

12 November 2012

Lodged by ASX Online

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

Dear Sir/Madam

2012 ANNUAL REPORT

TZ Limited (the "**Company**") advises that the attached 2012 annual report was dispatched to shareholders on 25 October 2012.

Yours faithfully,
TZ LIMITED


A handwritten signature in black ink, appearing to read 'Ken', with a large circular flourish above it.

Kenneth Ting
Executive Director and Company Secretary



Limited

2012
annual report



Connecting
People to people,
things to things,
countries to countries,
insights to action.



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Executive Chairman, TZ Limited.

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Chairman's Welcome

Notwithstanding a slow start, TZ Limited has ended the 2012 fiscal year very strongly. We can't lose sight of the fact that being involved in proof of concept and doing it successfully positions us as a global last mile delivery provider for what could be a great growth segment in the retail market. Winning supply tenders for organisations such as Singapore Post confirms that we are not only on the short list of suppliers, but that we are considered by some as number one in terms of manufacturing, pricing and technology. Shareholders should take great pride in this slowly evolving achievement.

The development of the solution to 'last mile' fulfillment in Australia for online purchasing has many parts. In order to position TZ well in this environment, we have had to undertake various initiatives and close off our involvement in various planks to leverage ourselves as an e-commerce player.

The first plank is that a company like TZ needs access to real estate for our lockers to reside as footprint is a necessary but insufficient variable in the e-commerce game. Our agreement with ParcelPoint is therefore an important milestone in achieving that necessary step with 500 locations currently and many more planned in the near future.

The second plank to build the economics of an e-commerce business is delivery, as there is no point in footprint without a guarantee in terms of logistics flow. Your company has made this a focus over the past six months, which has come to fruition through our agreement with Temando, the preeminent aggregation business for parcel delivery in Australia.

The strategic alliances formed in 2012 along with our proof of conception and our agreement with Singapore Post place us strongly coming into 2013. We are currently receiving enquiries from other parts of the world which shows that the online retail business will continue to grow at a rapid rate. This proves that postal and general logistics providers will all need the same solution – a default location to deliver packages securely with sophisticated technology to manage those assets.

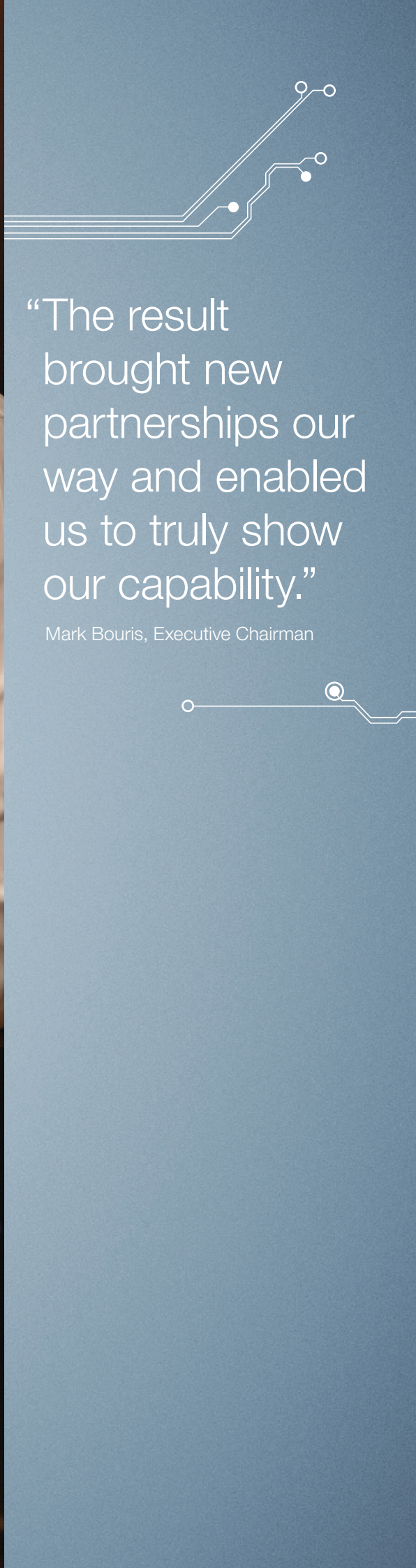
Infrastructure Protection (IXP) has been our quiet achiever this year with solid growth and consistent implementation within leading data centres around the world. Our IXP technology is a standout globally and unlike the more contended parcel delivery environment, data cabinet security is far less competitive but with much larger potential for market growth. Cloud based computing will undoubtedly encourage heightened data security as handheld devices and cloud economics create greater demand and cost efficiencies respectively. TZ has many deployments across North America and Australia which offer us a competitive advantage, and we will continue to build a structure for this exciting market.

Whilst this past year has been arduous, we have been purposefully executing two applications for TZ technology to build a reputation not just as a supplier but as a valuable participant in these growing markets. I'd like to thank our management, our shareholders and our suppliers for their support, commitment, patience and dedication during this period.

Regards



Mark Bouris, Executive Chairman



“The result brought new partnerships our way and enabled us to truly show our capability.”

Mark Bouris, Executive Chairman



Directors' Report



Review Of Operations

TZ Limited (TZL) revenue for the fiscal year was approximately 8% down on last year's performance with a year-end total of AUD\$21.7 million. Overall profitability of the Group was impacted as a result of Product Development Technologies, Inc. (PDT) delivering an overall year-end loss due to high implementation costs last year. To undertake several large and complex development projects, PDT invested heavily in building software resources and engineering infrastructure and to establishing a solid Android knowledge platform to support engagement on major military and defence sectors opportunities.

The TZI business achieved solid sales growth with a strong base of reference customers and early adopters continuing to validate the strong proposition of the IXP and PAD technology offerings. While the Board had expected that a number of targeted project opportunities would come to fruition this period, several of these infrastructure projects that the Company has aggressively pursued have pushed out to 2013 financial year.

Nonetheless, over the year, both the PAD and IXP businesses grew significantly. PAD sales grew fourfold from around USD\$300,000 last year to over USD\$1.2M. IXP sales also grew to over USD\$1.4M (with about USD\$400,000 coming from existing Anixter stock). Considering the stock movement and direct project sales this year, the IXP business grew by over three fold. Pleasingly both TZI business units achieved their targeted gross margins and demonstrated increased adoption within their chosen market segments with a growing list of high profile, repeat purchase corporate customers.

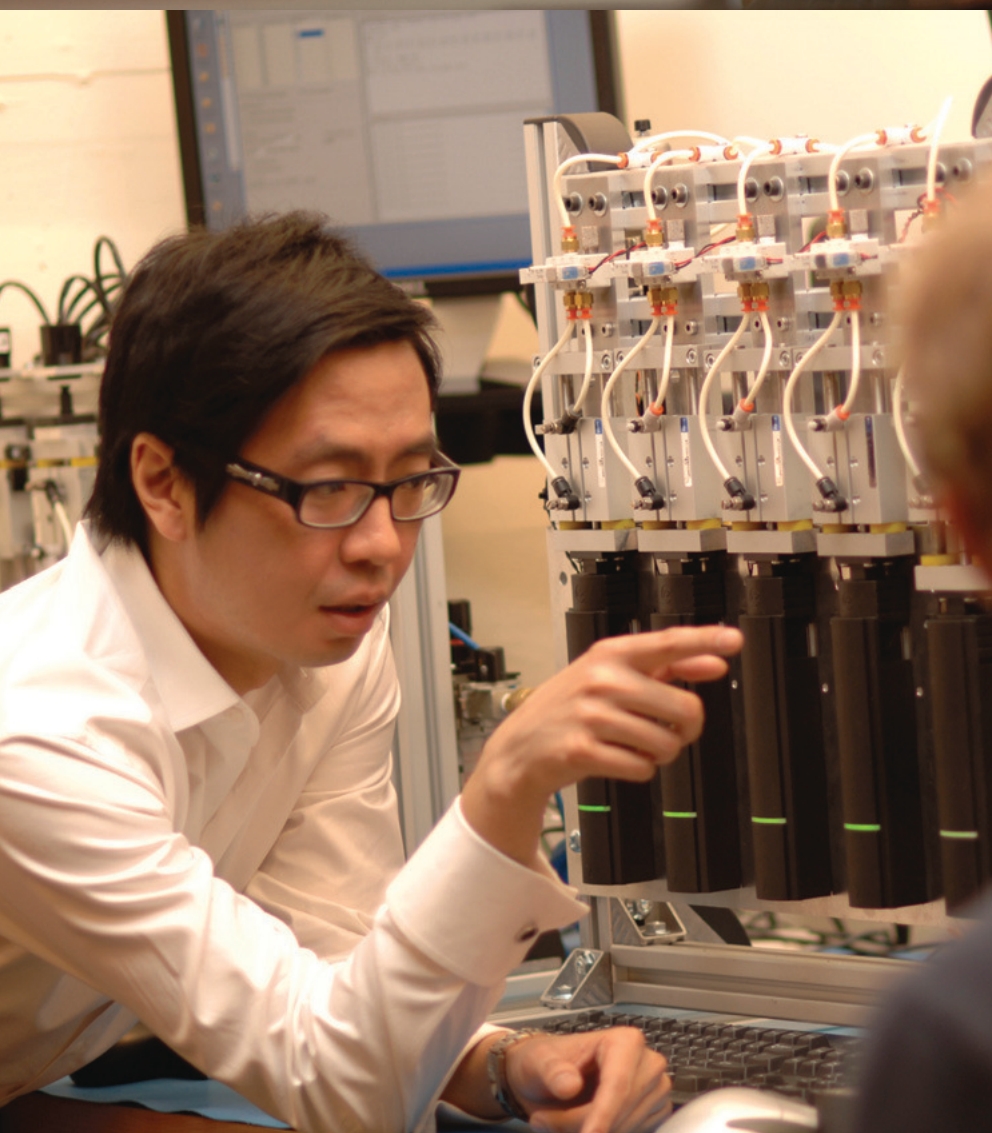
The Board has also focused on achieving operating cost reductions across both the TZI and PDT businesses this year. An overall 7% reduction in annual operating costs was achieved this year although the bulk of the restructuring occurred late in the year at least to the TZI business. The full cost benefit of the restructuring should reflect in the 2013 financial year.

The Board is confident that the restructuring measures taken during the year will see a return to profitability of the PDT business with more structured and managed growth. While early into the new fiscal year, PDT is tracking profitably and well. The Board also maintains a high degree of confidence that the TZI pipeline and enabling conditions that have been implemented over the last few years will support on-going strong and sustainable revenue growth for the TZI business.

To support the Group's operating needs, TZL successfully raised an additional AUD\$4.5M through a placement in February 2012.



“Pleasingly both
TZI business
units achieved
their targeted
gross margins.”



Images from top – bottom:
Dickory Rudduck, Director,
Founder & Inventor
Kenneth Ting, Executive Director
& Company Secretary





Telezygology, Inc.

Over the last twelve months, TZI has continued to focus on building a sustainable business and to establishing its position as a world class technology leader in its PAD and IXP business. Specifically, the team has worked hard to achieve the following objectives:

- Expand market engagement beyond the existing channel relationships with Pitney Bowes and Anixter by recruiting and training a regional network of certified integrators. The Certified Integrator Program which was implemented in early 2012 is designed to establish long term relationships between TZI, qualified system integrators and end user customers and to support the promotion, sale, installation and servicing of Infrastructure Protection (IXP) and Packaged Asset Delivery (PAD) solutions in the market. TZI currently have an accredited network of over 20 integrators across the US. Similar programs are being implemented in Europe and Australia.
- Focus on strategic sales and the securement of multi-year supply agreements with targeted end customers to provide TZI with a solid base of recurring revenue. TZI has successfully secured a number of supply contracts for both IXP and PAD with leading organisations in the industries and vertical markets targeted. Most visible are the multi-year supply contracts with NEXTDC Limited and Macquarie Telecom Limited in the Australia market.
- Establish strategic partnerships with leading IT Infrastructure OEM's and market leaders in the industries in which TZI participates. This includes the establishment of direct sales relationships and partnerships with cabinet manufacturers, access control companies such as S2 and smart data centre solution providers like Red Wood Systems for our IXP business.

To drive more disciplined sales execution, the business has implemented new processes, procedures and tools to improve sales conversion, increase organisational productivity and provide enhanced customer service and support to industry partners. These processes have allowed the sales team to identify target customers based on a set of industry, customer and market-need criteria to target accounts and more effectively closeout opportunities. Over the year, the business has established a solid track record of repeat sales successes globally into Colocation Data Centres, MSPs, Cloud Service Providers, Healthcare, Government and Education, Finance, Telecommunication, Technology, Entertainment and Utilities companies. With current repeat sales commitments, management believe that a solid revenue platform of over \$2M has been established providing a solid base for growth for this new fiscal year.

Additionally, TZI has continued to make product enhancements and maintain a focus on new product introductions driven by customer feedback and market demand. Of note, is the launch of the 8 and 70 device variants of the Centurion Bridge, API and SNMP integration into leading smart data centre solutions as well as software enhancements and upgrades to both the PAD Asset Manager and IXP Centurion Server software suites. These product upgrades and enhancements demonstrate a commitment to better meet the needs of customers, OEM's and strategic partners and to address emerging new opportunities by providing solutions to satisfy unmet needs in the marketplace.



Infrastructure Protection

With an increasing number of external forces mandating security, compliance and governance in the IT environment, IXP is making solid progress in providing customers with an end-to-end solution that delivers proven micro-level security far beyond that offered by traditional physical security systems. To date, TZ Slidehandles are protecting more than 3,000 cabinets globally. It is estimated that the global rack market is growing at over 2,000,000 new cabinets each year. Therefore, the scope for market penetration is significant.

Of note, TZI has established a solid position in the Australian market with supply contracts to NEXTDC and Macquarie Telecom. The year saw supply to NEXTDC's Brisbane and Melbourne facilities, with Brisbane now fully deployed and Melbourne still underway. TZI also saw initial sales to NEXTDC's Canberra facility as NEXTDC expanded IXP supply to their new sites. Macquarie Telecom is also in deployment mode with the first few hundred cabinets being installed at their IntelliCentre 2 facility. Additional trials are underway with other DC operators and government agencies which should help to continue IXP sales growth in the Australian market.

IXP sales in the US remain consistent with adopters continuing to roll-out at their sites. Over the year, the business completed many deployments with established market players, several with repeat purchases as customers expand their operations. Good progress is being made on developing strategic partnerships with leading IT infrastructure relationships including partnerships with cabinet manufacturers to support and grow TZ Ready cabinet offerings, alliances with access control companies such as S2, and bundled offerings with smart data centre solution providers such as Red Wood Systems.

Overall sales cycles have proven to be longer than the business had initially anticipated driven by capital appropriation constraints and the time taken to trial and prove the technology. Nevertheless, the IXP business continues to expand with new engagements and pilot programs with some of the world's largest eCommerce, telecommunications and global IT solution providers. Many of these engagements should translate into multi-year accounts.

With the strategic and OEM relationships that are being cultivated along with the certified integrator network and customer successes, IXP business is building its profile as the leading micro security solution globally.







PAD

Packaged Asset Delivery

TZI's PAD solution automates the "last mile delivery" of package and express deliveries to commercial and residential locations. The business offers solutions to large enterprises, small to medium enterprises, out-of-home consumer delivery locations, and multi-unit residential buildings with secure, efficient and convenient drop off and pick up of almost any packaged asset including vital documents, valuable merchandise, sensitive materials, perishables and critical parts and components. In each of these segments, TZI has achieved sales success over the year.

The traditional Corporate PAD business continues to develop strongly with supply agreements with early adopters now finalised for 2012/2013 which should firm up revenue expectations for the next fiscal year. Successful trials that were completed this year with other corporates and government agencies should shore up sales potential in 2013 as they pursue their roll-out strategies. New trials are also underway with a number of other well respected high profile corporate organisations on the East and West Coast of the USA. No part of the business benefited more from focusing on multi-year strategic accounts than our PAD business into enterprise accounts. The business was successful in closing multi-year volume purchase agreements with two fortune 100 companies in the US. Management expects to at least double the number of PAD deployments this fiscal year compared to last year.

The business is also pursuing a number of strategic initiatives in the smart locker space in the US and Canada across a number of sectors including the following programs:

- Working with an on-line grocery retailer to leverage TZI's successful deployments in the Australian market with Coles Supermarket, whose refrigerated lockers are scheduled for market launch later this year
- Working with an industry leading overnight delivery carrier to bring an end-to-end logistics solution to the market. TZI's technology is currently being tested for use with their software solution with a plan to begin field testing in the near future.

Despite the loss of the parcel locker tender in Australia, postal organisations continue to be an area of focus for the business. In September 2012, TZI was awarded a tender to design and manufacture lockers for Singapore Post. Singapore Post is Singapore's designated Public Postal Licensee (PPL) in the domestic market and the company provides postal and digital mail delivery across 220 countries worldwide. This win provides TZI with great credibility as the Directors understand that the tender was aggressively contested by the major postal locker suppliers. Since this win TZI has been approached by other postal organisations to tender for the deployment of their smart locker network.

The business-to-consumer segment is a key growth area and a strategic area of focus for TZI and PAD. With e-commerce and home deliveries increasing rapidly each year led by on-line retailers such as Amazon.com, eBay, Apple in the US and DealsDirect and Catch Of The Day in Australia, the physical distribution of goods is becoming more and more critical to consumers and a good customer experience is driving customer satisfaction and loyalty. Consumers rate choice of delivery options as an important feature of their on-line shopping experience and a large percentage of these say they would shop more on-line if a greater choice of delivery options was provided.

As a result of these trends, the Company will break new ground in Australia by establishing its own community locker network to provide consumers with a range of convenient and public locker locations for parcel collection and goods return. Teaming agreements with freight aggregator Temando, and parcel collection point business Parcel Point, are the first of a number of enabling relationships to be formalised.

TZI has also shored up its supply chain by establishing preferred supply relationships with key supply partners such as Dexion Limited to lower the overall cost of manufacturing and supporting greater fabrication flexibility.

Significant product development has been undertaken on the PAD product suite with the Company now able to supply extremely flexible and modular solutions for both indoor and outdoor deployments including metal and wood finished together with a full range of technology solutions including smart cards, biometrics, keypads, QR and Barcode readers and the acceptance of credit cards.





Human Toolz Mobile iPad Stand



PDT

Product Development Technologies

PDT top line performance was within 5% of planned expectations this year despite slower sales traction at the start of the fiscal year.


The securing of large and complex Medical and Defence programs over the last two years, have necessitated PDT to scale its software capability rapidly to serve the needs of these client programs. The investment in these resources and to building robust software engineering infrastructure and processes has been a significant undertaking with a high cost of implementation. The restructuring program implemented by the Board has focused on improving operational efficiencies including cost reductions through right sizing and general program management process improvements.

Software development services are an important component in the PDT suite of offerings as clients increasingly demand seamless creation and integration of embedded software in parallel with product design to enable efficient and accurate device development. To better support the on-going business, initiatives are underway to build PDT's low cost Ukrainian team with a higher complement of software engineers to enable more cost effective implementation of software projects. As part of the initiative, PDT Ukraine recently relocated to a more modern facility closer to high technology businesses and to talent pools to support future recruitment drives.

The new fiscal year is off to a strong start with PDT meeting its planned target for July and August. Work in progress is high and the sales pipeline is strong, with interest from large prime contractors in the Defence and Military sector, major players in the Medical Device arena and well known Consumer companies.

PDT has also recently won contracts in the Android based cell phone space as well as projects requiring the development of very sophisticated, cutting edge medical devices. Both sectors represent good margin return. Together with strong retention of PDT's long term customer base and high level of repeat development work, PDT is managing growth and aligning itself with its customer's evolving needs.

The Board remains confident in the business prospects for the Company and look forward to stronger performance and revenue growth in the new year.





Case Study NEXTDC Limited

NEXTDC is one of the leading data centre organisations in Australia, delivering premium facilities and cutting edge solutions to their extensive list of corporate, government and wholesale customers. In a little over two years, NEXTDC has built over 18,000 square metres of technical space in Australia's five major cities.

NEXTDC is rapidly cementing its place as a key player in the Australian and New Zealand data centre space through the establishment of unique, independent facilities that offer high availability, connectivity, flexibility and most of all, security. NEXTDC's range of data storage solutions enables customers to choose from a number of scalable, energy efficient options that ensure unsurpassed data protection and overall peace of mind.

NEXTDC began discussions with TZ Limited after identifying that a critical piece of infrastructure was needed as part of their data centre implementation to provide micro-protection for their customers whilst still offering convenience and ease of use. Another requirement was the implementation of a modular system that could grow and evolve as the popularity of cloud computing continues to increase in the Australia and New Zealand markets. Additionally, NEXTDC required a cabinet level security solution that was built on an open network, could operate through a web-based interface and could scale and be deployed based on an established infrastructure module.

In September 2011, TZ Limited entered into an agreement with NEXTDC as a preferred supply partner for their cabinet level micro-protection needs. TZ Limited's Centurion™ system was adopted as the implementation platform and deployed initially at the Brisbane facility, the first of five locations to be built and commissioned. Additionally, TZ supported the development of NEXTDC's mobile data center management application, ONEDC, which was created along with a web-based customer portal to enable full control of the racks throughout the facilities.

"The technical development capability and responsiveness of the TZ team to meet our needs really differentiated them from the competition," said NEXTDC Deputy Chairman Bevan Slattery. "One of the critical drivers in considering the development of our data center facilities was to not only deliver high quality data center infrastructure solutions and services to our customers, but to also meet the efficient management of capital expenditure through the employment of a modular technical fit out design. To us, the TZ solution is the only system that ticks all the boxes."

The TZ Centurion™ System has now been successfully deployed across NEXTDC's data centres in Brisbane, Melbourne and Canberra with over 1,000 racks now live. Further installations are planned for the Sydney and Perth sites as they are brought on line in early 2013, together with expansion within the Melbourne and Canberra sites.



“The technical development capability and responsiveness of the TZ team to meet our needs really differentiated them from the competition”





Case Study Maquarie Telecom

As Australia's only integrated Managed Hosting, Cloud and business-only telecommunications company, Macquarie Telecom recently opened its world-class \$60m Intellicentre 2 data centre in North Ryde, Sydney. In recognition of its exemplary design and implementation, Intellicentre 2 was the first data centre in Australia to receive Tier III Design Certification for 100% uptime during maintenance; the data centre also boasts global top-tier levels of service and cyber-security with certifications including ISO27001, ASIO T4, and DSD Gateway Certification.

Macquarie Telecom's emphasis on delivering superior customer service, through developments like its \$5m Sydney-based MacquarieHub contact centre, has seen it receive numerous international accolades including "Best Customer Care" at the 2008 World Communication Awards. Intellicentre 2 was designed to allow 24/7 accessibility for ultimate customer accessibility; however, the granting and organising of physical right-of-entry remained a manual process.

Macquarie Telecom employed TZ's Centurion™ System as a solution platform for cost-effective, highly efficient and secure customer access, with the commitment to roll-out TZ's solution on at least 95% of Intellicentre 2's total cabinet deployment.

The TZ Centurion™ System provides access control for physical security and environmental monitoring, offering users the ability to manage systems remotely based on each asset's unique IP address. With the support of TZ, Macquarie Telecom integrated TZ Centurion™ into their MacquarieView customer portal, extending customers' ability to manage their IT infrastructure with real-time performance visibility to include physical access, monitoring and reporting at a granular level.

With the integration of TZ's solution, customers are now able to remotely audit and schedule visits to their cabinets. The solution also supports Intellicentre 2's rigorous on-site security procedures for true end-to-end electronic management, including dual-factor biometric man-traps and key-only access to locked server racks. Operating in conjunction with the Lenel Building Access Control system, the upgrade to the networked and centrally-controlled TZ system has also simplified operational process and procedures used to manage independent locks.

"Our emphasis on data security has already seen us granted ASIO T4 and DSD Gateway Protected status as one of the country's most secure hosting providers," said James Mystakidis, General Manager of Hosting, Macquarie Telecom. "Intellicentre 2 employs multiple security measures to enhance physical and cyber-security, and we see the TZ Centurion solution as a critical part of this portfolio. TZ Centurion's resilient reputation met our highest standards of accredited security needed for critical application hosting and the protection of IT infrastructure and intellectual assets."

Since opening of the Intellicentre 2 facility in early June, over 200 racks have already been deployed with TZ SlideHandles. Given the size of the facility, TZ is looking forward to significant deployments over the next 12 to 24 months. With the successful implementation of the system, Macquarie Telecom is now exploring the potential to retrofit the TZ solution at their existing facilities across Australia.



Limited

2012 financial statements

TZ Limited

ABN 26 073 979 272

Annual Report - 30 June 2012

TZ Limited
Directors' report
30 June 2012

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 2012.

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. and TZI Australia Pty Limited ('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 \$12,361,000 (30 June 2011: \$8,784,000).

Further information on the review of operations, financial position and future strategies is detailed in Section One of the Annual Report.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

On 14 September 2012, the company announced it had been awarded the contract for the supply, delivery, design, development, installation, testing, documentation and commissioning of Singapore Post's smart locker network for the Singapore market. This provides a phenomenal opportunity to demonstrate to the world the consolidated entity's Packaged Asset Delivery technology.

On 14 September 2012, the company also announced a pro-rata renounceable entitlement offer to raise approximately \$4,600,000 before capital raising expenses. The proceeds raised will assist in funding capital requirements to meet the contract with Singapore Post. Under the entitlement offer, eligible shareholders will be entitled to acquire one new ordinary share for every three ordinary shares held at a price of 10 cents per ordinary share. All participants will also receive one free attaching Rights option exercisable at 14 cents at any time on or before 31 October 2013, for every two new shares issued.

TZ Limited
Directors' report
30 June 2012

The QVT Funds that hold convertible notes convertible into shares in the consolidated entity have agreed that the conversion price of 35 cents applying to the series I convertible notes and series III convertible notes and the conversion price of 42 cents applying to the series IIIB convertible notes and the series IV convertible notes (still to be issued, subject to shareholder approval), will not be reduced by the new shares being issued at the rights issue nor by any of the options being exercised at 14 cents.

No other matter or circumstance has arisen since 30 June 2012 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.

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 (UNSW), HonDBus (UNSW), HonDLitt (UWS), F.C.A. |
| Experience and expertise: | Mark Bouris has over 25 years' experience in the business, finance and property sectors. He is currently the Executive Chairman of Yellow Brick Road Holdings Limited, a listed financial services company that offers products and services for home loans, financial planning, insurance, investments, accounting and tax through its national branch network. Mark is an Adjunct Professor for Banking & Finance and Business Law & Tax at University of New South Wales ('UNSW') Australian School of Business and sits on the UNSW Australian School of Business Advisory Council Board. He is also a member of Deputy Prime Minister Wayne Swan's Financial Sector Advisory Council. 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 hosts Channel 9's The Apprentice Australia and Celebrity Apprentice Australia. |
| Other current directorships: | Executive Chairman of Yellow Brick Road Holdings Limited (ASX: YBR), Chairman of Anteo Diagnostics Limited (ASX: ADO), 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: | 1,887,967 ordinary shares |
| Interests in options: | 3,000,000 options over ordinary shares |

TZ Limited
Directors' report
30 June 2012

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: Non-Executive Director of Serena Resources Limited (from 27 May 2011)
Former directorships (in the last 3 years): None
Special responsibilities: None
Interests in shares: 1,600,975 ordinary shares
Interests in options: 2,250,000 options 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: None

'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 2012, and the number of meetings attended by each director were:

| | Full Board | |
|-----------|------------|------|
| | Attended | Held |
| M Bouris | 11 | 11 |
| K Ting | 11 | 11 |
| D Rudduck | 11 | 11 |

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 key management personnel 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.

The consolidated entity established a Director and Executive Equity Plan in 2009 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.

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. Non-executive directors do not receive share options or other incentives.

TZ Limited
Directors' report
30 June 2012

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.

Use of remuneration consultants

During the financial year ended 30 June 2012, the company did not engage remuneration consultants to review its existing remuneration policies and provide recommendations on how to improve both the short-term incentives ('STI') and long-term incentives ('LTI') programs.

Voting and comments made at the company's 2011 Annual General Meeting ('AGM')

At the last AGM 98% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2011. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

TZ Limited
Directors' report
30 June 2012

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.
- William Leong - Vice President of Operations of Telezygology Inc.
- Timothy Koehler - Chief Financial Officer of Telezygology Inc.
- John Wilson - Former Chief Executive Officer of Telezygology Inc. (resigned 30 May 2012)

| 2012 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 | 440,917 | 10,200 | - | - | 439,641 | - | 890,758 |
| K Ting | 346,435 | 6,000 | - | - | 329,730 | - | 682,165 |
| D Rudduck | 202,328 | - | 8,008 | - | - | - | 210,336 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| M Schwartz | 369,079 | - | 10,270 | 7,120 | - | - | 386,469 |
| P Casey | 96,871 | - | - | - | - | - | 96,871 |
| W Leong | 145,307 | - | 9,992 | 3,632 | - | - | 158,931 |
| T Koehler | 134,409 | - | 6,567 | 3,360 | - | - | 144,336 |
| J Wilson (resigned 30 May 2012) * | 407,000 | - | - | - | - | - | 407,000 |
| | <u>2,142,346</u> | <u>16,200</u> | <u>34,837</u> | <u>14,112</u> | <u>769,371</u> | <u>-</u> | <u>2,976,866</u> |

* John Wilson resigned from his role as CEO 30 May 2012, however, he has continued in a consulting capacity

TZ Limited
Directors' report
30 June 2012

| 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.

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

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| <i>Executive Directors:</i> | | | | | | |
| M Bouris | 51% | 22% | - % | - % | 49% | 78% |
| K Ting | 52% | 23% | - % | - % | 48% | 77% |
| D Rudduck | 100% | 100% | - % | - % | - % | - % |
| <i>Other Key Management Personnel:</i> | | | | | | |
| M Schwartz | 100% | 100% | - % | - % | - % | - % |
| P Casey | 100% | 100% | - % | - % | - % | - % |
| J Wilson | 100% | 100% | - % | - % | - % | - % |
| W Leong | 100% | 100% | - % | - % | - % | - % |
| T Koehler | 100% | 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 2011
Term of agreement: No fixed term
Details: Base salary of US\$396,000 and notice period by negotiation.

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: 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: 22 July 2011
Term of agreement: No fixed term
Details: Base salary of US\$140,000 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

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012.

Options

There were no options issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012.

TZ Limited
Directors' report
30 June 2012

Details of options over ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012 are set out below:

| Name | Number of options granted during the year | | Number of options vested during the year | |
|----------|---|------|--|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| M Bouris | - | - | 1,000,000 | 1,000,000 |
| K Ting | - | - | 750,000 | 750,000 |

Vesting conditions for options granted as compensation in prior years

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 of directors and other key management personnel 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 | 1 July 2011 | 30 June 2012 | \$0.00 | \$0.840 |

Performance rights granted carry no dividend or voting rights.

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 2012 are set out below:

| Name | Number of rights granted during the year | | Number of rights vested during the year | |
|----------|--|------|---|---------|
| | 2012 | 2011 | 2012 | 2011 |
| M Bouris | - | - | - | 800,000 |
| K Ting | - | - | - | 600,000 |

TZ Limited
Directors' report
30 June 2012

E Additional information

The earnings of the consolidated entity for the five years to 30 June 2012 are summarised below:

| | 2008 \$'000 | 2009 \$'000 | 2010 \$'000 | 2011 \$'000 | 2012 \$'000 |
|-----------------------|----------------|----------------|----------------|----------------|----------------|
| Sales revenue | 14,973 | 17,696 | 17,308 | 22,399 | 21,178 |
| EBITDA | (9,787) | (18,277) | (19,264) | (3,094) | (5,837) |
| EBIT | (11,073) | (20,317) | (21,682) | (4,313) | (7,605) |
| Loss after income tax | (12,331) | (24,408) | (26,347) | (8,784) | (12,361) |

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

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|---------|---------|---------|--------|--------|
| Share price at financial year end (\$A) | 3.55 | 0.96 | 0.44 | 0.24 | 0.10 |
| Basic earnings per share (cents per share) | (29.04) | (50.00) | (49.46) | (9.01) | (9.60) |

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 |
|--------------------|------------------|----------------|---------------------|
| 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 |
| | | | <u>11,250,000</u> |

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

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

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 2012.

Shares issued on the exercise of performance rights

The following ordinary shares of TZ Limited were issued during the year ended 30 June 2012 on the exercise of performance rights granted:

| Date performance rights granted | Exercise price | Number of shares issued |
|---------------------------------|----------------|-------------------------|
| 26 February 2010 | \$0.00 | 1,400,000 |

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

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

There were no non-audit services provided during the financial year by the auditor.

Officers of the company who are former audit partners of Grant Thornton Audit Pty Ltd

There are no officers of the company who are former audit partners of Grant Thornton Audit Pty Ltd.

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.

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

Grant Thornton Audit Pty Ltd was appointed auditors in June 2012 and 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



Mark Bouris
Director



Kenneth Ting
Director

28 September 2012
Sydney

Grant Thornton Audit Pty Ltd
ACN 130 913 594

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**Auditor's Independence Declaration
To the Directors of TZ Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of TZ Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Simon Coulton
Partner – Audit & Assurance

Sydney, 28 September 2012

TZ Limited
Corporate Governance Statement
30 June 2012

This 2012 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 'Consolidated Entity') and reflects the corporate governance principles which have been adopted during the financial year ended 30 June 2012. 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 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 | 22 November 2011 | No | No |
| Dickory Rudduck | 14 May 2010 | 17 November 2010 | No | No |

Mr Dickory Rudduck is standing for re-election by rotation at the 2012 annual general meeting.

The skills and experience of each director are set out in the Director's Report in the Company's 2012 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
Corporate Governance Statement
30 June 2012

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 Consolidated Entity 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 Consolidated Entity as a whole is as follows:

- Board Level: 0 %
- Key management personnel: 0 %
- Consolidated Entity 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; and
- 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 Report for the year ended 30 June 2012.

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 officer (or equivalents) and chief executive officer (or equivalents) of the Consolidated Entity 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 key management personnel 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
30 June 2012

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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 and TZI Australia Pty Limited, Level 11,
1 Chifley Square, Sydney NSW 2000
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 28 September 2012. The directors have the power to amend and reissue the financial report.

TZ Limited
Statement of comprehensive income
For the year ended 30 June 2012

| | Note | Consolidated 2012 \$'000 | 2011 \$'000 |
|--|------|--------------------------------|------------------------|
| Revenue | 4 | 22,390 | 23,470 |
| Other income | 5 | 3,605 | 6,800 |
| Expenses | | | |
| Raw materials and consumables used | | (1,504) | (1,471) |
| Subcontractors costs | | (8,346) | (7,833) |
| Employee benefits expense | | (13,637) | (14,599) |
| Occupancy expense | | (818) | (767) |
| Depreciation and amortisation expense | 6 | (1,768) | (1,856) |
| Loss on sale of joint venture | | (386) | - |
| Communications expense | | (308) | (349) |
| Professional and corporate services | | (2,547) | (3,322) |
| Travel and accommodation expense | | (1,238) | (1,504) |
| Development costs | | (785) | (904) |
| Share of net losses of joint venture accounted for using the equity method | | (161) | (217) |
| Other expenses | | (1,977) | (2,025) |
| Finance costs | 6 | <u>(4,862)</u> | <u>(4,098)</u> |
| Loss before income tax expense | | (12,342) | (8,675) |
| Income tax expense | 7 | <u>(19)</u> | <u>(109)</u> |
| Loss after income tax expense for the year attributable to the owners of TZ Limited | 29 | (12,361) | (8,784) |
| Other comprehensive income | | | |
| Foreign currency translation | | <u>873</u> | <u>(4,043)</u> |
| Other comprehensive income for the year, net of tax | | <u>873</u> | <u>(4,043)</u> |
| Total comprehensive income for the year attributable to the owners of TZ Limited | | <u><u>(11,488)</u></u> | <u><u>(12,827)</u></u> |
| | | Cents | Cents |
| Basic earnings per share | 44 | (9.60) | (9.01) |
| Diluted earnings per share | 44 | (9.60) | (9.01) |

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 2012

| | | Consolidated | |
|---|-------------|---------------------|------------------|
| | Note | 2012 | 2011 |
| | | \$'000 | \$'000 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 904 | 1,146 |
| Trade and other receivables | 9 | 5,544 | 4,913 |
| Inventories | 10 | 342 | 331 |
| Investment in short term deposit | 11 | - | 5,500 |
| Total current assets | | <u>6,790</u> | <u>11,890</u> |
| Non-current assets | | | |
| Investments accounted for using the equity method | 12 | - | 187 |
| Property, plant and equipment | 13 | 1,575 | 1,884 |
| Intangibles | 14 | 19,553 | 19,750 |
| Deferred tax | 15 | 942 | 751 |
| Other | 16 | 186 | 179 |
| Total non-current assets | | <u>22,256</u> | <u>22,751</u> |
| Total assets | | <u>29,046</u> | <u>34,641</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 17 | 5,592 | 4,575 |
| Borrowings | 18 | 10,381 | 729 |
| Derivative financial instruments | 19 | 48 | - |
| Provisions | 20 | 92 | 116 |
| Other | 21 | 437 | 368 |
| Total current liabilities | | <u>16,550</u> | <u>5,788</u> |
| Non-current liabilities | | | |
| Borrowings | 22 | 3,720 | 10,206 |
| Derivative financial instruments | 23 | 759 | 4,411 |
| Deferred tax | 24 | 1,144 | 945 |
| Provisions | 25 | 16 | - |
| Other | 26 | 462 | 507 |
| Total non-current liabilities | | <u>6,101</u> | <u>16,069</u> |
| Total liabilities | | <u>22,651</u> | <u>21,857</u> |
| Net assets | | <u>6,395</u> | <u>12,784</u> |
| Equity | | | |
| Contributed equity | 27 | 153,443 | 149,113 |
| Reserves | 28 | (6,124) | (6,997) |
| Accumulated losses | 29 | <u>(140,924)</u> | <u>(129,332)</u> |
| Total equity | | <u>6,395</u> | <u>12,784</u> |

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 2012

| | Contributed equity \$'000 | Other contributed equity \$'000 | Reserves \$'000 | Accumulated losses \$'000 | Total equity \$'000 |
|--|---------------------------------|--|--------------------|---------------------------------|---------------------------|
| Consolidated | | | | | |
| Balance at 1 July 2010 | 125,907 | 4,768 | (2,954) | (122,851) | 4,870 |
| Loss after income tax expense for the year | | - | - | (8,784) | (8,784) |
| Other comprehensive income for the year, net of tax | - | - | (4,043) | - | (4,043) |
| 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> |
| | Contributed equity \$'000 | Other contributed equity \$'000 | Reserves \$'000 | Accumulated losses \$'000 | Total equity \$'000 |
| Consolidated | | | | | |
| Balance at 1 July 2011 | 149,113 | - | (6,997) | (129,332) | 12,784 |
| Loss after income tax expense for the year | | - | - | (12,361) | (12,361) |
| Other comprehensive income for the year, net of tax | - | - | 873 | - | 873 |
| Total comprehensive income for the year | - | - | 873 | (12,361) | (11,488) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Share-based payments | - | - | - | 769 | 769 |
| Contributions of equity | 4,552 | - | - | - | 4,552 |
| Less: transaction costs on shares issued | (222) | - | - | - | (222) |
| Balance at 30 June 2012 | <u>153,443</u> | <u>-</u> | <u>(6,124)</u> | <u>(140,924)</u> | <u>6,395</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 2012

| | Note | Consolidated | |
|--|------|----------------|----------------|
| | | 2012 \$'000 | 2011 \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 21,298 | 21,130 |
| Payments to suppliers and employees (inclusive of GST) | | (30,843) | (29,329) |
| | | (9,545) | (8,199) |
| Interest received | | 125 | 264 |
| Other revenue | | 388 | 514 |
| Interest and other finance costs paid | | (727) | (61) |
| Income taxes paid | | (19) | (71) |
| Net cash used in operating activities | 43 | (9,778) | (7,553) |
| Cash flows from investing activities | | | |
| Payments for new joint venture capital invested | | (200) | (200) |
| Payments for property, plant and equipment | | (301) | (946) |
| Payments for intangibles | | (69) | (577) |
| Investment in short term deposits | | - | (5,500) |
| Proceeds from short term deposits | | 5,500 | - |
| Proceeds from sale of property, plant and equipment | | - | 8 |
| Net cash from/(used in) investing activities | | 4,930 | (7,215) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 27 | 4,552 | 12,806 |
| Transaction costs on shares issued | | (222) | (605) |
| Proceeds from borrowings | | 835 | 5,301 |
| Repayment of borrowings | | (633) | (1,400) |
| Net cash from financing activities | | 4,532 | 16,102 |
| Net increase/(decrease) in cash and cash equivalents | | (316) | 1,334 |
| Cash and cash equivalents at the beginning of the financial year | | 1,146 | 232 |
| Effects of exchange rate changes on cash | | 74 | (420) |
| Cash and cash equivalents at the end of the financial year | 8 | 904 | 1,146 |

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 significant 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 2009-12 Amendments to Australian Accounting Standards

The consolidated entity has applied AASB 2009-12 from 1 July 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which had no major impact on the requirements of the amended pronouncements. The main amendment was to AASB 8 'Operating Segments' and required 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.

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

The consolidated entity has applied AASB 2010-4 amendments from 1 July 2011. The amendments made numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provided 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; clarified 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 Instruments'; and provided guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'.

AASB 2010-5 Amendments to Australian Accounting Standards

The consolidated entity has applied AASB 2010-5 amendments from 1 July 2011. The amendments made 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.

AASB 124 Related Party Disclosures (December 2009)

The consolidated entity has applied AASB 124 (revised) from 1 July 2011. The revised standard simplified the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. A subsidiary and an associate with the same investor are 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.

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

The consolidated entity has applied AASB 2010-6 amendments from 1 July 2011. These amendments add and amended disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. Additional disclosures are now required when (i) an asset is transferred but is not derecognised; and (ii) when assets are derecognised but the consolidated entity has a continuing exposure to the asset after the sale.

TZ Limited
Notes to the financial statements
30 June 2012

Note 1. Significant accounting policies (continued)

AASB 1054 Australian Additional Disclosures

The consolidated entity has applied AASB 1054 from 1 July 2011. The standard sets out the Australian-specific disclosures as a result of Phase I of the Trans-Tasman Convergence Project, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards.

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

The consolidated entity has applied AASB 2011-1 amendments from 1 July 2011. These amendments made changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to International Financial Reporting Standards ('IFRSs') and harmonisation between Australian and New Zealand Standards. The amendments removed certain guidance and definitions from Australian Accounting Standards for conformity of drafting with IFRSs but without any intention to change requirements.

Going concern

The financial statements have been prepared on a going concern basis.

In making this assessment, management conducted a comprehensive review of the company's affairs including, but not limited to:

- The consolidated entity's financial position for the financial year ended 30 June 2012;
- Significant events and transactions the consolidated entity has entered into since 30 June 2012;
- The cash flow forecast for the consolidated entity for the period up to 30 September 2013;
- Sales and profitability forecasts for the consolidated entity for not only the next financial year, but beyond 30 June 2013; and
- The continued support of the consolidated entity's shareholders and lenders.

Management also considered the impact of maturity on 18 February 2013 of Convertible notes with a face value of \$12,000,000.

The consolidated entity has negotiated a twelve month extension of this maturity date with the lender QVT Funds, which is subject to shareholder approval at the 2012 Annual General Meeting. Unless those notes are converted to shares by the holder prior to maturity, the principal and interest outstanding on maturity, will be payable in cash by the consolidated entity. Management are confident of gaining shareholder support in relation to this matter.

A fundamental component of the ability to continue as a going concern is the company's ability to generate revenue and to raise capital as required. On 14 September 2012, the consolidated entity announced a tender contract with Singapore Post. The consolidated entity also announced a pro-rata renounceable entitlement offer to raise approximately \$4,600,000 before capital raising expenses. The proceeds raised will assist in funding capital requirements to meet the contract with Singapore Post.

At 30 June 2012 the consolidated entity's current liabilities exceeded current assets by \$9,760,000. For the year ended 30 June 2012 the consolidated entity incurred losses after income tax of \$12,361,000 and net cash outflows from operating activities of \$9,778,000.

In making its assessment, management acknowledges that the ability of the consolidated entity to continue as a going concern is dependent on the generation of sufficient profits and positive cash flows, the continued support of shareholders and lenders, the conversion of the notes to shares and the raising of additional share capital as and when required in the future.

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, as appropriate for-profit oriented entities. 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.

Note 1. Significant accounting policies (continued)

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 39.

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 2012 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 the adjustment recognised for 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% |
| 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 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.

Note 1. Significant accounting policies (continued)

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.

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.

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 to 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.

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 are 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.

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.

Note 1. Significant accounting policies (continued)

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.

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.

Note 1. Significant accounting policies (continued)

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.

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.

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 2012. 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.

Note 1. Significant accounting policies (continued)

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 and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 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 2015 but the impact of its adoption is yet to be assessed by the consolidated entity.

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.

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' and Interpretation 112 'Consolidation - Special Purpose Entities'. 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 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.

Note 1. Significant accounting policies (continued)

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 whereas liabilities would be based on transfer value. 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) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make changes to the accounting for defined benefit plans and the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. The later will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 July 2013 is expected to reduce the reported annual leave liability of 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 information 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.

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 make 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

These 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.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 July 2013 will increase the disclosures by the consolidated entity.

Note 1. Significant accounting policies (continued)

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of "currently has a legally enforceable right of set-off"; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of comprehensive information requirements when an entity provides a third balance sheet in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; AASB 132 'Financial Instruments: Presentation' Clarification of the tax effect of distributions to holders of an equity instrument is recognised in the income statement; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities. The adoption of the amendments from 1 July 2013 will not have a material impact on the consolidated entity.

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 finite 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.

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

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.

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 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 'Financial Instruments: Presentation'.

Upon inception, the derivative element of the convertible notes is separated and valued in accordance with AASB 139 'Financial Instruments: Recognition and Measurement'. 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 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 company engaged the services of valuation experts American Appraisal (Australia) Pty Limited. A Monte Carlo simulation was conducted whereby a random number within a normal distribution was utilised to simulate the share price return at a defined point in time. In arriving at their valuation, judgement and estimation was exercised regarding valuation inputs such as the effective life of the derivative and share price volatility.

The carrying values at 30 June 2012 of the derivative and convertible note liabilities are \$807,000 and \$13,135,000 respectively (2011: derivative \$4,411,000 and convertible note \$10,206,000) as detailed in notes 18, 19, 22 and 23.

TZ Limited
Notes to the financial statements
30 June 2012

Note 3. 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 ('EBITDA') 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. and TZI Australia Pty Limited ('TZI') | TZI's primary role is the development and commercialisation of hardware and software products primarily in the US, Australian and Asian markets. |

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 2012 approximately 41.95% (2011: 35.10%) of the consolidated entity's external revenue was derived from sales to one customer of PDT.

Segment information

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 2012

Note 3. Operating segments (continued)

Operating segment information

| | PDT (USA) \$'000 | TZI (USA & AUST) \$'000 | Intersegment eliminations/ unallocated \$'000 | Consolidated \$'000 |
|---------------------------------------|------------------------|----------------------------------|--|------------------------|
| 2012 | | | | |
| Revenue | | | | |
| Sales to external customers | 19,127 | 2,051 | - | 21,178 |
| Intersegment sales | 368 | - | (368) | - |
| Total sales revenue | 19,495 | 2,051 | (368) | 21,178 |
| Other revenue | 10 | 116 | 4,691 | 4,817 |
| Total revenue | 19,505 | 2,167 | 4,323 | 25,995 |
| EBITDA | (630) | (6,468) | - | (7,098) |
| Head office revenue / income | | | | 4,691 |
| Head office costs | | | | (3,305) |
| Depreciation and amortisation | | | | (1,768) |
| Interest expenses | | | | (4,862) |
| Loss before income tax expense | | | | (12,342) |
| Income tax expense | | | | (19) |
| Loss after income tax expense | | | | (12,361) |
| | | | | |
| | PDT (USA) \$'000 | TZI (USA) \$'000 | Intersegment eliminations/ unallocated \$'000 | Consolidated \$'000 |
| 2011 | | | | |
| Revenue | | | | |
| 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 revenue | 21 | 203 | 7,165 | 7,389 |
| Total revenue | 21,525 | 1,580 | 7,165 | 30,270 |
| EBITDA | 1,391 | (5,837) | - | (4,446) |
| Head office revenue / income | | | | 7,552 |
| Head office costs | | | | (5,827) |
| Depreciation and amortisation | | | | (1,856) |
| Interest expenses | | | | (4,098) |
| Loss before income tax expense | | | | (8,675) |
| Income tax expense | | | | (109) |
| Loss after income tax expense | | | | (8,784) |

TZ Limited
Notes to the financial statements
30 June 2012

Note 3. Operating segments (continued)

Geographical information

| | Sales to external customers | | Geographical non-current assets | |
|--------------------------|-----------------------------|----------------|---------------------------------|----------------|
| | 2012 \$'000 | 2011 \$'000 | 2012 \$'000 | 2011 \$'000 |
| Australia | 1,193 | 78 | 97 | - |
| United States of America | 17,858 | 17,376 | 21,908 | 27,586 |
| United Kingdom | 456 | 649 | 251 | 317 |
| Canada | 1,198 | 3,679 | - | - |
| Netherlands | - | 65 | - | - |
| Korea | 33 | - | - | - |
| Denmark | 92 | 398 | - | - |
| Other * | 348 | 136 | - | - |
| | <u>21,178</u> | <u>22,381</u> | <u>22,256</u> | <u>27,903</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, Italy, Russia, Ireland and Turkey

Note 4. Revenue

| | Consolidated | |
|----------------------------|----------------|----------------|
| | 2012 \$'000 | 2011 \$'000 |
| <i>Sales revenue</i> | | |
| Sales and services revenue | <u>21,178</u> | <u>22,399</u> |
| <i>Other revenue</i> | | |
| Management fees | - | 8 |
| Interest | 125 | 264 |
| Royalty | 118 | 89 |
| Other revenue | <u>969</u> | <u>710</u> |
| | <u>1,212</u> | <u>1,071</u> |
| Revenue | <u>22,390</u> | <u>23,470</u> |

Note 5. Other income

| | Consolidated | |
|--|----------------|----------------|
| | 2012 \$'000 | 2011 \$'000 |
| Net gain on disposal of property, plant and equipment | - | 3 |
| Net gain on issue of shares to extinguish liabilities | - | 190 |
| Net gain on movement in fair value of derivative liabilities | <u>3,605</u> | <u>6,607</u> |
| Other income | <u>3,605</u> | <u>6,800</u> |

TZ Limited
Notes to the financial statements
30 June 2012

Note 6. Expenses

| | Consolidated | |
|--|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Loss before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Leasehold improvements | 218 | 202 |
| Plant and equipment | 256 | 291 |
| Office equipment | 215 | 164 |
| | <u>689</u> | <u>657</u> |
| Total depreciation | | |
| <i>Amortisation</i> | | |
| Re-acquired right (Intevia Licence) | 628 | 658 |
| Other intangible assets | 451 | 541 |
| | <u>1,079</u> | <u>1,199</u> |
| Total amortisation | | |
| Total depreciation and amortisation | <u>1,768</u> | <u>1,856</u> |
| <i>Cost of sales</i> | | |
| Direct material | 920 | 1,068 |
| Direct employment related expenses | 7,047 | 6,831 |
| Subcontractors | 8,346 | 7,833 |
| Company overheads | 460 | 467 |
| Other cost of sales | 832 | 403 |
| | <u>17,605</u> | <u>16,602</u> |
| Total cost of sales | | |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable | <u>4,862</u> | <u>4,098</u> |
| <i>Net foreign exchange loss</i> | | |
| Net foreign exchange loss | <u>-</u> | <u>366</u> |
| <i>Superannuation expense</i> | | |
| Defined contribution superannuation expense | <u>11</u> | <u>15</u> |
| <i>Share-based payments expense</i> | | |
| Share-based payments expense | <u>769</u> | <u>2,303</u> |

TZ Limited
Notes to the financial statements
30 June 2012

Note 7. Income tax expense

| | Consolidated | |
|---|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| <i>Income tax expense</i> | | |
| Current tax | (3) | 109 |
| Deferred tax - origination and reversal of temporary differences | 8 | - |
| Under provision for prior years | 14 | - |
| | <u>19</u> | <u>109</u> |
| Aggregate income tax expense | <u>19</u> | <u>109</u> |
| Deferred tax included in income tax expense comprises: | | |
| Increase in deferred tax assets (note 15) | (191) | (116) |
| Increase in deferred tax liabilities (note 24) | 199 | 116 |
| | <u>8</u> | <u>-</u> |
| Deferred tax - origination and reversal of temporary differences | <u>8</u> | <u>-</u> |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i> | | |
| Loss before income tax expense | (12,342) | (8,675) |
| Tax at the statutory tax rate of 30% | (3,703) | (2,603) |
| Current year tax losses not recognised | 4,492 | 2,822 |
| Difference in overseas tax rates | (784) | (110) |
| Under provision for prior years | 14 | - |
| | <u>19</u> | <u>109</u> |
| Income tax expense | <u>19</u> | <u>109</u> |

The consolidated entity is in the process of determining its tax loss position to carry forward.

Note 8. Current assets - cash and cash equivalents

| | Consolidated | |
|--------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Cash at bank | <u>904</u> | <u>1,146</u> |

TZ Limited
Notes to the financial statements
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Note 9. Current assets - trade and other receivables

| | Consolidated | |
|---|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Trade receivables | 3,625 | 3,977 |
| Less: Provision for impairment of receivables | (86) | (165) |
| | <u>3,539</u> | <u>3,812</u> |
| Other receivables | 1,793 | 842 |
| Goods and services tax receivable | 36 | 48 |
| Prepayments | 176 | 211 |
| | <u>5,544</u> | <u>4,913</u> |

Impairment of receivables

The ageing of the impaired receivables provided for above are as follows:

| | Consolidated | |
|-----------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Past due 30 days | 54 | - |
| Past due 60 - 90 days | 8 | - |
| Past due 90 days + | 24 | 165 |
| | <u>86</u> | <u>165</u> |

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

| | Consolidated | |
|--|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Opening balance | 165 | 153 |
| Additional provisions recognised | 243 | 122 |
| Foreign exchange | 7 | (27) |
| Receivables written off during the year as uncollectable | (329) | (83) |
| | <u>86</u> | <u>165</u> |
| Closing balance | <u>86</u> | <u>165</u> |

TZ Limited
Notes to the financial statements
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Note 9. 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 \$443,000 as at 30 June 2012 (\$748,000 as at 30 June 2011).

The consolidated entity did not consider a credit risk on the aggregate balances after reviewing credit terms of customers based on recent collection practices.

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

| | Consolidated | |
|-----------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Past due 0 - 30 days | 229 | 409 |
| Past due 30 - 60 days | 14 | 57 |
| Past due 60 - 90 days | 152 | 132 |
| Past due 90 days + | 48 | 150 |
| | <u>443</u> | <u>748</u> |

Note 10. Current assets - inventories

| | Consolidated | |
|-------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Inventories | <u>342</u> | <u>331</u> |

Note 11. Current assets - investment in short term deposit

| | Consolidated | |
|---------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Term deposits | <u>-</u> | <u>5,500</u> |

Note 12. Non-current assets - investments accounted for using the equity method

| | Consolidated | |
|--|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Investment in joint venture - Intanova Pty Limited | <u>-</u> | <u>187</u> |

Refer to note 41 for further information on interests in joint ventures.

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Notes to the financial statements
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Note 13. Non-current assets - property, plant and equipment

| | Consolidated | |
|----------------------------------|---------------------|---------------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Leasehold improvements - at cost | 1,713 | 1,608 |
| Less: Accumulated depreciation | <u>(1,105)</u> | <u>(893)</u> |
| | <u>608</u> | <u>715</u> |
| Plant and equipment - at cost | 1,941 | 1,615 |
| Less: Accumulated depreciation | <u>(1,309)</u> | <u>(886)</u> |
| | <u>632</u> | <u>729</u> |
| Office equipment - at cost | 906 | 998 |
| Less: Accumulated depreciation | <u>(571)</u> | <u>(558)</u> |
| | <u>335</u> | <u>440</u> |
| | <u><u>1,575</u></u> | <u><u>1,884</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 | Office equipment \$'000 | Total \$'000 |
|-------------------------|-------------------------------------|----------------------------------|-------------------------------|---------------------|
| Consolidated | | | | |
| Balance at 1 July 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>(164)</u> | <u>(657)</u> |
| Balance at 30 June 2011 | 715 | 729 | 440 | 1,884 |
| Additions | 42 | 133 | 134 | 309 |
| Exchange differences | 69 | 26 | (24) | 71 |
| Depreciation expense | <u>(218)</u> | <u>(256)</u> | <u>(215)</u> | <u>(689)</u> |
| Balance at 30 June 2012 | <u><u>608</u></u> | <u><u>632</u></u> | <u><u>335</u></u> | <u><u>1,575</u></u> |

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Notes to the financial statements
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Note 14. Non-current assets - intangibles

| | Consolidated | |
|---|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Goodwill - at cost | 9,326 | 8,941 |
| | <u>9,326</u> | <u>8,941</u> |
| Trade names - at cost | 1,190 | 1,146 |
| | <u>1,190</u> | <u>1,146</u> |
| Re-acquired right (Intevia Licence) - at cost | 9,057 | 8,721 |
| Less: Accumulated amortisation | (3,950) | (3,195) |
| | <u>5,107</u> | <u>5,526</u> |
| Patents - at cost | 1,454 | 1,334 |
| Less: Accumulated amortisation | (328) | (229) |
| | <u>1,126</u> | <u>1,105</u> |
| Development costs - at cost | 1,792 | 1,735 |
| Less: Accumulated amortisation | (412) | (277) |
| | <u>1,380</u> | <u>1,458</u> |
| Customer relationships - at cost | 3,235 | 3,101 |
| Less: Accumulated amortisation | (1,811) | (1,527) |
| | <u>1,424</u> | <u>1,574</u> |
| | <u>19,553</u> | <u>19,750</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 |
|-------------------------|--------------------|--------------------------|--------------------------------|--------------------------------|-----------------|
| Consolidated | | | | | |
| Balance at 1 July 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 | 8,941 | 1,146 | 5,526 | 4,137 | 19,750 |
| Additions | - | - | - | 65 | 65 |
| Exchange differences | 385 | 45 | 209 | 178 | 817 |
| Amortisation expense | - | (1) | (628) | (450) | (1,079) |
| | <u>9,326</u> | <u>1,190</u> | <u>5,107</u> | <u>3,930</u> | <u>19,553</u> |

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

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Note 14. 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:

| | Consolidated | |
|---|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| <i>Goodwill</i> | | |
| - PDT Holdings Inc. ('PDT') | 5,233 | 5,016 |
| - Telezygology Inc. and TZI Australia Pty Limited ('TZI') | 4,093 | 3,925 |
| <i>Trade names</i> | | |
| - PDT | 1,176 | 1,134 |
| - TZI | 14 | 12 |
| <i>Re-acquired right</i> | | |
| - TZI | 5,107 | 5,526 |
| <i>Other intangible assets</i> | | |
| - PDT | 1,591 | 1,828 |
| - TZI | 2,339 | 2,309 |
| | <u>19,553</u> | <u>19,750</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 and a 8 year period in the case of TZI. 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 - 15.77% (2011: 16.71%)
- Gross margins - budgeted gross profit margins are between 23% and 29%, historical gross margins ranged between 10% to 30%
- Revenue growth rates - 2013 to 2017 (5%)
- The PDT model assumes additional constant cash flows past 2017 to perpetuity at a 7% increase to 2016.

Management believes these growth rates are conservative and they are confident the forecasted revenue growth can be achieved despite the decline in revenue growth of 4% experienced in 2012 (2011: increase in growth of 38%).

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 \$17,743,084 (2011: \$15,753,995) which exceeds the carrying amount at 30 June 2012 by \$9,743,084 (2011: \$7,775,995). If a discount rate of 30.5% was used instead of 15.77%, the recoverable amount of goodwill, trade names, re-acquired right and other intangible assets would equal the carrying amount.

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Note 14. Non-current assets - intangibles (continued)

Telezygology Inc. and TZI Australia Pty Limited ('TZI')

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

- Discount rate - 17.83% (2011: 16.6%)
- Gross margins - budgeted gross profit margins are between 34% and 38%, historical gross margins ranged between 48% to 64%
- Revenue growth rates - 2013 (231%), 2014 (95%), 2015 (73%), 2016 (46%), 2017 (19%), 2018 (8%), 2019 and 2020 (1%).

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 2013 financial year and beyond.

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 \$16,338,789 (2011: \$22,004,976) which exceeds the carrying amount at 30 June 2012 by \$4,785,789 (2011: \$10,232,976). If a discount rate of 24.7% was used instead of 17.83%, the recoverable amount of goodwill, trade names, re-acquired right and other intangible assets would equal the carrying amount.

Note 15. Non-current assets - deferred tax

| | Consolidated | |
|--|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| <i>Deferred tax asset comprises temporary differences attributable to:</i> | | |
| Amounts recognised in profit or loss: | | |
| Tax losses | 411 | 43 |
| Property, plant and equipment | 237 | 200 |
| Doubtful debts | 12 | 64 |
| Research and development credit | - | 126 |
| Other liabilities | 282 | 318 |
| Deferred tax asset | 942 | 751 |
| <i>Movements:</i> | | |
| Opening balance | 751 | 635 |
| Credited to profit or loss (note 7) | 191 | 116 |
| Closing balance | 942 | 751 |

TZ Limited
Notes to the financial statements
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Note 16. Non-current assets - other

| | Consolidated | |
|-------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Security deposits | 186 | 179 |

Note 17. Current liabilities - trade and other payables

| | Consolidated | |
|---------------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Trade payables | 2,038 | 1,739 |
| Employee expense payables | 138 | 173 |
| Lease incentive liability | 68 | 61 |
| Interest payable | 2,698 | 899 |
| Other payables | 650 | 1,703 |
| | <u>5,592</u> | <u>4,575</u> |

Refer to note 32 for further information on financial instruments.

TZ Limited
Notes to the financial statements
30 June 2012

Note 18. Current liabilities - borrowings

| | Consolidated | |
|--------------------------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Bank loans | 966 | 729 |
| Convertible notes payable - Series I | 9,415 | - |
| | <u>10,381</u> | <u>729</u> |

Bank loans

The company was in breach of the Tangible Net Worth banking covenant at 30 June 2012, however this was remedied with the bank in August 2012 when the facility was extended.

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.

Convertible notes with a face value of \$12,000,000 are due to mature on 18 February 2013. TZ Limited has negotiated a twelve month extension of this maturity date with the lender QVT, which is subject to shareholder approval at the 2012 AGM. Unless those notes are converted to shares by the holder prior to maturity, the principal and interest outstanding on maturity will be payable in cash by TZ Limited.

Refer to note 22 for further information on assets pledged as security and financing arrangements and note 32 for further information on financial instruments.

Note 19. Current liabilities - derivative financial instruments

| | Consolidated | |
|-----------------------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Derivative instrument liabilities | 48 | - |

Refer to note 32 for further information on financial instruments.

Note 20. Current liabilities - provisions

| | Consolidated | |
|-------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Employee benefits | 92 | 116 |

TZ Limited
Notes to the financial statements
30 June 2012

Note 21. Current liabilities - other

| | Consolidated | |
|------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Deferred revenue | <u>437</u> | <u>368</u> |

Note 22. Non-current liabilities - borrowings

| | Consolidated | |
|---|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Convertible notes payable - Series III and IIIB | <u>3,720</u> | <u>10,206</u> |

Refer to note 32 for further information on financial instruments.

Total secured liabilities

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

| | Consolidated | |
|------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Bank loans | <u>966</u> | <u>729</u> |

At 30 June 2012 the credit facility had a limit of US\$983,334 (2011: US\$1,200,000), however, the capacity is decreased as the amount of security decreases below the US\$983,334 (2011: US\$1,200,000). The credit facility consists of a Revolving Line of Credit and a Term Loan. 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 arrangement table below.

Assets pledged as security

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

TZ Limited
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Note 22. Non-current liabilities - borrowings (continued)

Financing arrangements

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

| | Consolidated | |
|------------------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Total facilities | | |
| Line of credit | 787 | 1,132 |
| Fixed term loan | 181 | - |
| | <u>968</u> | <u>1,132</u> |
| Used at the reporting date | | |
| Line of credit | 785 | 729 |
| Fixed term loan | 181 | - |
| | <u>966</u> | <u>729</u> |
| Unused at the reporting date | | |
| Line of credit | 2 | 403 |
| Fixed term loan | - | - |
| | <u>2</u> | <u>403</u> |

Series II

As of 30 June 2012, all the Series II Convertible Notes were fully redeemed.

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.

Note 23. Non-current liabilities - derivative financial instruments

| | Consolidated | |
|-----------------------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Derivative instrument liabilities | <u>759</u> | <u>4,411</u> |

Refer to note 32 for further information on financial instruments.

TZ Limited
Notes to the financial statements
30 June 2012

Note 24. Non-current liabilities - deferred tax

| | Consolidated | |
|--|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| <i>Deferred tax liability comprises temporary differences attributable to:</i> | | |
| Amounts recognised in profit or loss: | | |
| Goodwill | 987 | 815 |
| Other intangibles | 157 | 130 |
| | <u>1,144</u> | <u>945</u> |
| Deferred tax liability | <u>1,144</u> | <u>945</u> |
| <i>Movements:</i> | | |
| Opening balance | 945 | 829 |
| Charged to profit or loss (note 7) | 199 | 116 |
| | <u>1,144</u> | <u>945</u> |
| Closing balance | <u>1,144</u> | <u>945</u> |

Note 25. Non-current liabilities - provisions

| | Consolidated | |
|-------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Employee benefits | <u>16</u> | <u>-</u> |

Note 26. Non-current liabilities - other

| | Consolidated | |
|---------------------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Lease incentive liability | <u>462</u> | <u>507</u> |

Note 27. Equity - contributed equity

| | Consolidated | | Consolidated | |
|------------------------------|---------------------|--------------------|---------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| | Shares | Shares | \$'000 | \$'000 |
| Ordinary shares - fully paid | <u>138,356,402</u> | <u>122,731,123</u> | <u>153,443</u> | <u>149,113</u> |

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Notes to the financial statements
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Note 27. Equity - contributed equity (continued)

Movements in ordinary share capital

| Details | Date | No of shares | Issue price | \$'000 |
|--|------------------|---------------------|--------------------|----------------|
| Balance | 1 July 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 | | | | (605) |
| Balance | 30 June 2011 | 122,731,123 | | 149,113 |
| Issue of shares on exercise of rights | 28 October 2011 | 1,400,000 | \$0.00 | - |
| Issue of shares for additional capital | 22 February 2012 | 14,225,279 | \$0.32 | 4,552 |
| Less: share issue costs | | | | (222) |
| Balance | 30 June 2012 | <u>138,356,402</u> | | <u>153,443</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 2012 there were 11,250,000 (2011: 12,431,666) 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 2012 there were no (2011: 1,400,000) 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.

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Note 27. Equity - contributed equity (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:

| | Consolidated | |
|--|----------------------|----------------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Current liabilities - trade and other payables (note 17) | 5,592 | 4,575 |
| Current liabilities - borrowings (note 18) | 10,381 | 729 |
| Non-current liabilities - borrowings (note 22) | 3,720 | 10,206 |
| Total borrowings | <u>19,693</u> | <u>15,510</u> |
| Current assets - cash and cash equivalents (note 8) | (904) | (1,146) |
| Net debt | <u>18,789</u> | <u>14,364</u> |
| Total equity | 6,395 | 12,784 |
| Total capital | <u><u>25,184</u></u> | <u><u>27,148</u></u> |
| Gearing ratio | 75% | 53% |

The gearing ratio has increased as a result of (a) the increase in trade and other liabilities; (b) the decrease in cash at bank; (c) the accrual of interest on the convertible notes for the year; and (d) the increase of accumulated losses at the financial year end.

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

Note 28. Equity - reserves

| | Consolidated | |
|------------------------------|-------------------------------|-----------------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Foreign currency reserve | <u>(6,124)</u> | <u>(6,997)</u> |
| | Foreign currency \$'000 | Total \$'000 |
| Consolidated | | |
| Balance at 1 July 2010 | (2,954) | (2,954) |
| Foreign currency translation | <u>(4,043)</u> | <u>(4,043)</u> |
| Balance at 30 June 2011 | (6,997) | (6,997) |
| Foreign currency translation | <u>873</u> | <u>873</u> |
| Balance at 30 June 2012 | <u><u>(6,124)</u></u> | <u><u>(6,124)</u></u> |

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Notes to the financial statements
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Note 28. Equity - reserves (continued)

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 29. Equity - accumulated losses

| | Consolidated | |
|---|---------------------|-------------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Accumulated losses at the beginning of the financial year | (129,332) | (122,851) |
| Loss after income tax expense for the year | (12,361) | (8,784) |
| Transfer from share based payments reserve | 769 | 2,303 |
| | <u> </u> | <u> </u> |
| Accumulated losses at the end of the financial year | <u>(140,924)</u> | <u>(129,332)</u> |

Note 30. Equity - dividends

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

Note 31. Performance rights

| | Consolidated | |
|---------------------------|---------------------|-------------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Performance rights | | |
| Opening balance | 1,400 | 2,880 |
| Exercised | (1,400) | (1,480) |
| | <u> </u> | <u> </u> |
| Closing balance | <u>-</u> | <u>1,400</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 based upon advice from independent remuneration consultant. A total of 3,000,000 rights were granted at zero exercise price. Of the total, 1,480,000 were exercised immediately after approval was given at the AGM, and 120,000 were forfeited. The balance of 1,400,000 was subject to the satisfaction of a Performance Hurdle and exercisable from and including 1 July 2011 to 30 June 2012. The Performance Hurdle was met and the rights were exercised in the current year.

Note 32. 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, price 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, 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 2012 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.

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.

The derivatives have been valued using a Monte Carlo simulation which requires a number of inputs including share price. Due to the inherent complexities of this model, the impact of a movement in the share price is not disclosed.

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.

Note 32. Financial instruments (continued)

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

| | 2012 | | 2011 | |
|--|---|--------------------|---|-------------------|
| | Weighted average interest rate % | Balance \$'000 | Weighted average interest rate % | Balance \$'000 |
| Consolidated | | | | |
| Cash and cash equivalents | 3.72 | 904 | 3.16 | 1,146 |
| Bank loans | 3.25 | <u>(966)</u> | 6.25 | <u>(729)</u> |
| Net exposure to cash flow interest rate risk | | <u><u>(62)</u></u> | | <u><u>417</u></u> |

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

The consolidated entity has net liabilities totalling \$62,000 (2011: cash and cash equivalents of \$417,000). An official increase/decrease in interest rates of one (2011: one) percentage point would have an adverse/favourable effect on profit before tax of \$600 (2011: \$4,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Credit risk

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 2012 owed the consolidated entity \$1,393,627 (39% of trade receivables) (2011: \$1,247,000 (33% of trade receivables)). This balance was within its terms of trade and no impairment was made as at 30 June 2012. 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 notes 18 and 22) and debt for equity swaps in relation to capitalised interest and expenses reimbursements.

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Notes to the financial statements
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Note 32. Financial instruments (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

| | Consolidated | |
|------------|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Bank loans | 2 | 403 |

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

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.

| Consolidated - 2012 | 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 |
|--|---|-----------------------------|------------------------------------|------------------------------------|------------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 2,038 | - | - | - | 2,038 |
| Other payables | - | 650 | - | - | - | 650 |
| <i>Interest-bearing - variable</i> | | | | | | |
| Bank loans | 3.25 | 986 | - | - | - | 986 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Convertible notes | 10.00 | 12,000 | - | 5,989 | - | 17,989 |
| Interest payable on convertible notes | - | 3,759 | 599 | 759 | - | 5,117 |
| Total non-derivatives | | 19,433 | 599 | 6,748 | - | 26,780 |

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Note 32. Financial instruments (continued)

| Consolidated - 2011 | 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 |
|---------------------------------------|----------------------------------|-----------------------|------------------------------|------------------------------|---------------------|---|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 1,739 | - | - | - | 1,739 |
| Other payables | - | 1,703 | - | - | - | 1,703 |
| <i>Interest-bearing - variable</i> | | | | | | |
| Bank loans | 6.25 | 752 | - | - | - | 752 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Convertible notes | 10.00 | - | 12,000 | 5,989 | - | 17,989 |
| Interest payable on convertible notes | - | 2,391 | 1,368 | 1,358 | - | 5,117 |
| Total non-derivatives | | 6,585 | 13,368 | 7,347 | - | 27,300 |

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

The company has negotiated with the note holder QVT a twelve month extension on the maturity of the Series I convertible notes which were due to mature on 18 February 2013. As the extension is subject to shareholder approval at the 2012 AGM, the face value of the notes, being \$12,000,000 is disclosed as a current liability.

Furthermore, the company has also negotiated with QVT the conversion of interest payable at 30 June 2012 totaling \$1,798,900 into shares. This is also subject to shareholder approval at the 2012 AGM.

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)

| Consolidated - 2012 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|-----------------------------------|----------------|----------------|----------------|--------------|
| <i>Liabilities</i> | | | | |
| Derivative instrument liabilities | - | 807 | - | 807 |
| Total liabilities | - | 807 | - | 807 |

| Consolidated - 2011 | 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 |

There were no transfers between levels during the financial year.

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Note 32. Financial instruments (continued)

On 29 August 2012 the company has its convertible notes valued by American Appraisal (Australia) Pty Limited ('American Appraisal') to form an opinion of value of the Notes and embedded conversion options for reporting requirements under AASB 132 and AASB 139. The fair value is shown in the table below in relation to this valuation.

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the consolidated entity are as follows:

| Consolidated | 2012 | | 2011 | |
|-----------------------------------|---------------------------|----------------------|---------------------------|----------------------|
| | Carrying amount \$'000 | Fair value \$'000 | Carrying amount \$'000 | Fair value \$'000 |
| <i>Assets</i> | | | | |
| Cash at bank | 904 | 904 | 1,146 | 1,146 |
| Trade receivables | 3,539 | 3,539 | 3,812 | 3,812 |
| Other receivables | 1,793 | 1,793 | 842 | 842 |
| | <u>6,236</u> | <u>6,236</u> | <u>5,800</u> | <u>5,800</u> |
| <i>Liabilities</i> | | | | |
| Trade payables | 2,038 | 2,038 | 1,739 | 1,739 |
| Other payables | 3,554 | 3,554 | 2,836 | 2,836 |
| Convertible notes | 13,135 | 16,558 | 10,206 | 10,206 |
| Bank loans | 966 | 966 | 729 | 729 |
| Derivative instrument liabilities | 807 | 807 | 4,411 | 4,411 |
| | <u>20,500</u> | <u>23,923</u> | <u>19,921</u> | <u>19,921</u> |

Note 33. 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 | Non-Executive Director of PDT Inc. |
| William Leong | Vice President Operations of Telezygology Inc. |
| Timothy Koehler | Chief Financial Officer of Telezygology Inc. |
| John Wilson (resigned on 30 May 2012) | Former Chief Executive Officer of Telezygology Inc. |

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Note 33. 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:

| | Consolidated | |
|------------------------------|---------------------|------------------|
| | 2012 | 2011 |
| | \$ | \$ |
| Short-term employee benefits | 2,193,383 | 2,015,537 |
| Post-employment benefits | 14,112 | 12,157 |
| Share-based payments | 769,371 | 2,302,608 |
| | <u>2,976,866</u> | <u>4,330,302</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:

| 2012 | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|------------------------|--|--|------------------|---------------------|--------------------------------------|
| <i>Ordinary shares</i> | | | | | |
| M Bouris | 1,087,967 | - | 800,000 | - | 1,887,967 |
| K Ting | 1,000,975 | - | 600,000 | - | 1,600,975 |
| D Rudduck | 992,498 | - | - | - | 992,498 |
| P Casey | 90,000 | - | - | - | 90,000 |
| J Wilson | 58,142 | - | - | - | 58,142 |
| | <u>3,229,582</u> | <u>-</u> | <u>1,400,000</u> | <u>-</u> | <u>4,629,582</u> |

The number of shareholdings held nominally at 30 June 2012 are as follows:

M Bouris - 1,866,667;
K Ting - 1,600,975;
D Rudduck - 978,596;
P Casey - 90,000; and
J Wilson - 58,142.

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Note 33. Key management personnel disclosures (continued)

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|------------------------|--|--|----------------|---------------------|--------------------------------------|
| 2011 | | | | | |
| <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 at 30 June 2011 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.

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 |
|-------------------------------------|--|----------|-----------|---------------------------------|--------------------------------------|
| 2012 | | | | | |
| <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 | 10,000 | - | - | (10,000) | - |
| W Leong | 10,000 | - | - | (10,000) | - |
| T Koehler | 30,000 | - | - | (30,000) | - |
| | <u>5,310,000</u> | <u>-</u> | <u>-</u> | <u>(60,000)</u> | <u>5,250,000</u> |

2012

Options over ordinary shares

| | Vested and exercisable | Vested and unexercisable | Vested at the end of the year |
|----------|---------------------------|-----------------------------|-------------------------------------|
| M Bouris | 1,000,000 | 1,000,000 | 2,000,000 |
| K Ting | 750,000 | 750,000 | 1,500,000 |
| | <u>1,750,000</u> | <u>1,750,000</u> | <u>3,500,000</u> |

TZ Limited
Notes to the financial statements
30 June 2012

Note 33. Key management personnel disclosures (continued)

| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|-------------------------------------|--|---------------|-----------|---------------------------------|--------------------------------------|
| 2011 | | | | | |
| <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 |
|-------------------------------------|---------------------------|-----------------------------|-------------------------------------|
| 2011 | | | |
| <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> |

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 |
|--|--|----------|--------------------|---------------------------------|--------------------------------------|
| 2012 | | | | | |
| <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> | <u>-</u> | <u>-</u> |

| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|--|--|----------|--------------------|---------------------------------|--------------------------------------|
| 2011 | | | | | |
| <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 |
|--|---------------------------|-----------------------------|-------------------------------------|
| 2011 | | | |
| <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> |

TZ Limited
Notes to the financial statements
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Note 33. Key management personnel disclosures (continued)

Related party transactions

Related party transactions are set out in note 38.

Note 34. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company, its network firms and unrelated firms:

| | Consolidated | |
|--|---------------------|-------------|
| | 2012 | 2011 |
| | \$ | \$ |
| <i>Audit services - Grant Thornton Audit Pty Ltd</i> | | |
| Audit or review of the financial statements | 89,500 | - |
| <i>Audit services - Grant Thornton LLP</i> | | |
| Audit or review of the financial statements | 22,700 | - |
| <i>Audit services - unrelated practices</i> | | |
| Audit or review of the financial statements | 53,468 | 206,452 |
| <i>Other services - unrelated practices</i> | | |
| Corporate advisory | 13,761 | 25,177 |
| | 67,229 | 231,629 |

Note 35. Contingent assets

| | Consolidated | |
|---|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Reimbursement from QVT of withholding tax | 114 | 760 |

The company made application to the Australian Taxation Office ('ATO') regarding the company's obligation to withhold tax on interest payments made under the terms of the Series 1 Convertible Notes. On 19 September 2012, the ATO confirmed that tax was not required to be withheld and that payments totaling \$646,000 made in August 2011 would be refunded. As such, the contingent asset recorded previously has now been reduced to reflect the forthcoming refund.

In relation to Convertible Notes Series III and IIIB the contingent asset is still recognised. 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 36. Contingent liabilities

The consolidated entity does not have any contingent liabilities at 30 June 2012.

TZ Limited
Notes to the financial statements
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Note 37. Commitments

| | Consolidated | |
|---|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 693 | 749 |
| One to five years | 2,465 | 2,009 |
| More than five years | 921 | 700 |
| | <u>4,079</u> | <u>3,458</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 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 38. Related party transactions

Parent entity

TZ Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 40.

Joint ventures

Interests in joint ventures are set out in note 41.

Key management personnel

Disclosures relating to key management personnel are set out in note 33 and the remuneration report in the directors' report.

TZ Limited
Notes to the financial statements
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Note 38. Related party transactions (continued)

Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | |
|---|---------------------|-------------|
| | 2012 | 2011 |
| | \$ | \$ |
| 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. | 386,417 | 431,699 |
| Rent and serviced office expenditure paid to State Capital Property Pty Limited, a company in which Mark Bouris is a director. | 141,111 | 127,408 |
| 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. | 100 | 7,500 |
| Total booking fees paid to The Surf Travel Company Holdings Pty Ltd, a company in which Mark Bouris is an associate. | - | 360 |
| Administration fees and storage costs paid to YBR Services Pty Ltd, a company in which Mark Bouris is a director. | 43,372 | 39,670 |
| Marketing expenses paid to Yellow Brick Road Group Pty Limited, a company in which Mark Bouris is a director. | 120,000 | 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:

| | Consolidated | |
|--|---------------------|-------------|
| | 2012 | 2011 |
| | \$ | \$ |
| Current payables: | | |
| Accounting fees payable to Yellow Brick Road Accounting and Wealth Management Pty Ltd, a company in which Mark Bouris is a director. | 51,315 | 36,183 |
| Rent, serviced office expenditure and remaining rental bond payable to State Capital Property Pty Limited, a company in which Mark Bouris is a director. | 13,961 | 47,183 |
| Administration fees and storage costs payable to YBR Services Pty Ltd, a company in which Mark Bouris is a director. | 3,976 | - |
| Marketing expenses payable to Yellow Brick Road Group Pty Limited, a company in which Mark Bouris is a director. | 11,000 | - |

Loans to/from related parties

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

Terms and conditions

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

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Note 39. Parent entity information

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

Statement of comprehensive income

| | Parent | |
|----------------------------|-----------------|-----------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Loss after income tax | <u>(11,488)</u> | <u>(14,634)</u> |
| Total comprehensive income | <u>(11,488)</u> | <u>(14,634)</u> |

Statement of financial position

| | Parent | |
|---------------------------|---------------------|----------------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Total current assets | <u>1,537</u> | <u>6,095</u> |
| Total assets | <u>23,437</u> | <u>29,428</u> |
| Total current liabilities | <u>12,563</u> | <u>2,028</u> |
| Total liabilities | <u>17,042</u> | <u>16,644</u> |
| Equity | | |
| Contributed equity | 153,443 | 149,113 |
| Accumulated losses | <u>(147,048)</u> | <u>(136,329)</u> |
| Total equity | <u><u>6,395</u></u> | <u><u>12,784</u></u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2012 and 30 June 2011.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2012.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2012 and 30 June 2011.

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 2012

Note 40. 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 | |
|---|--------------------------|----------------|-----------|
| | | 2012 % | 2011 % |
| Telezygology, Inc. | United States of America | 100.00 | 100.00 |
| PDT Holdings, Inc. Product Development | United States of America | 100.00 | 100.00 |
| Technologies, Inc. | United States of America | 100.00 | 100.00 |
| PDT Tooling, Inc. | United States of America | 100.00 | 100.00 |
| CJSC PDT Ukraine | Ukraine | 90.00 | 90.00 |
| TZI Australia Pty Limited | Australia | 100.00 | 100.00 |

Note 41. 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 | |
|----------------------|--|-------------------------------------|-----------|
| | | 2012 % | 2011 % |
| Intanova Pty Limited | Marketing, supply and interior fit-out | - | 50.00 |

Intanova Pty Limited was 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 held 50% interest in Intanova Pty Limited. On 23 May 2012, the consolidated entity disposed of its investment in the joint venture as a result of a Reversionary Notice being issued on the company.

TZ Limited
Notes to the financial statements
30 June 2012

Note 41. Interests in joint ventures (continued)

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

| | Consolidated | |
|---|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| <i>Share of assets and liabilities</i> | | |
| Current assets | - | 94 |
| Non-current assets | - | 31 |
| | <hr/> | <hr/> |
| Total assets | - | 125 |
| | <hr/> | <hr/> |
| Current liabilities | - | 41 |
| | <hr/> | <hr/> |
| Total liabilities | - | 41 |
| | <hr/> | <hr/> |
| Net assets | - | 84 |
| | <hr/> <hr/> | <hr/> <hr/> |
| <i>Share of revenue, expenses and results</i> | | |
| Revenue | 130 | 63 |
| Expenses | (291) | (280) |
| Loss on sale of joint venture | (386) | - |
| | <hr/> | <hr/> |
| Loss before income tax | (547) | (217) |
| | <hr/> <hr/> | <hr/> <hr/> |

Note 42. Events after the reporting period

On 14 September 2012, the company announced it had been awarded the contract for the supply, delivery, design, development, installation, testing, documentation and commissioning of Singapore Post's smart locker network for the Singapore market. This provides a phenomenal opportunity to demonstrate to the world the consolidated entity's Packaged Asset Delivery technology.

On 14 September 2012, the company also announced a pro-rata renounceable entitlement offer to raise approximately \$4,600,000 before capital raising expenses. The proceeds raised will assist in funding capital requirements to meet the contract with Singapore Post. Under the entitlement offer, eligible shareholders will be entitled to acquire one new ordinary share for every three ordinary shares held at a price of 10 cents per ordinary share. All participants will also receive one free attaching Rights option exercisable at 14 cents at any time on or before 31 October 2013, for every two new shares issued.

The QVT Funds that hold convertible notes convertible into shares in the consolidated entity have agreed that the conversion price of 35 cents applying to the series I convertible notes and series III convertible notes and the conversion price of 42 cents applying to the series IIIB convertible notes and the series IV convertible notes (still to be issued, subject to shareholder approval), will not be reduced by the new shares being issued at the rights issue nor by any of the options being exercised at 14 cents.

No other matter or circumstance has arisen since 30 June 2012 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.

TZ Limited
Notes to the financial statements
30 June 2012

Note 43. Reconciliation of loss after income tax to net cash used in operating activities

| | Consolidated | |
|---|---------------------|----------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Loss after income tax expense for the year | (12,361) | (8,784) |
| Adjustments for: | | |
| Depreciation and amortisation | 1,768 | 1,856 |
| Share-based payments | 769 | 2,303 |
| Interest accrued on convertible notes | 4,728 | 3,899 |
| Net fair value loss/(gain) of derivatives | (3,605) | (6,607) |
| Loss on sale of joint venture | 224 | - |
| Loss/(gain) on debt for equity swap | - | (190) |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (666) | (172) |
| Increase in inventories | (10) | (164) |
| Increase in deferred tax assets | (191) | (116) |
| Decrease/(increase) in prepayments | 28 | (8) |
| Increase/(decrease) in trade and other payables | (520) | 410 |
| Increase in provision for income tax | - | 38 |
| Increase in deferred tax liabilities | 199 | 116 |
| Increase/(decrease) in employee benefits | (7) | 29 |
| Decrease in other operating liabilities | (134) | (163) |
| Net cash used in operating activities | <u>(9,778)</u> | <u>(7,553)</u> |

Note 44. Earnings per share

| | Consolidated | |
|---|---------------------|-------------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Loss after income tax attributable to the owners of TZ Limited | <u>(12,361)</u> | <u>(8,784)</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | <u>128,728,627</u> | <u>97,532,407</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>128,728,627</u> | <u>97,532,407</u> |
| | Cents | Cents |
| Basic earnings per share | (9.60) | (9.01) |
| Diluted earnings per share | (9.60) | (9.01) |

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 2012

Note 45. 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 in prior years. Each tranche of options had a fixed number granted with vesting periods from 1 to 3 years.

The rights granted to the directors were 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 had to be achieved before the rights could be exercised. The performance hurdle was met and the rights were exercised in the current year.

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 receive one fully paid share in the company. The first tranche of options is 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 is 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:

2012

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|-------------|-------------|----------------|----------------------------------|----------|-----------|---------------------------|--------------------------------|
| 01/08-08/08 | 25/08/11 | \$6.00 | 116,666 | - | - | (116,666) | - |
| 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 |
| | | | <u>6,431,666</u> | <u>-</u> | <u>-</u> | <u>(1,181,666)</u> | <u>5,250,000</u> |

TZ Limited
Notes to the financial statements
30 June 2012

Note 45. Share-based payments (continued)

2011

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | 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> |

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

The weighted average remaining contractual life of options outstanding at the end of the financial year was 5.01 years (2011: 4.96 years).

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

2012

| Grant date | Expiry date | Exercise price | 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 | 1,400,000 | - | (1,400,000) | - | - |
| | | | <u>1,400,000</u> | <u>-</u> | <u>(1,400,000)</u> | <u>-</u> | <u>-</u> |

2011

| Grant date | Expiry date | Exercise price | 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> |

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was nil year (2011: 1 year).

TZ Limited
Notes to the financial statements
30 June 2012

Note 45. Share-based payments (continued)

The following table highlights the share-based payment expense per categories:

| | Consolidated | |
|--|---------------------|---------------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| <i>Share-based payment expense recognised during the financial year:</i> | | |
| Options issued under Director and Executive Equity Plan | 769 | 1,476 |
| Rights issued under Director and Executive Equity Plan | - | 827 |
| | <u>769</u> | <u>2,303</u> |

TZ Limited
Directors' declaration

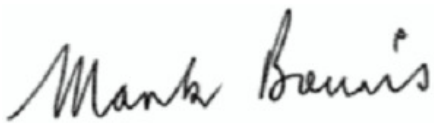
In the directors' opinion:

- 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 2012 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



Mark Bouris
Director



Kenneth Ting
Director

28 September 2012
Sydney



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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 (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, 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 us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- 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 2012 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 the notes to the financial statements.

Emphasis of Matter

Without qualification to the audit opinion expressed above, we draw attention to the following matters that are described in Note 1 to the financial report.

Convertible notes with a face value of \$12,000,000 are due to mature on 18 February 2013. The consolidated entity has negotiated a twelve month extension of this maturity date with the lender, which is subject to shareholder approval at the 2012 Annual General Meeting. Unless those notes are converted to shares by the holder prior to maturity the principal and interest outstanding on maturity will be payable in cash by TZ Limited. There is a material uncertainty as to whether the group will have sufficient cash to redeem the notes, if required.

At 30 June 2012 the consolidated entity's current liabilities exceeded current assets by \$9,760,000. For the year ended 30 June 2012 the consolidated entity incurred losses after income tax of \$12,361,000 and net cash outflows from operating activities of \$9,778,000.

The ability of the consolidated entity to continue as a going concern is dependent on the generation of sufficient profits and positive cash flows, the continued support of shareholders and lenders, the conversion of the notes to shares and the raising of additional share capital as and when required in the future.

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

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

Report on the remuneration report

We have audited the remuneration report included in pages 4 to 10 of the directors' report for the year ended 30 June 2012. 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.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of TZ Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Simon Coulton
Partner - Audit & Assurance

Sydney, 28 September 2012

TZ Limited
Shareholder information
30 June 2012

The shareholder information set out below was applicable as at 5 September 2012.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary shares |
|---------------------------------------|---|
| 1 to 1,000 | 833 |
| 1,001 to 5,000 | 880 |
| 5,001 to 10,000 | 301 |
| 10,001 to 100,000 | 554 |
| 100,001 and over | 175 |
| | <hr/> |
| | 2,743 |
| | <hr/> <hr/> |
| Holding less than a marketable parcel | 1,587 |
| | <hr/> <hr/> |

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Ordinary shares | |
|--|------------------------|---|
| | Number held | % of total shares issued |
| Deutsche Bank AG London | 14,399,999 | 10.41 |
| National Nominees Limited | 13,047,494 | 9.43 |
| Deutsche Bank AG London <QVT Fund LP A/C> | 11,654,542 | 8.42 |
| HSBC Custody Nominees (Australia) Limited | 7,142,462 | 5.16 |
| NGP Investments (No 2) Pty Limited | 4,649,087 | 3.36 |
| Surflodge Pty Ltd | 2,248,600 | 1.63 |
| Mr David Frederick Oakley | 1,625,000 | 1.17 |
| Mr John Michael Bouman + Ms Amanda Louise Mitchell | 1,554,622 | 1.12 |
| Mark Leigh Bouris | 1,466,667 | 1.06 |
| Mr Kenneth Ting | 1,450,000 | 1.05 |
| Mr Patrick Chew | 1,424,387 | 1.03 |
| Harrolds at Toorak Pty Ltd | 1,366,218 | 0.99 |
| Deutsche Bank AG London <Quintessence Fund LP A/C> | 1,300,947 | 0.94 |
| Pershing Australia Nominees Pty Ltd <Argonaut Account> | 1,131,485 | 0.82 |
| Mr Edward Saxon Reeve + Ms Debbie Lynette Winfield <Winreeve Super Fund A/C> | 1,118,108 | 0.81 |
| Mr Martin Patrick McManus | 1,104,638 | 0.80 |
| JP Morgan Nominees Australia Limited <Cash Income A/C> | 1,093,004 | 0.79 |
| Equity Trustees Limited <SGH Micro Cap Fund A/C> | 1,068,750 | 0.77 |
| Mr Chee King Tiong | 1,061,618 | 0.77 |
| Mr Mark Caple | 1,040,723 | 0.75 |
| | <hr/> | |
| | 70,948,351 | 51.28 |
| | <hr/> <hr/> | |

TZ Limited
Shareholder information
30 June 2012

Unquoted equity securities

| | Number on issue | Number of holders |
|-------------------------------------|----------------------------|------------------------------|
| Options over ordinary shares issued | 5,250,000 | 4 |
| Convertible notes | 13,135,000 | 2 |

Substantial holders

Substantial holders in the company are set out below:

| | Ordinary shares % of total shares issued |
|---|---|
| | Number held |
| Deutsche Bank AG London | 14,399,999 |
| National Nominees Limited | 13,047,494 |
| Deutsche Bank AG London <QVT Fund LP A/C> | 11,654,542 |
| HSBC Custody Nominees (Australia) Limited | 7,142,462 |

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.

Convertible notes and options

Convertible noteholders and option holders are not entitled to attend nor vote at meetings.



Limited

TZ Limited

Level 11, 1 Chifley Square
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United States

PDT, Inc.

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Lake Zurich, Illinois, 60047
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