all other variables held constant, the estimated impact on the post - tax profit and equity would have been:

	Consolidated Entity	
	2010	2009
	$	$
Change in Net Profit		
Increase in interest rate	(3,181)	(6,626)
Decrease in interest rate	3,181	6,626
Change in Equity		
Increase in interest rate by	(3,181)	(6,626)
Decrease in interest rate by	3,181	6,626

22. FINANCIAL INSTRUMENTS (continued)

The following table summarises the interest rate risk and liquidity risk for the Group, together with the effective weighted average interest rate for each class of financial assets and liabilities.

	Weighted Average Interest Rates		Floating Interest Rate		Fixed Interest Maturing in: 1 Year or Less		Fixed Interest Maturing in: Over 1 to 5 Years		Non Interest Bearing		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Financial Assets	%	%	$	$	$	$	$	$	$	$	$	$
Cash	3.04	4.23	232,358	232,254	-	333,564	-	-	-	-	232,358	565,818
Receivables	-	-	-	-	-	-	-	-	4,369,237	2,798,870	4,369,237	2,798,870
Total Financial Assets			232,358	232,254	-	333,564	-	-	4,369,237	2,798,870	4,601,595	3,364,688
Financial Liabilities												
Amortised Cost:												
Bank Loan	3.25	3.25	741,356	1,292,467	-	-	-	-	-	-	741,356	1,292,467
Convertible Note Liability	10.00	10.00	-	-	5,177,857	8,260,861	5,897,218	-	-	-	11,075,075	8,260,861
Trade and Sundry Creditors	-	-	-	-	-	-	-	-	3,717,676	3,217,874	3,717,676	3,217,874
Fair value through profit or loss:												
Derivative Liability	-	-	-	-	745,834	712,200	8,316,124	-	-	-	9,061,958	712,200
Total Financial Liabilities			(741,356)	(1,292,467)	(5,923,691)	(8,973,061)	(14,213,342)	-	(3,717,676)	(3,217,874)	(24,596,065)	(13,483,402)
Net Financial (Liabilities)/Assets			(508,998)	(1,060,213)	(5,923,691)	(8,639,497)	(14,213,342)	-	651,561	(419,004)	(19,994,470)	(10,118,714)

22. FINANCIAL INSTRUMENTS (continued)

ii) Currency Risk

The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group .

Foreign exchange risk arises from recognised assets and liabilities denominated in a currency that is not the functional currency of the company in which the assets and liabilities are recorded. The risk is measured using sensitivity analysis and future cash flow requirement.

The Group's foreign exchange risk is managed to ensure sufficient funds are available to meet US financial commitments in a timely and cost-effective manner. The Group will continually monitor this risk and consider entering into forward foreign exchange, foreign currency swap and foreign currency option contracts if appropriate.

Creditors and debtors as at 30 June 2010 were reviewed to assess currency risk at year end. The value of transactions denominated in a currency other than the functional currency of the respective subsidiary was insignifcant and therefore the risk was determined as immaterial.

iii) Other Price Risk

The Group has derivative liabilties, the fair value of which is linked to the share price of TZ Limited. Price fluctuations that are inherent in such a share market impact the value of the liabilities.

Sensitivity Analysis

Sensitivity analysis of reasonable possible variances of 10% in the share price of TZ Limited is disclosed in the following table, all other variables held constant, the estimated impact on the post - tax profit and equity would have been:

	Consolidated Entity	
	2010	2009
	$	$
Change in Net Profit		
Increase in share price by 10%	801,934	(328,200)
Decrease in share price by 10%	(3,522,250)	316,200
Change in Equity		
Increase in share price by 10%	801,934	(328,200)
Decrease in share price by 10%	(3,522,250)	316,200

22. FINANCIAL INSTRUMENTS (continued)

(b) Credit Risk

Credit risk is the potential that the Group will suffer a financial loss due to the unwillingness or inability of the counterparty to fully meet their contractual debts and obligations. Credit risk arises from both lending and trading activities.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

In respect of the parent entity it does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company. Approximately one third of PDT's trade receivables balance at 30 June 2010 was owed by one customer.

Management monitors credit risk by actively assessing the rating quality and liquidity of counter parties:

(i) Only banks and financial institutions with an ‘A’ rating are utilised; and

(ii) All potential customers are rated for credit worthiness taking into account their size, market position and financial standing;

Receivables due from major debtors are not normally secured by collateral, however the credit worthiness of debtors is monitored.

In the US, trade receivables are monitored monthly and credit worthiness of customers are continually assessed to determine the credit risk exposed, bad debts are written off to the income statement only when all possibility of collection and enforcement been undertaken.

Age analysis of trade receivables that are past due but not impaired at the end of the reporting period:

Consolidated 2010	Total $	Amount Impaired $	Amount not impaired $
Not past due	3,218,496	-	3,218,496
Past due 30 days	385,613	22,899	362,714
Past due 30 - 60 days	45,106	-	45,106
Past due 60 - 90 days	175,688	-	175,688
Past due 90 days+	168,144	129,666	38,479
Total	3,993,047	152,565	3,840,483

Consolidated 2009	Total $	Amount Impaired $	Amount not impaired $
Not past due	1,803,733	56,283	1,747,450
Past due 30 days	421,513	-	421,513
Past due 30 - 60 days	68,869	-	68,869
Past due 60 - 90 days	-	-	-
Past due 90 days+	202,083	72,993	129,090
Total	2,496,198	129,276	2,366,922

22. FINANCIAL INSTRUMENTS (continued)

(c) Liquidity Risk

Liquidity risk is the inability to access funds, both anticipated and unforeseen, which may lead to the Group being unable to meet its obligations in an orderly manner as they arise.

The Group liquidity position is managed to ensure sufficient funds are available to meet financial commitments in a timely and cost-effective manner. The Group is primarily funded through on-going cash flow, debt funding and capital raisings, as and when required.

The Group raised capital through the issue of convertible notes, with a fixed interest rate of 10% pa. Refer to notes 13 for details regarding the year end position of these notes. In accordance with resolution 9(a) from the 2009 AGM, the Group negotiated for the conversion of notes with a face value of $12,000,000 into fully paid ordinary shares. Furthermore, in accordance with resolutions 9(c), 9(d) and 9(e), a debt for equity swap was negotiated in relation to capitalised interest and expense reimbursements that were due to QVT. Refer to note 14 for further details regarding the conversion and debt for equity swap.

Financing arrangements

The following financing facilities were available to the group at the end of the reporting period:

		Consolidated Entity	
		2010	2009
		$	$
Bank loans			
Total facilities:			
Used at the end of the reporting period			
Bank loan	(a)	741,356	1,292,467
Unused at the end of the reporting period			
Bank loan		632,585	167,387

(a) The credit facility has a limit of USD$1,200,000, however, the capacity is decreased as the amount of security decreases below USD$1,200,000. Security consists of accounts receivable less than 60 days old, and eligible receivables are subject to a 20% reduction in value.

22. FINANCIAL INSTRUMENTS (continued)

(c) Liquidity Risk (continued)

Financial Liabilities Maturity Analysis	Carrying $	Contractual $	< 6 mths	6- 12 mths $	1-3 years $	> 3 years $
30 June 2010						
Non-derivatives						
Bank loans	741,356	741,356	-	741,356	-	-
Trade Creditors	2,348,826	2,348,826	2,348,826	-	-	-
Convertible notes	11,075,075	18,955,000	5,241,000	-	12,000,000	1,714,000
Interest payable on convertible notes	951,522	4,803,058	1,200,000	1,717,458	1,714,200	171,400
Total non-derivatives	**15,116,779**	**26,848,240**	**8,789,826**	**2,458,814**	**13,714,200**	**1,885,400**
Derivatives						
Derivative Instrument Liability	9,061,958	-	-	-	-	-
Total derivatives	**9,061,958**	**-**	**-**	**-**	**-**	**-**
30 June 2009						
Non-derivatives						
Bank loans	1,292,467	1,292,467	-	1,292,467	-	-
Trade Creditors	2,370,043	2,370,043	2,370,043	-		-
Convertible notes	8,260,861	24,000,000	24,000,000	-	-	-
Interest payable on convertible notes	3,267,945	3,267,945	3,267,945	-	-	-
Total non-derivatives	**15,191,316**	**30,930,455**	**29,637,988**	**1,292,467**	**-**	**-**
Derivatives						
Derivative Instrument Liability	712,200	-	-	-	-	-
Total derivatives	**712,200**	**-**	**-**	**-**	**-**	**-**

Cash flows in the maturity analysis are not expected to occur significantly earlier, or at significantly different amount.

22. FINANCIAL INSTRUMENTS (continued)

d) Fair Value

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The net fair values of cash and cash equivalents and non–interest bearing monetary financial assets and liabilities approximate their carrying values as disclosed in the statement of financial position and the notes to the financial statements.

Unless otherwise noted, the carrying value of all assets and liabilities approximate the fair value.

Fair value of derivative liabilities

The fair value at grant date was determined using a Black-Scholes option pricing model that takes into account the share price at grant date, expected exercise price, expected volatility, option life, expected dividends, the risk free rate and days to maturity. The inputs used for the Black-Scholes option pricing model for derivatives embedded in convertible notes as at 30 June 2010 were as follows:

(i) days to maturity:	Series I - 908 days ; Series II - 15 days; Series III - 1,758 days
(iii) share price:	$0.435
(iv) exercise price:	$0.390
(v) expected volatility:	80% - 93.79%
(vii) risk free rate:	4.50%

Expected volatility was determined based on the historic volatility (based on the remaining life of the derivative), as adjusted for any expected changes to future volatility based on publicly available information.

For further information regarding the fair value of derivative liabilities refer to note 1(w)(ii)

	Consolidated Entity	
	2010	2009
23. COMMITMENTS FOR EXPENDITURE	$	$
Operating Lease Commitments Payable:		
Not Later Than One Year	750,261	1,009,732
Later Than One Year but Not Later Than Five Years	1,867,991	2,323,601
Later Than Five Years	-	450,122
	2,618,252	3,783,455

The Group leases various premises under non-cancellable operating leases expiring between one and six years. All leases have annual CPI escalation clauses. The above commitments do not include any turnover rentals which are contingent upon the various Group companies achieving defined sales levels. Nor do they include commitments for any renewal options on leases. Lease terms usually run for 5 years with a 5 year renewal option. Lease conditions do not impose any restrictions on the ability of TZ Limited and its subsidiaries from borrowing further funds or paying dividends.

24. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

New Loan Facility with QVT Fund LP and Quintessence Funds LP

As announced on 28 June 2010 the company negotiated a secured loan facility with QVT Fund LP and Quintessence Funds LP for USD$4,100,000. The loan proceeds had been received in full by 28 July 2010.

Options & Rights Issues to the Directors

The Company issued a total of 2,880,000 rights and 5,250,000 options under the Director and Executive Equity Plan on 7 July 2010. The issue of rights and options was approved by shareholders at the Company's Annual General Meeting for the financial year ended 30 June 2009 that was held on 26 February 2010. A share based payment has been recognised in the financial statements for the year ended 30 June 2010. Refer Note 26.

A total number of 1,480,000 rights were exercised by the Directors and 1,480,000 ordinary fully paid shares were issued on 19 July 2010.

Conversion of Series II Convertible Notes

According to the terms and conditions under the Convertible Note and Subscription Deed for the Series II Convertible Notes, 3,918,500 Series II Convertible Notes with a total face value of $3,918,500 were converted to 10,000,924 ordinary shares on 15 July 2010.

A further 90,000 Series II Convertible Notes with a total face value of $90,000 were converted to 228,836 ordinary shares on 22 July 2010.

24. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD (continued)

Resolution of FutureWall Licence Dispute

The company successfully resolved a long standing dispute between TZI and Techbuilt Interiors Pty Limited in relation to a licence of rights pertaining to TZI's FutureWall System granted by TZI to Techbuilt. As a consequence of the settlement, a joint venture has been formed, Intanova Pty Limited, which will leverage the existing awareness and acceptance of the FutureWall System in the marketplace and will carry on the business of marketing, supply and installation of interior fit-out solutions in Australia and New Zealand.

Telezygology Inc. holds a 50% interest in Intanova Pty Limited by being the registered owner of 2,000,002 of the 4,000,004 ordinary class shares on issue.

ASX waiver regarding listing rule 10.1

On 12 July 2010 the ASX granted a waiver to the company in relation to compliance with listing rule 10.1. In granting its decision, the ASX requested that a summary of the material terms of the loan agreement be included in each annual report so long as the loan agreement exists:

Loan Agreement Summary:

QVT Fund LP and Quintessence Fund L.P. (the "QVT Funds") lent USD$4,100,000 to Telezygology Inc. ("TZI") under a loan deed (the "QVT Loan") dated 13 July 2010. The material terms of the QVT Loan are as follows:

(i) The purpose of the QVT Loan is for the purpose of working capital expenses, to expand the TZI's current operations and to fund new business initiatives related to the existing lines of business of TZI and its related entities.

(ii) The QVT Loan is subject to an interest rate of 10% per annum. Interest is payable annually in arrears with the first payment due 31 December 2010.

(iii)The Loan Facility is repayable on 19 February 2013.

(iv)The Company has guaranteed TZI's obligations under the QVT Loan.

(v) The Loan Facility is secured by a first ranking charge over all of the assets of the Company (other than the Company's shares in its subsidiaries Product Development Technologies Inc. and PDT Holdings, Inc.).

(vi) Under the terms of the QVT Loan, the QVT Funds can, in certain circumstances, request that the Company take all reasonable actions necessary (including seeking any necessary shareholder approval) to issue convertible notes to the QVT Funds having a total face value equal to the principal plus any accrued or owing interest in way of repayment of the principal and interest owing under the QVT Loan.

(vii) The QVT Loan contains a number of representations, warranties and undertakings from the Company and TZI to the QVT Funds. These representations, warranties and undertakings are usual for loan facilities of this type. Furthermore, it is an event of default if the QVT Funds elect to convert the principal and interest under the loan into convertible notes on the basis set out above and the necessary shareholder approvals to enable that to occur are not obtained at the Company's annual general meeting of shareholders to be held in respect of the financial year ended 30 June 2010.

25. AUDITOR'S REMUNERATION	Consolidated Entity 2010 $	2009 $
Audit of the Parent Entity - Taylor's & Co	-	10,705
Audit and review of the Consolidated Entity - BDO	149,205	45,000
Audit of the Controlled Entities	71,887	29,431

The auditors received no other fees or benefits.

26. SHARE - BASED PAYMENTS

	Consolidated Entity 2010 $	Consolidated Entity 2009 $
Share-based payment expense recognised during the financial year:		
Cash-settled	-	-
Options issued to employees	93,192	2,294,221
Options issued under Director & Executive Equity Plan	622,563	-
Rights issued under Director & Executuve Equity Plan	1,592,148	-
Options issued for other compensation	33,765	-
	2,341,668	2,294,221

Recognition of Share - Based Payments Expense

A total of 5,700,000 options and 3,000,000 rights were granted to the Directors under the Director & Executive Equity Plan during the year. A further 150,000 options were issued to Mr Howard Todd Horberg as compensation in relation to a dispute. In addition some options issued to employees in prior periods continued to vest during the current period and hence a share based payment expense was recognised. Consequently an amount of $2,341,669 in share based payment expense (2009: $2,294,221) was recognised in the income statement for the year ended 30 June 2010.

Options issued to employees are at the discretion of Executive Management, terms are variable and decided at the time of issue, and no formal plan exists.

Director and Executive Equity Plan

The Director & Executive Equity Plan ("DEEP") was approved by shareholders at 2009 Annual General Meeting that was held on 26 February 2010. It gives directors and senior executives the opportunity to participate in the plan. There were three tranches of options and two tranches of rights granted to the directors during the year. Each tranche of options has a fixed number granted with vesting periods from 1 to 3 years from the end of current financial year. Each tranche of rights also has a fixed number granted with the first tranche vesting immediately and the second to vest on 1 July 2011.

The rights granted to the Directors are at a zero exercise price, which entitle the holder to acquire fully paid ordinary shares in the company, without payment. Each right entitles the holder to acquire one fully paid ordinary share in the company. In the case of the second tranche of rights, the satisfaction of a performance hurdle must be satisfied before the rights can be exercised.

There were three tranches of options granted to the Directors during the year. Each option, when validly exercised, entitles the holder to received one fully paid share in the company. The first tranche of options will be exercisable in the period from 1 July 2011 to 30 June 2016 at an exercise price of $1.00 per option. The second tranche of options will be exercisable in the period from 1 July 2012 to 30 June 2017 at an exercise price of $2.00 per option. The third tranche of options will be exercisable in the period from 1 July 2013 to 30 June 2018 at an exercise price of $3.00 per option.

26. SHARE–BASED PAYMENTS (continued)

Details of all options and rights outstanding during the financial year are as follows:

Grant Date	Exercise Price	Opening Balance	Granted During the Year	Forfeited During the Year	Vested During the Year	Exercised During the Year	Expired During the Year	Balance at End of Year	Exercisable at the End of Year
30 June 2010									
DEEP Options									
26/02/2010	$1.00	-	1,900,000	(150,000)	-	-	-	1,750,000	-
26/02/2010	$2.00	-	1,900,000	(150,000)	-	-	-	1,750,000	-
26/02/2010	$3.00	-	1,900,000	(150,000)	-	-	-	1,750,000	-
		-	5,700,000	(450,000)	-	-	-	5,250,000	-
Other Options		3,503,874	150,000	(260,833)	-	-	(1,000,000)	2,393,041	2,393,041
Total Options		**3,503,874**	**5,850,000**	**(710,833)**	**-**	**-**	**(1,000,000)**	**7,643,041**	**2,393,041**
Options Weighted Average Exercise Price		**3.80**	**1.97**	**4.62**			**3.78**	**2.52**	**3.80**
Rights									
26/02/2010	$0.00	-	1,480,000	-	1,480,000	-	-	1,480,000	1,480,000
26/02/2010	$0.00	-	1,520,000	(120,000)	-	-	-	1,400,000	-
Total Rights		**-**	**3,000,000**	**(120,000)**	**1,480,000**	**-**	**-**	**2,880,000**	**1,480,000**
Rights Weighted Average Exercise Price		-	-	-	-	-	-	-	-
30 June 2009									
DEEP Options		-	-	-	-	-	-	-	-
Other Options		5,255,249		(1,751,375)				3,503,874	3,503,874
Total Options		5,255,249	-	(1,751,375)	-	-	-	3,503,874	3,503,874
Options Weighted Average Exercise Price		3.82	-	5.68	-	-	-	3.80	3.80

The weighted average fair value of rights granted during the year was $0.84. Fair value was calculated as with options above.

26. SHARE–BASED PAYMENTS (continued)

Fair value of options granted

The weighted average fair value of options granted during the year was 60 cents. The fair value at grant date was determined using a Black-Scholes option pricing model that takes into account the share price at grant date, exercise price, expected volatility, option life, expected dividends, the risk free rate, vesting and performance criteria, the impact of dilution, the fact that the options are not tradeable. The inputs used for the Black-Scholes option pricing model for options granted during the year ended 30 June 2010 were as follows:

(i) expiry periods:	from 1 - 5 years after vesting dates
(ii) grant date:	26/02/2010 and 5/03/2010
(iii) share price at grant date:	84 cents, being the deemed fair value at the grant date
(iv) exercise price:	from $1.00 to $3.00
(v) expected volatility:	77.39% to 99.92%
(vi) expected dividend yield:	0.00%
(vii) risk free rate:	4.50%

Expected volatility was determined based on the historic volatility (based on the remaining life of the option), as adjusted for any expected changes to future volatility based on publicly available information.

The following reconciles the outstanding share options and rights granted for share based payments at the beginning and end of the financial year:

The range of exercise prices for options outstanding at the end of the year are as follows:

Grant Date	Expiry Date	Exercise Price	Number of Options
18-Jan-08	18-Jan-11	$3.75	100,000
18-Jan-08	19-Jan-11	$3.75	195,000
20-Jan-08	20-Jan-11	$3.00	149,000
8-Feb-08	7-Feb-11	$6.00	75,000
1-Jan-08	31-Dec-10	$6.00	310,125
24-Oct-08	24-Oct-11	$2.50	850,000
Jan 08 to Aug 08	Jan 11 to Aug 11	$6.00	116,666
Feb 07 to Jan 08	May 11 to Feb 13	$3.75 - $6.00	90,000
Jan 08 to Nov 08	Nov 11 to Dec 11	$6.00	142,250
24-Oct-08	24-Oct-11	$2.50	150,000
15-May-09	15-May-12	$2.50	65,000
5-Mar-10	5-Mar-11	$1.00	150,000
26-Feb-10	30-Jun-16	$1.00	1,750,000
26-Feb-10	30-Jun-17	$2.00	1,750,000
26-Feb-10	30-Jun-18	$3.00	1,750,000
			7,643,041

The weighted average remaining contractual life of share options outstanding at 30 June 2010 was 5.09 years (2009: 1.49 years).

Exercised During the Year

No share options were exercised during the financial year. However, 1,480,000 rights granted during the year were issued on 7 July 2010 and exercised on 19 July 2010.

27. GROUP DETAILS

The consolidated financial statements include the financial statements of TZ Limited and the subsidiaries listed below.

	% Owned		Country of Incorporation	Class of Shares
	2010	2009		
Telezygology, Inc.	100	100	USA	Ordinary
PDT Holdings, Inc.	100	100	USA	Ordinary
Product Development Technologies, Inc.	100	100	USA	Ordinary
PDT Tooling, Inc.	100	100	USA	Ordinary
PDT Southeast Limited Liability Company (LLC)**	100	100	USA	Ordinary
CJSC PDT Ukraine	90	90	Ukraine	Ordinary

**(An LLC is treated as a partnership for US purposes)

The registered office of the Group is:

TZ Limited (TZL)
Level 11, 1 Chifley Square
Sydney NSW 2000
Australia

The principal place of business is:

Telezygology Inc. (TZI)
520 W. Erie Street
Suite 100
Chicago, Illinois 60654
USA

PDT Holdings, Inc. (PDT Group)
One Corporate Drive
Suite 110
Lake Zurich, Illinois 60047
USA

DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date.

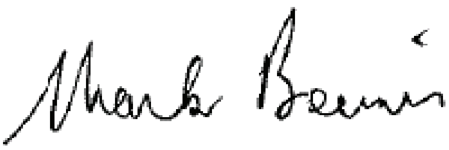
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

4. The remuneration disclosures in pages 35 to 44 of the Directors Report (as part of the audited remuneration report) for the year ended 30 June 2010 comply with section 300A of the Corporations Act.

5. The directors have been given the declarations by the chief executive officers of Telezygology Inc and PDT Holdings Inc and the chief financial officer of Telezygology Inc and PDT Holdings Inc, as required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Mark Bouris
Director

Kenneth Ting
Director

30 September 2010

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TZ LIMITED

Report on the Financial Report

We have audited the accompanying consolidated financial report of TZ Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001 would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Basis for Qualified Auditor's Opinion

The Directors in office at the date of this report were appointed on or after 18 June 2009 and all other Directors previously in office had resigned on or prior to that date. The Directors and management in office at the date of this report have been unable to obtain all of the company's and consolidated entity's books and records relating to periods prior to 30 June 2009.

Due to the deficiency in the books and records obtained by the current Directors, we have not been able to perform necessary audit procedures on the comparatives for the year ended 30 June 2009 to satisfy ourselves that the opening balances are free from misstatements that could materially affect the current period's financial report; that the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated; and that appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed.

Qualified Auditor's Opinion

In our opinion, because of the significance of the above matter in relation to the results of the consolidated entity's operations for the year to 30 June 2010, we are not in a position to, and do not, express an opinion on the comparatives for 2009 and the results of its operations and its cash flows for the year ended 30 June 2010.

In our opinion, the statement of financial position of TZ Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Material Uncertainty Regarding Continuation as a Going Concern

We draw attention to the following matters that are described in note 1(b) to the financial report.

At 30 June 2010 the consolidated entity's current liabilities exceeded current assets by $6,706,792. For the year ended 30 June 2010 the consolidated entity incurred losses after income tax of $26,347,322 and net cash outflows from operating activities of $4,352,169.

The ability of the consolidated entity to continue as a going concern is dependent on the group raising additional share capital, generating future profits and positive cash flows and the continued support of the group's lenders and shareholders.

These conditions indicate the existence of a material uncertainty, which may cast significant doubt about the economic entity's ability to continue as a going concern.

In the event that the consolidated entity is unable to continue as a going concern, it may be required to realise its assets and liabilities other than in the normal course of business and at amounts different to those currently recorded in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 35 to 44 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Qualified Auditor's Opinion

Because of the limitation on the scope of our work, as described in the preceding paragraphs relating to our audit of the financial report, and the effects of such adjustments, if any, that might have been determined to be necessary had the limitation not existed, we are not in a position to, and do not, express an opinion on the comparatives for 2009.

In our opinion, except for the effect on the remuneration report of the matter referred to in the preceding paragraph, the Remuneration Report of TZ Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001.*

BDO

BDO Audit (NSW-VIC) Pty Limited

Simon Coulton

Director

Sydney, 30 September 2010

The Board has formally reviewed the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council in December 2007. The Company is a small company and accordingly the Directors consider that many of the corporate governance guidelines intended to apply to larger companies are not practical. The Company's position on those recommendations is set out below;

Principle 1: Lay Solid Foundations for Management and Oversight

The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of shareholders which it accomplishes by:

(i) establishing corporate governance, and ethical, business standards;

(ii) setting objectives, goals and strategic direction with a view to maximise shareholder value;

(iii) approving and monitoring budgets and major investments;

(iv) ensuring adequate internal controls exist and are appropriately monitored;

(v) ensuring significant business risks are identified and appropriately managed; and

(vi) appointing the CEO and monitoring the CEO's performance.

The Board has delegated responsibilities and authorities to management to enable management to conduct the Company's day to day activities. Matters which are not covered by these delegations, such as approvals which exceed certain limits, require Board approval.

Apart from the statements on responsibility above, the Company has not formalised the functions reserved to the Board and those delegated to management due to the relatively small size of the Company. Similarly, the Company has not adopted a formal process for evaluating the performance of senior executives for the reasons outlined above. The performance of senior executives takes place at meetings of the Board.

Principle 2: Structure the Board to Add Value

The composition of this Board is determined using the following principles:

(i) Directors appointed by the Board by reason of a vacancy are subject to re-election by shareholders at the following annual general meeting

(ii) Directors are subject to re-election by rotation at least every three years.

The names of the Directors in office at the date of this Report, the date they were appointed and their status as Non-Executive, Executive or Independent Directors are set out in the table below:

Director	Appointed	Non-Executive	Independent
Mark Bouris	18-Jun-09	No	No
Kenneth Ting	18-Jun-09	No	No
Dickory Rudduck	14-May-10	No	No

Mr Bouris is standing for re-election by rotation at the 2010 annual general meeting. Mr Rudduck was appointed by the Board during the year to fill a vacancy on the board and is subject to re-election by the shareholders at the annual general meeting for the financial year ended 30 June 2010.

The skills and experience of each director is set out in the director’s report in the 2010 annual financial report.

The areas of divergence with recommended principles are set out below:

(i) The majority of Directors are not independent as they are all executive directors.

(ii) The Chairman is not independent and is an Executive Director

(iii) The Company does not have a formally constituted Nomination Committee. When a vacancy exists on the Board or where it is considered that a director with particular skills or experience is required, the board selects a panel of candidates with the appropriate expertise and experience from which the most suitable candidate is appointed on merit.

(iv) The Company does not have a formal process for evaluating the performance of the Board and the individual Directors.

The above areas of divergence are due to the relatively small size of the Company and its operations.

Each Director of the Company has the right to seek independent professional advice at the expense of the Company.

Principle 3: Promote ethical and responsible decision making

Board members, executive management and Company officers are made aware of the requirements to follow corporate policies and procedures, to obey the law and to maintain appropriate standards of honesty and integrity at all times.

The Company does not have a formal written code of conduct to guide compliance with legal and other obligations. This reflects the Company's size which makes its legal compliance a less onerous task than with larger companies. The Board of Directors continues to review the situation to determine the most appropriate and effective operational procedures.

The Company does not have a formal written policy concerning trading in company securities by directors, senior executives and employees, reflecting the Company's small size and the close interaction of the small number of individuals throughout the organisation. However the Directors, senior executives and employees are aware of their legal obligations and the reasonable expectations of their stakeholders.

The Directors, senior executives and employees are required not to deal in Company shares:

(i) Except between three and 30 days after either the release of the Company's half year and annual results to the Australian Securities Exchange, the annual general meeting or any major announcement.

(ii) Whilst in possession of price sensitive information.

Directors are required to give prior notice to the chairman of any dealings in Company securities by themselves or their associates and to provide particulars of any transaction immediately following execution. The secretary is to make the requisite notifications to ASX within 2 days of each such transaction.

Principle 4: Safeguard Integrity in Financial Reporting

The Company was not a Company required by ASX Listing Rule 12.7 to have an Audit Committee during the year. The board has determined that, due to the relatively small size of the Company, it would not be efficient to appoint a formal audit committee. Nevertheless, the Board has adopted procedures to adequately address issues related to the integrity of the Company’s financial reporting and to oversee the independence of the external auditors. The procedures include the following main responsibilities:

(i) Monitor the integrity of the financial statements of the Company and review significant financial reporting changes.

(ii) Review the Company’s internal financial control system and risk management systems.

(iii) Appoint the external auditor and to approve the remuneration and terms of engagement of the external auditor.

(iii) Monitor and review the external auditor’s independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements.

(iv) Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

The skills and experience of each director is set out in the Director’s Report in the annual financial report for the year ended 30 June 2010.

Principle 5: Make timely and balanced disclosure

The Company and its Directors are aware of continuous disclosure requirements under the Listing Rules and Corporations Act and operate in an environment where strong emphasis is placed on full and appropriate disclosure. The Company has formal written policies regarding disclosure which is publicly available on the Company’s website.

Principle 6: Respects the Rights of Shareholders

The Company does not have a communications strategy to promote effective communication with shareholders, as it believes this is excessive for small companies. The Company maintains a website which is used in conjunction with timely announcements to the ASX to ensure shareholders are kept fully informed.

The Company also aims to ensure that the shareholders are informed of all major developments through:

(i) Despatch of the annual and half yearly financial reports.

(ii) Despatch of all notices of meetings of shareholders.

(iii) Submitting to a vote of shareholders proposed major changes in the consolidated entity which may impact on share ownership rights.

The Board encourages full participation of shareholders at the annual general meeting to ensure high level of accountability and identification of the consolidated entity's strategic goals. Important issues are presented to the shareholders as single resolutions.

The Company requests the external auditor to attend the general meeting.

Principle 7: Recognise and Manage Risk

The Board has adopted the role of identification, assessment, monitoring and managing the significant areas of risk applicable to the consolidated entity and its operations. The Board has not established a separate committee to deal with these matters as the directors consider the size of the Company and its operations does not warrant a separate committee at this time. The directors have identified the significant areas of risk applicable to the consolidated entity and its operations and the board considers the matter of risk management as a standing agenda item at board meetings.

For the reasons set out above the company has not established formal policies on risk management. The Board endeavours to mitigate any risks by continually reviewing the activities of the Company in order to identify key business and operational risks and ensuring that they are appropriately assessed and managed.

The Company has received assurances from the persons who perform the function of chief financial officer (or equivalent) and chief executive officer (or equivalent)in relation to the group that the declaration under section 295A of the Corporations Act is founded on a system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate Fairly and Responsibly

Because of the relatively small size of the Company and its operations, the Board does not consider it appropriate, at this time, to form a separate committee to deal with executive remuneration. The Board as a whole establishes and reviews annually the remuneration of the executive directors, senior executives and employees.

Details of the Company's policy for determining the nature and amount of emoluments of Board members and senior Executives of the Company are contained in the Directors' report.

In accordance with Corporations Act requirements, the Company discloses the fees or salaries paid to all Directors, and Executive Officers of the Company.

STOCK EXCHANGE INFORMATION

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. This information is current as of 31 August 2010.

Statement of Quoted Securities as at 31 August 2010

There are 2,751 shareholders holding a total of 74,915,277 ordinary fully paid shares.

The twenty largest shareholders between them hold 57.35% of the total shares on issue.

Voting rights are that on a show of hands each member present in person or by proxy or attorney or representative shall have one vote and upon a poll every member so present shall have one vote for every fully paid share held and for each partly paid share held shall have a fraction of a vote pro–rata to the amount paid up on each partly paid share relative to its issue price.

Distribution of Quoted Shares and Options as at 31 August 2010

Shares Range	Number of Holders
1 - 1,000	999
1,001 - 5,000	1,005
5,001 - 10,000	276
10,001 - 100,000	383
100,001 - and over	88
Total holders	**2,751**

Substantial Shareholdings

The following shareholders have notified the Company that, pursuant to the provisions of section 671 B of the Corporations Act 2001, they are substantial shareholders.

Ordinary		Fully Paid Ordinary Shares	
Shareholders		**Number**	**Percentage**
Deutsche Bank AG London <QVT>		13,250,000	17.69%
The Gallagher Group	(a)	5,394,902	7.20%
		18,644,902	**24.89%**

(a) A notice of initial substantial shareholder was received from Mr Lindsay Gallagher and other parties known as the "Gallagher Group" on 9 August 2009. No update has been received since this notification. The quantity presented above was the shareholding in accordance with the notification.

Directors' Shareholdings

As at 31 August 2010, Directors of the Company held a relevant interest in the following securities on issue by the Company.

Director	Ordinary Shares	Unquoted Options	Unquoted Rights
M Bouris	800,000	3,000,000	800,000
K Ting	672,725	2,250,000	600,000
Dickory Rudduck	992,498	10,000	Nil

On-Market Buy-Backs

There is no on - market buy back currently in place.

STOCK EXCHANGE INFORMATION

Top Twenty Holders of Ordinary Shares at 31 August 2010

Shareholder Name	Number of Shares Held	% of Total
DEUTSCHE BANK AG LONDON <QVT>	13,250,000	17.69
NATIONAL NOMINEES LIMITED	9,069,222	12.11
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,879,589	5.18
ACUMENT GLOBAL TECHNOLOGIES INC	3,613,637	4.82
NGP INVESTMENTS (NO 2) PTY LIMITED	2,035,450	2.72
DROOGDOK PARITICIPATIES B V	1,546,627	2.06
ANZ NOMINEES LIMITED <CASH INCOME A/C>	1,062,787	1.42
MERRILL LYNCH (AUSTRALIA)	1,055,764	1.41
MR JOHN MICHAEL BOUWMAN + MS AMANDA LOUISE MITCHELL	903,641	1.21
CITICORP NOMINEES PTY LIMITED	874,026	1.17
MR PATRICK CHEW	831,711	1.11
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	811,577	1.08
MARK LEIGH BOURIS	800,000	1.07
MR LINDSAY JAMES GALLAGHER + MRS ESME GALLAGHER <BROANN SUPER FUND A/C>	679,543	0.91
MRVD HOLDINGS B.V./C	637,897	0.85
MR KENNETH TING	600,000	0.80
MR MARTIN PATRICK MCMANUS	589,294	0.79
MR AMANPREET SINGH KHAIRA	456,465	0.61
MR RAMON KARANGIS + MRS JULIE KARANGIS <KARANGIS SUPER FUND A/C>	445,000	0.59
MRS ELSIE MAY SIDWELL	433,689	0.58
	43,575,919	**58.18**

Note the above list does not identify related party holdings, readers should have regards to substantial shareholders notices and Directors declarations.

Voting Rights

All shares have equal voting rights.

Limited

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