

## 1. Company details

Name of entity:	TZ Limited
ABN:	26 073 979 272
Reporting period:	For the year ended 30 June 2018
Previous period:	For the year ended 30 June 2017

## 2. Results for announcement to the market

			<b>\$'000</b>
Revenues from ordinary activities	down	20.1% to	17,399
Earnings loss before interest, tax, depreciation and amortisation, adjusted for impairment	down	10.6% to	(2,637)
Loss from ordinary activities after tax attributable to the owners of TZ Limited	up	80.3% to	(11,688)
Loss for the year attributable to the owners of TZ Limited	up	80.3% to	(11,688)

### *Dividends*

There were no dividends paid, recommended or declared during the current financial period.

### *Comments*

The loss for the consolidated entity after providing for income tax amounted to \$11,688,000 (30 June 2017: \$6,481,000).

The earnings before interest, tax, depreciation and amortisation ('EBITDA'), adjusted for impairment, was a loss of \$2,637,000 (30 June 2017: loss of \$2,950,000), an improvement of 10.6%.

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for non-specific non-cash and significant items. The directors consider EBITDA to reflect the core earnings of the consolidated entity.

## 3. Net tangible assets

	<b>Reporting period Cents</b>	<b>Previous period Cents</b>
Net tangible assets per ordinary security	<u>0.50</u>	<u>(0.88)</u>

The net tangible assets is calculated based on the number of ordinary shares that would have been in existence had the capital restructure occurred as at 1 July 2016.

## 4. Control gained over entities

Not applicable.

## 5. Loss of control over entities

Not applicable.

**6. Dividends**

*Current period*

There were no dividends paid, recommended or declared during the current financial period.

*Previous period*

There were no dividends paid, recommended or declared during the previous financial period.

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**7. Dividend reinvestment plans**

Not applicable.

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**8. Details of associates and joint venture entities**

Not applicable.

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**9. Foreign entities**

*Details of origin of accounting standards used in compiling the report:*

Not applicable.

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**10. Audit qualification or review**

*Details of audit/review dispute or qualification (if any):*

The financial statements have been audited and an unqualified opinion has been issued.

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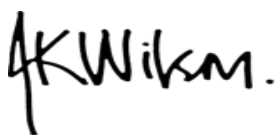
**11. Attachments**

*Details of attachments (if any):*

The Annual Report of TZ Limited for the year ended 30 June 2018 is attached.

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**12. Signed**



Signed \_\_\_\_\_

Date: 30 August 2018

John Wilson  
Managing Director  
Sydney



Think  
SMART

Think TZ

2018 Annual Report



Limited

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## **General information**

The financial statements cover TZ Limited as a consolidated entity consisting of TZ Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is TZ Limited's functional and presentation currency.

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., 3 Twin Dolphin Drive, Redwood City,  
CA 94065, USA

TZI Singapore Pte Limited, Centennial Business Suites,  
Suntec Tower 2, 9 Temasek Boulevard #29-01 Singapore  
038989

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 statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2018. The directors have the power to amend and reissue the financial statements.

Directors	Mark Bouris - Chairman John Wilson Graham Lenzner Thierry Denis Mario Vecchio
Company secretary	Craig Sowden
Notice of annual general meeting	The details of the annual general meeting of TZ Limited are: 1:00pm, Tuesday, 20 November 2018 at: Radisson Blu Plaza Hotel 27 O'Connell Street Sydney NSW 2000
Registered office	Level 11, 1 Chifley Square Sydney NSW 2000 Head office Tel: +61 2 9222 8890
Principal place of business	TZ Limited and TZI Australia Pty Limited Level 11, 1 Chifley Square, Sydney NSW 2000 Australia  Telezygology Inc., 3 Twin Dolphin Drive, Redwood City, CA 94065, USA  TZI Singapore Pte Limited, Centennial Business Suites, Suntec Tower 2, 9 Temasek Boulevard #29-01 Singapore 038989
Share register	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street Abbotsford VIC 3067 Tel: 1300 787 272 Fax: +61 3 9473 2500
Auditor	Grant Thornton Audit Pty Ltd Level 17, 383 Kent Street Sydney NSW 2000
Solicitors	Landerer & Company Level 31, 133 Castlereagh Street Sydney NSW 2000
Bankers	St George Bank Limited Level 3, 1 Chifley Square Sydney NSW 2000
Stock exchange listing	TZ Limited shares are listed on the Australian Securities Exchange (ASX code: TZL)
Website	<a href="http://www.tz.net">www.tz.net</a> TZ Limited's public website contains information regarding its products and the company, including an investor services section E-mail: <a href="mailto:info@tz.net">info@tz.net</a>
Corporate Governance Statement	The Corporate governance statement which was approved at the same time as the annual report can be found at <a href="http://tz.net/investors/corporate-governance/">http://tz.net/investors/corporate-governance/</a>

Dear Shareholders

FY2018 was a year of significant change for the Company.

We shifted our focus away from lower margin sales that supported revenue growth in previous years to higher margin and more attractive market sectors. While we achieved a lower turnover for the year, our sales were at higher margins, leading to an improvement to our EBITDA result.

Although we did not achieve our goal of positive EBITDA, I can report the following:

- Revenue decreased to \$17.4M from \$21.5M
- Gross margin improved to 51% from 46%
- EBITDA improved to negative \$2.6M from negative \$2.9M
- Operating cash outflows decreased to \$3.5M from \$7.6M

In September 2017, a restructure of the Board led to the resignations of Kenneth Ting and Paul Casey; Mark Bouris moving to a non-executive Chairman role and announcing his intention to resign at the conclusion of the 2018 AGM; and the appointment of new Directors, John Wilson as Managing Director and Graham Lenzner (Non-Executive Director). Thierry Denis (Non-Executive Director) and Mario Vecchio (Non-Executive Director) joined the Board in May 2018. Significantly, these changes represent a major shift in Company operation from an executive board to a more traditional board structure of independent non-executive Directors and a Managing Director.

I would like to thank Kenneth Ting and Paul Casey for their contributions to the Company during their tenures as Directors. Working with the Board, our year has been focused on putting in place the right foundations for a sustainable business model, one with greater levels of accountability, stronger governance and cost management, a focus on profitable business growth and a commitment to expanding the potential of the Company's Smart Device technology.

Our vision is to become a world class technology company, specifically a world leader in smart locking and fastening devices, capable of being networked and controlled over the internet and managed by TZ proprietary software. The pace of technology innovation continues to accelerate and the core enablers that underpin our technology offering are more relevant and importantly, more readily deployable today than in past years. We need to position ourselves as a true technology company and leverage the track record of performance demonstrated in our Data Centre and Smart Locker businesses to spring board into new application areas and business opportunities.

### **Existing business streams**

Over 90% of our business today is through TZ Smart Locker sales. In fiscal year 2017, 40% of those Smart Locker sales were to the postal and logistics sectors at an average gross margin below 20%. Today, postal sales only represent 25% of our sales mix with the majority of sales directed at the attractive corporate, educational and retail sectors.

We have improved our margins to postal sector customers by moving to service-based offerings such as annuity hosting and software-as-a-service options. Importantly, we've continued to be able to attract new and large corporate customers demonstrating that demand exists for our differentiated high-end offerings. As a consequence, our Smart Locker business is in a healthier position today with sales spread across an extensive range of large retained corporate customers in multiple application sectors and an increasing acceptance of subscription based hosted software offerings.

Our efforts to market our offering to the large addressable US University sector has seen strong growth in sales, particularly to the private university sector with major deployments at Rutgers, Princeton, Virginia Tech, Regis University and tender wins with the University of Charlestown, University of Maine, Villanova and several others. With each University sale in the range of US\$200,000 to US\$600,000, penetrating this segment and winning market share is important for the continued growth of the US business.

We have also established a new business stream by successfully retrofitting our electronics and deploying software to a competitor's system. The industry has seen some Locker manufacturers retract from their existing Locker supply businesses leaving customers with large installed systems that no longer can be supported and maintained. The ability for TZ to upgrade these existing networks provides a profitable revenue that fully leverages TZ's technology capability and provide an opportunity for further system sales.

Click and collect is continuing to gain traction with major retailers as they consider the value of offering a range of new e-commerce services to their customer that require new last mile delivery options. TZ has been engaged by several consumer and industrial retailers who are looking to TZ to help them establish Retail Locker networks which are fully integrated with their on-line platforms.

All markets are showing positive signs for Smart Locker business growth. Europe delivered \$3M in sales from a standing start and Asia is emerging from the dominant Sing Post and Pos Malaysia Postal Locker contracts to build new business opportunities with major Singapore based property developers with End-of-Trip and Day Locker offerings.

While our PAD sales continue to develop strongly, we still have opportunities to reduce our deployment costs and to improve the consistency of the overall service experience for our customers. We are continuing to proactively address our service performance and are implementing changes that should make a difference in the coming twelve months.

This year, our data centre rack locking sales showed nominal growth, maintaining last years' sales levels. The business has always been heavily dependent on new data centre builds and therefore sales have consistently been impacted by delays in project starts or in building programs. Looking forward, retained TZ customers such as NextDC and Macquarie Telecom have announced major expansion programs over the next three years and we hope to continue to work with them. Both the Australian and US businesses expect to see stronger growth rates in fiscal year 2019.

### **Building Awareness**

Communication to the market is an area where we need to improve how our product offering is viewed by customers. Most of our customers see us as a Locker manufacturer rather than a technology provider.

The opportunities for state-of-the-art smart locking solutions are emerging and we need to be seen as the provider of choice for these complex applications. Our aim is for new business lead generation to be driven by structured market awareness. Repositioning the business in the eyes of our customers and the market remains a most important priority. Work is currently being done to develop new web sites that better communicate our offerings and capabilities. As competitive intensity increases across our segments and products, we need to be clearly differentiated as the technology provider we are.

### **New business streams**

Expanding our business application focus is designed to help us realise new opportunities that leverage our core technology platform. We are working on building new integrated end-to-end hardware, firmware and application software innovations that can create opportunities and new possibilities for our business. We see a range of sectors where our technology could be applied including the consumer residential market, healthcare, workplace and retail sectors. These opportunities will take time to nurture but we have a number of opportunities that are currently being pursued.

This year we announced the co-development agreement with a global automotive manufacturer to develop a new utility vehicle that will integrate TZ Smart Device Technology. The project has been funded by our partner and we have completed a functional prototype which is currently undergoing extensive testing and evaluation. We are hopeful that the project progresses and that the collaboration is announced publicly before the end of the calendar year.

This year we completed the sale of our Infinity Design business. Our internal engineering capabilities have developed strongly under the stewardship of our CTO, Adam Forsyth. Accordingly, we believe that the time was right for us to focus our energies solely on internal TZ projects instead of the distraction of running a fee-for-service design consultancy.

### **Looking forward**

We have a clear strategy and are focusing on the things that will make a difference. Momentum is building and we need to continue to expand our current customer base and to continue to improve our service levels.

Building awareness of our Company will not only increase our market profile but present ourselves in a different light to our customers and expand the horizons of each engagement.

Finally, we need to build our path towards future, long term and sustainable revenue growth through technology licensing and development partnerships.

In summary we need to do three things well:

1. Drive value and growth from our existing business streams;
2. Build awareness amongst our excellent corporate customer base of our potential breadth of offerings and capability; and
3. Build new high growth businesses founded on technology licensing and commercialisation partnering.

We thank our shareholders for their continued support and our operating teams for their tremendous efforts and dedication to grow the Company.

A handwritten signature in black ink that reads 'J. Wilson'.

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John Wilson  
Managing Director

30 August 2018  
Sydney



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 at the end of, or during, the year ended 30 June 2018.

### 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  
 John Wilson (appointed on 4 September 2017)  
 Graham Lenzner (appointed on 8 September 2017)  
 Thierry Denis (appointed on 1 May 2018)  
 Mario Vecchio (appointed on 1 May 2018)  
 Kenneth Ting (resigned on 4 September 2017)  
 Paul Casey (resigned on 29 November 2017)

### 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 its subsidiaries globally.

Currently this technology is monetised through the sale of its IXP and PAD product lines. Infrastructure Protection (IXP) offers a cost effective, cabinet level locking solution that delivers physical security, environmental monitoring, authorised access control and real-time compliance reporting for the data centre market. Package Asset Delivery (PAD) solutions feature state-of-the-art system of modular lockers that integrate a network of TZ SMARt™ locking devices and proprietary system software. PAD solutions are used in the postal / logistics sector and for accountable mail and corporate day lockers in the commercial market.

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

### Dividends

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

### Review of operations

The consolidated entity recorded operating revenue of \$17.4M for the year (30 June 2017: \$21.5M). Improved gross margins of 51.1% (30 June 2017: 46.0%) and tighter control of overhead expenses resulted in improved Earnings Before Interest Tax Depreciation and Amortisation ('EBITDA') loss of \$2.6M (30 June 2017: EBITDA loss of \$2.9M). The impairment of the consolidated entity's intangible assets valued at \$7.4M resulted in a net loss after tax of \$11.7m (30 June 2017: net loss after tax \$6.5m).

Key Metrics	30 June 2018 \$'M	30 June 2017 \$'M	Variance \$'M
<b>Operating Revenue</b>	<b>17.4</b>	<b>21.4</b>	<b>(4.1)</b>
Gross Margin	51.1%	46.0%	
Overheads	11.6	12.8	(1.2)
<b>EBITDA</b>	<b>(2.6)</b>	<b>(2.9)</b>	<b>0.3</b>
Impairment	(7.4)	(1.3)	(6.1)
EBIT	(11.4)	(6.5)	(4.9)
Net profit after tax	(11.7)	(6.5)	(5.2)
<b>Operating cash flow</b>	<b>(3.5)</b>	<b>(7.6)</b>	<b>4.1</b>
Investment in product development	1.5	1.9	(0.4)

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for non-specific non-cash and significant items. The directors consider EBITDA to reflect the core earnings of the consolidated entity.

### *Revenue*

The consolidated entity's operating revenue recovered strongly from a weaker than expected first half result of \$6.0M to post a second half result of \$11.4M. Full year revenue was \$17.4M which is 19% lower than the financial year ended 30 June 2017 ('FY17'). The lower revenue during the financial year ended 30 June 2018 ('FY18') is reflective of the consolidated entity's shift towards a more sustainable mix of sales to a broader customer base in new high value Smart Locker sectors, and away from lower margin sales to the postal sector. This shift has improved the consolidated entity's gross margin from 46.0% last year to 51.1% in FY18. This trend will be instrumental to the consolidated entity achieving its profitable growth ambitions.

This trend was very evident in the USA business unit. Although total USA revenue was 23.2% lower at \$10.3M in FY18, revenue in the important USA corporate Locker market rose by 25.5% compared to last year which resulted in an improved gross profit result of \$5.8M (FY17: \$5.6M). The overall gross margin of the USA business unit improved from 41.8% last year to 55.8% this year.

The increased commitment to the Europe/Middle East/Africa market ('EMEA') through the appointment of a General Manager in the United Kingdom at the start of FY18 has produced immediate results with the signing of a large logistics customer in South Africa. This new business generated revenues of \$2.6M in South Africa this year (FY17: Nil) and the prospects are strong that further opportunities will materialise in this market in FY19.

### *Overheads*

The consolidated entity implemented a number of cost saving initiatives this year which resulted in overheads of \$11.6M, which was \$1.2M lower than the \$12.8M spent last year.

### *Impairment*

At the half year point in December 2017, following a weaker than expected first half revenue result, the Board decided to impair in full the intellectual property assets associated with the IXP and PAD products. These property assets were mainly comprised of capitalised patent costs and hardware and software development costs. The value of the impairment was \$7.4M (FY17: \$1.3M).

Despite the full impairment in December, the Board is firmly convinced of the value of the PAD IP assets and the consolidated entity continued to capitalise PAD development costs in the second half of the year. At 30 June 2018, the value of capitalised PAD development costs was \$0.6M.

### *Financial Position*

Following the impairment of the intangible assets of \$7.4M, the net assets of the consolidated entity decreased from \$7.3M at 30 June 2017 to \$1.0M at 30 June 2018.

On 8 November 2017, the company completed a two for five rights issue which raised \$5.5M. The company then restructured its capital by way of a 10:1 share consolidation, reducing the number of shares on issue to 70.6 million.

The strong revenue result in the second half of the year, including in the final month of the year, resulted in a significant amount of revenue being accrued by year end for completed and partially completed projects that were invoiced to customers after year end. This led to accrued revenue at 30 June 2018 being \$3.3M (30 June 2017: \$1.8M).

At the end of the year, the consolidated entity had an available debt facility of \$1M, unchanged from the end of the previous year. After year end, the debt facility was extended by an additional \$2M to improve TZ's working capital position ahead of the new financial year.

### *Operating cash flow*

The consolidated entity achieved a significant improvement in operating cash flows this year, down to a cash outflow of \$3.5M in FY18 from \$7.6M in FY17.

### *Investment in product development*

The consolidated entity continued its investment in product development and manufacturing improvements with a \$1.5M spend supporting development of the consolidated entity's next generation SMARt Devices, TZ Software platform and licensing initiatives.

### **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 7 August 2018, the consolidated entity increased its borrowing facility with First Samuel Limited by an additional \$2,000,000, increasing the total facility to \$7,000,000. The increase comprises two revolving tranches of \$1,000,000 which can be repaid and redrawn if repayments are made before the end of the term. The interest rate applicable to the additional facility is 90 day BBSW plus 9% per annum, payable 6 monthly in arrears. Under the revised facility, \$3,000,000 of the total loan facility matures on 13 December 2019 and \$4,000,000 matures on 5 May 2020. The facilities are secured by first ranking security interest over the assets of the consolidated entity.

No other matter or circumstance has arisen since 30 June 2018 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**

Further information on the future strategies is detailed in the review of operations which precedes the Directors' Report and Annual Financial Statements.

### **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:	Non-Executive Chairman
Qualifications:	BCom (UNSW), MCom (UNSW), HonDBus (UNSW), HonDLitt (UWS), FCA
Experience and expertise:	Mark Bouris is the Non-Executive Chairman of TZ Limited and has over 27 years' experience in the finance and property sectors. Mark is also the Executive Chairman of Yellow Brick Road and a board member of the Sydney Roosters. He is an Adjunct Professor at the University of NSW Business School and he sits on boards for the University of NSW Business Advisory Council and the Western Sydney University Foundation Council. In 2015, Mark was appointed a Member of the Order of Australia for significant service to the finance industry, particularly the home loan mortgage sector, to education, and to charitable organisations. Mark is also the author of three business and finance books.
Other current directorships:	Executive Chairman of Yellow Brick Road Holdings Limited (ASX: YBR).
Former directorships (last 3 years):	Non-Executive Chairman of Anteo Diagnostics Limited (ASX: ADO) and Non-Executive Chairman of Serena Resources Limited
Special responsibilities:	None
Interests in shares:	310,469 ordinary shares
Interests in options:	500,000 options over ordinary shares

Name: John Wilson  
Title: Managing Director and Chief Executive Officer (appointed on 4 September 2017)  
Qualifications: Bachelor of Engineering, Post Graduate in International Marketing  
Experience and expertise: John has extensive global business experience, having spent most of his 20 year career in the development of international businesses in Asia, Europe and the US including establishment of major strategic alliances and partnerships, technology licenses and driving market entry strategies through new product innovation and commercialization. John specializes in the field of strategic business development, innovation management and product commercialization. He has a post graduate qualification in international marketing and has received skills development from graduate schools in the US and in Europe in the areas of value based management and innovation management. John successfully co-founded and built TZ from the ground up into a global publicly listed technology company before exiting the Company in early 2007. He returned to TZ in a consulting capacity to support the new Board of TZ Limited in 2011. John also has significant executive management experience having spent a decade in his earlier years working for a major multinational manufacturing corporation in a range of senior roles across marketing, business development, strategy development, technology management and business unit general management.

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: None  
Interests in shares: 8,230 ordinary shares  
Interests in options: None

Name: Graham Lenzner (appointed on 8 September 2017)  
Title: Non-Executive Director  
Qualifications: BEc (USyd)  
Experience and expertise: Graham brings a wealth of Corporate experience to the Board as an Independent Director. He has had a career spanning over four decades with particular emphasis on investment management and financial markets. He was an Executive Director of the Armstrong Jones Group for twelve years, the last four years as Joint Managing Director until it's takeover by ING. Other previous roles include Finance and Deputy Managing Director Aquila Steel and General Manager Finance and Investments MMI Insurance Ltd. He has served on the Board of a number of both listed and private companies.

Other current directorships: Independent Non-Executive Director of 360 Capital Group Limited (ASX: TGP)  
Former directorships (last 3 years): None  
Special responsibilities: Chairman of the Audit and Risk Committee and Chairman of the Remuneration and Nomination Committee  
Interests in shares: 600,000 ordinary shares  
Interests in options: None

Name: Thierry Denis (appointed on 1 May 2018)  
Title: Non-Executive Director  
Qualifications: Ingenieur (ENSEA France), GAICD  
Experience and expertise: Thierry is a technology executive with more than 20 years' international experience in business management, company turnaround and transformation. He built an accomplished career with billion-dollar technology company Ingenico, leading a diverse range of mandates across dynamically different regions and markets. Thierry has led culture and process change, while leveraging his strong foundation expertise in IT solutions. Thierry was successful at Ingenico in delivering revenue and profit growth through the creation of scalable, lean and efficient business models and engaged, empowered and high performing team environments. This accomplishment earned him industry recognition through receipt of 'President of the Year' Award by TMT News.

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: None  
Interests in shares: 200,000 ordinary shares  
Interests in options: None

Name: Mario Vecchio (appointed 1 May 2018)  
Title: Non-Executive Director  
Qualifications: Electronic Engineer  
Experience and expertise: Mario has run various businesses in the technology industry including sectors such as networking, enterprise software, telecommunications and healthcare. He has had over 35 years' experience in information technology and related markets working with companies including Cisco Systems, Siemens, Juniper Networks and Amdocs. He established a number of businesses since 1998 which have been involved in the development of many technology projects for the telecommunications, healthcare and utility industries. Mario founded Progility PLC which became public on the UK AIM Index. Mario is currently Managing Director APJC for Big Switch Networks Inc. His technology experience includes networking/cloud, security solutions, GEO location systems, voice, telecommunications, encryption technologies and wireless systems. As a director of ASK Solutions Victoria Pty Ltd, Mario facilitated a number of significant fund raising events for the Childrens Cancer Institute of Australia (CCIA) to assist research projects into childhood cancers.

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: None  
Interests in shares: 85,000 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**

Craig Sowden is the Company Secretary and also the Chief Financial Officer of the company. Craig has over 20 years of experience of financial and commercial experience in various listed and unlisted corporations across a diverse range of industries. Craig joined TZ as Chief Financial Officer in October 2016 and was appointed Company Secretary in September 2017.

### Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Committee	
	Attended	Held	Attended	Held
Mark Bouris	11	11	2	2
John Wilson	9	9	2	2
Graham Lenzner	9	9	2	2
Thierry Denis	2	2	1	1
Mario Vecchio	2	2	1	1
Kenneth Ting	2	2	-	-
Paul Casey	3	5	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

### 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.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

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

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

### *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. A Remuneration and Nomination Committee has been established and it will be responsible for the remuneration policies commencing from the financial year ended 30 June 2019

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.

#### *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.

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 for 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 company. 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 the additional information section of the remuneration report for details of the last five years earnings and total shareholders return ('TSR').

#### *Use of remuneration consultants*

During the financial year ended 30 June 2018, the consolidated entity engaged Remuneration Strategies Group, remuneration consultants, to advise on an employee equity plan. Remuneration Strategies Group was paid \$4,510 for these services.

The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

#### *Voting and comments made at the company's 2017 Annual General Meeting ('AGM')*

At the last AGM 93.2% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2017. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

**Details of remuneration**

*Amounts of remuneration*

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

- William Leong - Chief Operating Officer of Telezygology Inc. (resigned on 7 February 2018)
- Adam Forsyth - Chief Technical Officer of TZ Limited
- Craig Sowden - Chief Financial Officer of TZ Limited

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Other	Bonus	Super-annuation	Employee leave	Options	
<b>2018</b>	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
M Bouris	245,506	850	-	-	-	-	246,356
G Lenzner*	55,585	-	-	5,281	-	-	60,866
T Denis*	11,416	-	-	1,084	-	-	12,500
M Vecchio*	11,416	-	-	1,084	-	-	12,500
P Casey *	40,153	-	-	-	-	-	40,153
<i>Executive Directors:</i>							
J Wilson*/**	365,192	-	50,000	20,833	-	-	436,025
K Ting*	78,530	2,067	-	-	-	-	80,597
<i>Other Key Management Personnel:</i>							
W Leong*	115,680	9,506	-	4,489	-	-	129,675
A Forsyth	145,313	-	-	18,406	-	-	163,719
C Sowden	230,000	-	-	21,850	-	-	251,850
	<u>1,298,791</u>	<u>12,423</u>	<u>50,000</u>	<u>73,027</u>	<u>-</u>	<u>-</u>	<u>1,434,241</u>

\* Represents remuneration from date of appointment and/or to date of resignation.

\*\* Bonus represents a discretionary cash bonus awarded on 1 August 2018 in respect of services performed during the year ended 30 June 2017. The bonus was paid to John Wilson's consulting company. Payment of the bonus was subject to achievement of deliverables including securing of strategic customer relationships, conversion of targeted sales opportunities and contracts in line with Board expectations and delivering on defined operational objectives set by the Board. No share of the bonus was forfeited.



	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Other	Bonus	Super-annuation	Employee leave	Options	
<b>2017</b>	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
P Casey	99,483	-	-	-	-	-	99,483
<i>Executive Directors:</i>							
M Bouris	440,917	10,200	-	-	-	-	451,117
K Ting	462,574	6,000	-	-	-	-	468,574
<i>Other Key Management Personnel:</i>							
W Leong**	250,890	19,435	33,161	6,272	-	-	309,758
B A Henley*	33,499	-	-	2,304	-	-	35,803
C Sowden*	135,333	-	-	34,767	-	-	170,100
	<u>1,422,696</u>	<u>35,635</u>	<u>33,161</u>	<u>43,343</u>	<u>-</u>	<u>-</u>	<u>1,534,835</u>

\* Represents remuneration from date of appointment and/or to date of resignation.

\*\* Bonus represents a discretionary cash bonus granted on 1 June 2017 and awarded as part of a salary package restructure. No performance criteria were attached to the bonus. No share of the bonus was forfeited

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2018	2017	2018	2017	2018	2017
<i>Non-Executive Directors:</i>						
M Bouris	100%	100%	-	-	-	-
G Lenzner	100%	-	-	-	-	-
T Denis	100%	-	-	-	-	-
M Vecchio	100%	-	-	-	-	-
P Casey	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
J Wilson	100%	-	-	-	-	-
K Ting	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
W Leong	100%	89%	-	11%	-	-
Adam Forsyth	100%	-	-	-	-	-
C Sowden	100%	100%	-	-	-	-

### **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:	John Wilson
Title:	Managing Director and Chief Executive Office
Agreement commenced:	8 September 2017
Term of agreement:	Three years
Details:	Base salary of \$450,000. Notice period is 12 months in first year, 9 months in second year and 6 months in the third year.

Name: Adam Forsyth  
Title: Chief Technical Officer  
Agreement commenced: 2 May 2016  
Term of agreement: No fixed term  
Details: Base salary of AU\$200,000 and notice period of 1 month

Name: Craig Sowden  
Title: Chief Financial Officer  
Agreement commenced: 10 October 2016  
Term of agreement: No fixed term  
Details: Base salary of AU\$235,000 and notice period 2 months

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

### **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 2018.

#### *Options*

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2018.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2018.

### **Additional information**

The earnings of the consolidated entity for the five years to 30 June 2018 are summarised below:

	2018	2017	2016	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000
Sales revenue	17,389	21,507	20,785	15,129	8,392
Adjusted EBITDA *	(2,637)	(2,950)	(5,277)	(4,469)	(8,552)
Loss after income tax	(11,688)	(6,481)	(7,034)	(6,436)	(11,798)

\* Earnings before interest, tax, depreciation, amortisation and other one-off non-operating items

The factors that are considered to affect TSR are summarised below:

	2018	2017	2016	2015	2014
Share price at financial year end (\$)	0.17	0.02	0.10	0.09	0.14
Basic earnings per share (cents per share)*	(18.45)	(12.86)	(15.10)	(15.70)	(43.90)

\* Earnings per share is calculated based on the number of ordinary shares that would have been in existence had the capital restructure occurred as at 1 July 2013.

***Additional disclosures relating to key management personnel***

***Shareholding***

The number of shares in the company 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	Other*	Additions	Consolidation**	Balance at the end of the year
<i>Ordinary shares</i>					
Mark Bouris	3,104,677	-	-	(2,794,208)	310,469
Graham Lenzner	-	-	4,200,000	(3,600,000)	600,000
Thierry Denis	-	-	200,000	-	200,000
Mario Vecchio	-	30,000	55,000	-	85,000
John Wilson	-	58,783	23,514	(74,067)	8,230
Craig Sowden	-	-	35,000	(31,500)	3,500
Adam Forsyth	-	69,500	62,800	(119,070)	13,230
Kenneth Ting	3,664,172	(3,664,172)	-	-	-
Paul Casey	236,363	(236,363)	-	-	-
	<u>7,005,212</u>	<u>(3,742,252)</u>	<u>4,576,314</u>	<u>(6,618,845)</u>	<u>1,220,429</u>

\* Other represents shares already held at the date of appointment and/or no longer being designated as a KMP, not necessarily a disposal of holding.

\*\* Consolidation represents the adjustment to the existing shareholding at the date of the capital restructure where, existing shareholders received 1 share for every 10 shares held.

***Option holding***

The number of options over ordinary shares in the company 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	Consolidation*	Expired	Forfeited/other**	Balance at the end of the year
<i>Options over ordinary shares</i>					
Mark Bouris	8,500,000	(7,650,000)	(350,000)	-	500,000
Kenneth Ting	8,250,000	(7,425,000)	(325,000)	(500,000)	-
	<u>16,750,000</u>	<u>(15,075,000)</u>	<u>(675,000)</u>	<u>(500,000)</u>	<u>500,000</u>

\* Consolidation represents the adjustment to the existing options held at the date of the capital restructure where, existing option-holders received 1 option for every 10 options held.

\*\* Forfeited/other may represent no longer being designated as a KMP. It does not necessarily represent options that have been forfeited.

No options were granted or exercised during the year ended 30 June 2018.

***Other transactions with key management personnel and their related parties***

During the year ended 30 June 2018 the consolidated entity incurred the following expenses from transactions with key management personnel and their related parties:

- Rent and serviced office expenditure of \$171,960 (2017: \$171,960) was paid to YBR Services Pty Limited, a director related entity in which Mark Bouris is a director.
- Broker fees of \$13,436 (2017: \$12,645) were paid for insurance policies arranged by Yellow Brick Road Wealth Management Pty Limited (formerly YBR General Insurance Brokers Pty Limited), a director related entity in which Mark Bouris is a director.
- Administration fees and storage costs of \$12,989 (2017: \$56,096) were paid to YBR Services Pty Limited, a director related entity in which Mark Bouris is a director.

As at the 30 June 2018 the consolidated entity has the following payables with key management personnel and their related parties:

- \$47,289 (2017: \$31,526) payable to YBR Services Pty Limited, a director related entity in which Mark Bouris is a director for rent, serviced office expenditure and rental bond
- \$nil (2017: \$10,284) payable to YBR Services Pty Limited, a director related entity in which Mark Bouris is a director for administration fees and storage costs.

***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
15 January 2014	30 June 2019	\$4.00	500,000
15 January 2014	30 June 2020	\$6.00	500,000
			<u>1,000,000</u>

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 ordinary shares of TZ Limited issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

### **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 the 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**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 23 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

**Officers of the company who are former partners of Grant Thornton**

There are no officers of the company who are former partners of Grant Thornton.

**Rounding of amounts**

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**Auditor's independence declaration**

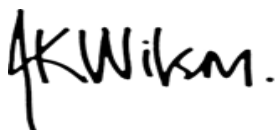
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

**Auditor**

Grant Thornton continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors



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John Wilson  
Managing Director

30 August 2018  
Sydney

## Auditor's Independence Declaration

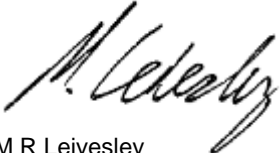
To the Directors of TZ Limited

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 2018, 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 Audit Pty Ltd  
Chartered Accountants



M R Leivesley  
Partner – Audit & Assurance

Sydney, 30 August 2018

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**TZ Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2018**



	Note	Consolidated 2018 \$'000	2017 \$'000
<b>Revenue</b>	4	17,399	21,772
Other income	5	167	-
<b>Expenses</b>			
Raw materials and consumables used		(8,503)	(11,611)
Employee benefits expense		(7,873)	(9,103)
Occupancy expense		(573)	(644)
Depreciation and amortisation expense	6	(1,338)	(2,218)
Impairment of assets	6	(7,411)	(1,320)
Communications expense		(155)	(221)
Professional and corporate services		(868)	(728)
Travel and accommodation expense		(668)	(809)
Net foreign currency exchange gains/(losses)		46	(235)
Other expenses		(1,599)	(1,360)
Finance costs		(285)	(101)
<b>Loss before income tax (expense)/benefit</b>		(11,661)	(6,578)
Income tax (expense)/benefit	7	(27)	97
<b>Loss after income tax (expense)/benefit for the year attributable to the owners of TZ Limited</b>		(11,688)	(6,481)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(114)	(309)
Other comprehensive income for the year, net of tax		(114)	(309)
<b>Total comprehensive income for the year attributable to the owners of TZ Limited</b>		(11,802)	(6,790)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	30	(18.45)	(12.86)
Diluted earnings per share	30	(18.45)	(12.86)

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**TZ Limited**  
**Statement of financial position**  
**As at 30 June 2018**



	Note	Consolidated 2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	1,003	669
Trade and other receivables	9	7,977	5,860
Inventories	10	1,279	699
Other	11	365	555
Total current assets		<u>10,624</u>	<u>7,783</u>
<b>Non-current assets</b>			
Property, plant and equipment	12	382	449
Intangibles	13	626	7,774
Total non-current assets		<u>1,008</u>	<u>8,223</u>
<b>Total assets</b>		<u>11,632</u>	<u>16,006</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	6,133	4,296
Provisions	15	521	379
Total current liabilities		<u>6,654</u>	<u>4,675</u>
<b>Non-current liabilities</b>			
Borrowings	16	4,000	4,000
Total non-current liabilities		<u>4,000</u>	<u>4,000</u>
<b>Total liabilities</b>		<u>10,654</u>	<u>8,675</u>
<b>Net assets</b>		<u>978</u>	<u>7,331</u>
<b>Equity</b>			
Issued capital	17	210,400	204,951
Reserves	18	(3,723)	(3,609)
Accumulated losses		<u>(205,699)</u>	<u>(194,011)</u>
<b>Total equity</b>		<u>978</u>	<u>7,331</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 2018**



<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2016	204,731	(3,300)	(187,530)	13,901
Loss after income tax benefit for the year	-	-	(6,481)	(6,481)
Other comprehensive income for the year, net of tax	-	(309)	-	(309)
Total comprehensive income for the year	-	(309)	(6,481)	(6,790)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 17)	220	-	-	220
Balance at 30 June 2017	204,951	(3,609)	(194,011)	7,331
<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2017	204,951	(3,609)	(194,011)	7,331
Loss after income tax expense for the year	-	-	(11,688)	(11,688)
Other comprehensive income for the year, net of tax	-	(114)	-	(114)
Total comprehensive income for the year	-	(114)	(11,688)	(11,802)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 17)	5,449	-	-	5,449
Balance at 30 June 2018	210,400	(3,723)	(205,699)	978

*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 2018**



	Note	Consolidated	
		2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		16,218	21,183
Payments to suppliers (inclusive of GST)		(19,480)	(29,013)
Interest received		10	11
Other revenue		-	254
Interest and other finance costs paid		(260)	(72)
Income taxes refunded/(paid)		(27)	(5)
Net cash used in operating activities	29	<u>(3,539)</u>	<u>(7,642)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	12	(122)	(90)
Payments for intangibles	13	(1,528)	(1,902)
Proceeds from disposal of intangibles		60	-
Net cash used in investing activities		<u>(1,590)</u>	<u>(1,992)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	17	5,544	222
Transaction costs on shares issued		(95)	(2)
Proceeds from borrowings		1,000	4,000
Repayment of borrowings		(1,000)	-
Net cash from financing activities		<u>5,449</u>	<u>4,220</u>
Net increase/(decrease) in cash and cash equivalents		320	(5,414)
Cash and cash equivalents at the beginning of the financial year		669	6,102
Effects of exchange rate changes on cash and cash equivalents		14	(19)
Cash and cash equivalents at the end of the financial year	8	<u><u>1,003</u></u>	<u><u>669</u></u>

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

## **Note 1. Significant accounting policies**

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

### **New or amended Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

### **Going concern**

These financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

While the consolidated entity incurred losses for the financial year ended 30 June 2018, in assessing the appropriateness of the going concern concept the following factors have been taken into consideration by the Directors:

- The Directors are of the view the consolidated entity is on track to meet revenue targets for the 30 June 2019 financial year. It is expected that, as the monthly revenue levels increase, the consolidated entity's operating business units will be in a position to contribute positive cash to the bottom line; and
- The Directors maintain a positive outlook on achieving profitability and positive cash flows in the 30 June 2019 financial year based on the strength of the sales pipeline.

In making their assessment, the Directors acknowledge that the ability of the consolidated entity to continue as a going concern is dependent on meeting sales and profitability forecasts, the generation of positive cash flows, the continued support of shareholders and the raising of additional share capital as and when required in the future.

The financial statements have been prepared on the going concern basis for the above reasons. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

### **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 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.

#### *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 27.

### **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 2018 and the results of all subsidiaries for the year then ended. TZ Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. 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 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. 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.

#### **Foreign currency translation**

The financial statements are 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 approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through 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.

##### *Project revenue*

Project revenues are recognised by reference to the stage of completion of the contracts.

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

Stage of completion is measured by reference to costs incurred to date as a percentage of costs 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.

#### **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 the changes in deferred tax assets and liabilities attributable to temporary differences, 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 be applied 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 interests in subsidiaries, associates or 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 at 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 entities which intend to settle simultaneously.

#### **Reclassification**

Comparative figures in the statement of profit or loss and other comprehensive income and in the statement of financial position have been reclassified to conform to the current year presentation.

#### **Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

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

### **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.

### **Inventories**

Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently 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.

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 recognised had the impairment not been made and is reversed to profit or loss.

### **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.

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

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. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life 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 intangible assets 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*

Goodwill arises on the acquisition of a business. 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.

#### *Patents*

Expenditure directly attributable to the registration of patents is capitalised at cost and is amortised over the useful life of 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 5 years.

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

### **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 of disposal 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 days of recognition.

### **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.

### **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.

### **Employee benefits**

#### *Short-term employee benefits*

Liabilities for wages and salaries and other employee benefits expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *Other long-term employee benefits*

Employee benefits not expected to be settled within 12 months of the reporting date are measured at 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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible.

#### *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 share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the 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, expected price volatility of the underlying share, the expected dividend yield, 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.



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

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.

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

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification had 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, they are treated as if they had 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 are treated as if they were a modification.

#### **Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

#### **Issued capital**

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.

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

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

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

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

### **Earnings per share**

#### *Basic earnings per share*

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

#### *Diluted earnings per share*

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

### **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 ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument 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 2018. 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*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018. It is not expected to significantly impact the financial statements on the basis that the main financial assets recognised represent cash and cash equivalent and trade receivables that do not carry a significant financing component and involve a single cash flow representing the repayment of principal, which in the case of trade receivables is the transaction price. Both asset classes will continue to be measured at face value. Other financial asset classes are not material to the consolidated entity. Financial liabilities of the consolidated entity are not impacted as the consolidated entity does not carry them at fair value.

*AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018, resulting in an expected decrease in accrued revenue of \$314,000, an increase in work in progress of \$142,000 and an overall decrease in net assets of \$172,000.

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

### *AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

### *IASB revised Conceptual Framework for Financial Reporting*

The revised Conceptual Framework has been issued by the International Accounting Standards Board ('IASB'), but the Australian equivalent has yet to be published. The revised framework is applicable for annual reporting periods beginning on or after 1 January 2020 and the application of the new definition and recognition criteria may result in future amendments to several accounting standards. Furthermore, entities who rely on the conceptual framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards may need to revisit such policies. The consolidated entity will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

## **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 (refer to the respective notes) within the next financial year are discussed below.

### *Capitalised development costs*

Distinguishing the research and development phases of a new project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

### *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 of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

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

*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.

**Note 3. Operating segments**

*Identification of reportable operating segments*

The consolidated entity operates in one segment being the development and commercialisation of hardware and software products primarily in the US, Australian and Asian markets. This is based on the internal reports that are reviewed and used by the Board of Directors (being the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The information reported to the CODM, on at least a monthly basis, is profit or loss and adjusted earnings before interest, tax, depreciation and amortisation and other one off-items ('Adjusted EBITDA').

*Intersegment transactions*

Transactions between segments are carried out at arm's length and are eliminated on consolidation.

*Major customers*

During the year ended 30 June 2018 3 customers (2017: 4 customers) each contributed more than 10% to the external revenue of the consolidated entity. These 3 customers contributed 46% (2017: 4 customers contributed 56%) of the consolidated entity's external revenue.

*Geographical information*

	Sales to external customers		Geographical non-current assets	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Australia	3,127	5,271	354	546
United States of America	10,312	13,427	651	7,672
United Kingdom	364	158	2	-
Singapore	769	933	1	5
Malaysia	130	1,701	-	-
Italy	130	-	-	-
South Africa	2,557	-	-	-
Other	-	17	-	-
	<u>17,389</u>	<u>21,507</u>	<u>1,008</u>	<u>8,223</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.

**Note 3. Operating segments (continued)**

A reconciliation of the loss after income tax expense to adjusted EBITDA is as follows:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax expense	(11,688)	(6,481)
Less: Interest income	(10)	(11)
Add: Interest expense	285	101
Add: Depreciation and amortisation	1,338	2,218
Add: Impairment of assets	7,411	1,320
Add/(less): Income tax expense/(benefit)	27	(97)
Adjusted EBITDA	<u>(2,637)</u>	<u>(2,950)</u>

**Note 4. Revenue**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Sales revenue</i>		
Sale and service revenue	<u>17,389</u>	<u>21,507</u>
<i>Other revenue</i>		
Interest	10	11
Royalty	-	54
Other revenue	<u>-</u>	<u>200</u>
Revenue	<u>17,399</u>	<u>21,772</u>

**Note 5. Other income**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Government grants	<u>167</u>	<u>-</u>

**Note 6. Expenses**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss before income tax includes the following specific expenses:		
<i>Depreciation (note 12)</i>		
Leasehold improvements	5	5
Plant and equipment	90	95
Office equipment	74	80
	<hr/>	<hr/>
Total depreciation	169	180
<i>Amortisation (note 13)</i>		
Re-acquired right (Intevia Licence)	418	860
Patents	97	179
Development costs	654	949
Other intangible assets	-	50
	<hr/>	<hr/>
Total amortisation	1,169	2,038
Total depreciation and amortisation	<hr/>	<hr/>
	1,338	2,218
<i>Impairment</i>		
Goodwill	85	-
Re-acquired right (Intevia Licence)	1,739	363
Patents	1,786	-
Development costs	3,801	700
Other intangible assets	-	257
	<hr/>	<hr/>
Total impairment	7,411	1,320
Minimum lease payments	515	599
Defined contribution superannuation expense	460	472
	<hr/>	<hr/>

**Note 7. Income tax expense/(benefit)**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense/(benefit)</i>		
Current tax	27	5
Deferred tax - origination and reversal of temporary differences	-	(102)
	<hr/>	<hr/>
Aggregate income tax expense/(benefit)	27	(97)
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Loss before income tax (expense)/benefit	(11,661)	(6,578)
Tax at the statutory tax rate of 27.5% (2017: 30%)	(3,207)	(1,973)
Current year tax losses not recognised	2,648	1,700
Difference in overseas tax rates/refunds	586	176
	<hr/>	<hr/>
Income tax expense/(benefit)	27	(97)
	<hr/>	<hr/>

**Note 7. Income tax expense/(benefit) (continued)**

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

**Note 8. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	1,003	669

**Note 9. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	4,396	4,021
Less: Provision for impairment of receivables	(43)	(72)
	<u>4,353</u>	<u>3,949</u>
Other receivables	170	103
Accrued revenue	3,309	1,808
Work in progress	145	-
	<u>7,977</u>	<u>5,860</u>

*Impairment of receivables*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Past due 60 - 90 days	43	-
Past due 90 days +	-	72
	<u>43</u>	<u>72</u>

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	72	-
Additional provisions recognised	47	72
Receivables written off during the year as uncollectable	(76)	-
Closing balance	<u>43</u>	<u>72</u>

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$2,033,000 as at 30 June 2018 (\$1,749,000 as at 30 June 2017).

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



**Note 9. Current assets - trade and other receivables (continued)**

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Past due 0 - 30 days	1,403	732
Past due 30 - 60 days	486	661
Past due 60 - 90 days	92	200
Past due over 90 days	52	156
	<u>2,033</u>	<u>1,749</u>

**Note 10. Current assets - inventories**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Finished goods - at cost	<u>1,279</u>	<u>699</u>

**Note 11. Current assets - other**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Prepayments	202	407
Security deposits	63	63
Other deposits	100	85
	<u>365</u>	<u>555</u>

**Note 12. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Leasehold improvements - at cost	418	418
Less: Accumulated depreciation	(416)	(411)
	<u>2</u>	<u>7</u>
Plant and equipment - at cost	1,939	1,824
Less: Accumulated depreciation	(1,654)	(1,564)
	<u>285</u>	<u>260</u>
Office equipment - at cost	755	768
Less: Accumulated depreciation	(660)	(586)
	<u>95</u>	<u>182</u>
	<u>382</u>	<u>449</u>

**Note 12. Non-current assets - property, plant and equipment (continued)**

*Reconciliations*

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

<b>Consolidated</b>	Leasehold improvements \$'000	Plant and equipment \$'000	Office equipment \$'000	Total \$'000
Balance at 1 July 2016	15	330	204	549
Additions	2	25	63	90
Exchange differences	-	-	(2)	(2)
Write off of assets	(5)	-	(3)	(8)
Depreciation expense	(5)	(95)	(80)	(180)
Balance at 30 June 2017	7	260	182	449
Additions	-	117	5	122
Disposals	-	(2)	(19)	(21)
Exchange differences	-	-	2	2
Write off of assets	-	-	(1)	(1)
Depreciation expense	(5)	(90)	(74)	(169)
Balance at 30 June 2018	<u>2</u>	<u>285</u>	<u>95</u>	<u>382</u>

**Note 13. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill - at cost	4,095	4,155
Less: Impairment	(4,095)	(4,010)
	<u>-</u>	<u>145</u>
Trade names - at cost	13	13
Less: Accumulated amortisation	(13)	(13)
	<u>-</u>	<u>-</u>
Re-acquired right (Intevia Licence) - at cost	10,138	10,157
Less: Accumulated amortisation	(8,036)	(7,618)
Less: Impairment	(2,102)	(363)
	<u>-</u>	<u>2,176</u>
Patents - at cost	2,573	2,518
Less: Accumulated amortisation	(750)	(653)
Less: Impairment	(1,786)	-
	<u>37</u>	<u>1,865</u>
Developments costs - at cost	8,839	7,383
Less: Accumulated amortisation	(3,749)	(3,095)
Less: Impairment	(4,501)	(700)
	<u>589</u>	<u>3,588</u>
Other intangibles - at cost	483	483
Less: Accumulated amortisation	(226)	(226)
Less: Impairment	(257)	(257)
	<u>-</u>	<u>-</u>
	<u><u>626</u></u>	<u><u>7,774</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:

<b>Consolidated</b>	Goodwill \$'000	Re-acquired right \$'000	Patents \$'000	Development costs \$'000	Other intangibles \$'000	Total \$'000
Balance at 1 July 2016	145	3,482	2,004	3,565	307	9,503
Additions	-	-	103	1,799	-	1,902
Exchange differences	-	(83)	(63)	(127)	-	(273)
Impairment of assets	-	(363)	-	(700)	(257)	(1,320)
Amortisation expense	-	(860)	(179)	(949)	(50)	(2,038)
Balance at 30 June 2017	145	2,176	1,865	3,588	-	7,774
Additions	-	-	68	1,460	-	1,528
Disposals	(60)	-	-	-	-	(60)
Exchange differences	-	(19)	(13)	(4)	-	(36)
Impairment of assets	(85)	(1,739)	(1,786)	(3,801)	-	(7,411)
Amortisation expense	-	(418)	(97)	(654)	-	(1,169)
Balance at 30 June 2018	<u>-</u>	<u>-</u>	<u>37</u>	<u>589</u>	<u>-</u>	<u>626</u>

**Note 13. Non-current assets - intangibles (continued)**

*Impairment testing of goodwill*

Goodwill is allocated to the following CGU:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Infinity Design Pty Limited	-	145
	<u>          </u>	<u>          </u>

*Impairment of goodwill*

As a consequence of the sale of the Infinity Design business during the financial year ended 30 June 2018, the \$85,133 of goodwill remaining within the Infinity Design CGU after the disposal was written off.

For the purpose of impairment testing of re-acquired rights and other intangibles the following CGUs are determined to be those that benefit from the core patented technology and product development costs. The net carrying values of intangible assets (excluding goodwill) allocated to those CGUs is as follows:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Infrastructure Protection - IXP	-	244
Package Asset Delivery - PAD	626	7,385
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
	<u>626</u>	<u>7,629</u>

The recoverable amounts of the CGU's were determined based on value-in-use calculations covering a detailed five year forecast and followed by an extrapolation of expected cash flows using the growth rates noted below. Management consider the CGU's operate in the global markets for IXP and PAD products. The growth rates reflect conservative estimates for each CGU noting current contracts and expansion of the same and general market growth over the forecast period.

The key assumptions used are as follows:

IXP

Revenue growth (average) 17% (2017: 14%)  
 Margins (average) 48% (2017: 48.1%)  
 Discount rate 14% (2017: 12.6%)

PAD

Revenue growth (average) 14% (2017: 14.8%)  
 Margins (average) 53% (2017: 46.5%)  
 Discount rate 14% (2017: 12.6%)

*Impairment test results - IXP CGU*

Based on the testing performed an impairment of \$425,000 (2017: \$1,320,000) was recognized for internally developed hardware & software and re-acquired rights that support the IXP CGU. The recoverable amount for the IXP CGU was determined on a value-in-use basis. The directors considered the requirements of AASB 136 "Impairment of Assets" and the irregular nature of project-based IXP revenues and have assessed that the carrying value exceeded the recoverable amount. The impairment charge represents the excess carrying value of the IXP assets at 31 December 2017, the date at which the respective assets were fully impaired. The company continues to invest in the ongoing development of the IXP product, however, the associated costs are not being capitalised as they are not assessed to meet the conditions of AASB 138 Intangible Assets.

**Note 13. Non-current assets - intangibles (continued)**

*Impairment test results - PAD CGU*

Based on the testing performed an impairment of \$6,901,000 (2017: \$nil) was recognized for internally developed hardware & software and reacquired rights that support the PAD CGU. The recoverable amount for the PAD CGU was determined on a value-in-use basis. The directors considered the requirements of AASB 136 "Impairment of Assets" and the irregular nature of project-based PAD revenues and assessed that the carrying value exceeded the recoverable amount. The impairment charge represents the excess carrying value of the PAD assets at 31 December 2017, the date at which the respective assets were fully impaired. The net carrying value of the PAD CGU at 30 June 2018, represents all expenditure capitalised from 1 January 2018 to 30 June 2018.

*Impairment test sensitivity*

A reasonable possible change in the key assumptions above would not cause the remaining carrying value of the CGU to exceed its recoverable amount.

**Note 14. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	3,649	2,517
Employee expense payables	306	219
Customer deposits	207	158
Unearned income	635	390
Goods and services tax payable	-	31
Other payables	1,336	981
	<u>6,133</u>	<u>4,296</u>

Refer to note 20 for further information on financial instruments.

**Note 15. Current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	<u>521</u>	<u>379</u>

**Note 16. Non-current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Loan - First Samuel	<u>4,000</u>	<u>4,000</u>

Refer to note 20 for further information on financial instruments.

On 18 November 2016, the consolidated entity entered into a debenture deed with First Samuel Limited which provides the consolidated entity with a secured loan facility of up to \$3,000,000. On 5 May 2017, the consolidated entity entered into a second debenture deed with First Samuel Limited which provides the consolidated entity with a secured loan facility of up to \$2,000,000. As at 30 June 2018, the consolidated entity has drawn down \$4,000,000 of the \$5,000,000 facility. The remaining facility may be drawn down at any time during the term of the loan.

**Note 16. Non-current liabilities - borrowings (continued)**

*First debenture deed*

The interest rate applicable to the facility is 90 day BBSW plus 4% per annum, payable 6 monthly in arrears. The term of the facility is 24 months with an option to extend for an additional 12 month. This option has been exercised and the interest rate will increase to 90 day BBSW plus 6% per annum for the additional 12 month term.

*Second debenture deed*

The interest rate applicable to the facility is 90 day BBSW plus 9% per annum, payable 6 monthly in arrears. The term of the facility is 36 months. The consolidated entity may repay part or all of the funds loans loaned before the end of the term without penalty.

The loan is secured over the assets of the consolidated entity.

*Financing arrangements*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Loan - First Samuel	5,000	5,000
Used at the reporting date		
Loan - First Samuel	4,000	4,000
Unused at the reporting date		
Loan - First Samuel	1,000	1,000

On 8 August 2018, the consolidated entity increased the facility with First Samuel Limited by an additional \$2,000,000, increasing the total facility to \$7,000,000. The increase comprises two revolving tranches of \$1,000,000 which can be repaid and redrawn if repayments are made before the end of the term. In total, \$3,000,000 of the Loan Facility may be redrawn if repayments are made before the end of the term.

The interest rate applicable to the additional facility is 90 day BBSW plus 9% per annum, payable 6 monthly in arrears.

Under the revised facility, \$3,000,000 of the total loan Facility matures on 13 December 2019 and \$4,000,000 matures on 5 May 2020. The facilities are secured by first ranking security interest over the assets of the consolidated entity.

**Note 17. Equity - issued capital**

	<b>Consolidated</b>			
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	70,558,162	503,983,352	210,400	204,951

**Note 17. Equity - issued capital (continued)**

*Movements in ordinary share capital*

<b>Details</b>	<b>Date</b>	<b>Shares</b>	<b>Issue price</b>	<b>\$'000</b>
Balance	1 July 2016	501,965,203		204,731
Issue of shares	18 July 2016	2,018,149	\$0.11	222
Less: share issue costs		-	\$0.00	(2)
Balance	30 June 2017	503,983,352		204,951
Rights issue	8 November 2017	201,593,707	\$0.03	5,544
Share consolidation (10 for 1)	14 December 2017	(635,019,353)	\$0.00	-
Shares issued for rounding purposes	14 December 2017	456	\$0.00	-
Less: share issue costs		-	\$0.00	(95)
Balance	30 June 2018	<u>70,558,162</u>		<u>210,400</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 and the company does not have a limited amount of authorised capital.

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*

At 30 June 2018 there were 1,000,000 (2017: 16,750,000) options on issue. 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.

*Capital risk management*

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company or invest in growth was seen as value adding.

The capital risk management policy remains unchanged from the 30 June 2017 Annual Report.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

**Note 18. Equity - reserves**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency reserve	<u>(3,723)</u>	<u>(3,609)</u>

**Note 18. Equity - reserves (continued)**

*Foreign currency reserve*

The reserve is used to recognise exchange differences arising from the 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.

*Movements in reserves*

Movements in each class of reserve during the current and previous financial year are set out below:

<b>Consolidated</b>	Foreign currency \$'000	Total \$'000
Balance at 1 July 2016	(3,300)	(3,300)
Foreign currency translation	(309)	(309)
Balance at 30 June 2017	(3,609)	(3,609)
Foreign currency translation	(114)	(114)
Balance at 30 June 2018	<u>(3,723)</u>	<u>(3,723)</u>

**Note 19. Equity - dividends**

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

**Note 20. 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 ('the 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 is 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 foreign currency 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 2018 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.



**Note 20. Financial instruments (continued)**

*Price risk*

The consolidated entity is not exposed to any significant price risk.

*Interest rate risk*

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

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

The consolidated entity monitors its interest rate exposure continuously.

As at the reporting date, the consolidated entity had the following variable rate exposures:

<b>Consolidated</b>	<b>2018</b>		<b>2017</b>	
	<b>Weighted average interest rate %</b>	<b>Balance \$'000</b>	<b>Weighted average interest rate %</b>	<b>Balance \$'000</b>
Cash and cash equivalents	0.10%	1,003	0.10%	669
Loan - First Samuel	7.30%	(4,000)	6.90%	(4,000)
Net exposure to cash flow interest rate risk		<u>(2,997)</u>		<u>(3,331)</u>

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

The consolidated entity has a net cash deficit totalling \$2,997,000 (2017: net cash deficit \$3,331,000). An official increase/decrease in interest rates of one (2017: one) percentage point would have an adverse/favourable effect on profit before tax of \$30,000 (2017: adverse/favourable \$33,000) 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 concentration of credit risk exposure with 3 customers, which as at 30 June 2018 owed the consolidated entity \$1,718,000 (2017: \$3,468,000) representing 39.5% (2017: 88%) of trade receivables. Of this balance, \$187,000 (2017: \$720,000) was outside the customers' respective terms of trade, however management is confident of collection and no impairment was made as at 30 June 2018. There are no guarantees against these receivables 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 most monies in Australia are held 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.

**Note 20. Financial instruments (continued)**

*Financing arrangements*

Unused borrowing facilities at the reporting date:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Loan - First Samuel	1,000	1,000

*Remaining contractual maturities*

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

<b>Consolidated - 2018</b>	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	3,649	-	-	-	3,649
Other payables	-	1,336	-	-	-	1,336
<i>Interest-bearing - variable</i>						
Loan - First Samuel	7.30%	292	4,175	-	-	4,467
<b>Total non-derivatives</b>		<b>5,277</b>	<b>4,175</b>	<b>-</b>	<b>-</b>	<b>9,452</b>

<b>Consolidated - 2017</b>	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	2,517	-	-	-	2,517
Other payables	-	1,021	-	-	-	1,021
<i>Interest-bearing - variable</i>						
Loan - First Samuel	6.90%	281	3,186	1,090	-	4,557
<b>Total non-derivatives</b>		<b>3,819</b>	<b>3,186</b>	<b>1,090</b>	<b>-</b>	<b>8,095</b>

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

**Note 21. Fair value measurement**

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

**Note 22. Key management personnel disclosures**

*Compensation*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	\$	\$
Short-term employee benefits	1,361,214	1,491,492
Post-employment benefits	73,027	43,343
	<u>1,434,241</u>	<u>1,534,835</u>

**Note 23. Remuneration of auditors**

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	\$	\$
<i>Audit services - Grant Thornton</i>		
Audit or review of the financial statements	<u>180,000</u>	<u>167,500</u>
<i>Other services - Grant Thornton</i>		
Independent tax advice and tax compliance	<u>76,300</u>	<u>5,000</u>
	<u>256,300</u>	<u>172,500</u>
<i>Audit services - network firms</i>		
Audit or review of the financial statements	<u>11,883</u>	<u>8,000</u>

**Note 24. Contingent liabilities**

The consolidated entity does not have any contingent liabilities at 30 June 2018 and 30 June 2017.

**Note 25. Commitments**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	326	359
One to five years	191	328
	<u>517</u>	<u>687</u>

The consolidated entity leases various premises under non-cancellable operating leases expiring between 1 and 5 years. All leases have annual CPI escalation clauses. The above commitments do not include commitments for any renewal options on leases. Lease conditions do not impose any restrictions on the ability of TZ Limited and its subsidiaries from borrowing further funds or paying dividends.

**Note 26. Related party transactions**

*Parent entity*

TZ Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 28.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 22 and the remuneration report included in the directors' report.

*Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Payment for other expenses:		
Rent and serviced office expenditure paid to YBR Services Pty Limited, a director related entity in which Mark Bouris is a director.	171,960	171,960
Broker fees for insurance policies arranged by Yellow Brick Road Wealth Management Pty Limited (formerly YBR General Insurance Brokers Pty Limited), a director related entity in which Mark Bouris is a director.	13,436	12,645
Administration fees and storage costs paid to YBR Services Pty Limited, a director related entity in which Mark Bouris is a director.	12,989	56,096
Interest paid/(payable) to First Samuel Limited - an entity with significant influence	275,054	110,341

*Receivable from and payable to related parties*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Current payables:		
Rent, serviced office expenditure and remaining rental bond payable to YBR Services Pty Limited, a director related entity in which Mark Bouris is a director.	47,289	31,526
Administration fees and storage costs payable to YBR Services Pty Limited, a director related entity in which Mark Bouris is a director.	-	10,284
Interest payable to First Samuel Limited - an entity with significant influence	25,092	27,090

*Loans to/from related parties*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Non-current borrowings:		
Loan from First Samuel Limited - an entity with significant influence	4,000,000	4,000,000

*Terms and conditions*

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

**Note 27. Parent entity information**

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

*Statement of profit or loss and other comprehensive income*

	<b>Parent</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax	(11,217)	(7,109)
Total comprehensive income	(11,217)	(7,109)

*Statement of financial position*

	<b>Parent</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	8,955	10,427
Total assets	8,955	14,844
Total current liabilities	3,950	4,068
Total liabilities	7,950	8,068
Equity		
Issued capital	210,397	204,951
Accumulated losses	(209,392)	(198,175)
Total equity	<u>1,005</u>	<u>6,776</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 2018 and 30 June 2017.

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2018 and 30 June 2017.

*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, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

**Note 28. Interests in 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	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
Telezygology, Inc.	United States of America	100.00%	100.00%
PDT Holdings, Inc.	United States of America	100.00%	100.00%
Product Development Technologies, Inc.	United States of America	100.00%	100.00%
PDT Tooling, Inc.	United States of America	100.00%	100.00%
TZI Australia Pty Limited	Australia	100.00%	100.00%
A.C.N. 156 637 704 Pty Ltd	Australia	100.00%	100.00%
TZI Singapore Pte Ltd	Singapore	100.00%	100.00%
TZI UK Limited	United Kingdom	100.00%	-

**Note 29. Cash flow information**

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

	Consolidated	
	2018 \$'000	2017 \$'000
Loss after income tax (expense)/benefit for the year	(11,688)	(6,481)
Adjustments for:		
Depreciation and amortisation	1,338	2,218
Impairment of intangibles	7,411	1,320
Write off of property, plant and equipment	1	8
Net loss on disposal of property, plant and equipment	21	-
Foreign exchange differences	(94)	(15)
Interest accrued on borrowings	25	29
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(1,767)	19
Decrease/(increase) in inventories	(580)	106
Increase in other operating assets	(160)	(23)
Increase/(decrease) in trade and other payables	1,812	(4,708)
Decrease in deferred tax liabilities	-	(102)
Increase/(decrease) in employee benefits	142	(13)
Net cash used in operating activities	<u>(3,539)</u>	<u>(7,642)</u>

*Changes in liabilities arising from financing activities*

Consolidated	Loan - First Samuel \$'000	Total \$'000
Balance at 1 July 2016	-	-
Net cash from financing activities	4,000	4,000
Balance at 30 June 2017	4,000	4,000
Balance at 30 June 2018	<u>4,000</u>	<u>4,000</u>

**Note 30. Earnings per share**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax attributable to the owners of TZ Limited	(11,688)	(6,481)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	63,358,206	50,388,383
Weighted average number of ordinary shares used in calculating diluted earnings per share	63,358,206	50,388,383
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(18.45)	(12.86)
Diluted earnings per share	(18.45)	(12.86)

The weighted average number of ordinary shares are calculated based on the number of ordinary shares that would have been in existence had the capital restructure occurred as at 1 July 2016.

For the purpose calculating the diluted earnings per share the denominator has excluded 500,000 options as the effect would be anti-dilutive.

**Note 31. 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 2010 and three tranches of options granted to the directors in 2014. Details of unexpired options that remain on issue are set out below.

Each tranche of options had a fixed number granted with vesting periods from one to three years. Each option, when validly exercised, entitles the holder to receive one fully paid share in the company.

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

2018							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Consolidation of options 1 to 10*	Expired	Balance at the end of the year
26/02/2010	30/06/2018	\$2.00	1,750,000	-	(1,575,000)	(175,000)	-
15/01/2014	30/06/2018	\$3.00	5,000,000	-	(4,500,000)	(500,000)	-
15/01/2014	30/06/2019	\$4.00	5,000,000	-	(4,500,000)	-	500,000
15/01/2014	30/06/2020	\$6.00	5,000,000	-	(4,500,000)	-	500,000
			16,750,000	-	(15,075,000)	(675,000)	1,000,000
Weighted average exercise price			\$0.81	\$0.00	\$0.81	\$2.74	\$0.53

\* Following a capital restructure during the year ended 30 June 2018, all options at the date of the capital restructure were consolidated on a 1 for 10 ratio.

**Note 31. Share-based payments (continued)**

2017

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired	Balance at the end of the year
26/02/2010	30/06/2017	\$2.00	1,750,000	-	-	(1,750,000)	-
26/02/2010	30/06/2018	\$3.00	1,750,000	-	-	-	1,750,000
15/01/2014	30/06/2018	\$0.25	5,000,000	-	-	-	5,000,000
15/01/2014	30/06/2019	\$0.45	5,000,000	-	-	-	5,000,000
15/01/2014	30/06/2020	\$0.60	5,000,000	-	-	-	5,000,000
			<u>18,500,000</u>	<u>-</u>	<u>-</u>	<u>(1,750,000)</u>	<u>16,750,000</u>
Weighted average exercise price			\$0.81	\$0.00	\$0.00	\$2.00	\$0.70

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2018 Number	2017 Number
26/02/2010	30/06/2018	-	1,750,000
15/01/2014	30/06/2018	-	5,000,000
15/01/2014	30/06/2019	500,000	5,000,000
15/01/2014	30/06/2020	500,000	5,000,000
		<u>1,000,000</u>	<u>16,750,000</u>

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.50 years (2017: 1.90 years).

**Note 32. Events after the reporting period**

On 7 August 2018, the consolidated entity increased its borrowing facility with First Samuel Limited by an additional \$2,000,000, increasing the total facility to \$7,000,000. The increase comprises two revolving tranches of \$1,000,000 which can be repaid and redrawn if repayments are made before the end of the term. The interest rate applicable to the additional facility is 90 day BBSW plus 9% per annum, payable 6 monthly in arrears. Under the revised facility, \$3,000,000 of the total loan facility matures on 13 December 2019 and \$4,000,000 matures on 5 May 2020. The facilities are secured by first ranking security interest over the assets of the consolidated entity.

No other matter or circumstance has arisen since 30 June 2018 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.



In the directors' opinion:

- the attached financial statements and notes 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 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 give a true and fair view of the consolidated entity's financial position as at 30 June 2018 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)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink that reads 'JK Wilson'.

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John Wilson  
Managing Director

30 August 2018  
Sydney

# Independent Auditor's Report

## To the Members of TZ Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of TZ Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

### Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the Group incurred a net loss after tax of \$11,688,000 and net cash outflows from operating activities of \$3,539,000 during the year ended 30 June 2018. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<h3>Revenue recognition (Note 1 and Note 4)</h3>	
<p>The Group offers products and services to customers that require varied revenue recognition accounting policies given different performance obligations. In accordance with AASB 118 <i>Revenues</i>, revenue from services is recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction.</p> <p>Revenue for Packaged Asset Delivery and Postal projects is recognised under the percentage of completion method. This method requires a significant amount of management judgement.</p> <p>This area is a key audit matter due to the degree of estimation and management judgement required to determine the appropriate amount of revenue to recognise.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>considering the appropriateness of the Group's revenue recognition accounting policies, placing particular focus on those products and services for which revenue is recognised under the percentage of completion method;</li> <li>holding discussions with key management personnel and project managers to understand and evaluate management's assessment and associated assumptions in determining the percentage of completion;</li> <li>evaluating the stage of completion calculation for a sample of Packaged Asset Delivery and Postal projects to assess whether the Group's accounting policy had been correctly applied;</li> <li>agreeing key terms of individually significant projects to underlying contracts and purchase orders;</li> <li>recalculating and assessing management's estimate of percentage complete by agreeing a sample of costs incurred for projects in progress at period end and comparing to the total estimated project costs;</li> <li>assessing management's ability to accurately estimate project costs by comparing actual project costs to prior estimates; and</li> <li>assessing the adequacy of the related disclosures in the financial statements.</li> </ul>
<h3>Intangible assets (Note 1 and Note 13)</h3>	
<p>The Group capitalises costs incurred in the development and enhancement of its proprietary technology. The Group capitalised \$626,000 of development costs during the year ended 30 June 2018.</p> <p>AASB 138 <i>Intangible Assets</i> sets out the specific requirements to be met in order to capitalise development costs. The process to measure the amount of development costs to capitalise involves significant management judgement in assessing whether costs meet the recognition criteria described in AASB 138.</p> <p>This area is a key audit matter due to the degree of subjectivity and management judgement applied in assessing whether costs meet the recognition criteria described in AASB 138.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>obtaining a list of additions to intangible assets and agreeing to the general ledger;</li> <li>agreeing a sample of additions to supporting documentation such as time records or invoices from third party suppliers and assessing whether the amounts met the recognition criteria in AASB 138;</li> <li>assessing the appropriateness of the Group's accounting policy for research and development costs; and</li> <li>assessing the adequacy of the related disclosures in the financial statements.</li> </ul>

### Impairment testing of assets (Note 1 and Note 13)

AASB 136 *Impairment of Assets* requires that an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any indication exists, the entity shall estimate the recoverable amount of the asset.

Forecasting future cash flows and applying an appropriate discount rate involves a high degree of estimation and judgement by management.

We have determined this is a key audit matter due to the judgement required by management in assessing if impairment indicators are present and in preparing an impairment assessment to meet the requirements of AASB 136.

Our procedures included, amongst others:

- assessing management's determination of the Group's cash generating units (CGUs) based on our understanding of the nature of the Group's business;
- assessing management's allocation of goodwill and other assets to the identified CGUs;
- obtaining the impairment assessment prepared by management and assessing the reasonableness of the key assumptions in the impairment model including:
  - checking mathematical accuracy, challenging forecast future cash flows and the appropriateness of discount and growth rates; and
  - considering the risk of management bias in the preparation of the financial information making up the forecast future cash flows;
- performing sensitivity analysis over key assumptions; and
- assessing the adequacy of the related disclosures in the financial statements.

### Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors' 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.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

### Report on the remuneration report

#### Opinion on the remuneration report

We have audited the Remuneration Report included in pages 11 to 17 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of TZ Limited, for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

#### Responsibilities

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.



Grant Thornton Audit Pty Ltd  
Chartered Accountants



M R Leivesley  
Partner – Audit & Assurance

Sydney, 30 August 2018

The shareholder information set out below was applicable as at 17 August 2018.

**Distribution of equitable securities**

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	1,507	-
1,001 to 5,000	423	-
5,001 to 10,000	135	-
10,001 to 100,000	227	-
100,001 and over	68	2
	<u>2,360</u>	<u>2</u>
Holding less than a marketable parcel	<u>1,777</u>	<u>-</u>

**Equity security holders**

*Twenty largest quoted equity security holders*

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

	Number held	Ordinary shares % of total shares issued
J P Morgan Nominees Australia Limited	20,699,224	29.34
Delcor Advisory Investment Group Pty Ltd	14,041,074	19.90
HSBC Custody Nominees (Australia) Limited	5,460,069	7.74
Mrs Margaret Jane Watt	1,110,310	1.57
Mr David Frederick Oakley (Dfo Investment A/C)	1,086,637	1.54
One Managed Investment Funds Limited (Technical Investing Absolute R)	1,042,217	1.48
Mr David Frederick Oakley	1,019,637	1.45
National Nominees Limited	937,814	1.33
One Managed Investment Funds Limited (TI Growth A/C)	880,713	1.25
Surflodge Pty Ltd (JE Lynch Staff Super Fd A/C)	875,956	1.24
Mr Peter Howells	700,000	0.99
Rod Investments (Vic) Pty Ltd (Gronow Super Fund A/C)	700,000	0.99
Mr Graham Lenzner + Mrs Loretta Lenzner (Lenzner Super Fund A/C)	600,000	0.85
Exelmont Pty Ltd	525,450	0.74
Zellvest Pty Ltd (No 2 Account)	498,006	0.71
Surflodge Pty Ltd	491,297	0.70
Mr Ken Tuder + Ms Thuy Le (Tuder Le S/F A/C)	482,416	0.68
One Managed Investment Funds Limited (Ti Family Wealth A/C)	400,455	0.57
Citicorp Nominees Pty Limited	361,364	0.51
Mr Mark Caple	340,676	0.48
	<u>52,253,315</u>	<u>74.06</u>

*Unquoted equity securities*

	<b>Number on issue</b>	<b>Number of holders</b>
Options over ordinary shares	1,000,000	2

**Substantial holders**

Substantial holders in the company are set out below:

	<b>Ordinary shares</b>	
	<b>Number held</b>	<b>% of total shares issued</b>
J P Morgan Nominees Australia Limited	20,699,224	29.34
Delcor Advisory Investment Group Pty Ltd	14,041,074	19.90
HSBC Custody Nominees (Australia) Limited	5,460,069	7.74

**Voting rights**

The voting rights attached to ordinary shares are set out below:

*Ordinary shares*

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

There are no other classes of equity securities.



Limited

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