

21 October 2011

Lodged by ASX Online

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

Dear Sir/Madam

**2011 ANNUAL REPORT**

Please find attached the Annual Report for TZ Limited (ASX Code: TZL) for the year ended 30 June 2011.

A copy of the 2011 Annual Report, as attached, has been dispatched to shareholders who elected to receive a printed copy. Other shareholders are invited to view the Annual Report online on the Company's website, [www.tz.net](http://www.tz.net).

Yours faithfully,  
**TZ LIMITED**



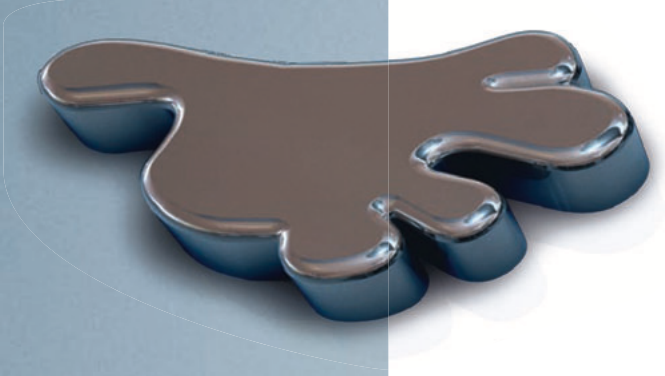
Kenneth Ting  
Company Secretary and Executive Director



Limited



2011  
annual report





# contents

## SECTION ONE

- 1 **Chairman's Welcome**  
A message from Mark Bouris,  
Executive Chairman, TZ Limited.
  
- 5 **2011 Highlights**
  
- 9 **Kenneth Ting**  
A message from Kenneth Ting, Executive  
Director & Company Secretary, TZ Limited.
  
- 13 **Dickory Rudduck**  
A message from Dickory Rudduck, Executive  
Director & Founder / Inventor, TZ Limited.
  
- 17 **John Wilson**  
A message from John Wilson,  
President & CEO, Telezygology, Inc.
  
- 21 **Mark Schwartz**  
A message from Mark Schwartz,  
President & CEO, PDT, Inc.

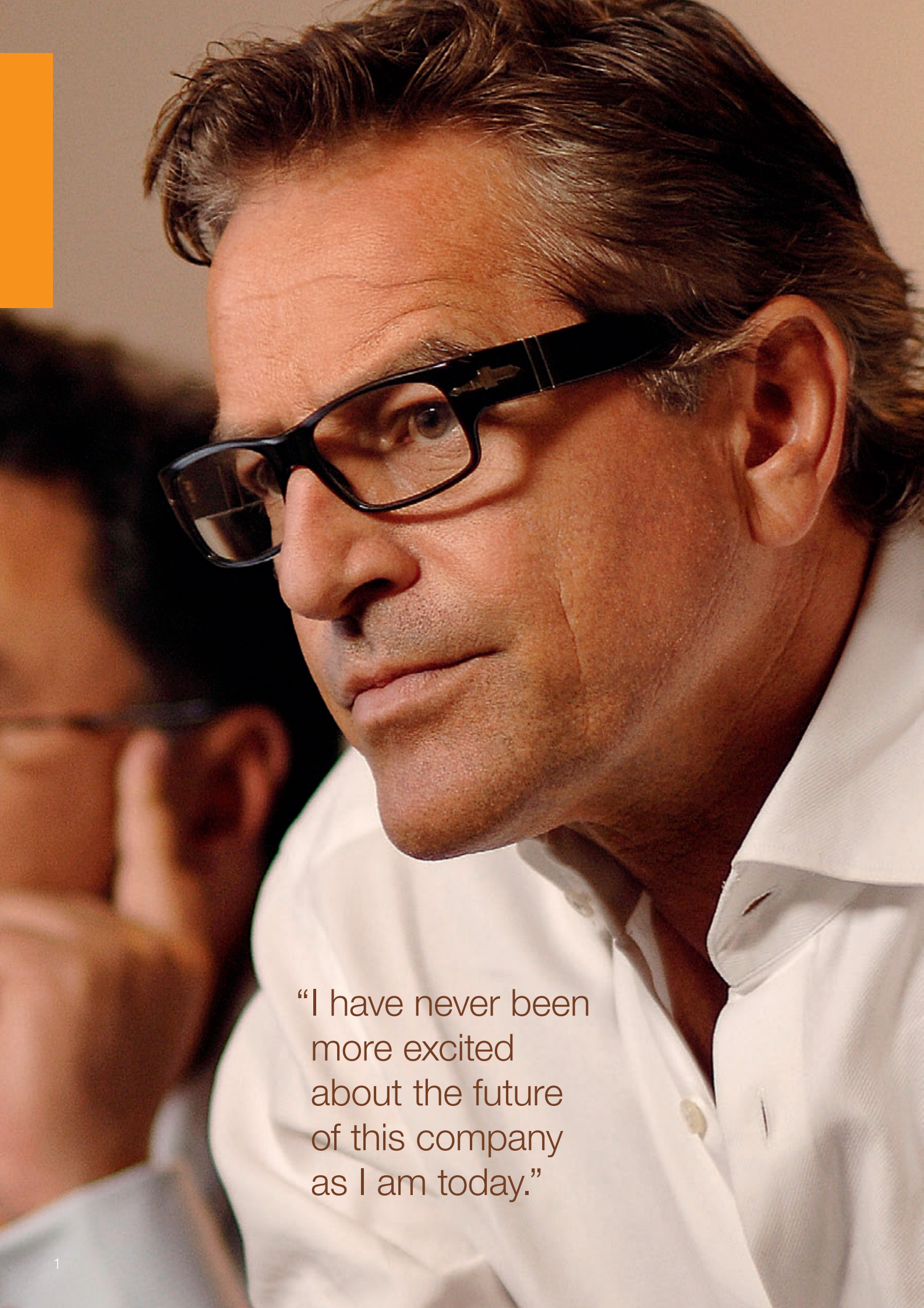


## SECTION TWO

- 1 **2011 Financial Statements**







“I have never been more excited about the future of this company as I am today.”





mark  
bouris

CHAIRMAN'S  
WELCOME.

**I am often asked why I got involved with TZ Limited.**

I have a keen interest in technology and the Internet of Things (IOT), specifically with regards to how the exchange of information is used to optimise efficiency and productivity in the workplace and in life. When I was approached to join the Board at TZ Limited, I did so because I saw uniqueness in the company's philosophy and a real possibility in the solutions it had created. I'm proud to say that leading into 2012, that possibility I saw in the beginning of my tenure with TZ Limited has become a reality. I have never been more excited about the future of this company as I am today.

This past year was about creating an end-to-end solution that could disrupt the market and deliver our products to customers around the world. Whilst technology has always been our foremost priority, 2011 became the year where we could focus on providing the big picture. We had created the framework, built a demand and now we are achieving what we set out to do.

Today, TZ Limited is not only developing and manufacturing products, but we're out there trading with some of the most reputable and forward thinking companies in the world.

The best way to describe 2011 is to call it a year of progress. TZ Limited is an innovator, which means that we often create the solution before the problem is identified. This year, global business and consumer demand finally caught up with TZ's supply. In 2011, data centre expansion and online shopping catapulted globally, and today they are two of the most talked about sectors in the technology world. This is the opportunity that TZ Limited and specifically Telezygology, Inc (TZI) had been waiting for. We were ready for the upsurge, and now we are selling these solutions on an ever-growing international scale.

“The best way to describe 2011 is to call it a year of progress.”



It goes without saying that 2011 was a difficult year, specifically in TZ Limited's two largest markets, North America and Europe. Financial headwinds and government uncertainty played a large part in the company's capacity to close a number of anticipated purchase orders, but these impediments also revealed significant opportunities.

What we have learned from the current financial landscape is that anything can happen, which is why we've put much effort into increasing our presence in Asian markets that have demonstrated economic resilience. We're currently working on licence agreements in China and India and we will look to these markets for significant growth in 2012. With regards to business in North America and Europe, we expect that once economic uncertainty clears capital expenditure budgets will open up, particularly in the security and protection sectors.

I credit much of our success this year to the relationships we have built with our distributors. Companies such as Anixter and Pitney Bowes are globally recognised influencers and this year we worked side-by-side to increase our distribution in North America and Europe, and then capitalised on that strength to progress into other markets.

We have built an impressive Australasian footprint in a short amount of time and much of this growth can be credited to our partners who believe in our technology and can identify with our vision. TZ Limited is a disruptive software player and sometimes our level of modernisation is not easy to grasp, so I'd like to thank our partners who see where we are headed and have supported us over this past year. I expect TZ Limited is going to be the one to watch in 2012, and we're proud to have distributors of such a high calibre standing beside us both today and in the future.



“I expect TZ is going to be the one to watch in 2012.”

I believe 2012 will be a watershed year for TZ Limited. We have laid the foundation, built the distribution capacity and we are set up to align perfectly with two of the biggest booms in technology.

TZ Limited has spent the past two years developing our sales resource and now is the time to introduce our next generation technology which will open the door for new applications and opportunities. Strategic insight will be crucial for TZ Limited's evolution and I'd like to thank Kenneth Ting for his leadership and direction this past year. We have the greatest minds in the industry on our team and these people will be vital to cement TZ Limited as a global leader in our field.



This company would not be where it is today without the determination of our team and the support of our partners, shareholders and customers. On behalf of the Board of Directors, I would like to thank everyone who has played a part in the evolution of this business.

As I said earlier, 2011 was a year of progress for TZ Limited, which came about because of the people who believed in our capability and possessed a sheer dedication to see it ultimately succeed. There is still plenty of work to be done, but I am so proud of what we have achieved and I look forward to heading into the future with such an exceptional and inspiring team alongside me.

Whilst TZ Limited has spent much of 2011 introducing our solutions to international markets, the company has also been on the forefront of identifying new opportunities for its design sector.

PDT had an explosive year of not only delivering top line growth and revenue for the business, but also finding ways in which to implement the company's design and innovation into previously unexplored sectors.

PDT is working with entities in the military, consumer and medical fields to engineer solutions that increase both efficiency and precision, and the company is being sought after for projects in the United States, Europe and the Middle East. We expect that the demand for PDT's innovation will grow substantially as our completed projects gain notoriety for their success.

MARK BOURIS,  
EXECUTIVE CHAIRMAN, TZ LIMITED.





# 2011 highlights



- Through a rights issue TZ Limited raised \$9.82M to meet ongoing working capital requirements
- Launched a number of new products across the business including TZ Centurion System (July 2010), TZ Centurion Server Enterprise Software (release May 2011), TZ Courier (July 2010), TZ Concierge (January 2011) and most recently TZ APX (June 2011)
- Supply and Distribution Agreement with Pitney Bowes Australia (PBA)
- Deployed the first commercial installation of a TZ Concierge™ packaged asset delivery system at The Sterling Apartments in downtown Chicago
- Launched TZ's infrastructure protection solutions to the Australian market through exclusive distribution partner Anixter
- Implemented incentive programs to stimulate sales activity and build the demand pipeline across the five major geographic jurisdictions namely the US, Canada, Europe and the Middle East, Latin America and Asia Pacific
- Secured a number of strategic North American sales to Government Institutions and Financial Services providers
- Developed the "TZ Ready" program to actively target cabinet manufacturers to support adoption of TZ's intelligent locking systems as part of their standard offering and to build broader distribution of TZ's IXP product line
- Developed strategic relationship with Bear River Associates, a privately-held logistics tracking software development company, for the non-exclusive sale and distribution of TZ Courier in the USA







# 2011 highlights



- TZI Australia Pty Limited entered into an agreement with a major Australian integrated logistics service provider to supply TZ's intelligent locker systems for trial evaluation as part of a strategic initiative to create and significantly enhance consumer options for parcel distribution in Australia
- TZI entered into a supply agreement with Anixter Australia Pty Limited and NEXTDC Limited for the supply of the TZ Centurion™ System for NEXTDC's cabinet-level micro-protection solution for its Brisbane and Melbourne data centres
- PDT was honoured with four 2011 ADEX awards from Design Journal for the 3-D CLEAN UV Disinfection & Sanitation Device, The MAGic Immunoprecipitation Sample Processor, The Next Generation Perkins/APH Braille Writer, and the STERIS Surgical Scrub Sink
- PDT's revenues grew significantly in FY2011 due to the growth of the software team
- PDT completed the well publicised defence program for Coolfire Solutions to develop SCOUT, a SATCOM Toolkit modelled after a smartphone that combines 160 pounds of disconnected pieces of equipment and applications into a robust, yet sleek, package controlled by an Apple iPhone
- TZ Packaged Asset Delivery Solutions was a finalist in the Australian International Design Awards and received a Good Design Award







“we have some of the most reputable and innovative companies in the world using our products.”

# kenneth ting

EXECUTIVE DIRECTOR &  
COMPANY SECRETARY, TZ LIMITED.



**I have spent most of my working life commercialising technology, and the two questions that are always at the front of my mind are, “Will this technology be the next big thing?” and “Can this technology make money?”**

I often wonder how I would have answered these two questions if I was introduced to TZ back some twelve years ago when Dickory lodged the first TZ patents. At that time the Internet was slow, most mobile phones were not web enabled and the microprocessors proposed to run our SMARt Devices™ were large in size and very expensive. Despite this, in TZ’s 1998 Business Plan, Dickory predicted that mobile phones would be used to communicate with and control our SMARt Devices™.

Today, the Internet is fast and ubiquitous and microprocessors, costing as little as 50 cents, are more powerful than super computers the size of a small room were 30 years ago. Dickory’s prediction is now a reality and our customers are using their smart phones to communicate with TZ products to solve real world problems. In 2011, we have some of the most reputable and innovative companies in the world using our products because they think that we can provide them with an edge over their competitors.

The technological advances in the last decade have created a world where things and people are becoming increasingly inter connected. This is the era of the Internet of Things (IOT). This is an era where sensors on everyday things transmit information and statistics about their environments and pre-programmed algorithms initiate actions based on that transmitted information. Take for example an intelligent fridge – if there is no milk in the fridge, the fridge senses the need and will order more milk or send you an SMS reminding you to pick up milk on the way home.

Consider that same capability in the scope of TZ's data centre offering, sensors attached to TZ SlideHandle™ can tell a technician via SMS that he needs to replace something in the data cabinet and can also order the parts for him.

Technology pundits say that in the next decade, IOT will be the most disruptive and most important technological advancement for mankind. Now that most of the technological challenges of IOT have been resolved, the biggest challenge facing the IOT movement is building a large footprint of networked devices. Until there is a large global ecosystem of networked IOT devices, there cannot be mass adoption. Anixter and Pitney Bowes are two of the largest distributors and most respected companies in their sectors and our partnerships with these two leading companies give me great confidence that we have the networks and distribution bandwidth to support mass deployment of our IOT technology. We have seen that with the help of our partners and the relatively strong economy in Australia in 2011, we were able to build an impressive footprint in Australia in a relatively short period of time.



As economic conditions improve in North America and Europe, we will continue to build our sales pipeline, maintain a credible track record of high profile deployments and increase brand recognition for TZ technology.

There are many IOT companies attempting to establish a footprint for their networked devices. For example, a Californian based venture capital-backed company is addressing mass adoption by integrating and networking with LED lighting — based on the principle that electric lighting is needed everywhere. They believe their footprint of IOT devices can be rolled out quickly by attaching sensors to networked LED lights in new buildings.

Using smart locks and fastening devices, TZ has approached the IOT mass adoption problem from a different angle. Our approach is based on the principle that virtually everything needs to be fastened or locked together. With power and data infrastructure being available in almost all environments today and with security being an increasing driver for change, the spread and potential application of our technology is significant. We are also fortunate in that PDT provides a channel to introduce our technology into their customer's new products.

At the core of all TZ product offering is software and one of TZ's five patented types of fasteners. One of the five fasteners that most shareholders will be familiar with to date is the TZ Radial™ which is used in our IXP and PAD product offering. Most IOT devices today are focused around sensing and the communication of information with other devices in the same IOT ecosystem but what makes our SMARt Devices™ unique is that in addition to sensing and communication capability, our devices also perform a physical function through our unique SMA technology

“we were able to build an impressive footprint in Australia in a relatively short period of time.”

which enables remote actuation (physical movement). Without actuation to perform a responsive action at the remote location, there is limited utility in just having sensors and intelligence reporting on status.

Today, Facebook connects more than 800 million users globally. One of the reasons for Facebook’s quick mass adoption is the fact that it has opened its software API so that other social networks and software platforms can interact with it. The interoperability of TZ’s SMART Devices™ ecosystem with other IOT ecosystems could likewise fuel mass adoption of TZ technology.

All of TZ’s products have been built with an open architecture to ensure operability with as many third party technologies as possible. Our goal is to create a permissions-based “Facebook of Things” in which other IOT ecosystems can seamlessly communicate with our networked SMART Devices™ ecosystem to ensure a rich and intelligent environment.

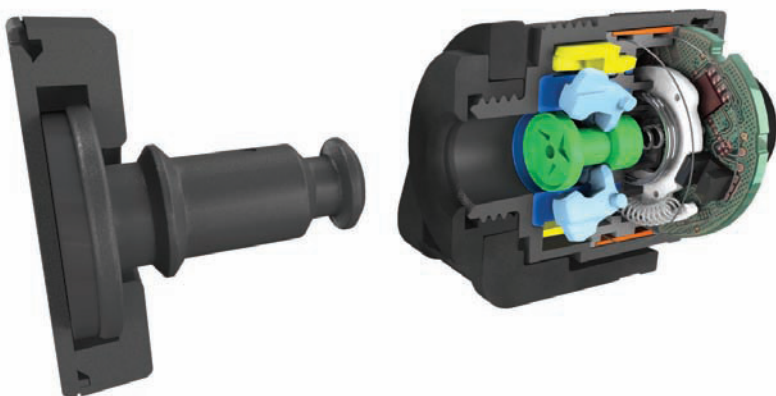
So how real is a global ecosystem of TZ SMART Devices™? In the last year, several events have occurred that facilitates the mass adoption of TZ technology.

Google and IBM issued a joint statement saying that they will invest their resources and attention to quickly make IOT a reality. The Chinese Government declared their goal to become an IOT world leader and Chinese manufacturers have started focusing on the new world of sensors and intelligent objects with the plan to supply a growing market and establish global standards that aid interoperability.

Every day, more and more mobile phone manufacturers such as Apple, Blackberry and Samsung are introducing improvements to their hardware and software, making it easier for humans to interact with the IOT ecosystem. With companies and Governments investing millions of dollars in building the environment for mass adoption of IOT devices, TZ technology is well placed to benefit from this wave of market sentiment.

Our task ahead is to continue to be at the forefront of the IOT movement and to ensure that our SMART Devices™ and software continue to interoperate with other companies’ technologies and that we carefully select the right sectors to roll-out our SMART Devices™. We also need to be vigilant in continuing to improve our core device technology and to keeping abreast of advancements in sensor development and communication protocol.

So with the technological advancements that have occurred since we lodged our first patents and knowing the robust platform for growth that we have taken the time to build in the last two years, if I were asked today if TZ technology is the next big thing and if this technology can make money? I would respond with a resounding “Yes!”







“This year’s technology development push was driven around supporting the TZ Infrastructure Protection (IXP) and TZ Packaged Asset Delivery (PAD) product lines.”

dickory  
rudduck

DIRECTOR & FOUNDER / INVENTOR,  
TZ LIMITED.



**The past year's focus on sales has given the technology development team an unprecedented opportunity to listen to customers and apply what we hear to successfully place our devices in the real world.** Every day we're using this insight to target the right devices on which to focus for growth and to choose the right companies with which to align.

This year's technology development push was driven around supporting the TZ Infrastructure Protection (IXP) and TZ Packaged Asset Delivery (PAD) product lines. As a result of that focus, both product lines have been strengthened significantly at both the hardware and software levels.

The hardware has, at its core, the TZ Radial™ device — one of TZ's five patented families of fasteners. Technical development has continuously expanded the capability and functionality of this device and its connecting system — due in large part by incorporating the TZ Radial™ into more and more new products.

For the new IXP "TZ Ready" program, the TZ Radial™ — in the form of the TZ SlideHandle™ — is compatible with over 80% of the major cabinets supplied in the market. The TZ SlideHandle™ has also successfully been adapted from cabinet locking to offering solutions for sliding door locking on data centre cages. Many enhancements have been added to this system, including improved bridge capabilities and a Wiegand RFID reader, to name just two new value-added features.

For PAD, the TZ Radial™ has been incorporated into a new locking raceway that streamlines the system, reduces costs and strengthens our intellectual property (IP) position. With this raceway system approach and a complete re-engineering of the locker construction,

we are now able to deliver cost effective customisation of a modular system to meet specific customer requirements. The PAD program is in a very competitive space and we have implemented several market firsts, such as recipient recognition through OCR capabilities and using QR codes for verified pickup that will keep us at the forefront of technology capability.

But it is our software that makes our devices and systems so uniquely functional, and a significant effort has been made in this area to enable the licencing of our software from a “cloud-based” infrastructure. We have built support and testing capabilities with in-house server capability and we are rapidly moving towards an integrated software platform for all of our technology.

Behind the advancements in TZ hardware and software lies the continuous process of IP protection. Last year, we made five product and system filings, largely around software systems and PAD product innovations. In the U.S., three important patents were granted: “closures for a compartment”, “stud fastener and stabilising device” and “strip fasteners.”

TZ now has its devices connected to the outside world via the Internet. Our devices, systems and software are clearly validating the Internet of Things (IOT) phenomena and the power of connectivity with real customers. Our IP, much of it put into place a decade ago, is now providing the platform for participation in this movement, creating new niches every day.

### **Technology Looking Forward**

TZ always saw the opportunity that Unification of Global Communication would bring to our technology — a trend that a decade ago was symbolised by the cell phone. In addition to the Internet of Things, Unification of Global Communication has enabled TZ’s devices to be SMARt Devices™ — actuating, sensing and controlling things at the extreme reaches of the Internet.

This year, as TZ started to gain sales traction, the Board, particularly through Kenneth Ting’s enthusiasm for the latest trends in technology and IOT, has encouraged the team to look forward towards the next generation of product.

### **Delivering More with Less through Modularity**

The fundamental building blocks behind the future development of our technology were debated and a plan was put into place. There are five areas of activity, which when joined together, define our technology:

- Actuators
- Mechanisms
- On Board Technology (electronics/sensors)
- Connectivity systems
- Software

In all of these areas, the key word is “modularity.” Through modularity, we will be able multiply our opportunities, reduce costs and scale up to the challenges of IOT.



“In addition to the Internet of Things, Unification of Global Communication has enabled TZ’s devices to be SMARt Devices™ – actuating, sensing and controlling things at the extreme reaches of the Internet.”



**Actuators** Based on our existing granted IP, specifically that which relates to the SMA networked beam devices, a second family of devices will be developed using the inherent stroke amplification and re-biasing of bending structures. SMA bending structures are arguably the cheapest form of the powerful actuator our devices require. A guiding principle behind the design will be that the form factor allows it to be embodied in multiple devices.

**Mechanisms** TZ has discovered the importance of device flexibility. That is, the ability to add “modular” mechanisms and accessories to create multiple products to satisfy market demand. This front-end modularity will allow us to compete in completely new areas of electronic locking.


#### **On Board Technology (electronics/sensors)**

TZ’s systems use decentralised computing power to harness the power of movement and sensing at the extremes of the internet. Moore’s Law states that processing power and sensing are exponentially advancing, this offers tantalising new possibilities for our devices. A modular approach will allow backward integration to existing communication systems while enabling TZ to expand into the latest technologies. This approach will expand our current offers and at the same time will enable wireless, battery-powered connection to Internet and cellular systems.

**Connectivity Systems** Our sister company PDT has been gaining tremendous experience in wireless and cell phone architecture. The incredible rate at which this has evolved and the fact that the capabilities this architecture offers are exactly the things we visualised a decade ago, makes it inevitable that this technology will become dominant in TZ device connectivity. Again, modularity is the key word and serendipitously PDT is exploring Modular Android Technology for its own customer base.

**Software** Overlaying all TZ products is software. Moving from our existing TZ enterprise software base, we simplify the user experience through the development of TZ “apps.” Mobile applications streamline the user experience, making advanced technologies accessible to the ordinary user. We believe this approach will broaden TZ’s user base whilst strengthening our existing sales. Think of how data from GPS has been made easily accessible to millions of end users via various map applications. “Apps” will make TZ devices as part of the Internet of Things equally as user friendly.





“It feels like we’ve cast a small stone into a big pond and we are just experiencing the first ripples of activity.”



john  
wilson

PRESIDENT & CEO,  
TELEZYGOLOGY, INC.

**I remember Mark Bouris' clear directive to me a month after I took on the CEO role.** "Build a new way of working here," he said. "We need a rhythm that defines what TZ is all about." When I asked him to explain what he meant by "rhythm" he explained, "Band members rely on rhythm to play tunes; a coxswain needs to establish rhythm to synchronise his rowers and a successful CEO will create a unique operating rhythm in the business that aligns and motivates its employees to achieve the best."

So with a newly formed and committed management team, we set about to build a unique TZ rhythm in every aspect of our business from sales and market development, customer management, product development to production implementation, aligning our employees to a very clear and simple strategic intent; to create value for our shareholders, to maintain a technology leadership position and to focus on people, processes and performance.

Twelve months on, I believe we have built the right enabling conditions for the business to succeed. We've created a great team based culture, solid business systems that help us to efficiently focus on the important things and new resources with the right skills and single minded perseverance to drive the business forward. Thank you to Will Leong, Vice President of Operations, for building and leading our delivery capability.



“If someone asked me how to describe the last twelve months, I would have to say it’s been quite a remarkable journey.”

Despite this, success for TZ means we need to fast-track the adoption of our technology and prove that commercially we can sell our offerings profitably and create value for our shareholders.

At the best of times with new technology, even with greatest of interest, customers often take an inordinate and unpredictable amount of time to fully appreciate, internally promote and buy new products.

Coupled with the sub-optimum economic conditions in the US and Europe, which have not been conducive for major corporates to making capital investment in infrastructure, this has been by far our greatest challenge.

Today, I’m pleased to say I believe we’ve made significant headway. Firstly, we’ve strengthened our channel partner relationships through consistently providing high levels of support and commitment to drive lead generation and opportunity creation.

We’ve now established a level of visibility across a broad range of targeted early adopters that are significant corporations across the US, Europe and Australia.

We’ve developed very close collaborative relationships with these “lead end-user customers” and built trusted relationships with internal “TZ champions” within these corporations that understand and believe in our value proposition.

These customers provide a solid foundation for repeat purchases and sales proliferation as well as validation of the technology proposition. All this could not have been possible without a committed sales team solely focused on making things happen.

# “It’s great to be at a start on a journey to what I believe will lead to great things.”

Our promotional and marketing initiatives with our credible channel partners have helped us build awareness with our targeted customers.

This in turn has provided the opportunities to deploy our systems in phase one trials and we have actively supported each and every pilot, managing every aspect of deployment and committing resources to ensure that we fully service our customers’ needs in training and implementation. We’ve also actively worked with our customers to ensure both upstream and downstream integration into their existing networks of other products and processes and as result earned credibility with our customers and increased the confidence of our channel partners.

Our Technical Services team has done a phenomenal job in managing customer’s expectations and ensuring that the after sales experience delivers on the promise of the technology.

If someone asked me how to describe the last 12 months, I would have to say it’s been quite a remarkable journey – a journey of systematically putting all the pieces in place and to getting a glimpse of what this company is capable of.

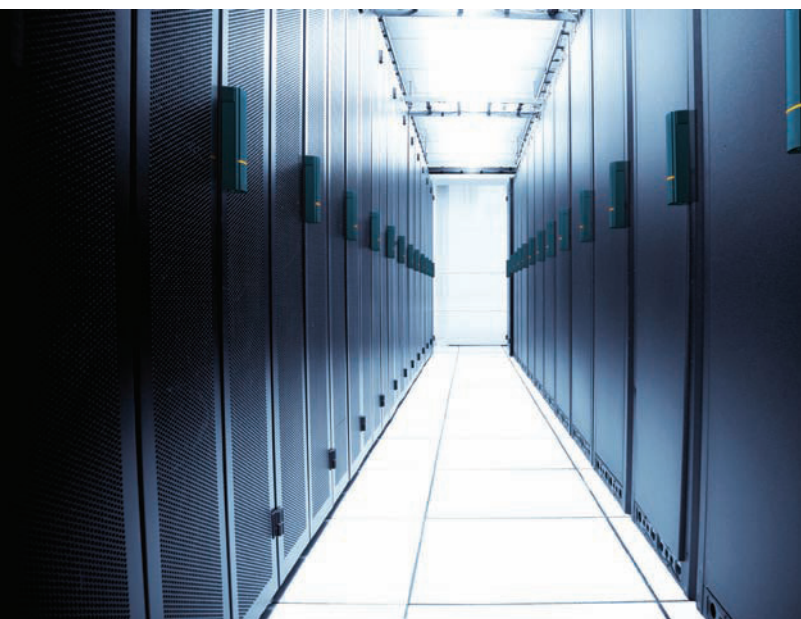
I’m excited by the growth opportunities for our company. With each and every passing day, new opportunities emerge that keep reinforcing the fact that we have something special to offer.

It feels like we’ve cast a small stone into a big pond and we are just experiencing the first ripples of activity.

I am proud of our team, with what we’ve achieved so far and look forward to what we are committed to achieving in these next 12 months. It’s great to be at a start on a journey to what I believe will lead to great things.

To Mark, thanks for the words of wisdom and for setting the pulse for the business, to Kenneth, thanks for your active participation, contribution to business and operational development and for keeping me on task, and to Dickory, my good friend and co-founder, thank you for having the vision.

Finally, to the shareholders, thank you for your belief, trust and on-going support.





“This is a strong statement of our business model and the brand and reputation we have built at PDT.”





mark  
schwartz

PRESIDENT AND CEO,  
PRODUCT DEVELOPMENT TECHNOLOGIES.

**I'm particularly proud of the PDT performance this**

**last year.** Despite the blizzard of poor economic news and employment data, PDT persevered and had another solid year. This is a strong statement of our business model and the brand and reputation we have built at PDT.

With this strong revenue growth came some challenges. We had to ramp up quickly – investing in people, equipment and space. Projects have gotten larger, more complex and more multi-disciplined. In most cases we handled the extra load well, in others our weaknesses were found and corrective action taken to shore up our personnel, tools and processes. We have emerged as a stronger and better equipped company that is well positioned to handle the larger and more complex projects, particularly in the military and medical device world.

PDT Medical continued to adapt and improve on our long-term vision of developing the three separate but complimentary vertical markets of Medical, Military and Consumer Products. PDT Medical continued to grow its revenues as we created more structure to our regulated processes. In FY 2011, PDT created a new lead position in the medical vertical designed to further develop our processes to ensure ongoing compliance with the Food and Drug Administration (FDA). These investments are critical to the continued momentum we are building in this area. It also further distances us from our competitors and positions us for projects that have a high barrier to entry. Conversely, these types of projects carry complex, more expensive and longer sales cycles. PDT Medical also continues to develop strategic alliances with industry leading partners where we recognise a gap in our capabilities. These partnerships allow us to scale quickly and offer the seamless, turnkey process our customers demand.

“PDT Medical also continues to develop strategic alliances with industry leading partners.”

Exciting things are ahead for our medical business. It's very gratifying to be involved in these life-improving projects. Similarly we also created a lead position within the PDT Military business sector. This is also a regulated industry that requires us to be diligent with our policies and processes. In FY 2011 the group undertook a number of complex programs, several of which are in the proof of concept phase and we expect these programs to continue in FY 2012.

In addition, substantial investment has been made into sales in the tight knit military community. We are building good relationships through personal interaction and the word is spreading with regard to our expertise in the area of military communication devices. While many programs are slow to get started, we believe we are in a good position to have strong growth in FY 2012 as our efforts and investments convert to purchase orders.

Our software group has grown substantially in the last year. We expect that the demand for these services will continue to grow but will also be tied to specific project demands. We are taking care to hire carefully and use partners and temporary staff to fill the peak periods. This has proven to be an effective strategy.

In the last annual report, we highlighted our growth into the front end of the process, namely research and strategy.

Our goal was to get involved in product development projects even earlier in the process to give us a leg up on the downstream product development work. We were immediately successful in getting engaged on a number of strategically aligned programs, including a large medical device program involving complex and extensive user

# “Our software group has grown substantially in the last year.”

research. This global study encompassed nearly 300 in-depth interviews and more than 20 stakeholder categories across 10 diverse health care markets – with nearly a half terabyte of support data archived to support future development. On the strength of this research effort, we are confident this work will convert to a substantial amount of development work.

This past year, PDT’s brand attracted significant recognition in the media with nearly 100 press mentions in print and online. Our talented team members were sought out as thought leaders by business media time and again, most notably in publications whose distribution consists of valued medical and defence prospects.

Unique PDT programs like the Aesir Ae+Y, a head-turning phone made of 18 carat gold and the revolutionary Satellite Communications Operational User Toolkit (SCOUT), which packs 160 pounds of equipment and applications into an intuitive, yet robust six pound device, have propelled our work into strategic publications.

PDT also continued its winning heritage with awards for products that are truly making a difference in the lives of their users. The Next Generation Perkins/APH Braille Writer, the 3-D CLEAN Ultraviolet Disinfection and Sanitation Device, the MAGic Immunoprecipitation Sample Processor and the STERIS Surgical Scrub Sink all won accolades for superior product development.







**Limited**

2011 financial statements

**TZ Limited**

**ABN 26 073 979 272**

**Annual Report - 30 June 2011**





**TZ Limited**  
**Review of operations**  
**30 June 2011**

The Board is pleased to advise that TZ Limited ('TZL' or the 'company') has delivered on its top line revenue expectations for the financial year ending 30 June 2011 underpinned by a very strong and above plan performance from Product Development Technologies Inc. ('PDT'), our design and development services division, under the stewardship of CEO, Mark Schwartz.

Telezygology, Inc. ('TZI'), which develops and markets world-class patented SMARt Device Technology and Systems, set its internal revenue target for the financial year assuming a recovery of the US economy and solid infrastructure growth in the government and banking sectors. However, the US economy did not recover as originally expected and as a result, TZI did not meet its internal revenue targets although TZI's revenue shortfall has however, been offset by PDT's strong revenue performance. TZI sales targets were skewed towards the second half of the 2011 financial year and we saw an increase in revenue in Q4.

Notwithstanding the continued economic softness of North America and Europe and acknowledging that we cannot create infrastructure demand, TZI has shown significant progress under the management of Chief Executive Officer ('CEO'), John Wilson, and has improved business fitness, developed a solid opportunity pipeline, cultivated strong customer relationships with major corporates and has a growing track record of successful deployments. The business showed significant revenue growth in the last quarter of the 2011 financial year and currently has a very healthy pipeline of trials with major customers globally which, if successful, will translate into impressive sales in the short to medium term. The Board believes that this will place the business unit in a strong position to generate revenue growth during the 2012 financial year.

Overall the results represent a year of establishing solid enabling conditions to support sustainable revenue growth across the TZ Group.

Testimony to this has been the efforts to successfully recapitalise the company to support implementation of its business growth plans through 2011 and 2012. To this end, TZL successfully raised US\$4.1M via a secured loan facility with major shareholder and creditor, QVT, in July 2010 (subsequently converted into secured convertible notes in December 2010) followed by a \$12.7M placement and rights issue in November and December 2010. This investment has been invaluable and has made the significant difference between TZ being a viable company going forward and being a company with limited options as it was at the end of the 2010 financial year.

TZ is currently in discussions with QVT in which, if agreement is reached, the terms of the convertible notes held by QVT will be restructured to remove the requirement for TZ to have to pay the interest to QVT for the 2011 calendar year and, in exchange, TZ will issue further securities to QVT, likely to be in the form of additional options to acquire ordinary shares. No binding agreement has yet been reached between TZ and QVT and, even if agreement is reached, any such arrangement will be subject to shareholder approval.

**TELEZYGLOGY, INC. (TZI)**

Over the course of the year, TZI has focused its energies on delivering three high level objectives to build a foundation for future growth:

1. We have transitioned from a predominant product development focus into a sales and marketing organisation focused around specific product offers that deliver qualified value to defined market segments. Our clearly defined IXP and PAD business offerings supported by dedicated regional sales resources and targeted marketing and promotional programs are testimony to this cultural shift.
2. We have expanded sales geographically from the predominant US centric business focus into a global business with regional sales strategies targeting the European and Asian Pacific markets. The commercialisation activities in the US, Canada, Europe and Australia have generated sales across the globe validating that we not only have a global addressable market but a universal value proposition.
3. We have shifted TZI's product mix from proprietary hardware sales to a total system solution offering comprising hardware sales, software licensing, annuity software maintenance contracts and service based technical support and implementation. Our IXP and PAD system offerings and our turn-key and committed approach to quality supply, responsive service and fault-free implementation ensures a holistic approach to meeting customer's expectations - a true solution provider mentality.

From an organisational perspective, we have developed and implemented the critical processes core to the commercial delivery of our products to the market and the servicing of those products, including the back-end business systems for production scheduling, inventory management, customer relationship management and sales forecasting. New operational standards have also been institutionalised to significantly improve business fitness to ensure an efficient customer focused sales orientation.

**TZ Limited**  
**Review of operations**  
**30 June 2011**

We have also invested in building a new sales capability by recruiting high calibre sales and technical services resources to bring a strong sales culture to the business. In the last year, we have grown from an organisation with only one full-time sales resource to a dedicated team of nine regional sales managers and four technical service managers. These resources are located in the key regional markets where our channel partners have established business.

We have also progressively updated our marketing presence including the development of new brand positioning for each of our business streams reinforced by a substantial revamp of our web-sites, sales brochures, relevant technical sales material and other collateral. A structured integrated marketing strategy has also been implemented and this has generated a much broader based awareness about what we offer to the market which will continue to help us drive customer take-up and drive sales proliferation.

In terms of market participation, we have strengthened and re-vitalised our relationships with our major channel partners, Anixter and Pitney Bowes, and leveraged their global reach by replicating the US distribution model into new markets outside of the USA. We now have distribution channels and sales initiatives in place in Canada, Latin America, Europe, Middle East, Southeast Asia and Australia/New Zealand supported by in-market resources in Canada, UK, Amsterdam and Australia.

Over the course of the year, we have segmented our markets and launched new product and service offerings to these targeted sectors shifting our previously component sales oriented business into a business of selling total system solutions.

Testimony to our product development and commercialisation efforts is the launch of a number of new products across our business units including TZ Centurion System (July 2010), TZ Centurion Server Enterprise Software (release May 2011), TZ Courier (July 2010), TZ Concierge (January 2011) and most recently TZ APX (June 2011). These new products all incorporate application specific software or signal our move into enterprise level software, which have enabled us to establish an annuity based software licensing, service and maintenance business.

These new offerings significantly expand our addressable market opportunities and are testimony to a fundamental shift into high value system solutions that are built on our state-of-the-art SMArt Device Technology platform with the unique attribute of being highly customisable through a rich software control layer.

**IXP, Infrastructure Protection**

With heightened regulations and compliance mandates, businesses across a wide variety of industries are being compelled to look for new levels of security beyond just controlling access to buildings and spaces. Physical security and environmental monitoring right down to the asset level are fast becoming standard requirements. As a consequence of this market trend, we are starting to be recognised as a technology leader and provider of micro-protection solutions that can open up new opportunities for asset and infrastructure protection. The adoption of the company's IXP products by credible fortune 100 corporations, major co-location data centre service providers and government agencies in North America, Europe and Australia is a huge endorsement of the product's potential.

Over the course of the year, we have seen our business migrate from sales categorised as trial and system evaluation deployments in a small number of data centre cabinets to major beach-head deployments that establish TZ as the preferred micro-security solution. Our successful deployments of total hardware and software solutions at major co-location facilities have not only provided influential credibility of TZ's offering to the targeted market segment but are also driving a demonstrable ground swell of interest and awareness of TZ as a leading technology. This increased market awareness is also supporting strong specification sales into new private and government contracts which will lay a solid foundation for future sales revenue.

Our sales opportunity pool has grown substantially as we expand our breadth and depth of market penetration and are seeing a healthy conversion of these opportunities into purchase orders as we drive demand directly with end-user customers. Although relatively early in the commercialisation phase, the quarter on quarter sales revenue growth is very positive.

**TZ Limited**  
**Review of operations**  
**30 June 2011**

Part of the successful implementation has been our ability to better leverage the market strength of our major channel partner, Anixter, working in each of its key regional markets facilitating product launches in several regions including US, Canada, Latin America, Europe, Middle East and Asia Pacific. With dedicated TZ in-market sales personnel, TZI has been able to pro-actively train Anixter sales operations and increase the awareness and education of Anixter's inside and outside sales teams on how to sell TZ's products. A large proportion of Anixter offices across the US, Canada, EMEA and APAC have now received initial training. This enabling activity has greatly improved effectiveness of the Anixter sales operations and vastly increased TZ's sales coverage. In addition, Anixter has now launched specific promotional programs and demand creation initiatives in each of their regions of North America, Latin America, EMEA and APAC and has established minimum holdings of TZI products in stock in Europe and Australia to ensure product availability.

TZI is also expanding its channels to market to enable a far broader coverage through tier providers. The focus on engaging with OEM cabinet manufacturers in all regions has enabled the offering of "TZ Ready" cabinets to the market. This initiative delivers a high value added utility to customers providing for the installation of TZ SlideHandles in the factory and for the cabinets to be deployed ready to use with the minimal amount of on-site disruption.

In the upcoming financial years, we expect to extend our product portfolio with new value added offerings and to expand into adjacent market segments. Traction has already been experienced in Health Care and Life Services, Retail, Casinos, and Industrial Automation sectors.

**PAD, Packaged Asset Delivery**

The potential for the PAD business unit stretches across the Corporate Mail, High Density Residential and Community Postal Service Industries and represents a significant market opportunity for TZI. The uplift in e-retailer activity is driving substantial growth in the number of parcels and packages delivered to consumers and the issue of last mile delivery is becoming a costly logistical problem. TZ's PAD solutions effectively address these emerging needs.

Although the sales cycle has been lengthy, a significant pipeline of opportunities and high level business prospects has been developed for our PAD business and a number of corporate trials are currently underway in the US with major IT and Financial Services corporations. Successful trials may lead to substantial sales as we anticipate these major customers will seek to install TZ Courier in other buildings or departments that they control and/or acquire additional locker banks to service a greater number of end-user recipients.

Outside of the US, TZ Courier trial deployments are underway with Pitney Bowes in the UK, in the Middle East, and in Australia, where the company has formed an exclusive supply and distribution relationship with Pitney Bowes Australia Pty Limited to support local commercialisation. The emerging Australian opportunities are significant with well-respected national logistics providers.

During the 2011 financial year, the company successfully restructured its supply and distribution relationships and now has properly structured channel and pricing strategies to support market penetration. These include new and direct commercial relationships with Pitney Bowes Management Service (PBMS), IOPC and Bear River Associates.

The formation of a direct relationship with Pitney Bowes has meant that the business now provides a total turn-key solution instead of indirectly supplying hardware and software components through a third party intermediary. This has significantly increased the dollars per order and the gross margin that TZI receives.

As a result of this direct working relationship, the company is working far closer with PBMS product management and has rolled-out an extensive awareness and training program to all in-market sales resources to ensure broad base coverage across all of PBMS corporate clients, although the launch of this program was substantially delayed to early 2011 due to major restructuring of the Pitney Bowes sales organisation late last year.

TZI has also launched the APX System, for distribution by IOPC under a new agreement finalised in March 2011. The product is now being rolled out through IOPC's national dealer network of approximately 50 system furniture dealers and we expect to see the first sales of this offering in the October to December 2011 quarter.

TZI has formed a strategic relationship with Bear River Associates, a privately-held logistics tracking software development company located in Oakland, California, for the non-exclusive sale and distribution of TZ Courier in the USA. Bear River markets software solutions and performance tools to Fortune 500 and large public sector clients and will promote and market an integrated solution that combines the TZ Courier with their BearTracks software to defined corporate and public sector customers. We have recently received the first purchase order through this channel for a major government organisation.



**TZ Limited**  
**Review of operations**  
**30 June 2011**

We have also successfully developed and deployed our TZ Concierge offering to the residential market with our first installation at the Sterling Private Residences, a 400+ apartment building in Chicago in January 2011. The System has since received resounding support from tenants, the Condominium board and property management.

As a result of this successful deployment, we are generating significant interest for TZ Concierge from a number of local Chicago property management groups and are aggressively promoting the offering to targeted prospects in other major city centres.

With parcel delivery continuing to increase and last mile delivery becoming a major strategic consideration for logistics providers, we are confident that our Packaged Asset Delivery solutions will be a substantial play for TZI moving forward.

**AAM, Aerospace Asset Maintainability**

Due to the heavy compliance and regulatory requirements in the aerospace and defence industries, we are pursuing a licensing partnership with a major OEM enabler to allow commercialisation of our technology in this sector.

Despite a very tangible licensing opportunity with an interested party early in the 2011 financial year, the sale of our prospect's business in late 2010 has delayed the implementation of this initiative. We continue to monitor progress in this sector and maintain contact and dialogue with identified prospects although it is clear that the prospect of a near term licensing deal is unlikely.

**PRODUCT DEVELOPMENT TECHNOLOGIES (PDT)**

PDT posted strong top line growth as it continues to take advantage of its accumulated skills and decades of design experience.

PDT is enjoying strong interest and growth from not only consumer product companies but increasingly large prime contractors in the Defence and Military sector and also the medical device business. It is taking on more complex projects which in some cases have a steep learning curve but the payoff is that PDT is recognised for innovation, teamwork and cutting edge problem solving. International companies are also increasingly seeking PDT's design skills with especially strong demand in Europe and the Middle East.

To take advantage of this growth PDT reorganised its management structure into three main verticals: Defense/Military, Consumer Products and Medical Devices. This realignment brings clarity to the organisation, pushes down decision making to three senior people freeing up the CEO to create and drive the vision for the company and show potential clients the types of skill sets that exist within the global family of PDT. The medical device world is growing with the need for speed, remote access and smaller packaging, all skills PDT has but with that comes more complex rules and guidelines from the US Federal Government. The reorganisation allows focus on these new rules but also active participation in the Continia Health Alliance which is a non-profit group of 200 technology, health care and medical device companies who joined together to improve personal health care.

Part of the realignment has been establishing a new and secure area to comply with Federal Government mandates for bidding on sensitive projects where high levels of security clearances are needed. Given our history in this field coupled with the new secure office we are getting the attention of the large global US Military contractors. This combined with our ITAR credential present a significant barrier to entry for many would be competitors.

PDT recently demonstrated its capabilities by taking on a very complex defence project which had a goal of reducing 200 pounds of traditional military communications equipment to a small eight pound package. With PDT's reputation for not only solving large problems but also using its experience in the cell phone, WiFi and GPS space, the project was completed on time and within budget.

In another example PDT accepted the very difficult challenge of creating a new communication device in the medical field using multiple communications platforms. It was Android based and as the Android software platform becomes the dominant system used globally this project was needed to build PDT's knowledge. Despite the benefit of building new technical expertise the project and job proved to be a challenge. The project incurred losses including a \$195K non-cash expense that was accrued as of period end due to PDT's percentage- of- completion revenue recognition method. The knowledge and technical experience gained has enabled PDT to bid for Android based contracts which it could not previously do.

**TZ Limited**  
**Review of operations**  
**30 June 2011**

One of PDT's strengths often unseen by its clients is its laser focus on new and emerging technologies and changes in the global economy. New technology causes very competitive companies to want to innovate to stay ahead of competitors and with PDT has a partner who understands the global landscape and competitive pressures. PDT will see change and initiate calls to customers anticipating their needs. In the same way PDT's attention to the global economy, especially the USA, allows it to sense a downturn in demand from one sector and allow it to deploy its resources in other sectors. The US Military is a prime example, as the complexities of the US political system affect Defence spending. PDT stays in touch with its major customers so we know in advance how spending may be affected.

PDT's operation in the Ukraine provides low cost and timely engineering skills that enable competitive pricing for certain projects but also provides flexibility for rush projects.

PDT's branch offices continue to push it into the global arena and source projects not normally associated with a Chicago based company. To create a presence in the San Francisco/Silicon Valley area we are sharing office space with TZI in downtown San Francisco. This will not only enable direct access to the large tech companies but the medical device funds as well as the large teaching hospitals where much of the medical innovation comes from.

PDT is an ever changing workplace and an environment where engineers are challenged with new projects every day which provides the challenges that engineers thrive on.

**CONCLUSIONS**

While not openly evident in our financials, it is important to recognise that there have been significant day-to-day achievements and major accomplishments by our dedicated teams in TZI and PDT.

The Directors would like to thank the TZI and PDT operations teams lead by John Wilson and Mark Schwartz for their significant efforts and contributions. Their commitment, passion and motivation have helped the Board put this business back into the position of positive growth.

Special thanks are also extended to our shareholders for their on-going support and patience and confidence and trust in the Board to do what it needed to do.

The Directors are also pleased to note that all matters of litigation with various parties have now been settled.

The Board is very excited about the future of the TZ Group notwithstanding the incredibly volatile time in our two largest markets, North America and Europe, and because our product is not constrained by geographic territories we are now making significant headway in the Asia Pacific region particularly Australia and in that regard we will continue to invest in good outcomes in those strong regions. In relation to North America and Europe we will continue to invest for the future and target clients and customers who have a need for our product, notwithstanding budgetary constraints.

**TZ Limited**  
**Significant changes in the state of affairs**  
**30 June 2011**

*Issue of Series IIIB Convertible Notes*

On 24 December 2010 the company issued 4,275 secured Series IIIB Convertible Notes, each with a face value of \$1,000, to QVT Fund LP and Quintessence Fund L.P. ('QVT Funds'). The Series IIIB Convertible Notes were issued in repayment of all outstanding principal and interest owing under the loan facility between the QVT Funds, the company and Telezygology, Inc. ('TZI') pursuant to which the QVT Funds lent US\$4,100,000 to TZI. The conversion price for each Series IIIB Convertible Note is the lesser of 42 cents and the lowest price at which shares may be subsequently issued by the company while the Series IIIB Convertible Notes remain on issue. As of the date of this report, the conversion price remains 42 cents.

*Conversion of Series II Convertible Notes to Shares*

During the year, all of the Series II Convertible Notes previously held by Sydcomp Pty Limited were converted into ordinary fully paid shares ('Shares') or redeemed by the company. 10,229,760 Shares were issued as a result of the conversion of all of the principal and interest owing on 4,008,500 Series II Convertible Notes at a conversion price of \$0.42 per Share, which was the conversion price determined under the original terms of issue of the Series II Convertible Notes as of the relevant dates of conversion of those notes. A further 2,048,431 Shares were issued upon the conversion of the principal and interest owing on 732,500 Series II Convertible Notes at the amended conversion price of \$0.3913 per Share in accordance with resolutions 8 and 9 passed by the company's shareholders at the 2010 AGM. The remaining 500,000 Series II Convertible Notes were redeemed by the company.

*Issue of shares*

During the year the company issued 59,882,750 Shares as follows:

- 12,278,191 Shares were issued upon the conversion of the Series II Convertible Notes;
- 1,480,000 Shares were issued upon the exercise of 1,480,000 Rights issued under the company's Director and Executive Equity Plan;
- 1,198,196 Shares were issued to the QVT Funds in satisfaction of the company's liability to pay \$1,198,196 to the QVT Funds in respect of moneys paid by the QVT Funds on behalf of the company in accordance with resolution 9(a) passed at the 2009 AGM;
- 4,613,333 Shares were issued to the QVT Funds in payment of \$4,613,333 in interest owing to the QVT Funds under the Series I Convertible Notes for the period from the date of issue of the Series I Convertible Notes to 31 December 2009 in accordance with resolutions 9(c) and (d) passed at the 2009 AGM;
- 3,795,121 Shares were issued to the QVT Funds in payment of \$1,328,292.35 in interest owing to the QVT Funds under the Series I, Series III and Series IIIB Notes for the 2010 calendar year
- 357,144 Shares were issued by way of placement to sophisticated investors at \$0.42 per Share to raise \$150,000;
- 8,091,446 Shares were issued by way of placement to various professional and sophisticated investors at \$0.35 per Share to raise \$2,832,009.10; and
- 28,069,319 Shares were issued under the company's 1 for 3 renounceable rights issue at an issue price of \$0.35 per share to raise \$9,824,261.65.

*Settlement of FutureWall Dispute and Incorporation of Intanova Pty Limited*

As announced on 30 July 2010, the company successfully resolved a long standing dispute between TZI and Techbuilt Interiors Pty Limited ('Techbuilt') 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 was formed, Intanova Pty Limited, to leverage the existing awareness and acceptance of the FutureWall System in the marketplace. Intanova carries on the business of marketing, supply and interior fit-out solutions in Australia. TZI currently holds a 50% interest in Intanova Pty Limited being the registered owner of 2,000,002 of the 4,000,004 ordinary class shares on issue.

*Incorporation of TZI Australia Pty Limited*

A new wholly owned subsidiary of the company, TZI Australia Pty Limited ('TZIA'), was incorporated to facilitate the sale and marketing of IXP and PAD solutions in the Australian and New Zealand markets through direct end-user accounts and through the channel partnerships with Anixter Australia Pty Limited ('Anixter Australia') and Pitney Bowes Australia Pty Limited ('PBA').

*Agreement with Anixter Australia Pty Limited*

On 6 August 2010, Telezygology Inc. entered into a distribution agreement with Anixter Australia for the distribution of the company's infrastructure protection products in Australia.

The agreement references the terms and conditions set out in the 2009 Distributor Agreement with Anixter Inc.



**TZ Limited**  
**Significant changes in the state of affairs**  
**30 June 2011**

*Agreement with IOPC relating to PBMS supply*

On 1 January 2011, Telezygology Inc. entered into a new supply agreement with International Office Products Cooperative, Inc. ('IOPC') providing for the non-exclusive supply and manufacture of modular "millwork" locker units. In addition to standard terms and conditions relating to locker fabrication, quality assurance and system assembly, IOPC also undertook to terminate its existing contractual locker supply agreement with Pitney Bowes Management Services, Inc. ('PBMS') to enable TZ to pursue a direct supply relationship with PBMS, subject to commission being paid primarily on the TZ software and services provided.

*Agreement with Pitney Bowes Australia*

As announced by the company on 3 May 2011, TZIA entered into an exclusive supply and distribution agreement with Pitney Bowes Australia Pty Limited for the supply and distribution of certain of TZI's Packaged Assets Delivery solutions. Under the agreement PBA was appointed exclusive distributor of a range of standard configurations of TZI's Intelligent Locker system offerings (such as TZ Automated Parcel Exchange and TZ Courier) in the corporate mail services and postal markets in Australia and New Zealand until 31 December 2013, subject to certain performance obligations being met by PBA.

**TZ Limited**  
**Directors' report**  
**30 June 2011**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of TZ Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2011.

**Directors**

The following persons were directors of TZ Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mark Bouris - Chairman  
Kenneth Ting  
Dickory Rudduck

**Principal activities**

During the financial year the principal continuing activities of the consolidated entity consisted of:

- 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'); and
- providing a fee for service product design and engineering consulting (services) through Product Development Technologies Inc, ('PDT').

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

**Dividends**

There were no dividends paid or declared during the current or previous financial year.

**Review of operations**

The loss for the consolidated entity after providing for income tax amounted to \$8,784,000 (30 June 2010: \$26,347,000).

For a detailed review of the operations of the consolidated entity, please refer to the 'Review of operations' report which precedes this directors report.

**Significant changes in the state of affairs**

For details of the significant changes in the state of affairs of the consolidated entity, please refer to the 'Significant changes in the state of affairs' report which precedes this directors report.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

**Matters subsequent to the end of the financial year**

*Settlement of the dispute with former director and related parties*

The company entered into a deed of settlement with Mr Andrew Sigalla and persons and entities associated with him, including ZMS Investments Pty Limited ('ZMS') (Receivers and Managers Appointed - In Liquidation) and BZI Pty Limited ('BZI'), to settle all legal proceedings between the parties (the 'Proceedings'), the hearing for which was due to commence in the Supreme Court of New South Wales on 5 September 2011.

The deed of settlement was conditional on formal court orders being entered by the Supreme Court of New South Wales to discontinue the Proceedings on a without prejudice basis and on the removal of ASIC's freezing orders against Mr Sigalla and BZI. These conditions were satisfied on 23 August 2011.

Under the terms of the deed of settlement, the company has agreed to accept a sum of money in full and final settlement of all claims that the company was alleging against Mr Sigalla, ZMS and BZI. The company and its related corporations have released Mr Sigalla, ZMS and BZI from all claims that the company and its related corporations were alleging in the Proceedings. Mr Sigalla has also released the company and its related corporations from all claims he was alleging in the Proceedings.

It was represented to the company that the settlement moneys received by the company on 25 August 2011 came from a third party and not from either Mr Sigalla, ZMS or BZI. The company had sought the consent of the trustee in bankruptcy to Mr Sigalla's bankrupt estate to the terms of the deed of settlement and the trustee's agreement that the bankrupt estate will have no claim to any of the settlement moneys to be paid to the company. The company was unable to obtain that consent or agreement from the trustee in bankruptcy to Mr Sigalla's bankrupt estate.

The settlement was reached on the basis that there were no admissions of liability made by any party to the proceedings.

*Participation in Joint Venture - Intanova Pty Limited*

The company has an option to purchase 500,000 additional shares in Intanova Pty Limited. This option was exercisable between 1 February 2011 and 15 March 2011. The option was not exercised, however, the shareholders of Intanova Pty Limited have been in negotiations regarding numerous terms of the original shareholders agreement, including an extension of the option exercise period until 31 December 2011. At the date of this report the new agreement had not been finalised.

*Distribution Agreement with Anixter International Limited*

On 28 July 2011, Telezygology Inc. entered into a distribution agreement with Anixter International Limited for the distribution of the company's infrastructure protection products in Europe, the Middle East and Africa.

The agreement references the terms and conditions set out in the 2009 Distributor Agreement with Anixter Inc. with specific amendments to address regional preferences for initial inventory and preferential payment terms.

*Supply and Distribution Agreement with Bear River Associates*

On 22 August 2011, Telezygology Inc. entered into a supply and distribution agreement with Bear River Associates, a privately-held logistics tracking software development company, located in Oakland, California for the turn-key supply and distribution of the company's TZ Courier products.

Under the terms of the supply and distribution agreement, Bear River will promote and market an integrated solution that combines the TZ Courier™ Intelligent Locker System with its BearTracks software to an exclusive and defined list of established Bear River corporate and public sector customers in the United States.

*Supply Agreement with NEXTDC Limited and Anixter Australia Pty Limited*

On 7 September 2011, TZ Limited and its wholly owned subsidiary, Telezygology Inc. entered into a supply agreement with TZI's distributor, Anixter Australia Pty Limited ('Anixter'), and NEXTDC Limited ('NEXTDC') for the supply of the TZ Centurion™ System for NEXTDC's cabinet-level micro-protection solution at its Brisbane and Melbourne data centres in accordance with agreed purchase orders.

Under the terms of the supply agreement, TZ Limited agrees to guarantee the performance of TZI's and Anixter's obligations under the supply agreement.



**Likely developments and expected results of operations**

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

**Environmental regulation**

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

**Information on directors**

Name:	Mark Bouris
Title:	Executive Chairman
Qualifications:	BCom (UNSW), MCom, Adjunct Professor at the Australian School of Business
Experience and expertise:	Mark Bouris is the Executive Chairman of Yellow Brick Road Wealth Management, a financial services company that offers comprehensive products and advice for home loans, financial planning, insurance, term deposits, accounting and tax through its national branch network. Mark has over 25 years experience in the finance and property sectors and was the founder of Wizard Home Loans, one of Australia's largest non-bank lenders. Under Mark's direction, Wizard grew to approximately 300 branches across Australia, New Zealand and India before the company was sold to General Electric in 2004. Mark is an Adjunct Professor for Banking & Finance and Business Law & Tax at University of New South Wales Australian School of Business and sits on the UNSW Australian School of Business Advisory Council Board. Mark is the author of Wealth Wizard and The Yellow Brick Road to Your Financial Security, and he writes a number of financial columns for some of Australia's most recognised publications. He's a board member of the Sydney Roosters and the host of Channel 9's 'The Apprentice Australia' and 'Celebrity Apprentice Australia'.
Other current directorships:	Executive Chairman of Yellow Brick Road Holdings Limited (previously known as ITS Capital Investments Limited), Non-Executive Chairman of Anteo Diagnostics Limited (appointed on 2 August 2011), Chairman of Serena Resources Limited and Board Member of the Sydney Roosters.
Former directorships (in the last 3 years):	None
Special responsibilities:	None
Interests in shares:	1,087,967 ordinary shares
Interests in options/rights:	3,000,000 options and 800,000 rights over ordinary shares

**TZ Limited**  
**Directors' report**  
**30 June 2011**

Name: Kenneth Ting  
Title: Executive Director and Company Secretary  
Qualifications: Bachelor of Commerce and Bachelor of Law (First Class Honours) and a member of the Institute of Chartered Accountants.  
Experience and expertise: 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. Kenneth 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. Kenneth 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, telecommunication and Internet sectors.

Other current directorships: None  
Former directorships (in the last 3 years): None  
Special responsibilities: None  
Interests in shares: 1,000,975 ordinary shares  
Interests in options/rights: 2,250,000 options and 600,000 rights over ordinary shares

Name: Dickory Rudduck  
Title: Executive Director  
Experience and expertise: Dickory Rudduck is a prolific inventor and is the founder and source behind TZ Limited's technology and thinking. An Architect by profession, Dickory established and built a successful Sydney based industrial architectural practice over a 20-year consulting career. He is recognised as a respected industrial and interior designer. The success of his consulting practice enabled Mr Rudduck to focus on his interest in innovation and invention, establishing Intellectual Exchange Pty Ltd in 1996, with the objective of developing intellectual property with global relevance and application. Since then, he 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.

Other current directorships: None  
Former directorships (in the last 3 years): None  
Special responsibilities: None  
Interests in shares: 992,498 ordinary shares  
Interests in options/rights: 10,000 options over ordinary shares

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

**Company secretary**

Kenneth Ting is the company secretary and also a director of the company. See 'Information on directors'.

### **Meetings of directors**

The number of meetings of the company's Board of Directors held during the year ended 30 June 2011, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
M Bouris	14	14
K Ting	14	14
D Rudduck	14	14

Held: represents the number of meetings held during the time the director held office.

### **Remuneration report (audited)**

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

#### **A Principles used to determine the nature and amount of remuneration**

The objective of the consolidated entity's and company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with the market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate demanding performance hurdles for variable executive remuneration.

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

Remuneration policies have not been directly linked to the company's performance in the past. However, at the 2009 Annual General Meeting ('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.



**TZ Limited**  
**Directors' report**  
**30 June 2011**

*Non-executive directors remuneration*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. 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 chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require that the aggregate non-executive directors remuneration shall be determined periodically 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 most recent determination was at the AGM held on 30 November 2006, where the shareholders approved an aggregate remuneration of \$500,000.

*Executive remuneration*

The consolidated entity and company aims to reward executives with a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives can receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and adds additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the targets of those executives in charge of meeting those targets. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') includes long service leave and share-based payments. As noted above, a Director and Executive Equity Plan has been set up to reward executives based on long term incentive measures in the form of options and rights. These include increase in shareholders value relative to the entire market and the increase compared to the consolidated entity's direct competitors.

*Consolidated entity performance and link to remuneration*

Remuneration for certain individuals is directly linked to the performance of the consolidated entity. Executives and other employees can be issued with options and rights to acquire shares in the consolidated entity. 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 consolidated entity's objectives. Refer to section E of the remuneration report for details of the last five years earnings and total shareholders return.

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.

**TZ Limited**  
**Directors' report**  
**30 June 2011**

**B Details of remuneration**

*Amounts of remuneration*

Details of the remuneration of the directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity) and specified executives of TZ Limited are set out in the following tables.

The key management personnel of the consolidated entity consisted of the directors of TZ Limited and the following executives:

- Mark Schwartz - Chief Executive Officer of PDT Inc.
- Paul Casey - Non-Executive Director of PDT Inc (appointed on 12 May 2011)
- John Wilson - Chief Executive Officer of Telezygology Inc.
- William Leong - Vice President of Operations of Telezygology Inc. (appointed on 1 October 2010)
- Timothy Koehler - Chief Financial Officer of Telezygology Inc.

2011 Name	Short-term benefits			Post-employment benefits	Share-based payments		Total
	Cash salary and fees \$	Other \$	Non-monetary \$	Super-annuation \$	Options \$	Rights \$	
<i>Executive Directors:</i>							
M Bouris	368,647	10,200	-	-	843,175	472,601	1,694,623
K Ting	289,651	6,000	-	-	632,381	354,451	1,282,483
D Rudduck	218,764	-	-	-	-	-	218,764
<i>Other Key Management Personnel:</i>							
M Schwartz	364,890	302	6,947	6,994	-	-	379,133
P Casey (appointed 12 May 2011) *	83,657	-	-	-	-	-	83,657
J Wilson	390,000	-	-	-	-	-	390,000
W Leong (appointed 1 October 2010)	141,479	283	6,947	2,122	-	-	150,831
T Koehler	121,630	174	5,966	3,041	-	-	130,811
	<u>1,978,718</u>	<u>16,959</u>	<u>19,860</u>	<u>12,157</u>	<u>1,475,556</u>	<u>827,052</u>	<u>4,330,302</u>

\* P Casey's remuneration includes \$71,567 in short term benefits received for the period prior to his appointment as a Non-Executive Director of PDT Inc.

**TZ Limited**  
**Directors' report**  
**30 June 2011**

2010 Name	Short-term benefits			Post-employment benefits	Share-based payments		Total \$
	Cash salary and fees \$	Other \$	Non-monetary \$	Super-annuation \$	Options \$	Rights \$	
<i>Non-Executive Directors:</i>							
W de Vlugt (resigned 31 May 2010)	76,845	-	-	-	-	67,200	144,045
<i>Executive Directors:</i>							
M Bouris	472,264	-	-	-	355,750	871,399	1,699,413
K Ting	398,163	-	-	-	266,813	653,549	1,318,525
D Rudduck (appointed 14 May 2010) *	181,732	-	-	-	-	-	181,732
<i>Other Key Management Personnel:</i>							
M Schwartz	389,018	-	-	6,504	-	-	395,522
J Wilson (appointed 17 May 2010)	45,000	-	-	-	-	-	45,000
J Freese (COO until 17 May 2010)	188,703	-	-	5,085	-	-	193,788
T Koehler	129,396	-	-	3,531	-	-	132,927
R Pagorek (resigned 10 August 2009)	57,850	-	-	1,446	-	-	59,296
	<u>1,938,971</u>	<u>-</u>	<u>-</u>	<u>16,566</u>	<u>622,563</u>	<u>1,592,148</u>	<u>4,170,248</u>

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

**TZ Limited**  
**Directors' report**  
**30 June 2011**

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2011	2010	2011	2010	2011	2010
<i>Non-Executive Directors:</i>						
W de Vlugt	- %	53%	- %	- %	- %	47%
<i>Executive Directors:</i>						
M Bouris	22%	28%	- %	- %	78%	72%
K Ting	23%	30%	- %	- %	77%	70%
D Rudduck	100%	100%	- %	- %	- %	- %
<i>Other Key Management Personnel:</i>						
M Schwartz	100%	100%	- %	- %	- %	- %
P Casey	100%	- %	- %	- %	- %	- %
J Wilson	100%	100%	- %	- %	- %	- %
W Leong	100%	- %	- %	- %	- %	- %
T Koehler	100%	100%	- %	- %	- %	- %
J Freese	- %	100%	- %	- %	- %	- %
R Pagorek	- %	100%	- %	- %	- %	- %

**C Service agreements**

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Dickory Rudduck  
Title: Executive Director  
Agreement commenced: 1 June 2011  
Term of agreement: 2 years with automatic renewal periods of one year.  
Details: Base salary of USD\$210,000 per annum with a notice period of 30 days.

Name: Mark Schwartz  
Title: Chief Executive Officer of PDT Inc.  
Agreement commenced: 1 December 2008  
Term of agreement: 3 years  
Details: Base salary of US\$360,000 and notice period of 6 months.

Name: Paul Casey  
Title: Non-Executive Director of PDT Inc.  
Agreement commenced: 12 May 2011  
Term of agreement: No fixed term  
Details: Base salary of US\$150,000 and notice period by negotiation.

Name: John Wilson  
Title: Chief Executive Officer of Telezygology Inc.  
Agreement commenced: 17 May 2010  
Term of agreement: No fixed term  
Details: Base salary of \$420,000 and notice period by negotiation.



**TZ Limited**  
**Directors' report**  
**30 June 2011**

Name: William Leong  
Title: Vice President Operations of Telezygology Inc.  
Agreement commenced: 1 October 2010  
Term of agreement: No fixed term  
Details: Base salary of US\$150,000 and notice period by negotiation.

Name: Tim Koehler  
Title: Chief Financial Officer of Telezygology Inc.  
Agreement commenced: 1 February 2008  
Term of agreement: No fixed term  
Details: Base salary of US\$120,000 and notice period by negotiation.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

**D Share-based compensation**

*Issue of shares*

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2011 are set out below:

Name	Date	No of shares	Issue price	\$
M Bouris	19 July 2010	800,000	\$0.00	-
K Ting	19 July 2010	600,000	\$0.00	-

The above shares were issued on the exercise of rights and were issued at nil consideration.

*Options*

There were no options issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2011.

**TZ Limited**  
**Directors' report**  
**30 June 2011**

Details of options over ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2011 are set out below:

Name	Number of options granted during the year		Number of options vested during the year	
	2011	2010	2011	2010
W de Vlugt (resigned on 31 May 2010)	-	450,000	-	-
M Bouris	-	3,000,000	1,000,000	-
K Ting	-	2,250,000	750,000	-

*Vesting conditions for options granted as compensation during the year ended 30 June 2010*

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.

*Performance rights*

The terms and conditions of each grant of performance rights affecting remuneration in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Share price target for vesting	Fair value per right at grant date
26 February 2010	30 June 2011 / 1 July 2011	30 June 2012	\$0.00	\$0.840

Performance rights granted carry no dividend or voting rights.

**TZ Limited**  
**Directors' report**  
**30 June 2011**

Details of performance rights over ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2011 are set out below:

Name	Number of rights granted during the year		Number of rights vested during the year	
	2011	2010	2011	2010
W de Vlugt (resigned on 31 May 2010)	-	200,000	-	80,000
M Bouris	-	1,600,000	800,000	800,000
K Ting	-	1,200,000	600,000	600,000

*Terms of grant of rights*

In accordance with resolutions 12, 13 and 15 of the 2009 Annual General Meeting ('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 nil 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 consolidated entity and effective engagement of the company's management located in the USA; and
- (iv) expansion of the consolidated entity's market extension into Europe and other regions of the world over the period to 30 June 2011.

**TZ Limited**  
**Directors' report**  
**30 June 2011**

**E Additional information**

The earnings of the consolidated entity for the five years to 30 June 2011 are summarised below:

	2007 \$'000	2008 \$'000	2009 \$'000	2010 \$'000	2011 \$'000
Sales and services revenue	15,865	14,973	17,696	17,308	22,399
EBITDA	(8,438)	(9,787)	(18,277)	(19,264)	(1,390)
EBIT	(9,785)	(11,073)	(20,317)	(21,682)	(3,246)
Loss after income tax	(10,807)	(12,331)	(24,408)	(26,347)	(8,784)

The factors that are considered to affect total shareholders return (TSR) are summarised below:

	2007	2008	2009	2010	2011
Share price at financial year end (\$A)	2.40	3.55	0.96	0.44	0.24
Basic earnings per share (cents per share)	(25.30)	(29.04)	(50.00)	(49.46)	(9.01)

***This concludes the remuneration report, which has been audited.***

**Shares under option**

Unissued ordinary shares of TZ Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
January 2008 to August 2008	25 August 2011	\$6.00	116,666
24 October 2008	24 October 2011	\$2.50	850,000
24 October 2008	24 October 2011	\$2.50	150,000
15 May 2009	15 May 2012	\$2.50	65,000
26 February 2010	30 June 2016	\$1.00	1,750,000
26 February 2010	30 June 2017	\$2.00	1,750,000
26 February 2010	30 June 2018	\$3.00	1,750,000
19 February 2008 *	19 February 2013	\$1.00	3,000,000
24 December 2010 *	19 February 2013	\$0.42	3,000,000
			12,431,666

\* These options were granted to QVT, a hedge fund in the USA.

**Shares under performance rights**

Unissued ordinary shares of TZ Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
26 February 2010	1 July 2012	\$0.00	1,400,000

**Shares issued on the exercise of options**

There were no shares of TZ Limited issued on the exercise of options during the year ended 30 June 2011.



**TZ Limited**  
**Directors' report**  
**30 June 2011**

**Shares issued on the exercise of performance rights**

The following ordinary shares of TZ Limited were issued during the year ended 30 June 2011 on the exercise of performance rights granted:

Date rights granted	Vesting price	Number of shares issued
26 February 2010	\$0.00	1,480,000

**Indemnity and insurance of officers**

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

**Indemnity and insurance of auditor**

The company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

**Proceedings on behalf of the company**

Except for Mr Andrew Sigalla and persons and entities associated with him that is detailed in 'Matters subsequent to the end of the financial year' no other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 35 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 35 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

**Officers of the company who are former audit partners of BDO Audit (NSW-VIC) Pty Limited**

There are no officers of the company who are former audit partners of BDO Audit (NSW-VIC) Pty Limited.

**Rounding of amounts**

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**TZ Limited**  
**Directors' report**  
**30 June 2011**

**Auditor's independence declaration**

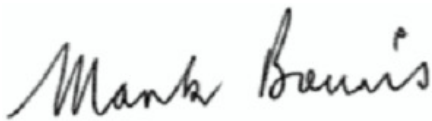
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

**Auditor**

BDO Audit (NSW-VIC) Pty Limited continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



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Mark Bouris  
Director



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Kenneth Ting  
Director

30 September 2011  
Sydney

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

As lead auditor of TZ Limited for the year ended 30 June 2011, 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 Audit (NSW-VIC) Pty Ltd

Sydney, 30 September 2011

## **TZ Limited**

### **Statement of Corporate Governance**

This 2011 Corporate Governance Statement sets out the corporate governance principles adopted by the board of directors (the 'Board') in governing TZ Limited (the 'Company') and its subsidiaries (collectively, the 'Group') and reflects the corporate governance principles which have been adopted during the financial year ended 30 June 2011. In adopting the principles the Board formally reviewed the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council. The Company is a small company and accordingly the Board considers 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 Company's shareholders which it accomplishes by:

- establishing corporate governance, and ethical, business standards;
- setting objectives, goals and strategic direction with a view to maximise shareholder value;
- approving and monitoring budgets and major investments;
- ensuring adequate internal controls exist and are appropriately monitored;
- ensuring significant business risks are identified and appropriately managed; and
- appointing senior executives and monitoring their 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 evaluation of the performance of senior executives takes place at meetings of the Board and occurred during the current reporting period.

#### **Principle 2: Structure the board to add value**

Directors appointed by the Board by reason of a vacancy are subject to re-election by the Company's shareholders at the following annual general meeting. 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, the date of their most recent re-election by the Company's shareholders and their status as non-executive, executive or independent directors are set out in the table below:

Director	Appointed	Re-Elected	Non-Executive	Independent
Mark Bouris	18 June 2009	17 November 2010	No	No
Kenneth Ting	18 June 2009	26 February 2010	No	No
Dickory Rudduck	14 May 2010	17 November 2010	No	No

Mr Ting is standing for re-election by rotation at the 2011 annual general meeting.

The skills and experience of each director are set out in the Director's Report in the Company's 2011 Annual Report. The Company's directors are appointed based on the specific governance skills required by the Company, including an appropriate blend of relevant experience appropriate to the Company's field of operations, accounting and financial management and following consideration of the Company's objectives with respect to diversity.



## **TZ Limited**

### **Statement of Corporate Governance**

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

- The majority of directors are not independent as they are all executive directors.
- The Chairman is not independent and is an executive director
- As the whole Board only consists of three directors, the Company does not have a formally constituted Nomination Committee as the Board believes it would not be a more efficient mechanism than the full Board focussing the Company on specific issues. Currently, the Board as a whole performs the roles and functions of a Nomination Committee. These roles and functions include: devising criteria for Board membership; regularly reviewing the need for various skills and experience on the Board; considering the Company's objectives with respect to diversity when selecting candidates; and identifying specific individuals for nomination as directors. The Board also oversees management succession plans and evaluates the Chairman's and the Board's performance and makes recommendations for the appointment and removal of directors. 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.
- The Company does not have a formal process for evaluating the performance of the Board and the individual directors, other than as set out above.

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 continues to review the situation to determine the most appropriate and effective operational procedures.

The Board is committed to an inclusive workplace that embraces and promotes diversity. The Company is committed to setting measurable objectives for attracting and engaging women at the Board level, in senior management positions and across the Group as a whole. Progress against set diversity related targets will be included in future annual reports.

The gender representation profile of the Company and the Group as a whole is as follows:

Board Level:	0 %
Key management personnel:	0 %
Group as a whole:	16 %

#### **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:

- Monitor the integrity of the financial statements of the Company and review significant financial reporting changes.
- Review the Company's internal financial control system and risk management systems.
- Appoint the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- Monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements.
- 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 2011.

## **TZ Limited**

### **Statement of Corporate Governance**

#### **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:

- despatch of the annual and half yearly financial reports;
- despatch of all notices of meetings of shareholders; and
- 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 chief financial officers (or equivalents) and chief executive officers (or equivalents) of 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. Accordingly, the Company does not have a remuneration committee made up of a majority of independent members, chaired by an independent member as recommended by the ASX Corporate Governance Council. Instead, the Board as a whole establishes and reviews annually the remuneration of the executive directors and senior executives, as well as superannuation arrangements, the remuneration framework for all directors and remuneration by gender.

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.

**TZ Limited**  
**Financial report**  
**For the year ended 30 June 2011**

**Contents**

	Page
Financial report	
Statement of comprehensive income	29
Statement of financial position	30
Statement of changes in equity	31
Statement of cash flows	33
Notes to the financial statements	34
Directors' declaration	93
Independent auditor's report to the members of TZ Limited	94

**General information**

The financial report covers TZ Limited as a consolidated entity consisting of TZ Limited and the entities it controlled. The financial report is presented in Australian dollars, which is TZ Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

TZ Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

*Registered office*

Level 11, 1 Chifley Square  
Sydney NSW 2000

*Principal place of business*

TZ Limited, Level 11, 1 Chifley Square, Sydney NSW  
Telezygology Inc., 1017 W. Washington Blvd, Unit 2C,  
Chicago IL 60607, USA  
PDT Inc, One Corporate Drive, Suite 110, Lake Zurich IL  
60047, USA

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 30 September 2011. The directors have the power to amend and reissue the financial report.

**TZ Limited**  
**Statement of comprehensive income**  
**For the year ended 30 June 2011**

	Note	Consolidated 2011 \$'000	2010 \$'000
<b>Revenue</b>	5	23,470	17,696
Other income	6	6,800	1,108
<b>Expenses</b>			
Raw materials and consumables used		(1,471)	(975)
Subcontractors costs		(7,833)	(4,577)
Employee benefits expense		(14,599)	(12,139)
Occupancy expense		(767)	(934)
Depreciation and amortisation expense	7	(1,856)	(2,228)
Communications expense		(349)	(247)
Professional and corporate services		(3,322)	(4,894)
Travel and accommodation expense		(1,504)	(971)
Development costs		(904)	(114)
Net loss on movement in fair value of derivative liabilities		-	(6,158)
Net loss on conversion of convertible notes		-	(5,627)
Share of net losses of joint venture accounted for using the equity method		(217)	-
Other expenses		(2,025)	(1,446)
Finance costs	7	<u>(4,098)</u>	<u>(5,006)</u>
<b>Loss before income tax (expense)/benefit</b>		(8,675)	(26,512)
Income tax (expense)/benefit	8	<u>(109)</u>	<u>165</u>
<b>Loss after income tax (expense)/benefit for the year attributable to the owners of TZ Limited</b>	30	(8,784)	(26,347)
<b>Other comprehensive income</b>			
Foreign currency translation		<u>(4,043)</u>	<u>(1,706)</u>
Other comprehensive income for the year, net of tax		<u>(4,043)</u>	<u>(1,706)</u>
<b>Total comprehensive income for the year attributable to the owners of TZ Limited</b>		<u><u>(12,827)</u></u>	<u><u>(28,053)</u></u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	45	(9.01)	(49.46)
Diluted earnings per share	45	(9.01)	(49.46)

Refer to note 3 for detailed information on restatement of comparatives.

*The above statement of comprehensive income should be read in conjunction with the accompanying notes*



**TZ Limited**  
**Statement of financial position**  
**As at 30 June 2011**

		<b>Consolidated</b>	
	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	1,146	232
Trade and other receivables	10	4,913	4,733
Inventories	11	331	167
Investment in short term deposit	12	5,500	-
<b>Total current assets</b>		<u>11,890</u>	<u>5,132</u>
<b>Non-current assets</b>			
Investments accounted for using the equity method	13	187	-
Property, plant and equipment	14	1,884	1,976
Intangibles	15	19,750	24,545
Deferred tax	16	751	635
Other	17	179	148
<b>Total non-current assets</b>		<u>22,751</u>	<u>27,304</u>
<b>Total assets</b>		<u>34,641</u>	<u>32,436</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	18	4,575	4,708
Borrowings	19	729	5,919
Derivative financial instruments	20	-	746
Provisions	21	116	87
Other	22	368	531
<b>Total current liabilities</b>		<u>5,788</u>	<u>11,991</u>
<b>Non-current liabilities</b>			
Borrowings	23	10,206	5,897
Derivative financial instruments	24	4,411	8,316
Deferred tax	25	945	829
Other	26	507	533
<b>Total non-current liabilities</b>		<u>16,069</u>	<u>15,575</u>
<b>Total liabilities</b>		<u>21,857</u>	<u>27,566</u>
<b>Net assets</b>		<u>12,784</u>	<u>4,870</u>
<b>Equity</b>			
Contributed equity	27	149,113	125,907
Other contributed equity	28	-	4,768
Reserves	29	(6,997)	(2,954)
Accumulated losses	30	(129,332)	(122,851)
<b>Total equity</b>		<u>12,784</u>	<u>4,870</u>

Refer to note 3 for detailed information on restatement of comparatives.

*The above statement of financial position should be read in conjunction with the accompanying notes*

**TZ Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2011**

	Contributed equity \$'000	Other contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Consolidated</b>					
Balance at 1 July 2009	114,727	-	999	(101,093)	14,633
Other comprehensive income for the year, net of tax	-	-	(3,953)	2,247	(1,706)
Loss after income tax (expense)/benefit for the year	-	-	-	(26,347)	(26,347)
Total comprehensive income for the year	-	-	(3,953)	(24,100)	(28,053)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	1,100	-	-	-	1,100
Share-based payments	-	-	-	2,342	2,342
Conversion of convertible notes	10,080	-	-	-	10,080
Shares to be issued to extinguish liabilities	-	4,768	-	-	4,768
Balance at 30 June 2010	<u>125,907</u>	<u>4,768</u>	<u>(2,954)</u>	<u>(122,851)</u>	<u>4,870</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**TZ Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2011**

	Contributed equity \$'000	Other contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Consolidated</b>					
Balance at 1 July 2010	125,907	4,768	(2,954)	(122,851)	4,870
Other comprehensive income for the year, net of tax	-	-	(4,043)	-	(4,043)
Loss after income tax (expense)/benefit for the year	-	-	-	(8,784)	(8,784)
Total comprehensive income for the year	-	-	(4,043)	(8,784)	(12,827)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments	-	-	-	2,303	2,303
Contributions of equity	12,806	-	-	-	12,806
Conversion of convertible notes	5,098	-	-	-	5,098
Conversion of liabilities to equity	1,139	-	-	-	1,139
Less: transaction costs on shares issued	(605)	-	-	-	(605)
Transfer to contributed equity upon issue of shares	4,768	(4,768)	-	-	-
Balance at 30 June 2011	<u>149,113</u>	<u>-</u>	<u>(6,997)</u>	<u>(129,332)</u>	<u>12,784</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**TZ Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2011**

	Note	Consolidated	
		2011 \$'000	2010 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		21,130	16,465
Payments to suppliers and employees (inclusive of GST)		<u>(29,329)</u>	<u>(20,865)</u>
		(8,199)	(4,400)
Interest received		264	63
Other revenue		514	-
Interest and other finance costs paid		(61)	(27)
Income taxes refunded		-	12
Income taxes paid		<u>(71)</u>	<u>-</u>
Net cash used in operating activities	44	<u>(7,553)</u>	<u>(4,352)</u>
<b>Cash flows from investing activities</b>			
Payments for new joint venture capital invested		(200)	-
Payments for property, plant and equipment	14	(946)	(256)
Payments for intangibles	15	(577)	(1,577)
Investment in short term deposits		(5,500)	-
Proceeds from sale of property, plant and equipment		<u>8</u>	<u>3</u>
Net cash used in investing activities		<u>(7,215)</u>	<u>(1,830)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	27	12,806	50
Transaction costs on shares issued		(605)	-
Proceeds from borrowings		5,301	6,662
Repayment of borrowings		<u>(1,400)</u>	<u>(680)</u>
Net cash from financing activities		<u>16,102</u>	<u>6,032</u>
Net increase/(decrease) in cash and cash equivalents		1,334	(150)
Cash and cash equivalents at the beginning of the financial year		232	566
Effects of exchange rate changes on cash		<u>(420)</u>	<u>(184)</u>
Cash and cash equivalents at the end of the financial year	9	<u><u>1,146</u></u>	<u><u>232</u></u>

*The above statement of cash flows should be read in conjunction with the accompanying notes*

**Note 1. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**New, revised or amending Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy.

The adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

*AASB 2 Share-based Payment Transactions - amendments for Group Cash-settled Share-based Payment Transactions*

The consolidated entity has applied the amendments to AASB 2 from 1 July 2010. The amendments clarified the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the consolidated entity settles the transaction, and no matter whether the transaction is settled in shares or cash.

*AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

The consolidated entity has applied AASB 2009-5 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 101 'Presentation of Financial Statements' - classification is not affected by the terms of a liability that could be settled by the issuance of equity instruments at the option of the counterparty;

AASB 107 'Statement of Cash Flows' - only expenditure that results in a recognised asset can be classified as a cash flow from investing activities;

AASB 117 'Leases' - removal of specific guidance on classifying land as a finance or operating lease;

AASB 118 'Revenue' - provides additional guidance to determine whether an entity is acting as a principal or agent; and

AASB 136 'Impairment of Assets' - clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 'Operating Segments' before aggregation for reporting purposes.

*AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

The consolidated entity has applied AASB 2010-3 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 127 'Consolidated and Separate Financial Statements' and AASB 3 Business Combinations - clarifies that contingent consideration from a business combination that occurred before the effective date of revised AASB 3 is not restated; the scope of the measurement choices of non-controlling interest is limited to when the rights acquired include entitlement to a proportionate share of net assets in the event of liquidation; requires an entity in a business combination to account for the replacement of acquiree's share-based payment transactions, unreplaced and voluntarily replaced, by splitting between consideration and post combination expenses.



**Note 1. Significant accounting policies (continued)**

**Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

*Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments at fair value.

*Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

**Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 40.

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of TZ Limited ('company' or 'parent entity') as at 30 June 2011 and the results of all subsidiaries and special purpose entities for the year then ended. TZ Limited, its subsidiaries and special purpose entities together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Special purpose entities ('SPEs') are those entities where the consolidated entity, in substance, controls the SPE so as to obtain the majority of benefits without having any ownership interest.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries and special purpose entities have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

**Note 1. Significant accounting policies (continued)**

**Foreign currency translation**

The financial report is presented in Australian dollars, which is TZ Limited's functional and presentation currency.

*Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximates the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

*Sale of goods*

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

*Rendering of services*

Revenue from engineering design services is recognised in accordance with the percentage of completion method.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably estimated, revenue is only recognised to the extent of the recoverable costs incurred to date.

*Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

**Note 1. Significant accounting policies (continued)**

**Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and under and over provision in prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

**Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

**Note 1. Significant accounting policies (continued)**

**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 and is based on the percentage of completion method.

**Derivative financial instruments**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

**Joint ventures**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Income earned from joint venture entities is recognised as a reduction in the carrying amount of the investment.

**Investments and other financial assets**

Investments and other financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

*Impairment of financial assets*

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been had the impairment not been recognised and is reversed to profit or loss.

**Note 1. Significant accounting policies (continued)**

**Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	20 - 33%
Plant and equipment	20%
Motor vehicles	20%
Office equipment	15 - 35%

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity.

**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.

**Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangibles are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Goodwill*

Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

*Trade names*

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



**Note 1. Significant accounting policies (continued)**

*Patents*

Expenditure directly attributable to the registration of patents is capitalised at cost and is amortised over the useful life of between 15 to 20 years.

*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.

*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.

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 to 11 years.

*Re-acquired right (Intevia licence)*

Re-acquired rights are initially recognised at cost, then amortised over their expected useful life of 13.5 years. The re-acquired rights related to technology and know-how that is collectively referred to as the 'Intevia licence'. The right to exploit this technology was re-acquired from Textron Inc on 22 January 2007.

**Impairment of non-financial assets**

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

**Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.

**Note 1. Significant accounting policies (continued)**

**Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

*Convertible notes*

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time, is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as other contributed equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

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.

**Finance costs**

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on short-term and long-term borrowings

**Provisions**

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

**Note 1. Significant accounting policies (continued)**

**Employee benefits**

*Wages and salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*Long service leave*

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

*Share-based payments*

Equity-settled and cash-settled share-based compensation benefits are provided to employees (including directors). The Directors and Employee Equity Plan also gives directors and senior executives the opportunity to participate in the consolidated entity's equity in exchange for their services.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

**Note 1. Significant accounting policies (continued)**

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

**Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Note 1. Significant accounting policies (continued)**

**Business combinations**

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

**Earnings per share**

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of TZ Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.



**Note 1. Significant accounting policies (continued)**

**Goods and Services Tax ('GST') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

**Comparative information**

Certain comparatives have been reclassified to be consistent with current year presentation.

**Rounding of amounts**

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2011. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 10 Consolidated Financial Statements*

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

*AASB 11 Joint Arrangements*

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint Operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 July 2013 will not have a material impact on the consolidated entity.

**Note 1. Significant accounting policies (continued)**

*AASB 12 Disclosure of Interests in Other Entities*

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures', Interpretation 12 'Service Concession Arrangements' and Interpretation 13 'Customer Loyalty Programmes'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made by the Consolidated Entity in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

*AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets, but not liabilities. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

*AASB 119 Employee Benefits (September 2011)*

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2013. The amendments eliminate the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The adoption of the revised standard from 1 July 2013 will require increased disclosures by the consolidated entity.

*AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

**Note 1. Significant accounting policies (continued)**

*AASB 124 Related Party Disclosures (December 2009)*

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011. This revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. This revised standard introduces a partial exemption of disclosure requirement for government-related entities. The adoption of this standard from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 127 Separate Financial Statements (Revised)*

*AASB 128 Investments in Associates and Joint Ventures (Reissued)*

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

*AASB 1054 Australian Additional Disclosures*

This Standard is applicable to annual reporting periods beginning on or after 1 July 2011. The standard sets out the Australian-specific disclosures, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 2009-12 Amendments to Australian Accounting Standards*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which have no major impact on the requirements of the amended pronouncements. The main amendment is to AASB 8 'Operating Segments' and requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 2009-14 Amendments to Australian Interpretations - Prepayments of a Minimum Funding Requirement*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments arise from the issuance of Interpretation 14 'AASB 119 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction as a consequence of the issuance of Prepayments of a Minimum Funding Requirements' (Amendments to IFRIC 14). The amendments to IFRIC 14 meant that entities with minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendments in AASB 2009-14 allow entities to treat the benefit of early payment as a pension asset. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity as there are no surpluses in the defined benefit scheme.

*AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments are a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provide clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments; clarifies that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Statements'; and provides guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

**Note 1. Significant accounting policies (continued)**

*AASB 2010-5 Amendments to Australian Accounting Standards*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets*

These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. These amendments add and amend disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. The adoption of these amendments from 1 July 2011 will increase the disclosure requirements on the consolidated entity when an asset is transferred but is not derecognised and new disclosure required when assets are derecognised but the consolidated entity continues to have a continuing exposure to the asset after the sale.

*AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. The consolidated entity is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

*AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*

The amendments are applicable to annual reporting periods beginning on or after 1 July 2011. They make changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The amendments remove certain guidance and definitions from Australian Accounting Standards for conformity of drafting with International Financial Reporting Standards but without any intention to change requirements. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

**Note 1. Significant accounting policies (continued)**

*AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the consolidated entity.

*AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*

The amendments are applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The adoption of the revised standard from 1 July 2012 will impact the consolidated entity's presentation of its statement of comprehensive income.

**Note 2. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Share-based payment transactions*

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

*Provision for impairment of receivables*

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

*Estimation of useful lives of assets*

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and definite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

*Goodwill and other indefinite life intangible assets*

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

**Note 2. Critical accounting judgements, estimates and assumptions (continued)**

*Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

*Income tax*

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

*Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

*Valuation of embedded derivatives and convertible note debt portion*

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.

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 2011, under the terms of the convertible notes, the current conversion price is \$0.35 per share for Series I and III and \$0.42 per share for Series IIIB based on the most recent shares issued of 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 2011 of the derivative and convertible note liabilities are \$4,410,717 and \$10,205,707 respectively (2010: derivative \$9,061,958 and convertible note \$11,075,075) as detailed in notes 23 and 24).



**Note 3. Restatement of comparatives**

*Comparative reclassifications and restatements*

Certain comparatives have been reclassified and restated in the prior year. The reclassifications and restatements have had no effect on the prior year results for loss after tax or net assets of the consolidated entity. In the statement of financial position the restatement has occurred as a result of the entity now rounding its figures to the nearest thousand dollars (\$'000) or to reclassify items to be in line with current year disclosure requirements for the statement of financial position or to restate prior period errors. In the statement of comprehensive income, the reclassification was due to the entity previously disclosing its expenses by a mix of nature and function and in the current year moving to disclose its expenses by nature only in line with accounting standards. The following tables highlight these reclassifications.

In the statement of financial position the reclassifications and restatements are due to the following:

- \$400,000 of unbilled revenue reclassified from work-in-progress to other receivables;
- \$148,000 in relation to a security deposit reclassified from current to non-current receivables;
- \$531,000 of deferred revenue split out into a separate note;
- \$4,768,000 of other contributed equity split out into a separate note;
- \$2,247,000 restatement of foreign currency translation reserve to opening retained earnings following a review of the movements in the reserve. There is no impact on the net assets of the consolidated entity.

*Third statement of financial position*

When there is a restatement of comparatives, it is mandatory to provide a third statement of financial position at the beginning of the earliest comparative period, being 1 July 2009. However, as there were no adjustments made as at 1 July 2009, the consolidated entity has elected not to show the 1 July 2009 statement of financial position. There was also no impact on the comparative statement of financial position, due to the reclassification.

The following tables highlight these reclassifications.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 3. Restatement of comparatives (continued)**

*Statement of comprehensive income*

	<b>2010</b>	<b>Consolidated</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
	<b>Reported</b>	<b>Adjustment</b>	<b>Restated</b>
<b>Revenue</b>	17,696	-	17,696
Other income	1,108	-	1,108
<b>Expenses</b>			
Cost of sales	(11,590)	11,590	-
Raw materials and consumables used	-	(975)	(975)
Subcontractors costs	-	(4,577)	(4,577)
Employee benefits expense	(6,558)	(5,581)	(12,139)
Occupancy expense	(934)	-	(934)
Depreciation and amortisation expense	(2,228)	-	(2,228)
Communications expense	(247)	-	(247)
Professional and corporate services	(4,894)	-	(4,894)
Travel and accommodation expense	(514)	(457)	(971)
Development costs	(114)	-	(114)
Net loss on movement in fair value of derivative liabilities	(6,158)	-	(6,158)
Net loss on conversion of convertible notes	(5,627)	-	(5,627)
Share of net losses of joint venture accounted for using the equity	-	-	-
Other expenses	(1,446)	-	(1,446)
Finance costs	(5,006)	-	(5,006)
<b>Loss before income tax (expense)/benefit</b>	(26,512)	-	(26,512)
Income tax (expense)/benefit	165	-	165
<b>Loss after income tax (expense)/benefit for the year attributable to the owners of TZ Limited</b>	(26,347)	-	(26,347)
<b>Other comprehensive income</b>			
Foreign currency translation	(1,706)	-	(1,706)
Other comprehensive income for the year, net of tax	(1,706)	-	(1,706)
<b>Total comprehensive income for the year attributable to the owners of TZ Limited</b>	(28,053)	-	(28,053)

*Statement of financial position at the beginning of the earliest comparative period*

When there is a restatement of comparatives, it is mandatory to provide a third statement of financial position at the beginning of the earliest comparative period, being 1 July 2009. However, as there were no adjustments made as at 1 July 2009, the consolidated entity has elected not to show the 1 July 2009 statement of financial position.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 3. Restatement of comparatives (continued)**

*Statement of financial position at the end of the earliest comparative period*

	2010 \$'000 Reported	Consolidated \$'000 Adjustment	2010 \$'000 Restated
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	232	-	232
Trade and other receivables	4,483	250	4,733
Inventories	567	(400)	167
Investment in short term deposit	-	-	-
<b>Total current assets</b>	<u>5,282</u>	<u>(150)</u>	<u>5,132</u>
<b>Non-current assets</b>			
Investments accounted for using the equity method	-	-	-
Property, plant and equipment	1,974	2	1,976
Intangibles	24,543	2	24,545
Deferred tax	635	-	635
Other	-	148	148
<b>Total non-current assets</b>	<u>27,152</u>	<u>152</u>	<u>27,304</u>
<b>Total assets</b>	<u>32,434</u>	<u>2</u>	<u>32,436</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	5,237	(529)	4,708
Borrowings	5,919	-	5,919
Derivative financial instruments	746	-	746
Provisions	87	-	87
Other	-	531	531
<b>Total current liabilities</b>	<u>11,989</u>	<u>2</u>	<u>11,991</u>
<b>Non-current liabilities</b>			
Borrowings	5,897	-	5,897
Derivative financial instruments	8,316	-	8,316
Deferred tax	829	-	829
Other	533	-	533
<b>Total non-current liabilities</b>	<u>15,575</u>	<u>-</u>	<u>15,575</u>
<b>Total liabilities</b>	<u>27,564</u>	<u>2</u>	<u>27,566</u>
<b>Net assets</b>	<u>4,870</u>	<u>-</u>	<u>4,870</u>
<b>Equity</b>			
Contributed equity	130,675	(4,768)	125,907
Other contributed equity	-	4,768	4,768
Reserves	(707)	(2,247)	(2,954)
Accumulated losses	(125,098)	2,247	(122,851)
<b>Total equity</b>	<u>4,870</u>	<u>-</u>	<u>4,870</u>

**Note 4. Operating segments**

*Identification of reportable operating segments*

The consolidated entity is organised into two operating segments. These operating segments are based on the internal reports that are reviewed and used by the executive management committee (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM comprises the executive directors, chief executive officer, chief financial officer and divisional managers. The CODM reviews both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and profit before income tax.

The information reported to the CODM is on at least a monthly basis.

*Types of products and services*

The principal products and services of each of these operating segments are as follows:

PDT Holdings Inc ('PDT')	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')	TZI's primary role is the development and commercialisation of hardware and software products primarily in the US market.

*Intersegment transactions*

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

*Intersegment receivables, payables and loans*

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

*Major customers*

During the year ended 30 June 2011 approximately 35.10% (2010: 37.35%) of the consolidated entity's external revenue was derived from sales to one customer of PDT.

*Segment information*

The consolidated entity 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 CODM.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 4. Operating segments (continued)**

*Operating segment information*

	PDT (USA) \$'000	TZI (USA) \$'000	Intersegment eliminations/ unallocated \$'000	Consolidated \$'000
<b>2011</b>				
<b>Revenue</b>				
Sales to external customers	21,229	1,152		22,381
Intersegment sales	275	225	-	500
Total sales revenue	21,504	1,377	-	22,881
Other income	21	203	7,165	7,389
<b>Total revenue</b>	<b>21,525</b>	<b>1,580</b>	<b>7,165</b>	<b>30,270</b>
<b>EBITDA</b>	1,391	(5,837)	-	(4,446)
Head office revenue / income			7,552	7,552
Head office costs			(5,827)	(5,827)
Depreciation and amortisation			(1,856)	(1,856)
Interest expenses			(4,098)	(4,098)
<b>Profit/(loss) before income tax expense</b>			(4,229)	(8,675)
Income tax expense				(109)
<b>Loss after income tax expense</b>				<b>(8,784)</b>
<b>2010</b>				
<b>Revenue</b>				
Sales to external customers	16,608	1,008	-	17,616
Intersegment sales	186	199	-	385
Total sales revenue	16,794	1,207	-	18,001
Other income	22	(18)	799	803
<b>Total revenue</b>	<b>16,816</b>	<b>1,189</b>	<b>799</b>	<b>18,804</b>
<b>EBITDA</b>	1,939	(2,565)	-	(626)
Head office revenue / income			76	76
Head office costs			(18,728)	(18,728)
Depreciation and amortisation			(2,228)	(2,228)
Interest expenses			(5,006)	(5,006)
<b>Profit/(loss) before income tax benefit</b>			(25,886)	(26,512)
Income tax benefit				165
<b>Loss after income tax benefit</b>				<b>(26,347)</b>

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 4. Operating segments (continued)**

*Geographical information*

	Sales to external customers		Geographical non-current assets	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australia	78	162	-	-
United States of America	17,483	13,332	27,586	33,072
United Kingdom	649	1,083	317	41
Canada	3,679	2,675	-	-
Netherlands	65	-	-	-
Norway	-	70	-	-
Korea	-	46	-	-
Hong Kong	-	95	-	-
Denmark	398	-	-	-
Other *	136	153	-	-
	<u>22,488</u>	<u>17,616</u>	<u>27,903</u>	<u>33,113</u>

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post employment benefits assets and rights under insurance contracts.

\* Other relates to Taiwan, China and Ireland

**Note 5. Revenue**

	Consolidated	
	2011 \$'000	2010 \$'000
<i>Sales revenue</i>		
Sales and services revenue	<u>22,399</u>	<u>17,308</u>
<i>Other revenue</i>		
Management fees	8	-
Interest	264	20
Royalty	89	308
Other revenue	<u>710</u>	<u>60</u>
	<u>1,071</u>	<u>388</u>
Revenue	<u>23,470</u>	<u>17,696</u>



**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 6. Other income**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Net gain on disposal of property, plant and equipment	3	-
Net gain on issue of shares to extinguish liabilities	190	1,108
Net gain on movement in fair value of derivative liabilities	6,607	-
	<u>6,800</u>	<u>1,108</u>
Other income	<u>6,800</u>	<u>1,108</u>

**Note 7. Expenses**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	202	380
Plant and equipment	291	317
Motor vehicles	-	5
Office equipment	164	285
	<u>657</u>	<u>987</u>
Total depreciation	<u>657</u>	<u>987</u>
<i>Amortisation</i>		
Re-acquired right (Intevia Licence)	166	717
Other intangible assets	1,033	524
	<u>1,199</u>	<u>1,241</u>
Total amortisation	<u>1,199</u>	<u>1,241</u>
Total depreciation and amortisation	<u>1,856</u>	<u>2,228</u>
<i>Cost of sales</i>		
Direct material	1,068	815
Direct employment related expenses	6,831	5,581
Subcontractors	7,833	4,577
Company overheads	467	457
Other cost of sales	403	160
	<u>16,602</u>	<u>11,590</u>
Total cost of sales	<u>16,602</u>	<u>11,590</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	4,098	5,006
	<u>4,098</u>	<u>5,006</u>
<i>Net foreign exchange loss</i>		
Net foreign exchange loss	366	17
	<u>366</u>	<u>17</u>

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 7. Expenses (continued)**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Net loss on disposal</i>		
Net loss on disposal of property, plant and equipment	-	157
	<u>          </u>	<u>          </u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	15	10
	<u>          </u>	<u>          </u>
<i>Share-based payments expense</i>		
Share-based payments expense	2,303	2,342
	<u>          </u>	<u>          </u>

**Note 8. Income tax expense/(benefit)**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense/(benefit)</i>		
Current tax	109	16
Deferred tax	-	(181)
	<u>          </u>	<u>          </u>
Aggregate income tax expense/(benefit)	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
Deferred tax included in income tax expense/(benefit) comprises:		
Increase in deferred tax assets (note 16)	(116)	(227)
Increase in deferred tax liabilities (note 25)	116	46
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
<i>Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable</i>		
Loss before income tax (expense)/benefit	(8,675)	(26,512)
	<u>          </u>	<u>          </u>
Tax at the Australian tax rate of 30%	(2,603)	(7,954)
	<u>          </u>	<u>          </u>
Current year tax losses not recognised	2,822	8,279
Difference in overseas tax rates	(110)	(490)
	<u>          </u>	<u>          </u>
Income tax expense/(benefit)	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>

*Tax losses not recognised*

The consolidated entity are in the process of determining their tax loss position to carry forward.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 9. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	1,146	232

**Note 10. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	3,977	3,993
Less: Provison for impairment of receivables	(165)	(153)
	<u>3,812</u>	<u>3,840</u>
Other receivables	842	495
Goods and services tax receivable	48	195
Prepayments	211	203
	<u>4,913</u>	<u>4,733</u>

*Impairment of receivables*

The consolidated entity has recognised a loss of \$83,000 (2010: \$71,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2011.

The ageing of the impaired receivables recognised above are as follows:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Past due 30 days	-	23
Past due 90 days +	165	130
	<u>165</u>	<u>153</u>

Movements in the provision for impairment of receivables are as follows:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	153	129
Additional provisions recognised	122	95
Foreign exchange	(27)	-
Receivables written off during the year as uncollectable	(83)	(71)
	<u>165</u>	<u>153</u>
Closing balance	<u>165</u>	<u>153</u>

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 10. Current assets - trade and other receivables (continued)**

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$748,000 as at 30 June 2011 (\$622,000 as at 30 June 2010). The consolidated entity did not consider a credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Past due 0 - 30 days	409	363
Past due 30 - 60 days	57	45
Past due 60 - 90 days	132	176
Past due 90 days +	150	38
	<u>748</u>	<u>622</u>

**Note 11. Current assets - inventories**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Inventories	<u>331</u>	<u>167</u>

**Note 12. Current assets - investment in short term deposit**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Term deposits	<u>5,500</u>	<u>-</u>

**Note 13. Non-current assets - investments accounted for using the equity method**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Investment in joint venture - Intanova Pty Limited	<u>187</u>	<u>-</u>

Refer to note 42 for detailed information on interests in joint ventures.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 14. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Leasehold improvements - at cost	1,608	1,629
Less: Accumulated depreciation	<u>(893)</u>	<u>(691)</u>
	<u>715</u>	<u>938</u>
Plant and equipment - at cost	1,615	1,282
Less: Accumulated depreciation	<u>(886)</u>	<u>(595)</u>
	<u>729</u>	<u>687</u>
Motor vehicles - at cost	-	30
Less: Accumulated depreciation	<u>-</u>	<u>(30)</u>
	<u>-</u>	<u>-</u>
Office equipment - at cost	998	744
Less: Accumulated depreciation	<u>(558)</u>	<u>(393)</u>
	<u>440</u>	<u>351</u>
	<u><u>1,884</u></u>	<u><u>1,976</u></u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Leasehold improvements \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Office furniture and equipment \$'000	Total \$'000
<b>Consolidated</b>					
Balance at 1 July 2009	1,445	1,023	6	554	3,028
Additions	79	124	-	136	339
Disposals	(108)	(66)	-	(19)	(193)
Exchange differences	(98)	(77)	(1)	(35)	(211)
Depreciation expense	<u>(380)</u>	<u>(317)</u>	<u>(5)</u>	<u>(285)</u>	<u>(987)</u>
Balance at 30 June 2010	938	687	-	351	1,976
Additions	201	364	-	385	950
Disposals	-	(4)	-	-	(4)
Exchange differences	(222)	(27)	-	(132)	(381)
Depreciation expense	<u>(202)</u>	<u>(291)</u>	<u>-</u>	<u>(164)</u>	<u>(657)</u>
Balance at 30 June 2011	<u><u>715</u></u>	<u><u>729</u></u>	<u><u>-</u></u>	<u><u>440</u></u>	<u><u>1,884</u></u>

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 15. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill - at cost	8,941	10,848
	<u>8,941</u>	<u>10,848</u>
Trade names - at cost	1,146	1,342
	<u>1,146</u>	<u>1,342</u>
Re-acquired right (Intevia Licence) - at cost	8,721	9,963
Less: Accumulated amortisation	(3,195)	(2,537)
	<u>5,526</u>	<u>7,426</u>
Patents - at cost	1,334	1,408
Less: Accumulated amortisation	(229)	(180)
	<u>1,105</u>	<u>1,228</u>
Development costs - at cost	1,735	1,695
Less: Accumulated amortisation	(277)	(259)
	<u>1,458</u>	<u>1,436</u>
Customer relationships - at cost	3,101	3,762
Less: Accumulated amortisation	(1,527)	(1,497)
	<u>1,574</u>	<u>2,265</u>
	<u>19,750</u>	<u>24,545</u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill \$'000	Trade names \$'000	Re-acquired right \$'000	Other intangibles * \$'000	Total \$'000
<b>Consolidated</b>					
Balance at 1 July 2009	11,526	1,512	8,679	4,110	25,827
Additions	-	-	-	1,602	1,602
Exchange differences	(678)	(170)	(536)	(259)	(1,643)
Amortisation expense	-	-	(717)	(524)	(1,241)
	<u>10,848</u>	<u>1,342</u>	<u>7,426</u>	<u>4,929</u>	<u>24,545</u>
Balance at 30 June 2010	10,848	1,342	7,426	4,929	24,545
Additions	-	5	-	573	578
Exchange differences	(1,907)	(200)	(1,242)	(825)	(4,174)
Amortisation expense	-	(1)	(658)	(540)	(1,199)
	<u>8,941</u>	<u>1,146</u>	<u>5,526</u>	<u>4,137</u>	<u>19,750</u>
Balance at 30 June 2011	<u>8,941</u>	<u>1,146</u>	<u>5,526</u>	<u>4,137</u>	<u>19,750</u>

\* Other intangibles in the above reconciliation includes Patents, Development costs and Customer relationships.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 15. Non-current assets - intangibles (continued)**

*Impairment testing of cash-generating units containing goodwill*

Goodwill, trade names, re-acquired right and other intangible assets have been allocated to the following cash-generating units:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Goodwill</i>		
- PDT Holdings Inc.	5,016	6,087
- Telezygology Inc.	3,925	4,761
<i>Trade names</i>		
- PDT Holdings Inc.	1,134	1,328
- Telezygology Inc.	12	14
<i>Re-acquired right</i>		
- Telezygology Inc.	5,526	7,426
<i>Other intangible assets</i>		
- PDT Holdings Inc.	1,828	2,563
- Telezygology Inc.	2,309	2,366
	<u>19,750</u>	<u>24,545</u>

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 in the case of PDT Holdings Inc. and a 9 year period in the case of Telezygology Inc. 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.

*PDT Holdings Inc. ('PDT')*

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

- Discount rate - 16.71%
- Gross margins - budgeted gross profit margins are between 25% and 31%, historical gross margins ranged between 21% to 30%
- Revenue growth rates - 2012 (1%) and 2013 to 2016 (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 2011 was 38% (2010: 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, trade names, re-acquired right and other intangible assets of PDT is estimated to be \$15,753,995 (2010: \$15,282,060) which exceeds the carrying amount at 30 June 2011 by \$7,775,995 (2010: \$7,854,037). If a discount rate of 28.9% was used instead of 16.71%, the recoverable amount of goodwill, trade names, re-acquired right and other intangible assets would equal the carrying amount.



**Note 15. Non-current assets - intangibles (continued)**

*Telezygology Inc.*

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

- Discount rate - 16.6%
- Gross margins - budgeted gross profit margins are between 57% and 60%, historical gross margins ranged between 57% to 64%
- Revenue growth rates - 2012 (445%), 2013 (62%), 2014 (57%), 2015 (37%) and 2016 through 2020 (5%).

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 sales in the last two fiscal years representing lower levels that are accustomed to new products.
- 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.
- Commercial partnerships with the signing of key distribution and reseller agreements.
- A strong sales pipeline is in place to support sales anticipated for the 2012 financial year and beyond.
- TZI has achieved positive results post year end in excess of those forecast.

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 goodwill, trade names, re-acquired right and other intangible assets of TZI is estimated to be \$22,004,976 (2010: \$22,620,537) which exceeds the carrying amount at 30 June 2011 by \$10,232,976 (2010: \$8,044,351). If a discount rate of 30.1% was used instead of 16.6%, the recoverable amount of goodwill, trade names, re-acquired right and other intangible assets would equal the carrying amount.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 16. Non-current assets - deferred tax**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>The balance comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Tax losses	43	686
Property, plant and equipment	200	155
Intangible assets	-	115
Doubtful debts	64	59
Allowance / reserve	(354)	(380)
Research and development credit	480	-
Other liabilities	318	-
	<u>751</u>	<u>635</u>
Deferred tax asset	<u>751</u>	<u>635</u>
<i>Movements:</i>		
Opening balance	635	408
Credited to profit or loss (note 8)	116	227
	<u>751</u>	<u>635</u>
Closing balance	<u>751</u>	<u>635</u>

**Note 17. Non-current assets - other**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Security deposits	<u>179</u>	<u>148</u>

**Note 18. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	1,739	2,349
Employee expense payables	173	299
Lease incentive liability	61	111
Interest payable	899	952
Other payables	1,703	997
	<u>4,575</u>	<u>4,708</u>

Refer to note 33 for detailed information on financial instruments.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 19. Current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans	729	741
Convertible notes payable	-	5,178
	<u>729</u>	<u>5,919</u>

Refer to note 23 for further information on assets pledged as security and financing arrangements and note 33 for detailed information on financial instruments.

**Note 20. Current liabilities - derivative financial instruments**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Derivative instrument liabilities	-	746
	<u>-</u>	<u>746</u>

Refer to note 33 for detailed information on financial instruments.

**Note 21. Current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	116	87
	<u>116</u>	<u>87</u>

**Note 22. Current liabilities - other**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Deferred revenue	368	531
	<u>368</u>	<u>531</u>

**Note 23. Non-current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Convertible notes payable	10,206	5,897
	<u>10,206</u>	<u>5,897</u>

Refer to note 33 for detailed information on financial instruments.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 23. Non-current liabilities - borrowings (continued)**

*Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans	729	741

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. A breakdown of the credit facility is shown in the financing arrangements table below.

*Assets pledged as security*

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

*Financing arrangements*

Unrestricted access was available at the reporting date to the following lines of credit:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Bank loans	1,132	1,374
Used at the reporting date		
Bank loans	729	741
Unused at the reporting date		
Bank loans	403	633

**Note 23. Non-current liabilities - borrowings (continued)**

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, are 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 \$4.00 per share. The notes pay interest at a rate of 10%.

The 24,000 convertible notes 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 which was approved by the company's shareholders at the 2009 annual general meeting.

*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. 5,241,000 were issued each with a face value of \$1. The notes were convertible at the lesser of: (a) \$1.00; and (b) the lowest price at which ordinary shares may be issued by TZL after 15 July 2009 and prior to conversion. Interest accrues on each Series II Convertible Note at 10% per annum, payable annually in arrears or on the date the Convertible Note is redeemed.

On 15 July 2010, 3,918,500 convertible notes plus an outstanding interest of \$281,888 were converted into 10,000,924 ordinary shares at an issue price of \$0.42 per share.

On 22 July 2010, 90,000 convertible notes plus an outstanding interest of \$6,111 were converted into 228,836 ordinary shares at an issue price of \$0.42 per share.

On 25 November 2010, 732,500 convertible notes plus an outstanding interest of \$69,051 were converted into 2,048,431 ordinary shares at an issue price of \$0.39 per share.

The remaining 500,000 notes were fully redeemed at \$1 each by the note holders on 18 November 2010 and 29 November 2010. A total amount of \$33,194 representing the outstanding interest was paid upon the redemptions.

*Series III*

1,714 Series III convertible notes with a face value of \$1,000 each 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.

*Series IIIB*

4,275 Series IIIB convertible notes with a face value of \$1,000 each were issued on 24 December 2010 as a result of shareholders' approval of Resolution 5 at the company's 2010 annual general meeting held on 17 November 2010. The notes have a five year term and are convertible at a variable rate, being the lesser of: (i) \$0.42; and (ii) the lowest issue price of any subsequent share issues during the term of the convertible notes. Interest will accrue on each Series IIIB note at 10% per annum, payable on 31 December each year.

Under the terms of the convertible notes, the current conversion price is \$0.35 per share for Series I & III and \$0.42 per share for Series IIIB based on the most recent share issues of TZ Limited.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 24. Non-current liabilities - derivative financial instruments**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Derivative instrument liabilities	4,411	8,316

Refer to note 33 for detailed information on financial instruments.

**Note 25. Non-current liabilities - deferred tax**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>The balance comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Goodwill	815	829
Other intangibles	130	-
Deferred tax liability	945	829
<i>Movements:</i>		
Opening balance	829	783
Charged to profit or loss (note 8)	116	46
Closing balance	945	829

**Note 26. Non-current liabilities - other**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Lease incentive liability	507	533

**Note 27. Equity - contributed**

	<b>Consolidated</b>		<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	122,731,123	62,848,373	149,113	125,907

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 27. Equity - contributed (continued)**

*Movements in ordinary share capital*

<b>Details</b>	<b>Date</b>	<b>No of shares</b>	<b>Fair value</b>	<b>\$'000</b>
Balance	1 July 2009	49,479,325		114,727
Issue of shares	7 January 2010	1,250,000	\$0.84	1,050
Issue of shares on conversion of convertible notes	26 March 2010	12,000,000	\$0.84	10,080
Issue of shares	30 June 2010	<u>119,048</u>	\$0.42	<u>50</u>
Balance	30 June 2010	62,848,373		125,907
Issue of shares	1 July 2010	357,144	\$0.42	150
Issue of shares on conversion of convertible note	15 July 2010	10,000,924	\$0.42	4,200
Issue of shares on exercise of rights	19 July 2010	1,480,000	\$0.00	-
Issue of shares on conversion of convertible note	22 July 2010	228,836	\$0.42	96
Transfer to contributed equity	11 October 2010	1,198,196	\$0.84	1,007
Issue of shares	20 November 2010	8,091,446	\$0.35	2,832
Issue of shares on conversion of convertible note	25 November 2010	2,048,431	\$0.39	802
Issue of shares	21 December 2010	28,069,319	\$0.35	9,824
Issue of shares on conversion of liabilities to equity	14 April 2011	3,795,121	\$0.27	1,025
Transfer to contributed equity	24 May 2011	4,613,333	\$0.84	3,875
Less: share issue costs				<u>(605)</u>
Balance	30 June 2011	<u>122,731,123</u>		<u>149,113</u>

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Share buy-back*

There is no current on-market share buy-back.

*Unquoted options and rights*

At 30 June 2011 there were 12,431,666 (2010: 10,643,041) options. 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.

At 30 June 2011 there were 1,400,000 (2010: 2,880,000) performance rights outstanding. Each performance right entitles the holder to subscribe for one fully paid share in the company at the exercise price of \$nil per share at any time from the date the performance hurdle has been achieved.



**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 27. Equity - contributed (continued)**

*Capital risk management*

The consolidated entity monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'trade and other payables' and 'borrowings' as shown in the statement of financial position) less 'cash and cash equivalents' as shown in the statement of financial position. Total capital is calculated as 'total equity' as shown in the statement of financial position (including non-controlling interest) plus net debt.

The gearing ratio at the reporting date was as follows:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Current liabilities - trade and other payables (note 18)	4,575	4,708
Current liabilities - borrowings (note 19)	729	5,919
Non-current liabilities - borrowings (note 23)	10,206	5,897
Total borrowings	<u>15,510</u>	<u>16,524</u>
Current assets - cash and cash equivalents (note 9)	(1,146)	(232)
Net debt	<u>14,364</u>	<u>16,292</u>
Total equity	12,784	4,870
Total capital	<u><u>27,148</u></u>	<u><u>21,162</u></u>
Gearing ratio	53%	77%

The gearing ratio has decreased significantly as a result of (a) the decrease in trade and other liabilities; (b) the conversion of accrued interest on all convertible notes up to 31 December 2010 to equity; (c) the conversion of the convertible notes (Series II) to equity; and (d) the share capital raised during the year.

There are no externally imposed capital requirements the consolidated entity has to comply with.

**Note 28. Equity - other contributed equity**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Other contributed equity	<u>-</u>	<u>4,768</u>

Other contributed equity represents shares that were issued during the current financial year in respect of the extinguishment of liabilities of interest and other expenses on 26 February 2010.

**Note 29. Equity - reserves**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency reserve	<u>(6,997)</u>	<u>(2,954)</u>

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 29. Equity - reserves (continued)**

	Foreign currency \$'000	Total \$'000
<b>Consolidated</b>		
Balance at 1 July 2009	999	999
Foreign currency translation	(1,706)	(1,706)
Restatement of foreign currency translation	<u>(2,247)</u>	<u>(2,247)</u>
Balance at 30 June 2010	(2,954)	(2,954)
Foreign currency translation	<u>(4,043)</u>	<u>(4,043)</u>
Balance at 30 June 2011	<u><u>(6,997)</u></u>	<u><u>(6,997)</u></u>

*Foreign currency reserve*

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

**Note 30. Equity - accumulated losses**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Accumulated losses at the beginning of the financial year	(122,851)	(101,093)
Loss after income tax (expense)/benefit for the year	(8,784)	(26,347)
Transfer from share based payments reserve	2,303	2,342
Transfer from foreign currency reserve	<u>-</u>	<u>2,247</u>
Accumulated losses at the end of the financial year	<u><u>(129,332)</u></u>	<u><u>(122,851)</u></u>

**Note 31. Equity - dividends**

There were no dividends paid or declared during the current or previous financial year.

**Note 32. Performance rights**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Performance rights</b>		
Opening balance	2,880	-
Issued	-	3,000
Exercised	(1,480)	-
Expired/forfeited	-	(120)
	<u>1,400</u>	<u>2,880</u>
Closing balance	<u>1,400</u>	<u>2,880</u>

In accordance with resolutions 12, 13 and 15 of the 2009 Annual General Meeting, 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 were 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.

**Note 33. Financial instruments**

***Financial risk management objectives***

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange, and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

***Market risk***

***Foreign currency risk***

The consolidated entity undertakes certain transactions denominated in foreign currency and are exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The consolidated entity'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 consolidated entity 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 2011 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 insignificant and therefore the risk was determined as immaterial.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 33. Financial instruments (continued)**

*Price risk*

The consolidated entity has derivative liabilities, 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.

Based on this exposure, had the share price weakened by 10%/strengthened by 10% (2010: weakened by 10%/strengthened by 10%) and all other variables held constant, the consolidated entity's profit after tax for the year would have been \$466,455 higher/\$766,481 lower (2010: \$3,522,250 lower/\$801,934 higher) and equity would have been \$466,455 higher/\$766,481 lower (2010: \$3,522,250 lower/\$801,934 higher).

*Interest rate risk*

The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

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

The consolidated entity monitors its interest rate exposure continuously.

As at the reporting date, the consolidated entity had the following variable rate cash and borrowings outstanding:

	2011		2010	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
<b>Consolidated</b>				
Cash and cash equivalents	3.16	1,146	3.04	232
Bank loans	6.25	<u>(729)</u>	3.25	<u>(741)</u>
Net exposure to cash flow interest rate risk		<u>417</u>		<u>(509)</u>

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

The consolidated entity has net cash and cash equivalents and bank loans assets totalling \$417,000 (2010: liabilities of \$509,000). An official increase/decrease in interest rates of one (2010: one) percentage point would have an adverse/favourable affect on profit before tax of \$4,000 (2010: \$5,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

**Note 33. Financial instruments (continued)**

***Credit risk***

Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has a credit risk exposure with one customer, which as at 30 June 2011 owed the consolidated entity \$1,247,491 (33% of trade receivables) (2010: \$1,352,343 (35% of trade receivables)). This balance was within its terms of trade and no impairment was made as at 30 June 2011. There are no guarantees against this receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with this customer to mitigate risk.

There is a concentration of credit risk for cash at bank and cash on deposit as all monies in Australia (including Term Deposit) is with one financial institution, St George Bank.

***Liquidity risk***

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

The consolidated entity raises capital in the form of ordinary shares and convertible notes, as and when needed to fund its cash flow requirements. The consolidated entity also negotiates, where applicable, for the conversion of convertible notes into equity (refer to note 21) and debt for equity swaps in relation to capitalised interest and expenses reimbursement.

***Financing arrangements***

Unused borrowing facilities at the reporting date:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans	403	633

Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 33. Financial instruments (continued)**

*Remaining contractual maturities*

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

<b>Consolidated - 2011</b>	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	1,739	-	-	-	1,739
Other payables	-	2,602	-	-	-	2,602
<i>Interest-bearing - variable</i>						
Bank loans	6.25	729	-	-	-	729
<i>Interest-bearing - fixed rate</i>						
Convertible notes	10.00	-	12,000	5,989	-	17,989
Interest payable on convertible notes	-	1,799	1,368	1,358	-	4,525
<b>Total non-derivatives</b>		<b>6,869</b>	<b>13,368</b>	<b>7,347</b>	<b>-</b>	<b>27,584</b>
<b>Consolidated - 2010</b>	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	2,349	-	-	-	2,349
Other payables	-	1,369	-	-	-	1,369
<i>Interest-bearing - variable</i>						
Bank loans	3.25	741	-	-	-	741
<i>Interest-bearing - fixed rate</i>						
Convertible notes	10.00	5,241	-	13,714	-	18,955
Interest payable on convertible notes	-	2,918	1,371	514	-	4,803
<b>Total non-derivatives</b>		<b>12,618</b>	<b>1,371</b>	<b>14,228</b>	<b>-</b>	<b>28,217</b>

The cash flows in the maturity analysis above are not expected to occur significantly earlier than disclosed.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 33. Financial instruments (continued)**

***Fair value of financial instruments***

The following tables detail the consolidated entity's fair values of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

<b>Consolidated - 2011</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative instrument liabilities	-	4,411	-	4,411
Total liabilities	-	4,411	-	4,411

<b>Consolidated - 2010</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative instrument liabilities	-	9,062	-	9,062
Total liabilities	-	9,062	-	9,062

There were no transfers between levels during the financial year.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

**Note 34. Key management personnel disclosures**

*Directors*

The following persons were directors of TZ Limited during the financial year:

Mark Bouris	Executive Chairman
Kenneth Ting	Executive Director and Company Secretary
Dickory Rudduck	Executive Director

*Other key management personnel*

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

Mark Schwartz	Chief Executive Officer of PDT Inc.
Paul Casey (appointed on 12 May 2011)	Non-Executive Director of PDT Inc.
John Wilson	Chief Executive Officer of Telezygology Inc.
William Leong (appointed on 1 October 2010)	Vice President Operations of Telezygology Inc.
Timothy Koehler	Chief Financial Officer of Telezygology Inc.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 34. Key management personnel disclosures (continued)**

*Compensation*

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	2,015,537	1,938,971
Post-employment benefits	12,157	16,566
Share-based payments	<u>2,302,608</u>	<u>2,214,711</u>
	<u><u>4,330,302</u></u>	<u><u>4,170,248</u></u>

*Shareholding*

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<b>2011</b>					
<i>Ordinary shares</i>					
M Bouris	-	800,000	287,967	-	1,087,967
K Ting	72,725	600,000	328,250	-	1,000,975
D Rudduck	992,498	-	-	-	992,498
M Schwartz	80,016	-	-	(80,016)	-
P Casey *	-	-	90,000	-	90,000
J Wilson	58,142	-	-	-	58,142
	<u>1,203,381</u>	<u>1,400,000</u>	<u>706,217</u>	<u>(80,016)</u>	<u>3,229,582</u>

\* Additions represent existing shareholding at time of appointment as key management personnel, not necessarily a purchase of shares in the year

The number of shareholdings held nominally are as follows:

M Bouris - 1,066,667;  
K Ting - 1,000,975;  
D Rudduck - 978,596;  
P Casey - 90,000; and  
J Wilson - 58,142.

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<b>2010</b>					
<i>Ordinary shares</i>					
K Ting	72,725	-	-	-	72,725
D Rudduck	1,100,000	-	-	(107,502)	992,498
M Schwartz	80,016	-	-	-	80,016
J Wilson	58,142	-	-	-	58,142
J Freese *	5,000	-	-	(5,000)	-
	<u>1,315,883</u>	<u>-</u>	<u>-</u>	<u>(112,502)</u>	<u>1,203,381</u>

\* Disposal/other represents individuals who are no longer key management personnel, not a disposal of shareholding.



**Note 34. Key management personnel disclosures (continued)**

*Option holding*

The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<b>2011</b>					
<i>Options over ordinary shares</i>					
M Bouris	3,000,000	-	-	-	3,000,000
K Ting	2,250,000	-	-	-	2,250,000
D Rudduck	10,000	-	-	-	10,000
M Schwartz	85,000	-	-	(75,000)	10,000
W Leong *	-	10,000	-	-	10,000
T Koehler	35,000	-	-	(5,000)	30,000
	<u>5,380,000</u>	<u>10,000</u>	<u>-</u>	<u>(80,000)</u>	<u>5,310,000</u>

\* Granted relates to option holding at time of appointment to key management personnel, not necessarily a grant of options during the year.

	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
<b>2011</b>			
<i>Options over ordinary shares</i>			
M Bouris	-	1,000,000	1,000,000
K Ting	-	750,000	750,000
D Rudduck	10,000	-	10,000
M Schwartz	10,000	-	10,000
W Leong	10,000	-	10,000
T Koehler	30,000	-	30,000
	<u>60,000</u>	<u>1,750,000</u>	<u>1,810,000</u>

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<b>2010</b>					
<i>Options over ordinary shares</i>					
W de Vlugt	-	450,000	-	(450,000)	-
M Bouris	-	3,000,000	-	-	3,000,000
K Ting	-	2,250,000	-	-	2,250,000
D Rudduck	10,000	-	-	-	10,000
M Schwartz	85,000	-	-	-	85,000
T Koehler	35,000	-	-	-	35,000
J Freese *	172,500	-	-	(172,500)	-
R Pagorek *	66,666	-	-	(66,666)	-
	<u>369,166</u>	<u>5,700,000</u>	<u>-</u>	<u>(689,166)</u>	<u>5,380,000</u>

\* Expired/forfeited/other represents individuals who are no longer key management personnel, not a physical disposal

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 34. Key management personnel disclosures (continued)**

	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
<b>2010</b>			
<i>Options over ordinary shares</i>			
D Rudduck	10,000	-	10,000
M Schwartz	85,000	-	85,000
T Koehler	35,000	-	35,000
J Freese	172,500	-	172,500
R Pagorek	66,666	-	66,666
	<u>369,166</u>	<u>-</u>	<u>369,166</u>

*Performance rights holding*

The number of performance rights over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<b>2011</b>					
<i>Performance rights over ordinary shares</i>					
M Bouris	1,600,000	-	(800,000)	-	800,000
K Ting	1,200,000	-	(600,000)	-	600,000
	<u>2,800,000</u>	<u>-</u>	<u>(1,400,000)</u>	<u>-</u>	<u>1,400,000</u>

	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
<b>2011</b>			
<i>Performance rights over ordinary shares</i>			
M Bouris	-	800,000	800,000
K Ting	-	600,000	600,000
	<u>-</u>	<u>1,400,000</u>	<u>1,400,000</u>

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<b>2010</b>					
<i>Performance rights over ordinary shares</i>					
W de Vlugt *	-	200,000	-	(200,000)	-
M Bouris	-	1,600,000	-	-	1,600,000
K Ting	-	1,200,000	-	-	1,200,000
	<u>-</u>	<u>3,000,000</u>	<u>-</u>	<u>(200,000)</u>	<u>2,800,000</u>

\* Expired/forfeited/other represents individuals who are no longer key management personnel, not a physical disposal

	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
<b>2010</b>			
<i>Performance rights over ordinary shares</i>			
M Bouris	800,000	-	800,000
K Ting	600,000	-	600,000
	<u>1,400,000</u>	<u>-</u>	<u>1,400,000</u>

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 34. Key management personnel disclosures (continued)**

*Related party transactions*

Related party transactions are set out in note 39.

**Note 35. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by BDO Audit (NSW-VIC) Pty Limited, the auditor of the company, and its related practices:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - BDO Audit (NSW-VIC) Pty Limited</i>		
Audit or review of the financial report	110,000	149,205
<i>Other services - BDO Audit (NSW-VIC) Pty Limited</i>		
Corporate advisory	12,000	-
	122,000	149,205
<i>Audit services - related practices</i>		
Audit or review of the financial report	96,452	71,887
<i>Other services - related practices</i>		
Audit of the benefit plan	13,177	-
	109,629	71,887

Related practices above relate to BDO USA LLP.

**Note 36. Contingent assets**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Litigation proceedings - Australia (i)	-	14,056
Reimbursement from QVT of withholding tax (ii)	760	582
	<u>760</u>	<u>14,638</u>

(i) A hearing was scheduled in the Supreme Court of New South Wales for 5 September 2011. The consolidated entity was seeking to recover \$13,230,536 loans to and receivables from directors and related entities, plus costs to 30 June 2010 of \$826,407. Settlement has been reached with the defendants on 17 August 2011, and the hearing will not be proceeding at this time. Refer also to note 36 for details of the contingent liability in respect of this.

(ii) 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.

**Note 37. Contingent liabilities**

*A Sigalla Claim*

A claim was received during the 2010 financial year by the consolidated entity from former director Andrew Sigalla in the amount of \$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. As part of a settlement deed entered with Mr Sigalla on 17 August 2011, Mr Sigalla has abandoned this claim.

*Participation in joint venture – Intanova Pty Limited*

Under the shareholders agreement between TZ Limited ('TZL'), Telezygology Inc ('TZI'), Interco Pty Limited ('Interco') and Yatabi Australia Pty Limited ('Yatabi'), TZI had the option to subscribe to a further 500,000 shares in Intanova Pty Limited ('the company') at a price of \$0.80. This option has now expired. By choosing not to exercise the option by the due date, under clause 19.3(v) of the Deed and until such time as a Reversionary Notice is served, the status quo shall continue unaltered.

If a Reversionary Notice is served and provided that such a notice is not subsequently overturned in accordance with the procedure set out in clause 19.3(b) to (d) of the Deed, then the following shall occur:

- TZI must transfer all of its shares in Interco to Yatabi and Interco for \$1.00.
- TZI must pay \$81,657.80 to each of Interco and Yatabi.
- TZI must grant the royalty-bearing Reversionary License to the company and make available the TZI Manufacturing Assets (the Traditional License will automatically terminate).
- TZI must appoint the company as non-exclusive distributor of New Products (products which are specifically designed by TZI to integrate with Future Wall) in Australia, NZ and the UK.

**Note 38. Commitments for expenditure**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	749	750
One to five years	2,009	1,868
More than five years	700	-
	<u>3,458</u>	<u>2,618</u>

The consolidated entity 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 consolidated entity 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.

**Note 39. Related party transactions**

*Parent entity*

TZ Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 41.

*Joint ventures*

Interests in joint ventures are set out in note 42.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 34 and the remuneration report in the directors' report.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 39. Related party transactions (continued)**

*Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Payment for other expenses:		
Accounting fees charged by Yellow Brick Road Accounting and Wealth Management Pty Limited, a company in which Mark Bouris is a director.	431,699	335,087
Consultancy fees charged by IX Consulting Pty Limited, a company in which John Wilson is a director.	390,000	107,526
Rent and serviced office expenditure paid to State Capital Property Pty Limited, a company in which Mark Bouris is a director.	127,408	140,931
Directors and Officers Insurance Policy was arranged by Yellow Brick Road Wealth Management Pty Limited (formerly YBR General Insurance Brokers Pty Limited), a company in which Mark Bouris is a director.	7,500	7,500
Total booking fees paid to The Surf Travel Company Holdings Pty Ltd, a company in which Mark Bouris is an associate.	360	1,571
Administration fees and storage costs paid to YBR Services Pty Ltd, a company in which Mark Bouris is a director.	39,670	-
Marketing expenses paid to Yellow Brick Road Group Pty Limited, a company in which Mark Bouris is a director.	100,000	-

*Receivable from and payable to related parties*

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Current payables:		
Accounting fees payable to Yellow Brick Road Accounting and Wealth Management Pty Ltd, a company in which Mark Bouris is a director.	36,183	50,145
Consultancy fee payable to IX Consulting Pty Limited, a company in which John Wilson is a director.	38,500	-
Phone expense and remaining rental bond payable to State Capital Property Pty Limited, a company in which Mark Bouris is a director.	47,183	-

*Loans to/from related parties*

There were no loans to or from related parties at the reporting date.

*Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 40. Parent entity information**

Set out below is the supplementary information about the parent entity.

*Statement of comprehensive income*

	<b>Parent</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax	<u>(14,634)</u>	<u>(27,564)</u>
Total comprehensive income	<u>(14,634)</u>	<u>(27,564)</u>

*Statement of financial position*

	<b>Parent</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	<u>6,095</u>	<u>287</u>
Total assets	<u>29,428</u>	<u>47,563</u>
Total current liabilities	<u>2,028</u>	<u>7,998</u>
Total liabilities	<u>16,644</u>	<u>22,211</u>
Equity		
Contributed equity	149,113	125,907
Other contributed equity	-	4,768
Accumulated losses	<u>(136,329)</u>	<u>(105,323)</u>
Total equity	<u><u>12,784</u></u>	<u><u>25,352</u></u>

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2011.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2011 and 30 June 2010.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment.
- Investments in joint ventures are accounted for in the parent entity financial statements using the cost method, less any impairment. Income earned from joint venture entities is recognised as revenue in the parent entity's profit or loss.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 41. Subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Equity holding	
		2011 %	2010 %
Telezygology, Inc.	United States of America	100.00	100.00
PDT Holdings, Inc.	United States of America	100.00	100.00
Product Development Technologies, Inc	United States of America	100.00	100.00
PDT Tooling, Inc.	United States of America	100.00	100.00
PDT Southeast Limited Liability Company (LLC) *	United States of America	100.00	100.00
CJSC PDT Ukraine	Ukraine	90.00	90.00
TZI Australia Pty Limited	Australia	100.00	-

\* An LLC is treated as a partnership for US purposes.

**Note 42. Interests in joint ventures**

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures is set out below:

Joint venture	Principal activities	Consolidated Percentage interest	
		2011 %	2010 %
Intanova Pty Limited	Marketing, supply and interior fit-out solutions in Australia	50.00	-

Intanova Pty Limited is a joint venture formed between Telezygology Inc. ('TZI'), Yatabi Australia Pty Ltd and Interco Pty Ltd to leverage the existing awareness and acceptance of the FutureWall System in the marketplace. TZI currently holds a 50% interest in Intanova Pty Limited. Intanova carries on the business of marketing, supply and interior fit-out solutions in Australia.



**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 42. Interests in joint ventures (continued)**

Information relating to the joint venture partnership is set out below.

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Share of assets and liabilities</i>		
Current assets	94	-
Non-current assets	31	-
	<u>125</u>	<u>-</u>
Total assets	125	-
Current liabilities	41	-
	<u>41</u>	<u>-</u>
Total liabilities	41	-
	<u>41</u>	<u>-</u>
Net assets	<u>84</u>	<u>-</u>
<i>Share of revenue, expenses and results</i>		
Revenue	63	-
Expenses	(280)	-
	<u>(217)</u>	<u>-</u>
Loss before income tax	<u>(217)</u>	<u>-</u>

**Note 43. Events occurring after the reporting date**

*Settlement of the dispute with former director and related parties*

The company entered into a deed of settlement with Mr Andrew Sigalla and persons and entities associated with him, including ZMS Investments Pty Limited ('ZMS') (Receivers and Managers Appointed - In Liquidation) and BZI Pty Limited ('BZI'), to settle all legal proceedings between the parties (the 'Proceedings'), the hearing for which was due to commence in the Supreme Court of New South Wales on 5 September 2011.

The deed of settlement was conditional on formal court orders being entered by the Supreme Court of New South Wales to discontinue the Proceedings on a without prejudice basis and on the removal of ASIC's freezing orders against Mr Sigalla and BZI. These conditions were satisfied on 23 August 2011.

Under the terms of the deed of settlement, the company has agreed to accept a sum of money in full and final settlement of all claims that the company was alleging against Mr Sigalla, ZMS and BZI. The company and its related corporations have released Mr Sigalla, ZMS and BZI from all claims that the company and its related corporations were alleging in the Proceedings. Mr Sigalla has also released the company and its related corporations from all claims he was alleging in the Proceedings.

It was represented to the company that the settlement moneys received by the company on 25 August 2011 came from a third party and not from either Mr Sigalla, ZMS or BZI. The company had sought the consent of the trustee in bankruptcy to Mr Sigalla's bankrupt estate to the terms of the deed of settlement and the trustee's agreement that the bankrupt estate will have no claim to any of the settlement moneys to be paid to the company. The company was unable to obtain that consent or agreement from the trustee in bankruptcy to Mr Sigalla's bankrupt estate.

The settlement was reached on the basis that there were no admissions of liability made by any party to the proceedings.

*Participation in Joint Venture - Intanova Pty Limited*

The company has an option to purchase 500,000 additional shares in Intanova Pty Limited. This option was exercisable between 1 February 2011 and 15 March 2011. The option was not exercised, however, the shareholders of Intanova Pty Limited have been in negotiations regarding numerous terms of the original shareholders agreement, including an extension of the option exercise period until 31 December 2011. At the date of this report the new agreement had not been finalised.

*Distribution Agreement with Anixter International Limited*

On 28 July 2011, Telezygology Inc. entered into a distribution agreement with Anixter International Limited for the distribution of the company's infrastructure protection products in Europe, the Middle East and Africa.

The agreement references the terms and conditions set out in the 2009 Distributor Agreement with Anixter Inc. with specific amendments to address regional preferences for initial inventory and preferential payment terms.

*Supply and Distribution Agreement with Bear River Associates*

On 22 August 2011, Telezygology Inc. entered into a supply and distribution agreement with Bear River Associates, a privately-held logistics tracking software development company, located in Oakland, California for the turn-key supply and distribution of the company's TZ Courier products.

Under the terms of the supply and distribution agreement, Bear River will promote and market an integrated solution that combines the TZ Courier™ Intelligent Locker System with its BearTracks software to an exclusive and defined list of established Bear River corporate and public sector customers in the United States.

*Supply Agreement with NEXTDC Limited and Anixter Australia Pty Limited*

On 7 September 2011, TZ Limited and its wholly owned subsidiary, Telezygology Inc. entered into a supply agreement with TZI's distributor, Anixter Australia Pty Limited ('Anixter'), and NEXTDC Limited ('NEXTDC') for the supply of the TZ Centurion™ System for NEXTDC's cabinet-level micro-protection solution at its Brisbane and Melbourne data centres in accordance with agreed purchase orders.

Under the terms of the supply agreement, TZ Limited agrees to guarantee the performance of TZI's and Anixter's obligations under the supply agreement.

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 44. Reconciliation of loss after income tax to net cash used in operating activities**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax (expense)/benefit for the year	(8,784)	(26,347)
Adjustments for:		
Depreciation and amortisation	1,856	2,228
Share-based payments	2,303	2,342
Foreign exchange differences	-	17
Interest accrued on convertible notes	3,899	4,978
Net fair value loss/(gain) of derivatives	(6,607)	6,158
Net fair value loss on convertible notes	-	5,627
Loss/(gain) on debt for equity swap	(190)	(1,108)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(172)	(1,648)
(Increase)/decrease in inventories	(164)	120
Increase in deferred tax assets	(116)	(227)
Increase in prepayments	(8)	-
Increase in trade and other payables	410	3,467
Increase in provision for income tax	38	-
Increase in deferred tax liabilities	116	47
Increase/(decrease) in employee benefits	29	(6)
Decrease in other operating liabilities	(163)	-
Net cash used in operating activities	<u>(7,553)</u>	<u>(4,352)</u>

**Note 45. Earnings per share**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax attributable to the owners of TZ Limited	<u>(8,784)</u>	<u>(26,347)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>97,532,407</u>	<u>53,268,007</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>97,532,407</u>	<u>53,268,007</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(9.01)	(49.46)
Diluted earnings per share	(9.01)	(49.46)

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

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 46. Share-based payments**

*Director and Executive Equity Plan*

The Director and 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.

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. The first tranche of rights vested immediately. In the case of the second tranche of rights, the satisfaction of a performance hurdle must be achieved before the rights can be exercised.

There were three tranches of options granted to the directors during the year ended 30 June 2010. 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.

There were no share options or performance rights granted in the current financial year.

Set out below are summaries of options granted under the plan:

**2011**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired	Balance at the end of the year
02/07-01/08	31/05/11	\$4.88	90,000	-	-	(90,000)	-
01/08-08/08	25/08/11 *	\$6.00	116,666	-	-	-	116,666
01/08-11/08	11/11-12/11	\$6.00	142,250	-	-	(142,250)	-
01/01/08	31/12/10	\$6.00	310,125	-	-	(310,125)	-
18/01/08	18/01/11	\$3.75	100,000	-	-	(100,000)	-
18/01/08	19/01/11	\$3.75	195,000	-	-	(195,000)	-
20/01/08	20/01/11	\$3.00	149,000	-	-	(149,000)	-
08/02/08	07/02/11	\$6.00	75,000	-	-	(75,000)	-
24/10/08	24/10/11 *	\$2.50	850,000	-	-	-	850,000
24/10/08	24/10/11 *	\$2.50	150,000	-	-	-	150,000
15/05/09	15/05/12 *	\$2.50	65,000	-	-	-	65,000
26/02/10	30/06/16	\$1.00	1,750,000	-	-	-	1,750,000
26/02/10	30/06/17	\$2.00	1,750,000	-	-	-	1,750,000
26/02/10	30/06/18	\$3.00	1,750,000	-	-	-	1,750,000
05/03/10	05/03/11	\$1.00	150,000	-	-	(150,000)	-
			<u>7,643,041</u>	<u>-</u>	<u>-</u>	<u>(1,211,375)</u>	<u>6,431,666</u>

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 46. Share-based payments (continued)**

**2010**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited	Balance at the end of the year
02/07-01/08	31/05/11 *	\$4.88	90,000	-	-	-	90,000
01/08-08/08	01/11-08/11 *	\$6.00	116,666	-	-	-	116,666
01/08-11/08	11/11-12/11 *	\$6.00	142,250	-	-	-	142,250
01/01/08	31/12/10 *	\$6.00	310,125	-	-	-	310,125
18/01/08	18/01/11 *	\$3.75	100,000	-	-	-	100,000
18/01/08	19/01/11 *	\$3.75	195,000	-	-	-	195,000
20/01/08	20/01/11 *	\$3.00	149,000	-	-	-	149,000
08/02/08	07/02/11 *	\$6.00	75,000	-	-	-	75,000
24/10/08	24/10/11 *	\$2.50	850,000	-	-	-	850,000
24/10/08	24/10/11 *	\$2.50	150,000	-	-	-	150,000
15/05/09	15/05/12 *	\$2.50	65,000	-	-	-	65,000
26/02/10	30/06/16	\$1.00	-	1,900,000	-	(150,000)	1,750,000
26/02/10	30/06/17	\$2.00	-	1,900,000	-	(150,000)	1,750,000
26/02/10	30/06/18	\$3.00	-	1,900,000	-	(150,000)	1,750,000
05/03/10	05/03/11 *	\$1.00	-	150,000	-	-	150,000
Other options **			1,260,833	-	-	(1,260,833)	-
			<u>3,503,874</u>	<u>5,850,000</u>	<u>-</u>	<u>(1,710,833)</u>	<u>7,643,041</u>

\* These options were fully exercisable at the end of the financial year.

\*\* Of the expired/forfeited other options in the 2010 financial year, 1,000,000 expired and the remaining 260,833 were forfeited.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4.96 years (2010: 5.09 years).

Set out below are summaries of performance rights granted under the plan:

**2011**

Grant date	Expiry date	Share price target for vesting	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
26/02/10	30/06/12	\$0.00	2,880,000	-	(1,480,000)	-	1,400,000
			<u>2,880,000</u>	<u>-</u>	<u>(1,480,000)</u>	<u>-</u>	<u>1,400,000</u>

**2010**

Grant date	Expiry date	Share price target for vesting	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
26/02/10	30/06/12	\$0.00	-	3,000,000	-	(120,000)	2,880,000
			<u>-</u>	<u>3,000,000</u>	<u>-</u>	<u>(120,000)</u>	<u>2,880,000</u>

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1 year (2010: 2 years).

**TZ Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 46. Share-based payments (continued)**

The following table highlights the share-based payment expense per categories:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Share-based payment expense recognised during the financial year:</i>		
Options issued to employees	-	93
Options issued under Director & Executive Equity Plan	1,476	623
Rights issued under Director & Executive Equity Plan	827	1,592
Options issued for other compensation	-	34
	<u>2,303</u>	<u>2,342</u>

**TZ Limited**  
**Directors' declaration**

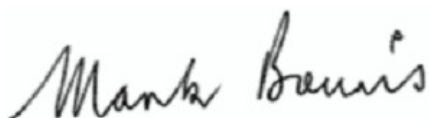
In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors



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Mark Bouris  
Director



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Kenneth Ting  
Director

30 September 2011  
Sydney

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TZ LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of TZ Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 of the financial report that gives a true and fair view 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 qualified 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*, which has been given to the directors of TZ Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

### ***Basis for Qualified 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 were not able to perform necessary audit procedures on the opening balances as at 1 July 2009 to satisfy ourselves that they are free from material misstatement. Since opening balances affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 2010. Our audit opinion on the financial report for the year ended 30 June 2010 was modified and we were not in a position to, and did not, express an opinion on the consolidated entity's results of operations or its cash flows for the year ended 30 June 2010. Our opinion on the current period's financial report is also modified because this previous qualification applies to the 2010 comparatives for the statements of comprehensive income and cash flows that are presented in the 2011 financial statements.

### ***Qualified Opinion***

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph:

- (a) the financial report of TZ Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

***Report on the Remuneration Report***

We have audited the Remuneration Report included in pages 13 to 21 of the directors' report for the year ended 30 June 2011. 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.

***Opinion***

In our opinion, the Remuneration Report of TZ Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature of the BDO firm, written in black ink.

BDO Audit (NSW-VIC) Pty Ltd

A handwritten signature in black ink, appearing to read 'Simon Coulton'.

**Simon Coulton**  
Director

Sydney, 30 September 2011

**TZ Limited**  
**Shareholder information**  
**30 June 2011**

The shareholder information set out below was applicable as at 9 September 2011.

**Distribution of equitable securities**

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	875	-
1,001 to 5,000	920	2
5,001 to 10,000	295	104
10,001 to 100,000	474	3
100,001 and over	136	4
	<u>2,700</u>	<u>113</u>
Holding less than a marketable parcel	<u>956</u>	<u>-</u>

**Equity security holders**

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
Deutsche Bank AG London	14,399,999	11.73
National Nominees Limited	13,919,807	11.34
Deutsche Bank AG London <QVT Fund LP A/C>	11,971,769	9.75
HSBC Custody Nominees (Australia) Limited	7,118,027	5.80
NGP Investments (No 2) Pty Limited	4,649,087	3.79
NEFCO Nominees Pty Ltd	2,398,708	1.95
Colbern Fiduciary Nominees Pty Ltd	2,341,998	1.91
Surflodge Pty Ltd	2,248,600	1.83
JP Morgan Nominees Australia Limited <Cash Income A/C>	1,499,691	1.22
Mr John Michael Bouman + Ms Amanda Louise Mitchell	1,404,022	1.14
Harrolds at Toorak Pty Ltd	1,366,218	1.11
Deutsche Bank AG London <Quintessence Fund LP A/C>	1,300,947	1.06
Mr Patrick Chew	1,197,055	0.98
Penson Australia Nominees Pty Ltd <Argonaut Account>	1,127,185	0.92
Mr Vincent Hua Kae Tan	1,100,000	0.90
Mark Leigh Bouris	1,066,667	0.87
Mr Edward Saxon Reeve + Ms Debbie Lynette Winfield <Winreeve Super Fund A/C>	948,108	0.77
Mr Martin Patrick McManus	891,938	0.73
Mr Kenneth Ting	850,000	0.69
Mr Lindsay James Gallagher + Mrs Esme Gallagher <Broann Super Fund A/C>	809,657	0.66
	<u>72,609,483</u>	<u>59.15</u>

**TZ Limited**  
**Shareholder information**  
**30 June 2011**

*Unquoted equity securities*

	<b>Number on issue</b>	<b>Number of holders</b>
Performance rights over ordinary shares issued	1,400,000	2

**Substantial holders**

Substantial holders in the company are set out below:

	<b>Ordinary shares</b>	
	<b>Number held</b>	<b>% of total shares issued</b>
Deutsche Bank AG London	14,399,999	11.73
National Nominees Limited	13,919,807	11.34
Deutsche Bank AG London <QVT Fund LP A/C>	11,971,769	9.75
HSBC Custody Nominees (Australia) Limited	7,118,027	5.80

**Voting rights**

The voting rights attached to ordinary shares are set out below:

*Ordinary shares*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.



Limited

**TZ Limited**

Level 11, 1 Chifley Square  
Sydney, NSW 2000  
Australia

**Telezygology, Inc.**

1017 W. Washington Blvd, Unit 2C  
Chicago, Illinois, 60607  
United States

**PDT, Inc.**

One Corporate Drive, Suite 110  
Lake Zurich, Illinois, 60047  
United States

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