TZ® Limited

# 2013 annual report

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# Chairman's Message

In the 2012 Annual Report, the Company talked about building a reputation as an innovator and end-to-end solution provider in the emerging markets of data security and online parcel delivery. Suffice to say that against strong headwinds and furious competition, TZ has delivered on those objectives.

The financial year kicked off with TZ winning the tender to design and manufacture a smart locker network for Singapore Post. After losing the tender for Australia Post, the Singapore Post deal was a catalyst for the business, which resulted in the successful implementation of a solution that is now on the radar of post and parcel innovators across the Asia Pacific region.

Since the initial deployment of five locker banks in April 2013, Singapore Post has measured a 10-15% rise in courier productivity and considers the PopStations their "star innovation" amongst the $100 million invested to improve processes and infrastructure. Singapore Post is expected to have 45 POPStation locations live by the end of January 2014.

Off the back of the Singapore Post initiative was the implementation of the A.D.A.M. Smart Locker Network in Australia. Alliances with GPT Group, AA Holdings Pty Limited, Australian Fuel Distributors Pty Limited (AusFuel), and Secure Parking Pty Ltd have provided real estate for A.D.A.M. locker networks in high traffic, urban centres, while our logistics and courier partners - Fastway, TNT and Toll Group – enable parcel traffic flow. A special acknowledgement goes to Temando Pty Ltd, the Australian leader in innovative delivery management solutions. Their clients, Nike.com, Tony Bianco, Glue Store and Pamper Hamper Gifts, became the first adopters of the A.D.A.M. network and through integration with the Temando system, TZ will be able to further deliver our solution to the growing segment of online retail shoppers.

In the IXP business, the increasing demand for IT security and governance has propelled new business opportunities and has increased sales with current clients in Australia, the U.S., Canada and Central America. Our TZ SlideHandles can now be found on over 6,000 data cabinets worldwide, double that of last year. Additionally, we continue to service the demand from existing clients such as NextDC, Macquarie Telecom, Control Circle and IBM, as well as new clients such as SunGard, HP, Cerner and NY State Public Safety. With this strong roster of clients firmly cemented, the focus for the coming financial year will be the development and implementation of new products which will continue to fulfil the security demands of this evolving and widely uncontested market.

Overall, a significant focus for the Company has been in the restructure of the business operations in the U.S. This legacy structure has proven to be inefficient and difficult to manage, and the move to smaller regional and localised operations throughout the U.S., Australia, Asia and Europe allows the Company to better service our clients and keep ahead of pace in an evolving global market.

The sale of the PDT business was an opportunity where the Company was able to eliminate the cash drain that came from supporting the restructures of that business, and freed up resources to fund successful new projects, including the centralisation of software development and implementation of localised testing.

In summary, TZL has achieved strong top line sales growth and has paved a solid pipeline for the 2014 financial year. TZ's only goal in the 2014 financial year must be to turn a solid pipeline in to our strongest revenue year yet. We will not be satisfied with moderate growth, 2014 must be a year of extraordinary growth. As long as the world economy continues to improve, I think the structure we have patiently built and shareholders have generously supported should deliver this outcome.

I would like to thank our Board, our shareholders and our business partners for their commitment and I look forward to communicating further developments with you in the coming year.

Regards

Mark Bouris

Mark Bouris, Executive Chairman

# Directors' Report

The financial year ended 30 June 2013 represents a transformational year for TZ Limited (TZL). Considering the loss of the Australia Post tender in late May 2012 and the considerable set-back that it had on the Company, TZL has worked hard to re-establish its position in the market. In the last 12 months, the Company has successfully secured the Singapore Post tender, successfully deployed and commissioned lockers and an end-to-end locker management system for Singapore Post, established TZL's own A.D.A.M. Parcel Locker Network in Australia supported by teaming agreements with recognised property owners, carrier companies and e-commerce enablers and sold its US engineering services business, Product Development Technologies, Inc. (PDT).

Due to the change in operating structure with the PDT sale and the write-off of a substantial amount of Goodwill on the Balance Sheet, it is difficult to directly compare the Company's current year's financial results with that of previous years. The reported full year loss of $23.2M for the year ended 30 June 2013 includes significant non-cash write-offs, accounting and financing items totalling $16.9M of the losses. The operating loss excluding non-cash, accounting and financing items for the year ended 30 June 2012 was $8.14M. On a like for like basis this compares to an operating loss excluding non-cash, accounting and financing items of $6.29M for the year ended 30 June 2013.

A number of key points should be noted when considering the Company's accounts:

- The revenue of AUD$2.753M relating to continuing operations does not recognise the backlog of approximately AUD$660,000 of purchase orders that were received but as at the end of the financial year, had not yet been dispatched and invoiced. An equivalent comparison with the same period last year shows sales growth of 57%.
- Operating costs have reduced by over 20% from the same period last year as a result of considered restructuring and refocusing of the organisation which includes the transition and restructure of development and engineering resources from the US to Australia.
- Goodwill impairment tests have been conducted by the auditors based on proper methodologies specified by accounting standards. Based on the change in the Company's go-to-market strategy and operations since the current Board took over, the auditors believe it is prudent to report the goodwill asset at a more realistic level than what was in the balance sheet. The goodwill level dates back to transactions undertaken in 2003 by the previous Board.
- A number of non-cash related expenses were carried in the Company's accounts to reflect the status of the convertible notes with QVT. Unrealised derivative losses have been calculated based on the change in value of the convertible notes against the current market valuation.
- Accrual for interest payments to QVT have also been reflected in the accounts to address the Company's financing costs.
- As a result of the sale of PDT, the Company's accounts also carry losses due to the write off of Deferred Tax Asset and Deferred Tax Liability associated with the PDT business.

Taking the above into consideration, the TZ business has continued to deliver positive business improvements with strong top-line sales growth and

**"the TZ business has continued to deliver positive business improvements with strong top-line sales growth and an expanding list of credible reference customers."**

# Directors' Report

an expanding list of credible reference customers. The fiscal 2013 result does not however, reflect the growth potential of the IXP and PAD businesses considering the multi-year supply contracts that were secured towards the end of the financial year. With these supply contracts and the anticipated pipeline of business, the Directors believe the Company has a base line of sales that will underpin a strong revenue projection for the coming fiscal year of around AUD$8M.

The penetration into several large corporates and the securement of on-going supply relationships this year has prompted committed development and enhancement of our current application specific software and a strong move into strengthening the functionality and quality of our enterprise level integrations. Underpinned by these multi-year supply relationships, the Company is starting to build a not insignificant annuity based software licensing, service and maintenance business.

The enhancement of our software offerings significantly expand our addressable market opportunities and signal a clear shift into high value system solutions that are built on our state-of-the-art SMArt Device Technology platform but driven by a highly customisable rich software control layer.

**IXP BUSINESS SUMMARY**

IXP sales continued to grow year on year, with the Company successfully securing several new accounts while maintaining on-going sales to existing companies as their data centre facilities expand. As each year passes, there is increasing push towards mandated security, compliance and governance in the IT environment, and TZ is well placed as the cost effective and proven security alternative that provides customers with an end-to-end solution that can meet requirements for audit, monitoring and control. As at 30 June 2013 TZ SlideHandles are protecting approximately 6,000 cabinets around the world. This compares to approximately 3,000 cabinets as at the same time last year.

A targeting of priority markets has seen good in-roads into the Financial Services, Government and Defense segments where these functional requirements are becoming basic needs. A general effort on the management of Certified Integrators and a more formally structured product distribution arrangement has also helped to increase sales conversion across all geographies.

As identified in the Director's Report last year, sales cycles continue to be the major challenge for the IXP business as sales growth is highly coupled to new data centre infrastructure investment. Gaining traction and securing specification has been very successful and have yielded new engagements and programs with some of the world's largest eCommerce, telecommunications and global IT solution providers. While this represents opportunities for significant global deployment, the speed of that deployment is outside the influence of the Company.

IXP sales in the US remain consistent with a number of new customers, including NY State Public Safety, Cerner and HP Texas, coming on board.

In EMEA, IXP sales are starting to build strongly with a number of initial deployments to major data centre operators in the UK, Europe and the

**“ TZ is well placed as the cost effective and proven security alternative that provides customers with an end-to-end solution that can meet requirements for audit, monitoring and control. ”**

# Directors' Report

Middle East. Restructuring of distribution relationships and the establishment of new channels to market is fuelling customer traction. The strong focus on project specification in previous years is starting to show return with participation on a number of supply tenders and the securement of a major multi-year supply contract which will start delivery during the next quarter.

In Australia, sales continue to expand on the back of the established customer base in NextDC, Macquarie Telecom and a growing list of new customers. Major data centre developments are planned in the second half of 2013 and into 2014 where TZ is the specified solution.

Work on distribution channels in Australia is also showing positive results with OEM partner Server Racks Australia continuing to grow IXP strongly with the major data centre operators and in particular the Government sector.

The business is in the process of bringing on a new distributor that is focused within the security market and should provide stronger coverage in NSW, QLD and VIC.

With good penetration and sales traction, the Australian business has upped its focus on establishing a supportive Certified Integrator network with Sydneticom representing the first accredited integrator in the market. Relationships with two other integrators are anticipated to be finalised in the coming month with companies based in Melbourne and in New Zealand to support sales traction.

On the development front, the launch of the SwingHandle product has been the primary focus. Extensive engagement with customers during the year has confirmed strong interest in the new product and the initial production prototypes have allowed us to better understand application opportunities. This increased market focus and customer needs awareness has prompted a redevelopment of some of the elements of the SwingHandle design to allow us to accommodate a number of critical new use cases. While these improvements have delayed the official launch of the product, we expect the new version of the SwingHandle will be available later this calendar year and will be supported by OEM orders initially in Australia.

**PAD BUSINESS SUMMARY**

With a number of large multi-year supply contracts bolstering the growth in the PAD business, PAD sales look to deliver phenomenal growth in 2014 as the corporate mail sector in the U.S. and the progressive roll-out of Parcel Locker Banks in Singapore and in Australia start to ramp up.

PAD sales in the U.S. corporate sector have grown strongly as initial pilot deployments with major Fortune 100 customers in the Financial Services and Technology sectors move into broader deployments across their properties. With many of these organisations having large campuses and major property portfolios across the U.S., the addressable opportunity is large and attractive. The securement of multi-year, multi-unit supply contracts with established customers is testimony of the opportunity and will lay a solid base line of sales ensuring a steady flow of progressive locker bank roll-outs each month.

**“With a number of large multi-year supply contracts bolstering the growth in the PAD business, PAD sales look to deliver phenomenal growth in 2014”**

# Directors' Report

The U.S. PAD business is also starting to expand into new verticals with supply wins to the college and university market. This potentially very large US sector has been dominated by the large multi-national suppliers. To win two competitive supply tenders in the last month is a great sign that the Company's reputation as a credible intelligent locker supplier is broadening and TZ's value proposition is being recognised.

In APAC, management focus has been stretched across major deployments in Singapore and the A.D.A.M. Parcel Locker initiative in Australia. Singapore deployments are progressing well with additional purchase orders being placed in accordance with Phase 2 roll-out requirements.

Deployment of the Phase 2 Lockers has just commenced and will continue progressively as further purchase orders are anticipated. Phase 2 represents a significant upgrade to locker functionality and will demonstrate an upgraded hardware and software offering that is specifically designed to accommodate the needs of local e-commerce retailers.

Significant effort has been afforded to building the foundations for the A.D.A.M. Parcel Locker Network and the deployment of the first pilot sites in Sydney and Melbourne represents 12 months of establishing the conditions for future success.

The Company has gone from a zero start 12 months ago to building the Locker Network back-end technology and infrastructure, securing access to several hundred property sites through structured partnerships with property owners, to interfacing and integrating with Temando and three major carrier partners. This is not an insignificant achievement.

The A.D.A.M. Parcel Lockers are now fully operational and live for consumers to access through participating e-merchants. Six well known e-retailers have signed up for the service thus far and we expect the participating list to grow as promotion to the e-merchants gathers pace. While implementation has taken longer than expected, the program has involved the marshalling and coordination of many third party operators and being flexible enough to address the complexities of delivering a carrier agnostic offering.

The next phase of the A.D.A.M. Parcel Locker Network will see up to 20 locker banks deployed as we broaden deployment with established partners as well as new property partners such as Secure Parking. The next lockers are anticipated to be installed from October onwards and should roll-out a lot more smoothly now that all the master site agreements and deployment processes and approvals have been established.

The market has latched onto the idea of automated parcel lockers and activity in this area is running at a frenetic pace.

While our focus remains in the Asian region and engagement with several postal and logistics operators, the business is actively progressing discussions with prospective customers in the U.S., Canada, Europe, Middle East and South Africa.

The exciting change is that with our high visibility in Singapore, TZ is now being approached and sought out to participate on RFIs (Request for Information), formal tender submissions and pricing proposals. This is an area which could drive growth for the Company in the foreseeable future.

**"The market has latched onto the idea of automated parcel lockers and activity in this area is running at a frenetic pace."**

# Directors' Report

**PDT SALE**

The PDT sale was not planned but nonetheless opportune with Mark Schwartz, the CEO of PDT and Paul Burke/Telefonix, Inc. making an unsolicited offer to the Company. The negotiated purchase price of USD$5,040,000 plus or minus a working capital adjustment, represents a fair offer, in the Board's opinion, given the performance of the PDT business over the last 18 months. PDT has seen several restructurings in recent times to try to address the lingering effects of the GFC in North America and to improve business profitability. During that period, TZL had to substantially fund PDT which was a significant endeavour relative to the Company's balance sheet.

With the sale of PDT, the Company has started to rebuild its infrastructure and capabilities in Australia to better service the potential growth and focus in the APAC region. The Company has established incredibly important partnerships with a number of strategic customers in this part of the world, who will help the Company refine and advance its product offerings and provide a commercial channel for these new products. Having development close to these core customers is integral to future business success. Moving forward, the centralisation of hardware and software development and a rekindling of new SMArt Device research and development will be driven out of Australia. The recent acquisition of Infinity Design and Development Pty Limited, a boutique product development firm based in Brisbane, provides an important local capability to support implementation. Infinity Design has provided considerable back-end development support on the design, engineering and production of a number of TZ initiatives including Australia Post Parcel Lockers, Coles "Click and Collect" Lockers and Singapore Post Parcel Lockers. Infinity Design is also assisting in the local customisation and production of TZ's new SwingHandle offering.

A lot has happened in this past year and TZ has been resolute in its commitment to take on the on-going challenges of building a sustainable technology and software business.

The Board is excited by the prospects ahead for the Company and must recognise the commitment, passion and motivation of our staff, who have helped this business bounce back into a position of positive growth.

A special note goes out to acknowledge the significant contribution of the founder of the Company, Dickory Rudduck, who passed away in recent months after a long and brave battle with cancer. Dickory's vision of the future has been an inspiration for our development efforts. His legacy of patents, concepts and new SMArt Device designs will continue to drive our technology focus today and into the future. Without his absolute belief in the potential of intelligent fastening devices, the Company would not be in the position of being a technology leader in our chosen segments of data centre micro-security and protection and e-commerce and logistics parcel delivery.

Special thanks are also extended to our shareholders for their on-going support and patience and confidence and trust in the Board to hold the course.

**"A lot has happened in this past year and TZ has been resolute in its commitment to take on the on-going challenges of building a sustainable technology and software business."**

# Case Study:
## Singapore Post

Singapore represents one of the world's most online-savvy communities with nearly full mobile and internet penetration. The rapidly expanding B2C e-commerce industry in Singapore, which saw an estimated market value of SGD$1.6B in 2011, has led to an exponential increase in parcel volumes over the last few years.

With the growth in Singapore's B2C e-commerce market expected to continue to grow to over SGD$4.4B by 2014, the deployment of Parcel Lockers across Singapore was critical for Singapore Post to effectively manage the first and last mile delivery and revolutionise parcel delivery in the process.

Singapore Post looked far and wide as part of a comprehensive tender process for a provider capable of delivering not only its requirements for parcel lockers today but with the ability to help it develop a network solution to deliver a state-of-the-art service offering to meet the lifestyle changes and demands of its customers in the future.

Singapore Post selected TZ because it had the technology and the capability to deliver against its future road-map objectives.

Since TZ was awarded the tender in September 2012, the Company has been instrumental in providing Singapore Post with their end-to-end parcel locker requirements from the customised design, manufacture and deployment of the Pick Own Parcel Station (POPStation) through to the extensive software development and back-end system integration that ensures a secure and reliable 24/7 automated parcel delivery service.

At the first stage of deployment, an initial five POPStations were installed as part of the pilot program to test consumer reaction to a new way of receiving their parcels. Singapore Post customers have responded very positively to the POPStation pilot, and Singapore Post now plans to roll out further POPStations island-wide during the next 12 months to bring the number deployed to a total of 100 POPStations. The POPStation lockers will be placed at locations such as residential and office areas, and around shopping malls that are accessible 24/7 to the public.

According to Mark Bouris, Executive Chairman of TZ Limited, "Winning the Singapore Post tender has been significant for our Company not only in terms of the value of the material contract but in validating our PAD offering against the major postal locker providers. Singapore strives to lead the region in technological developments and its people embrace new technology and are very willing to try the newest products on the market. TZ Limited has a phenomenal opportunity to make a major statement in the region and continue to build our own reputation as a legitimate player and provider to the world's postal and logistics operators".

As confirmation of Singapore Post's intention to accelerate their locker deployment plans, TZ Limited received a significant new purchase order in September for 30 banks of lockers to be supplied before the end of January. This will bring the total number of lockers deployed thus far in Singapore to 45 locker banks.

**"Singapore Post selected TZ because it has the technology and the capability to deliver against its future road-map objectives."**

# Case Study:
## A.D.A.M. Parcel Lockers

The A.D.A.M. Parcel Locker initiative has been a primary focus for TZ Limited over the last 12 months and despite the significance of the task, good progress has been made to establish TZ Limited as Australia's very first carrier agnostic parcel locker network operator.

The first locker sites are now live and can be found at the MLC Centre in the Sydney CBD, Westfield Chatswood, Melbourne Central in the Melbourne CBD, 7 Eleven in Heidelberg VIC and BP in Richmond VIC.

With commercial relationships in place with property owners such as GPT, AA Holdings (BP Victoria Franchise Owner), AusFuel (Gull Petrol Station Owner), Secure Parking and other major retail property owners, TZ Limited has access to potentially hundreds of new locations for A.D.A.M. Parcel Locker Stations across Australia.

The next phase, which will involve the roll out of up to an additional twenty more banks, is scheduled to start in October with a target completion date of January 2014.

To support the physical locker network, TZ has also focused on establishing partnership agreements with e-commerce and logistics companies to establish parcel flow and revenue, including agreements with the leading logistics operators such as the Toll Group, TNT Express, Fastway Couriers and Temando, the market's leading and most comprehensive delivery system platform. According to Temando CEO Carl Hartmann, "We work with over 30,000 clients who are all looking to provide the best possible customer experience to support their brand. We are living in a time when consumers want same day, same hour delivery, and they aren't willing to accept anything less. We've built our business around that demand, and A.D.A.M. Parcel Lockers can help us deliver what people want, when they want it, without having to wait."

Richard Thame, Fastway CEO also agrees, "On-line shoppers are busy people and want the option of delivery to a location that better suits their lifestyle and daily plans. The A.D.A.M. Parcel Lockers enable customers to receive a better overall experience by allowing them to simply pick up their parcels at their convenience, 24 hours a day, seven days a week."

According to Andrew Lysaght, Director Special Services at TNT, "It's a win-win for our customer and the end consumer. By using the A.D.A.M. Parcel Lockers we can increase operational efficiency and volume, whilst still placing customers' needs at the forefront."

Although early in the engagement process, the interest from e-tailers has been extremely positive and early adopters like Nike.com, Tony Bianco, Glue Store and Pamper Hamper Gifts have already signed up to use the A.D.A.M. network as an alternative delivery option for their consumers.

The interest and willingness of these market players to participate and help TZ to build this network represents a truly exciting period in the Company's evolution.

**"good progress has been made to establish TZ Limited as Australia's very first carrier agnostic parcel locker network operator."**

Limited

2013 financial statements

# TZ Limited

ABN 26 073 979 272

Annual Report - 30 June 2013

**TZ Limited**
**Corporate directory**
**30 June 2013**

| | |
|---|---|
| Directors | Mark Bouris - Chairman<br>Kenneth Ting<br>Paul Casey |
| Company secretary | Kenneth Ting |
| Notice of annual general meeting | The annual general meeting of TZ Limited: |
| | will be held at: Press Rooms - Lower Ground Floor, Radisson Blu Hotel Sydney, 27 O'Connell Street, Sydney NSW 2000, Australia |
| | time: 10:00 AM |
| | date: Tuesday 19 November 2013 |
| Registered office | Level 11, 1 Chifley Square<br>Sydney NSW 2000<br>Tel: +61 2 9222 8890 |
| Principal place of business | TZ Limited and TZI Australia Pty Limited, Level 11,<br>1 Chifley Square, Sydney NSW 2000<br>Telezygology Inc., 1017 W. Washington Blvd, Unit 2C,<br>Chicago IL 60607, USA |
| Share register | Computershare Investor Services Pty Limited<br>Yarra Falls<br>452 Johnston Street<br>Abbotsford VIC 3067<br>Tel: 1300 787 272<br>Fax: +61 3 9473 2500 |
| Auditor | Grant Thornton Audit Pty Ltd<br>Level 19, 2 Market Street<br>Sydney NSW 2000 |
| Solicitors | Landerer & Company<br>Level 31, 133 Castlereagh Street<br>Sydney NSW 2000 |
| Bankers | St George Bank Limited<br>Level 3, 1 Chifley Square<br>Sydney NSW 2000 |
| Stock exchange listing | TZ Limited shares are listed on the Australian Securities Exchange (ASX code: TZL) |
| Website | www.tz.net<br><br>TZ Limited's public website contains information regarding its products and the company, including an investor services section<br><br>E-mail: info@tz.net |

**TZ Limited**
**Directors' report**
**30 June 2013**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of TZ Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2013.

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

Mark Bouris - Chairman
Kenneth Ting
Paul Casey (appointed on 27 May 2013)
Dickory Rudduck (resigned on 27 May 2013)

**Principal activities**
During the financial year the principal continuing activities of the consolidated entity consisted of the development of intelligent devices and smart device systems that enable the commercialisation of hardware and software solutions for the management, control and monitoring of business assets and the provision of associated value added services through Telezygology Inc. and TZI Australia Pty Limited ('TZI').

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

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

**Review of operations**
The loss for the consolidated entity after providing for income tax amounted to $23,204,000 (30 June 2012: $12,361,000).

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

**Significant changes in the state of affairs**
During the financial year, the consolidated entity was awarded the contract for the supply, delivery, design, development, installation, testing, documentation and commissioning of Singapore Post's smart locker network for the Singapore market. This provided the opportunity to demonstrate to the world the consolidated entity's Packaged Asset Delivery technology as well as delivering revenue and contribution.

On 25 October 2012 the company raised $4,612,000 before capital raising expenses through a renounceable entitlement offer, in which shareholders were entitled to acquire one new ordinary share for every three ordinary shares held at a price of 10 cents per ordinary share. All participants received one free attaching Rights option exercisable at 14 cents at any time on or before 31 October 2013, for every two new shares issued. The proceeds raised were used to assist in funding capital requirements to meet the contract with Singapore Post.

On 31 May 2013 the consolidated entity ceased the activities of providing a fee for service product design and engineering consulting (services) when it sold the business of the subsidiary Product Development Technologies Inc., ('PDT').

On 3 June 2013 the company raised $1,450,000 before capital raising expenses from various institutional and sophisticated investors through a share placement at 10 cents per ordinary share. In addition, each subscriber received one free option exercisable at 14 cents at any time on or before 31 October 2013, for every three new share issued. The proceeds raised will be used to provide additional working capital to meet anticipated supply contracts and future growth opportunities.

QVT Fund LP and Quintessence Fund L.P. (the 'QVT Funds') that hold convertible notes issued by the company has agreed to waive a total interest payment of $1,979,000 for the 2012 calendar year by accepting additional ordinary shares issued at $0.14 each for the interest accrued on the existing convertible notes. The agreement with the QVT Funds may be subject to shareholders' approval if required.

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

**Matters subsequent to the end of the financial year**
On 31 July 2013 the company announced that its wholly owned subsidiary, Infinity Design Pty Limited (formally known as Product Development Technologies Australia Pty Limited), had successfully concluded the purchase of the business assets of Infinity Design Development Pty Limited for $300,000 in cash and an issue of 1,719,690 shares.

In satisfaction of the $200,000 share component, the company has agreed to issue 1,719,690 new fully paid ordinary shares to Infinity Design Development Pty Limited on 31 July 2013 at an agreed issue price of 11.63 cents per share.

In addition, the company has agreed with QVT Fund LP and Quintessence Fund L.P. ('the QVT Funds') that the conversion price per ordinary share applying to all the outstanding convertible notes issued by the company to the QVT Funds will not be affected as a result of the issue of the new shares.

No other matter or circumstance has arisen since 30 June 2013 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 Section One of the Annual Report.

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

**Information on directors**

| | |
|---|---|
| Name: | Mark Bouris |
| Title: | Executive Chairman |
| Qualifications: | BCom (UNSW), MCom (UNSW), HonDBus (UNSW), HonDLitt (UWS), FCA |
| Experience and expertise: | Mark Bouris is the Executive Chairman of Yellow Brick Road Holdings Limited and has over 25 years' experience in the finance and property sectors. In addition to his other directorships, Mark is an Adjunct Professor at the University of New South Wales Australian School of Business and he sits on boards for the University of NSW Business Advisory Council and the University of Western Sydney Foundation Council. Mark is the author of three business books, a board member of the Sydney Roosters, and is the host of The Celebrity Apprentice Australia. |
| Other current directorships: | Executive Chairman of Yellow Brick Road Holdings Limited (ASX: YBR), Chairman of Anteo Diagnostics Limited (ASX: ADO) and Chairman of Serena Resources Limited. |
| Former directorships (in the last 3 years): | None |
| Special responsibilities: | None |
| Interests in shares: | 2,517,290 ordinary shares |
| Interests in options: | 3,314,661 options over ordinary shares |



**TZ Limited**
**Directors' report**
**30 June 2013**

| | |
|---|---|
| Name: | Kenneth Ting |
| Title: | Executive Director and Company Secretary |
| Qualifications: | BCom, BLaw, CA |
| Experience and expertise: | Kenneth Ting has a background in accounting, law and investment banking with a focus on the commercialisation of technology and public and private equity raisings. Kenneth joined Deutsche Bank in 1997 after 4 years at PricewaterhouseCoopers Corporate Finance and Tax division. He was Vice President of Technology Investment Banking at Deutsche Bank and worked in Deutsche Bank's Sydney, San Francisco and London offices. Kenneth has a passion for technology and has worked with technology companies throughout his career. He has been involved in the completion of over $5 billion in M&A, private equity and IPO assignments in Australia, USA and Europe. His industry specialisation is in the electronics manufacturing, software, IT services, telecommunication and Internet sectors. |
| Other current directorships: | Non-Executive Director of Serena Resources Limited (from 27 May 2011) |
| Former directorships (in the last 3 years): | None |
| Special responsibilities: | None |
| Interests in shares: | 2,245,884 ordinary shares |
| Interests in options: | 2,572,454 options over ordinary shares |

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|---|---|
| Name: | Paul Casey (appointed on 27 May 2013) |
| Title: | Non-Executive Director |
| Experience and expertise: | Paul Casey brings over 30 years' experience in international travel and tourism and early stage investing. Paul was President and Chief Executive Officer ('CEO') of Hawaiian Airlines, a New York Stock Exchange ('NYSE') listed company, from 1997 until 2002. Prior to that he led the Hawaii Visitors and Convention Bureau ('HVCB') as President and CEO and he held a succession of senior management positions with Continental Airlines and Thomas Cook. Paul has run a travel software start-up in Bangkok, was the CEO of an investment firm focussed on rolling up travel-related businesses in China and was involved in restructuring a number of travel and tourism projects. He is also an investor and adviser to several Hawaii early stage companies and since 2011 has been on the board of PDT. |
| Other current directorships: | Chief Executive Officer of a regional airline based in Hawaii owned by Larry Ellison |
| Former directorships (in the last 3 years): | Non-Executive Director of PDT Inc. from Feb 2011 to May 2013 |
| Special responsibilities: | None |
| Interests in shares: | 90,000 ordinary shares |
| Interests in options: | None |

| | |
|---|---|
| Name: | Dickory Rudduck (resigned on 27 May 2013) |
| Title: | Former Executive Director |
| Experience and expertise: | Dickory Rudduck is a prolific inventor and is the founder and source behind TZ Limited's technology and thinking. An Architect by profession, Dickory established and built a successful Sydney based industrial architectural practice over a 20-year consulting career. He is recognised as a respected industrial and interior designer. The success of his consulting practice enabled Mr Rudduck to focus on his interest in innovation and invention, establishing Intellectual Exchange Pty Ltd in 1996, with the objective of developing intellectual property with global relevance and application. Since then, he has successfully commercialised many of his creations, the most lucrative being patented furniture systems with revenues in excess of $40 million. He has explored a diverse range of patented concepts from electronic hardware and software developments, building and construction systems to even sporting inventions. Dickory resigned during the year due to health issues. |
| Other current directorships: | Not applicable as no longer a director |
| Former directorships (in the last 3 years): | Not applicable as no longer a director |
| Special responsibilities: | Not applicable as no longer a director |
| Interests in shares: | Not applicable as no longer a director |
| Interests in options: | Not applicable as no longer a director |

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

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

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

**Meetings of directors**
The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2013, and the number of meetings attended by each director were:

| | Full Board | |
|---|---|---|
| | Attended | Held |
| M Bouris | 11 | 11 |
| K Ting | 11 | 11 |
| P Casey | 2 | 2 |
| D Rudduck | 9 | 9 |

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

**Remuneration report (audited)**
The remuneration report, which has been audited, outlines the director and key management personnel remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:
A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information



**TZ Limited**
**Directors' report**
**30 June 2013**

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

The objective of the consolidated entity's and company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with the market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate demanding performance hurdles for variable executive remuneration.

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

The consolidated entity established a Director and Executive Equity Plan in 2009 to attract, retain, motivate and reward senior executives and directors (including non-executive directors) of the company (collectively the 'Participants') by issuing either or both rights and options to the Participants to allow the Participants to acquire fully paid ordinary class shares in the company upon exercising the rights or options, as the case may be. The exercise of each right or option entitles the holder of that right or option, as the case may be, to acquire one fully paid ordinary class share in the capital of the company.

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

*Non-executive directors remuneration*
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board considers advice from shareholders, and takes into account the fees paid to non–executive directors of comparable companies, when undertaking the annual review process. Non-executive directors do not receive share options or other incentives.

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 section E of the remuneration report for details of the last five years earnings and total shareholders return.

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

*Use of remuneration consultants*
During the financial year ended 30 June 2013, the company did not engage remuneration consultants to review its existing remuneration policies and provide recommendations on how to improve both the short-term incentives ('STI') and long-term incentives ('LTI') programs.

*Voting and comments made at the company's 2012 Annual General Meeting ('AGM')*
At the last AGM 88% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2012. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

***B Details of remuneration***

*Amounts of remuneration*
Details of the remuneration of the key management personnel of consolidated entity are set out in the following tables.

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

- William Leong - Chief Operating Officer of Telezygology Inc.
- Benjamin Ford - Regional Manager Technical Services APAC of TZI Australia Pty Limited (appointed on 4 January 2013)
- Mark Schwartz - Former Chief Executive Officer of PDT Inc. (resigned on 31 May 2013 on the sale of PDT Inc.)
- Timothy Koehler - Former Chief Financial Officer of Telezygology Inc. (resigned on 15 May 2013)



**TZ Limited**
**Directors' report**
**30 June 2013**

| **2013** | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Other $ | Non-monetary $ | Super-annuation $ | Long service leave $ | Options $ | Total $ |
| *Non-Executive Directors:* | | | | | | | |
| P Casey * | 6,086 | - | - | - | - | - | 6,086 |
| *Executive Directors:* | | | | | | | |
| M Bouris | 440,917 | 10,200 | - | - | - | 176,134 | 627,251 |
| K Ting | 346,435 | 6,000 | - | - | - | 132,101 | 484,536 |
| D Rudduck *** | 198,243 | - | 7,481 | - | - | - | 205,724 |
| *Other Key Management Personnel:* | | | | | | | |
| P Casey * | 133,898 | - | - | - | - | - | 133,898 |
| W Leong | 146,071 | - | 10,812 | 3,652 | - | - | 160,535 |
| B Ford ** | 85,833 | 30,000 | - | 7,725 | - | - | 123,558 |
| M Schwartz *** | 353,491 | - | 10,457 | 7,313 | - | - | 371,261 |
| T Koehler *** | 119,291 | - | 6,410 | 2,983 | - | - | 128,684 |
| | 1,830,265 | 46,200 | 35,160 | 21,673 | - | 308,235 | 2,241,533 |

* P Casey was appointed a Non-Executive Director on 27 May 2013 previously being a key management personnel.
** Appointed as a key management personnel during the financial year and remuneration is from date of appointment to 30 June 2013.
*** Resigned as a key management personnel during the financial year and remuneration is to date of resignation.

| **2012** | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Other $ | Non-monetary $ | Super-annuation $ | Long service leave $ | Options $ | Total $ |
| *Executive Directors:* | | | | | | | |
| M Bouris | 440,917 | 10,200 | - | - | - | 439,641 | 890,758 |
| K Ting | 346,435 | 6,000 | - | - | - | 329,730 | 682,165 |
| D Rudduck | 202,328 | - | 8,008 | - | - | - | 210,336 |
| *Other Key Management Personnel:* | | | | | | | |
| M Schwartz | 369,079 | - | 10,270 | 7,120 | - | - | 386,469 |
| P Casey | 96,871 | - | - | - | - | - | 96,871 |
| W Leong | 145,307 | - | 9,992 | 3,632 | - | - | 158,931 |
| T Koehler | 134,409 | - | 6,567 | 3,360 | - | - | 144,336 |
| J Wilson * | 407,000 | - | - | - | - | - | 407,000 |
| | 2,142,346 | 16,200 | 34,837 | 14,112 | - | 769,371 | 2,976,866 |

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

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

| | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|---|---|---|---|---|---|---|
| Name | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| *Non-Executive Directors:* | | | | | | |
| P Casey | 100% | - % | - % | - % | - % | - % |
| *Executive Directors:* | | | | | | |
| M Bouris | 72% | 51% | - % | - % | 28% | 49% |
| K Ting | 73% | 52% | - % | - % | 27% | 48% |
| D Rudduck | 100% | 100% | - % | - % | - % | - % |
| *Other Key Management Personnel:* | | | | | | |
| P Casey | 100% | 100% | - % | - % | - % | - % |
| W Leong | 100% | 100% | - % | - % | - % | - % |
| B Ford | 76% | - % | 24% | - % | - % | - % |
| M Schwartz | 100% | 100% | - % | - % | - % | - % |
| T Koehler | 100% | 100% | - % | - % | - % | - % |
| J Wilson | - % | 100% | - % | - % | - % | - % |

The proportion of the cash bonus paid and forfeited is as follows:

| | Cash bonus paid/payable | | Cash bonus forfeited | |
|---|---|---|---|---|
| Name | 2013 | 2012 | 2013 | 2012 |
| *Other Key Management Personnel:* | | | | |
| B Ford | 100% | - % | - % | - % |



**TZ Limited**
**Directors' report**
**30 June 2013**

***C Service agreements***

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

| | |
|---|---|
| Name: | Paul Casey |
| Title: | Non-Executive Director |
| Agreement commenced: | 12 May 2011 |
| Term of agreement: | No fixed term |
| Details: | Base salary of US$150,000 and notice period by negotiation. |
| | |
| Name: | William Leong |
| Title: | Chief Operating Officer of Telezygology Inc. |
| Agreement commenced: | 1 October 2010 |
| Term of agreement: | No fixed term |
| Details: | Base salary of US$150,000 and notice period by negotiation. |
| | |
| Name: | Benjamin Ford |
| Title: | Regional Manager Technical Services APAC of TZI Australia Pty Limited |
| Agreement commenced: | 4 January 2013 |
| Term of agreement: | 2 years and annual renewal |
| Details: | Base salary of AU$160,000 and notice period by negotiation. |

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

***D Share-based compensation***

*Issue of shares*
There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2013.

*Options*
There were no options over ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2013.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2013 are set out below:

| | Number of options granted during the year | | Number of options vested during the year | |
|---|---|---|---|---|
| Name | 2013 | 2012 | 2013 | 2012 |
| M Bouris | - | - | 1,000,000 | 1,000,000 |
| K Ting | - | - | 750,000 | 750,000 |

*Vesting conditions for options granted as compensation in prior years*
The options are separated into three tranches and exercise periods:

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

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

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

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

***E Additional information***

The earnings of the consolidated entity for the five years to 30 June 2013 are summarised below:

| | 2009 $'000 | 2010 $'000 | 2011 $'000 | 2012 $'000 | 2013 $'000 |
|---|---|---|---|---|---|
| Sales revenue | 17,696 | 17,308 | 22,399 | 21,178 | 20,116 |
| EBITDA * | (18,277) | (19,264) | (3,094) | (5,837) | (16,735) |
| EBIT ** | (20,317) | (21,682) | (4,313) | (7,605) | (18,409) |
| Loss after income tax | (24,408) | (26,347) | (8,784) | (12,361) | (23,204) |

* Earnings before interest, tax, depreciation and amortisation.
** Earnings before interest and tax

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

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Share price at financial year end ($A) | 0.96 | 0.44 | 0.24 | 0.10 | 0.12 |
| Basic earnings per share (cents per share) | (50.00) | (49.46) | (9.01) | (9.60) | (13.57) |



**TZ Limited**
**Directors' report**
**30 June 2013**

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

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

| Grant date | Expiry date | Exercise price | Number under option |
|---|---|---|---|
| 26 February 2010 | 30 June 2016 | $1.00 | 1,750,000 |
| 26 February 2010 | 30 June 2017 | $2.00 | 1,750,000 |
| 26 February 2010 | 30 June 2018 | $3.00 | 1,750,000 |
| 24 October 2012 | 31 October 2013 | $0.14 | 23,047,985 |
| 26 October 2012 | 31 October 2013 | $0.14 | 11,312,209 |
| 4 December 2012 | 31 October 2013 | $0.14 | 4,060,725 |
| 27 May 2013 | 31 October 2013 | $0.14 | 4,833,334 |
| | | | 48,504,253 |

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**
The following ordinary shares of TZ Limited were issued during the year ended 30 June 2013 and up to the date of this report on the exercise of options granted:

| Date options granted | Exercise price | Number of shares issued |
|---|---|---|
| 24 October 2012 | $0.14 | 11,326 |

**Shares issued on the exercise of performance rights**
There were no shares of TZ Limited issued on the exercise of performance rights during the year ended 30 June 2013 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 liability and the amount of the premium.

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

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

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

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

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

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

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

**Auditor**
Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors

Mark Bouris
Director

Kenneth Ting
Director

26 September 2013
Sydney



Grant Thornton

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of TZ Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S M Coulton
Partner - Audit & Assurance

Sydney, 26 September 2013

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This 2013 Corporate Governance Statement sets out the corporate governance principles adopted by the board of directors (the 'Board') in governing TZ Limited (the 'company') and its subsidiaries (collectively, the 'consolidated entity') and reflects the corporate governance principles which have been adopted during the financial year ended 30 June 2013. In adopting the principles the Board formally reviewed the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council. The company is a small company and accordingly the Board considers that many of the corporate governance guidelines intended to apply to larger companies are not practical. The company's position on those recommendations is set out below.

**Principle 1: Lay solid foundations for management and oversight**
The Board's primary responsibility is to oversee the company's business activities and management for the benefit of company's shareholders which it accomplishes by:

- establishing corporate governance, and ethical business standards;
- setting objectives, goals and strategic direction with a view to maximise shareholder value;
- approving and monitoring budgets and major investments;
- ensuring adequate internal controls exist and are appropriately monitored;
- ensuring significant business risks are identified and appropriately managed; and
- appointing senior executives and monitoring their performance.

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

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

**Principle 2: Structure the board to add value**
Directors appointed by the Board by reason of a vacancy are subject to re-election by the company's shareholders at the following annual general meeting. Directors are subject to re-election by rotation at least every three years. The names of the directors in office at the date of this report, the date they were appointed, the date of their most recent re-election by the company's shareholders and their status as non-executive, executive or independent directors are set out in the table below:

| Director | Appointed | Re-Elected | Non-Executive | Independent |
|---|---|---|---|---|
| Mark Bouris | 18 June 2009 | 17 November 2010 | No | No |
| Kenneth Ting | 18 June 2009 | 22 November 2011 | No | No |
| Paul Casey | 27 May 2013 | N/A | Yes | No |

Mr Mark Bouris is standing for re-election by rotation at the 2013 annual general meeting. Mr Paul Casey is also standing for re-election at the 2013 annual general meeting, having first been appointed a director after the 2012 annual general meeting.

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



**TZ Limited**
**Corporate Governance Statement**
**30 June 2013**

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

- The majority of directors are not independent as two of the three directors are executive directors.
- The Chairman is not independent and is an executive director.
- As the whole Board only consists of three directors, the company does not have a formally constituted Nomination Committee as the Board believes it would not be a more efficient mechanism than the full Board focussing the company on specific issues. Currently, the Board as a whole performs the roles and functions of a Nomination Committee. These roles and functions include: devising criteria for Board membership; regularly reviewing the need for various skills and experience on the Board; considering the company's objectives with respect to diversity when selecting candidates; and identifying specific individuals for nomination as directors. The Board also oversees management succession plans and evaluates the Chairman's and the Board's performance and makes recommendations for the appointment and removal of directors. When a vacancy exists on the Board or where it is considered that a director with particular skills or experience is required, the Board selects a panel of candidates with the appropriate expertise and experience from which the most suitable candidate is appointed on merit.
- The company does not have a formal process for evaluating the performance of the Board and the individual directors, other than as set out above.

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

Each director of the company has the right to seek independent professional advice at the expense of the company.

**Principle 3: Promote ethical and responsible decision making**
Board members, executive management and company officers are made aware of the requirements to follow corporate policies and procedures, to obey the law and to maintain appropriate standards of honesty and integrity at all times.

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

The directors are aware of their legal responsibilities and adhere to the following:

The directors will not deal in the company's shares:

- Except between 3 and 30 days after either the release of the company's half year and annual results to the Australian Securities Exchange, the annual general meeting or any major announcement; and
- Whilst in possession of price sensitive information.

In accordance with the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange, directors advise the ASX of any transactions conducted by them in shares in the company.

*Diversity*
The Board is committed to an inclusive workplace that embraces and promotes diversity. The company is committed to setting measurable objectives for attracting and engaging women at the Board level, in senior management positions and across the consolidated entity as a whole; however due the relatively small size of the company and its operations, the company has yet to establish measureable objectives for diversity and progress to achieving them.

The gender representation profile of the company and the consolidated entity as a whole is as follows:

- Board Level: 0 %
- Key management personnel: 0 %
- Consolidated entity as a whole: 6 %

**Principle 4: Safeguard integrity in financial reporting**
The company was not a company required by ASX Listing Rule 12.7 to have an Audit Committee during the year. The Board has determined that, due to the relatively small size of the company, it would not be efficient to appoint a formal Audit Committee. Nevertheless, the Board has adopted procedures to adequately address issues related to the integrity of the company's financial reporting and to oversee the independence of the external auditors. The procedures include the following main responsibilities:

- Monitor the integrity of the financial statements of the company and review significant financial reporting changes;
- Review the company's internal financial control system and risk management systems;
- Appoint the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- Monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements; and
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

The skills and experience of each director is set out in the 'Information on directors' section of the directors'.

**Principle 5: Make timely and balanced disclosure**
The company and its directors are aware of continuous disclosure requirements under the Listing Rules and Corporations Act and operate in an environment where strong emphasis is placed on full and appropriate disclosure. The company has formal written policies regarding disclosure which is publicly available on the company's website: www.tz.net.

**Principle 6: Respects the rights of shareholders**
The company does not have a communications strategy to promote effective communication with shareholders, as it believes this is excessive for small companies. The company maintains a website which is used in conjunction with timely announcements to the ASX to ensure shareholders are kept fully informed.

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

- despatch of the annual and half yearly financial reports;
- despatch of all notices of meetings of shareholders; and
- submitting to a vote of shareholders proposed major changes in the company which may impact on share ownership rights.

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

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

**Principle 7: Recognise and manage risk**
The Board has adopted the role of identification, assessment, monitoring and managing the significant areas of risk applicable to the consolidated entity and its operations. The Board has not established a separate committee to deal with these matters as the directors consider the size of the company and its operations does not warrant a separate committee at this time. The directors have identified the significant areas of risk applicable to the consolidated entity and its operations and the Board considers the matter of risk management as a standing agenda item at board meetings.

For the reasons set out above the company has not established formal policies on risk management. The Board endeavours to mitigate any risks by continually reviewing the activities of the company in order to identify key business and operational risks and ensuring that they are appropriately assessed and managed. The company has received assurances from the chief financial officer (or equivalents) and chief executive officer (or equivalents) of the consolidated entity that the declaration under section 295A of the Corporations Act is founded on a system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.



**TZ Limited**
**Corporate Governance Statement**
**30 June 2013**

**Principle 8: Remunerate fairly and responsibly**
Because of the relatively small size of the company and its operations, the Board does not consider it appropriate, at this time, to form a separate committee to deal with executive remuneration. Accordingly, the company does not have a remuneration committee made up of a majority of independent members, chaired by an independent member as recommended by the ASX Corporate Governance Council. Instead, the Board as a whole establishes and reviews annually the remuneration of the executive directors and senior executives, as well as superannuation arrangements, the remuneration framework for all directors and remuneration by gender.

Details of the company's policy for determining the nature and amount of emoluments of Board members and key management personnel of the company are contained in the 'Remuneration report' section of the directors' report.

In accordance with Corporations Act requirements, the company discloses the fees or salaries paid to all directors, and executive officers of the company which is included in the 'Remuneration report' section of the directors' report.

**TZ Limited**
**Financial report**
**30 June 2013**

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**General information**

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

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

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

| *Registered office* | *Principal place of business* |
|---|---|
| Level 11, 1 Chifley Square<br>Sydney NSW 2000 | TZ Limited and TZI Australia Pty Limited, Level 11,<br>1 Chifley Square, Sydney NSW 2000<br>Telezygology Inc., 1017 W. Washington Blvd, Unit 2C,<br>Chicago IL 60607, USA |

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 26 September 2013. The directors have the power to amend and reissue the financial report.



**TZ Limited**
**Statement of profit or loss and other comprehensive income**
**For the year ended 30 June 2013**

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | 4 | 2,753 | 2,778 |
| Other income | 5 | 214 | 3,605 |
| **Expenses** | | | |
| Raw materials and consumables used | | (1,359) | (872) |
| Employee benefits expense | | (3,850) | (4,774) |
| Occupancy expense | | (219) | (214) |
| Depreciation and amortisation expense | 6 | (1,040) | (1,068) |
| Communications expense | | (131) | (121) |
| Professional and corporate services | | (1,933) | (2,336) |
| Travel and accommodation expense | | (720) | (677) |
| Development costs | | (380) | (785) |
| Impairment of goodwill | | (4,010) | - |
| Share of net losses of joint venture accounted for using the equity method | | - | (161) |
| Loss on sale of joint venture | | - | (386) |
| Net loss on renegotiation of convertible notes | | (1,125) | - |
| Net loss on movement in fair value of derivative liabilities | | (380) | - |
| Other expenses | | (663) | (1,138) |
| Finance costs | 6 | (3,675) | (4,815) |
| **Loss before income tax expense from continuing operations** | | (16,518) | (10,964) |
| Income tax expense | 7 | (6) | (1) |
| Loss after income tax expense from continuing operations | | (16,524) | (10,965) |
| Loss after income tax expense from discontinued operations | 8 | (6,680) | (1,396) |
| **Loss after income tax expense for the year attributable to the owners of TZ Limited** | 31 | (23,204) | (12,361) |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | | 1,280 | 873 |
| Other comprehensive income for the year, net of tax | | 1,280 | 873 |
| **Total comprehensive income for the year** | | (21,924) | (11,488) |
| Total comprehensive income for the year is attributable to: | | | |
| Continuing operations | | (15,244) | (10,092) |
| Discontinued operations | | (6,680) | (1,396) |
| | | (21,924) | (11,488) |

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

**TZ Limited**
**Statement of profit or loss and other comprehensive income**
**For the year ended 30 June 2013**

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|---|
| | | Cents | Cents |
| **Earnings per share from continuing operations attributable to the owners of TZ Limited** | | | |
| Basic earnings per share | 45 | (9.67) | (8.52) |
| Diluted earnings per share | 45 | (9.67) | (8.52) |
| **Earnings per share from discontinued operations attributable to the owners of TZ Limited** | | | |
| Basic earnings per share | 45 | (3.91) | (1.08) |
| Diluted earnings per share | 45 | (3.91) | (1.08) |
| **Earnings per share for loss attributable to the owners of TZ Limited** | | | |
| Basic earnings per share | 45 | (13.57) | (9.60) |
| Diluted earnings per share | 45 | (13.57) | (9.60) |

*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 2013**

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 4,146 | 904 |
| Trade and other receivables | 10 | 823 | 5,544 |
| Inventories | 11 | 402 | 342 |
| Other financial assets | 12 | 179 | - |
| Other | 13 | 89 | - |
| Total current assets | | 5,639 | 6,790 |
| **Non-current assets** | | | |
| Other financial assets | 14 | 412 | - |
| Property, plant and equipment | 15 | 474 | 1,575 |
| Intangibles | 16 | 7,590 | 19,553 |
| Deferred tax | 17 | - | 942 |
| Other | 18 | 6 | 186 |
| Total non-current assets | | 8,482 | 22,256 |
| **Total assets** | | 14,121 | 29,046 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 19 | 4,843 | 5,592 |
| Borrowings | 20 | 11,645 | 10,381 |
| Derivative financial instruments | 21 | 254 | 48 |
| Provisions | 22 | 69 | 92 |
| Other | 23 | - | 437 |
| Total current liabilities | | 16,811 | 16,550 |
| **Non-current liabilities** | | | |
| Borrowings | 24 | 5,599 | 3,720 |
| Derivative financial instruments | 25 | 1,254 | 759 |
| Deferred tax | 26 | - | 1,144 |
| Provisions | 27 | 25 | 16 |
| Other | 28 | - | 462 |
| Total non-current liabilities | | 6,878 | 6,101 |
| **Total liabilities** | | 23,689 | 22,651 |
| **Net assets/(liabilities)** | | (9,568) | 6,395 |
| **Equity** | | | |
| Issued capital | 29 | 158,942 | 153,443 |
| Reserves | 30 | (4,844) | (6,124) |
| Accumulated losses | 31 | (163,666) | (140,924) |
| **Total equity/(deficiency)** | | (9,568) | 6,395 |

*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 2013**

| | Issued capital $'000 | Reserves $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| Balance at 1 July 2011 | 149,113 | (6,997) | (129,332) | 12,784 |
| Loss after income tax expense for the year | - | - | (12,361) | (12,361) |
| Other comprehensive income for the year, net of tax | - | 873 | - | 873 |
| Total comprehensive income for the year | - | 873 | (12,361) | (11,488) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Share-based payments (note 46) | - | - | 769 | 769 |
| Contributions of equity (note 29) | 4,552 | - | - | 4,552 |
| Less: transaction costs on shares issued | (222) | - | - | (222) |
| Balance at 30 June 2012 | 153,443 | (6,124) | (140,924) | 6,395 |

| | Issued capital $'000 | Reserves $'000 | Accumulated losses $'000 | Total deficiency $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| Balance at 1 July 2012 | 153,443 | (6,124) | (140,924) | 6,395 |
| Loss after income tax expense for the year | - | - | (23,204) | (23,204) |
| Other comprehensive income for the year, net of tax | - | 1,280 | - | 1,280 |
| Total comprehensive income for the year | - | 1,280 | (23,204) | (21,924) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Share-based payments (note 46) | - | - | 462 | 462 |
| Contributions of equity (note 29) | 6,063 | - | - | 6,063 |
| Less: transaction costs on shares issued | (564) | - | - | (564) |
| Balance at 30 June 2013 | 158,942 | (4,844) | (163,666) | (9,568) |

*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 2013**

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 20,482 | 21,298 |
| Payments to suppliers and employees (inclusive of GST) | | (26,100) | (30,843) |
| | | (5,618) | (9,545) |
| Interest received | | 60 | 125 |
| Other revenue | | 682 | 388 |
| Interest and other finance costs paid | | (163) | (727) |
| Income taxes refunded | | 15 | - |
| Income taxes paid | | - | (19) |
| Net cash used in operating activities | 44 | (5,024) | (9,778) |
| **Cash flows from investing activities** | | | |
| Payments for new joint venture capital invested | | - | (200) |
| Payments for property, plant and equipment | | (580) | (301) |
| Payments for intangibles | | (138) | (69) |
| Proceeds from short term deposits | | - | 5,500 |
| Proceeds from sale of business | | 4,593 | - |
| Proceeds from sale of property, plant and equipment | | 1 | - |
| Net cash from investing activities | | 3,876 | 4,930 |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 29 | 6,063 | 4,552 |
| Transaction costs on shares issued | | (411) | (222) |
| Proceeds from borrowings | | - | 835 |
| Repayment of borrowings | | (1,223) | (633) |
| Net cash from financing activities | | 4,429 | 4,532 |
| Net increase/(decrease) in cash and cash equivalents | | 3,281 | (316) |
| Cash and cash equivalents at the beginning of the financial year | | 904 | 1,146 |
| Effects of exchange rate changes on cash | | (39) | 74 |
| Cash and cash equivalents at the end of the financial year | 9 | 4,146 | 904 |

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

## Note 1. Significant accounting policies

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

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

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

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standard is most relevant to the consolidated entity:

*AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income*
The consolidated entity has applied AASB 2011-9 amendments from 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The amendments also introduced the term 'Statement of profit or loss and other comprehensive income' clarifying that there are two discrete sections, the profit or loss section (or separate statement of profit or loss) and other comprehensive income section.

**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.

In making this assessment, management conducted a comprehensive review of the consolidated entity's affairs including, but not limited to:
• The consolidated entity's financial position as at 30 June 2013;
• The cash flow forecast for the consolidated entity for the period of 12 months from the date of the issuance of these financial statements;
• Sales and profitability forecasts for the consolidated entity for not only the current financial year, but beyond 30 June 2014; and
• The continued support of the consolidated entity's shareholders and lenders.

Management also considered the impact of maturity on 19 February 2014 of convertible notes with a face value of $12,000,000. Unless those notes are converted to shares by the holder prior to maturity, the principal and interest outstanding on maturity, will be payable in cash by the consolidated entity.

A fundamental component of the ability to continue as a going concern is the company's ability to generate revenue and to raise capital as required. In October 2012, the consolidated entity raised approximately $4,612,000 and a further $1,450,000 in June 2013, before capital raising expenses. The proceeds raised have been used for additional working capital, in particular the funding capital requirements to meet the contract with Singapore Post.

At 30 June 2013 the consolidated entity's current liabilities exceeded current assets by $11,172,000. For the year ended 30 June 2013, the consolidated entity incurred losses after income tax of $23,204,000 and net cash outflows from operating activities of $5,024,000.





## Note 1. Significant accounting policies (continued)

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

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 41.

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

**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 2013 and the results of all subsidiaries and special purpose entities for the year then ended. TZ Limited, its subsidiaries and special purpose entities together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

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

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

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

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

*Foreign operations*
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, 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.



TZ Limited
Notes to the financial statements
30 June 2013

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Discontinued operations**
A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

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

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

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

**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. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

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





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

*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.

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.

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

**Intangible assets**
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life 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*
Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

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

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

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

*Customer relationships*
Customer relationships acquired as part of a business combination are recognised separately from goodwill and are carried at their fair value at date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on a straight line basis over the estimated useful life of between 10 to 15 years.

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

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



TZ Limited
Notes to the financial statements
30 June 2013

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

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

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

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

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

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

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

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

**Finance costs**
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:
- interest on short-term and long-term borrowings

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

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

**Employee benefits**

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

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

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

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

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

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

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



TZ Limited
Notes to the financial statements
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**Note 1. Significant accounting policies (continued)**

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

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

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

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

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

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

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

**Issued capital**
Ordinary shares are classified as equity.

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

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

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

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

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

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

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

**New Accounting Standards and Interpretations not yet mandatory or early adopted**
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2013. 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.



TZ Limited
Notes to the financial statements
30 June 2013

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

*AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9*
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2015 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 10 Consolidated Financial Statements*
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

*AASB 11 Joint Arrangements*
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, in accordance with the standards applicable to the particular assets, liabilities, revenues and expenses. The adoption of this standard from 1 July 2013 will not have a material impact on the consolidated entity.

*AASB 12 Disclosure of Interests in Other Entities*
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

*AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

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

*AASB 127 Separate Financial Statements (Revised)*
*AASB 128 Investments in Associates and Joint Ventures (Reissued)*
These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

*AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*
This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make changes to the accounting for defined benefit plans and the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. The later will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 July 2013 is expected to reduce the reported annual leave liability of the consolidated entity.

*AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*
These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2014 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No. 1) now specify the KMP disclosure requirements to be included within the directors report for annual reporting periods beginning 1 July 2013.

*AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*
The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the consolidated entity.

*AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*
The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 July 2013 will increase the disclosures by the consolidated entity.

*AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*
The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of "currently has a legally enforceable right of set-off"; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.



**TZ Limited**
**Notes to the financial statements**
**30 June 2013**

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

*AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*
The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities. The adoption of the amendments from 1 July 2013 will not have a material impact on the consolidated entity.

*AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039*
This amendment is applicable to annual reporting periods beginning on or after 1 January 2013. The amendment removes reference in AASB 1048 following the withdrawal of Interpretation 1039. The adoption of this amendment will not have a material impact on the consolidated entity.

*AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*
These amendments are applicable to annual reporting periods beginning on or after 1 January 2013. They amend AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments. The adoption of these amendments will not have a material impact on the consolidated entity.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets
The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of the amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

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

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

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

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

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

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

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

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

*Valuation of embedded derivatives and convertible note debt portion*
The terms of the Convertible Note Subscription Deed are such that the note holders are able to convert to equity at the conversion date at the lower of: (a) the agreed conversion price; and (b) the issue price of any subsequent share issue during the term of the term of the convertible note. The convertible notes, as a result of this clause which eliminates the note holder's equity risk, are therefore debt instruments which host an embedded derivative in accordance with AASB 132 'Financial Instruments: Presentation'.

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

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

To value the derivative the company engaged the services of valuation experts Value Adviser Associates Pty Ltd. A Monte Carlo simulation was conducted whereby a random number within a normal distribution was utilised to simulate the share price return at a defined point in time. In arriving at their valuation, judgement and estimation was exercised regarding valuation inputs such as the effective life of the derivative and share price volatility.

The carrying values at 30 June 2013 of the derivative and convertible note liabilities are $1,508,000 and $17,244,000 respectively (2012: $807,000 and $13,135,000 respectively) as detailed in notes 20, 21, 24 and 25.



**TZ Limited**
**Notes to the financial statements**
**30 June 2013**

**Note 3. Operating segments**

*Identification of reportable operating segments*
The consolidated entity's operating segment 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.

Following the discontinued operations of the PDT Holdings Inc. ('PDT') segment in the current year, the consolidated entity now operates in one segment being the development and commercialisation of hardware and software products primarily in the US, Australian and Asian markets.

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').

Comparative information has been restated in line with the current operating segment.

*Major customers*
During the year ended 30 June 2013 approximately 19% (2012: 41.95%) of the consolidated entity's external revenue was derived from sales to one customer.

*Geographical information*

| | Sales to external customers | | Geographical non-current assets | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Australia | 574 | 1,193 | 364 | 97 |
| United States of America | 16,217 | 17,858 | 8,118 | 21,314 |
| United Kingdom | 621 | 456 | - | 251 |
| Canada | 417 | 1,198 | - | - |
| Netherlands | 31 | - | - | - |
| Korea | 15 | 33 | - | - |
| Denmark | 633 | 92 | - | - |
| Russia | 669 | - | - | - |
| Singapore | 519 | - | - | - |
| Other * | 420 | 348 | - | - |
| | 20,116 | 21,178 | 8,482 | 21,662 |

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 but include the PDT business for the period held.

* Other relates to Taiwan, China, Italy, Ireland, Turkey, Sweden and Mexico

## Note 3. Operating segments (continued)

*Adjusted earnings before, interest, tax, depreciation, amortisation, impairment, head office income and expenses and loss on disposal of discontinued operations ('Adjusted EBITDA')*
A reconciliation to loss after income tax expense is as follows:

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Adjusted EBITDA | (3,834) | (7,098) |
| Impairment of goodwill | (4,010) | - |
| Loss from discontinued operations | (6,680) | - |
| Head office revenue/income | 41 | 4,691 |
| Head office costs | (4,000) | (3,305) |
| Depreciation and amortisation | (1,040) | (1,768) |
| Interest expense | (3,675) | (4,862) |
| Income tax expense | (6) | (19) |
| Loss after income tax expense | (23,204) | (12,361) |

## Note 4. Revenue

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| **From continuing operations** | | |
| *Sales revenue* | | |
| Sales and services revenue | 2,711 | 1,683 |
| *Other revenue* | | |
| Interest | 42 | 125 |
| Royalty | - | 6 |
| Other revenue | - | 964 |
| | 42 | 1,095 |
| Revenue from continuing operations | 2,753 | 2,778 |

## Note 5. Other income

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Net foreign exchange gain | 214 | - |
| Net gain on movement in fair value of derivative liabilities | - | 3,605 |
| Other income | 214 | 3,605 |





## Note 6. Expenses

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Loss before income tax from continuing operations includes the following specific expenses: | | |
| *Depreciation* | | |
| Leasehold improvements | 18 | 53 |
| Plant and equipment | 136 | 139 |
| Office equipment | 48 | 52 |
| Total depreciation | 202 | 244 |
| *Amortisation* | | |
| Trade names | 1 | 1 |
| Re-acquired right (Intevia Licence) | 631 | 628 |
| Other intangible assets | 206 | 195 |
| Total amortisation | 838 | 824 |
| Total depreciation and amortisation | 1,040 | 1,068 |
| *Cost of sales* | | |
| Direct material | 821 | 508 |
| Company overheads | 10 | 4 |
| Other cost of sales | 803 | 584 |
| Total cost of sales | 1,634 | 1,096 |
| *Finance costs* | | |
| Interest and finance charges paid/payable | 3,675 | 4,815 |
| *Superannuation expense* | | |
| Defined contribution superannuation expense | 52 | 11 |
| *Share-based payments expense* | | |
| Share-based payments expense | 308 | 769 |

## Note 7. Income tax expense

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| *Income tax expense* | | |
| Current tax | 6 | (3) |
| Deferred tax - origination and reversal of temporary differences | - | 8 |
| Deferred tax asset written-off (note 17) | 1,075 | - |
| Under/(over) provision for prior years | (21) | 14 |
| Aggregate income tax expense | 1,060 | 19 |
| Income tax expense is attributable to: | | |
| Profit from continuing operations | 6 | 1 |
| Profit from discontinued operations (note 8) | 1,054 | 18 |
| Aggregate income tax expense | 1,060 | 19 |
| Deferred tax included in income tax expense comprises: | | |
| Increase in deferred tax assets (note 17) | (78) | (191) |
| Increase in deferred tax liabilities (note 26) | 78 | 199 |
| Deferred tax - origination and reversal of temporary differences | - | 8 |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Loss before income tax expense from continuing operations | (16,518) | (10,964) |
| Loss before income tax expense from discontinued operations | (5,626) | (1,378) |
| | (22,144) | (12,342) |
| Tax at the statutory tax rate of 30% | (6,643) | (3,703) |
| Current year tax losses not recognised | 6,274 | 4,492 |
| Difference in overseas tax rates | (828) | (784) |
| Under/(over) provision for prior years | (21) | 14 |
| Tax on impairment of goodwill | 1,203 | - |
| Deferred tax asset written-off (note 17) | 1,075 | - |
| Income tax expense | 1,060 | 19 |

*Tax losses not recognised*
The consolidated entity is in the process of determining its tax loss position to carry forward.





## Note 8. Discontinued operations

*Description*
On 31 May 2013, TZ Limited ('TZL') sold the business of its subsidiary, Product Development Technologies, Inc. ('PDT') to PDT Acquisition, LLC, an Illinois limited liability company. The transaction was an asset sale and not a sale of the PDT company, although TZL did sell its shareholding in the Ukraine company (which employs a number of lower cost employees used in the business) as part of the transaction. The selling price was $5,153,000 after a working capital adjustment.

All bank debt associated with the PDT business was paid out at settlement on 31 May 2013. $591,000 of the selling price is outstanding in the form of vendor finance and is required to be paid to TZL over 3 years and attracts an interest rate of 4% per annum. The loan is secured by way of second ranking security over the purchaser's assets.

The figures stated below for 2013 are for the period from 1 July 2012 to 31 May 2013 (2012: year to 30 June 2012).

*Financial performance information*

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Revenue | 17,405 | 19,495 |
| Other revenue | 94 | 117 |
| Total revenue | 17,499 | 19,612 |
| Raw materials and consumables used | (580) | (632) |
| Subcontractors costs | (6,698) | (8,346) |
| Employee benefits expense | (7,705) | (8,863) |
| Occupancy expense | (623) | (604) |
| Depreciation and amortisation expense | (634) | (700) |
| Communications expense | (164) | (187) |
| Professional and corporate services | (261) | (211) |
| Travel and accommodation expense | (358) | (561) |
| Other expenses | (988) | (839) |
| Finance costs | (122) | (47) |
| Total expenses | (18,133) | (20,990) |
| Loss before income tax expense | (634) | (1,378) |
| Income tax expense | (1,054) | (18) |
| Loss after income tax expense | (1,688) | (1,396) |
| Loss on sale before income tax | (4,992) | - |
| Income tax expense | - | - |
| Loss on disposal after income tax expense | (4,992) | - |
| Loss after income tax expense from discontinued operations | (6,680) | (1,396) |

## Note 8. Discontinued operations (continued)

*Cash flow information*

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Net cash from operating activities | 479 | - |
| Net cash used in investing activities | (301) | - |
| Net cash used in financing activities | (28) | - |
| Net increase in cash and cash equivalents from discontinued operations | 150 | - |

*Carrying amounts of assets and liabilities*

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Cash and cash equivalents | 126 | - |
| Trade and other receivables | 3,156 | - |
| Inventories | 283 | - |
| Property, plant and equipment | 1,146 | - |
| Intangibles | 8,226 | - |
| Other non-current assets | 97 | - |
| Total assets | 13,034 | - |
| Trade and other payables | 1,121 | - |
| Deferred tax liabilities | 1,287 | - |
| Other liabilities | 481 | - |
| Total liabilities | 2,889 | - |
| Net assets | 10,145 | - |

*Details of the disposal*

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Total sale consideration | 5,153 | - |
| Carrying amount of net assets sold | (10,145) | - |
| Loss on disposal before income tax | (4,992) | - |
| Income tax expense | - | - |
| Loss on disposal after income tax | (4,992) | - |

Total sale consideration stated above is after working capital adjustment.





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

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Cash at bank | 4,146 | 904 |

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

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Trade receivables | 721 | 3,625 |
| Less: Provision for impairment of receivables | - | (86) |
| | 721 | 3,539 |
| Other receivables | 2 | 1,793 |
| Goods and services tax receivable | 84 | 36 |
| Prepayments | 16 | 176 |
| | 823 | 5,544 |

*Impairment of receivables*

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

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Past due 30 days | - | 54 |
| Past due 60 - 90 days | - | 8 |
| Past due 90 days + | - | 24 |
| | - | 86 |

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

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Opening balance | 86 | 165 |
| Additional provisions recognised | - | 243 |
| Foreign exchange | - | 7 |
| Receivables written off during the year as uncollectable | (86) | (329) |
| Closing balance | - | 86 |

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

*Past due but not impaired*
Customers with balances past due but without provision for impairment of receivables amount to $50,000 as at 30 June 2013 ($443,000 as at 30 June 2012).

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

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

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Past due 0 - 30 days | 12 | 229 |
| Past due 30 - 60 days | 22 | 14 |
| Past due 60 - 90 days | 4 | 152 |
| Past due 90 days + | 12 | 48 |
| | 50 | 443 |

**Note 11. Current assets - inventories**

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Inventories | 402 | 342 |

**Note 12. Current assets - other financial assets**

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Promissory note | 179 | - |

The promissory note is repayable by equal monthly repayments over a period of 33 months from 1 September 2013. Interest is charged at 4% per annum. Refer to note 14 for amount due after more than 12 months.

**Note 13. Current assets - other**

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Security deposits | 63 | - |
| Other deposits | 26 | - |
| | 89 | - |





**Note 14. Non-current assets - other financial assets**

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Promissory note | 412 | - |

**Note 15. Non-current assets - property, plant and equipment**

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Leasehold improvements - at cost | 399 | 1,713 |
| Less: Accumulated depreciation | (370) | (1,105) |
| | 29 | 608 |
| Plant and equipment - at cost | 1,647 | 1,941 |
| Less: Accumulated depreciation | (1,246) | (1,309) |
| | 401 | 632 |
| Office equipment - at cost | 449 | 906 |
| Less: Accumulated depreciation | (405) | (571) |
| | 44 | 335 |
| | 474 | 1,575 |

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

| | Leasehold improvements $'000 | Plant and equipment $'000 | Office equipment $'000 | Total $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| Balance at 1 July 2011 | 715 | 729 | 440 | 1,884 |
| Additions | 42 | 133 | 134 | 309 |
| Exchange differences | 69 | 26 | (24) | 71 |
| Depreciation expense | (218) | (256) | (215) | (689) |
| Balance at 30 June 2012 | 608 | 632 | 335 | 1,575 |
| Additions | 29 | 476 | 76 | 581 |
| Disposals | (457) | (506) | (183) | (1,146) |
| Exchange differences | 22 | 31 | 12 | 65 |
| Depreciation expense | (173) | (232) | (196) | (601) |
| Balance at 30 June 2013 | 29 | 401 | 44 | 474 |

## Note 16. Non-current assets - intangibles

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Goodwill - at cost | 4,010 | 9,326 |
| Less: Impairment | (4,010) | - |
| | - | 9,326 |
| Trade names - at cost | 11 | 1,190 |
| | 11 | 1,190 |
| Re-acquired right (Intevia Licence) - at cost | 9,528 | 9,057 |
| Less: Accumulated amortisation | (4,557) | (3,950) |
| | 4,971 | 5,107 |
| Patents - at cost | 1,575 | 1,454 |
| Less: Accumulated amortisation | (329) | (328) |
| | 1,246 | 1,126 |
| Development costs - at cost | 1,967 | 1,792 |
| Less: Accumulated amortisation | (605) | (412) |
| | 1,362 | 1,380 |
| Customer relationships - at cost | - | 3,235 |
| Less: Accumulated amortisation | - | (1,811) |
| | - | 1,424 |
| | 7,590 | 19,553 |

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

| | Goodwill $'000 | Trade names $'000 | Re-acquired right $'000 | Other intangibles $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Balance at 1 July 2011 | 8,941 | 1,146 | 5,526 | 4,137 | 19,750 |
| Additions | - | - | - | 65 | 65 |
| Exchange differences | 385 | 45 | 209 | 178 | 817 |
| Amortisation expense | - | (1) | (628) | (450) | (1,079) |
| Balance at 30 June 2012 | 9,326 | 1,190 | 5,107 | 3,930 | 19,553 |
| Additions | - | - | - | 249 | 249 |
| Disposals | (5,507) | (1,241) | - | (1,478) | (8,226) |
| Exchange differences | 191 | 63 | 495 | 348 | 1,097 |
| Impairment of assets | (4,010) | - | - | - | (4,010) |
| Amortisation expense | - | (1) | (631) | (441) | (1,073) |
| Balance at 30 June 2013 | - | 11 | 4,971 | 2,608 | 7,590 |

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





## Note 16. Non-current assets - intangibles (continued)

*Impairment of goodwill*
Goodwill and other intangible assets related to PDT business were sold at their written down value to the purchaser at settlement on 31 May 2013.

The remaining goodwill of $4,010,000 related to the acquisition of Telezygology Inc. in December 2003 and would have effectively represented the synergies, assembled workforce and intellectual property inherent in the business at that time. In light of the time passed since the acquisition and the substantial changes to the business over the last decade, such synergies and assembled workforce are now of little value to the consolidated entity.

The consolidated entity updated the discounted cash flow model prepared at 30 June 2012 for the period to 31 December 2012 and the revised forecast indicated a shortfall in cash flows from the original budget set. Given these factors and that cashflows have not been generated as quickly as expected following the commercialisation of the IXP and PAD products post 2009, the Board determined that impairment of the goodwill was prudent and appropriate. An impairment charge of $4,010,000 has been made at 31 December 2012 in relation to this.

*Telezygology Inc. and TZI Australia Pty Limited ('TZI')*
Key assumptions for value-in-use calculations for TZI at the time of impairment were as follows:
- Discount rate - 17.83% (2012: 17.83%)
- Gross margins - budgeted gross profit margins are between 34% and 38%, historical gross margins ranged between 48% to 64%
- Revenue growth rates - 2014 (102% to 113%), 2015 (73%), 2016 (46%), 2017 (19%), 2018 (8%), 2019 and 2020 (1%).

## Note 17. Non-current assets - deferred tax

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| *Deferred tax asset comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Tax losses | - | 411 |
| Property, plant and equipment | - | 237 |
| Doubtful debts | - | 12 |
| Other liabilities | - | 282 |
| Deferred tax asset | - | 942 |
| *Movements:* | | |
| Opening balance | 942 | 751 |
| Credited to profit or loss (note 7) | 78 | 191 |
| Amounts written off on disposal of business (note 7) | (1,075) | - |
| Foreign exchange movement | 55 | - |
| Closing balance | - | 942 |

## Note 18. Non-current assets - other

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Security deposits | 6 | 186 |

## Note 19. Current liabilities - trade and other payables

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Trade payables | 966 | 2,038 |
| Employee expense payables | 31 | 138 |
| Lease incentive liability | - | 68 |
| Interest payable | 2,968 | 2,698 |
| Other payables | 878 | 650 |
| | 4,843 | 5,592 |

Refer to note 34 for further information on financial instruments.

## Note 20. Current liabilities - borrowings

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Bank loans | - | 966 |
| Convertible notes payable - Series I | 11,645 | 9,415 |
| | 11,645 | 10,381 |

*Convertible notes - Series I*
The convertible notes were issued under the terms of a Convertible Note and Option Subscription Deed dated 24 December 2007. As at 30 June 2013, 12,000 notes remain on issue, each with a face value of $1,000. The notes have a 5 year term, are convertible at the lower of: (i) the agreed conversion price; and (ii) the lowest issue price of any subsequent share issue during the terms of the convertible notes. The current conversion price is 35 cents per share. The notes pay interest at a rate of 10%.

Convertible notes with a face value of $12,000,000 were due to mature on 18 February 2013 but TZ Limited has negotiated a twelve month extension of this maturity date with the lender QVT, which was approved by the shareholders at the 2012 AGM, and now expire on 19 February 2014.

Unless those notes are converted to shares by the holder prior to maturity, the principal and interest outstanding on maturity will be payable in cash by TZ Limited.





## Note 21. Current liabilities - derivative financial instruments

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Derivative instrument liabilities | 254 | 48 |

Refer to note 34 for further information on financial instruments.

## Note 22. Current liabilities - provisions

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Employee benefits | 69 | 92 |

## Note 23. Current liabilities - other

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Deferred revenue | - | 437 |

## Note 24. Non-current liabilities - borrowings

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Convertible notes payable - Series III, IIIB and IV | 5,599 | 3,720 |

Refer to note 34 for further information on financial instruments.

*Convertible notes*

*Series III*
1,714 Series III convertible notes with a face value of $1,000 each were issued under the terms of an Issue and Amendment Deed with QVT Funds dated 23 April 2010. The notes have a five year term and are convertible at a variable rate, being the lesser of: (i) 35 cents per share; and (ii) the lowest issue price of any subsequent share issue during the terms of the convertible notes. Interest will accrue on each Series III note at 10% per annum, payable on 31 December each year.

*Series IIIB*
4,275 Series IIIB convertible notes with a face value of $1,000 each were issued on 24 December 2010. The notes have a five year term and are convertible at a variable rate, being the lesser of: (i) $0.42; and (ii) the lowest issue price of any subsequent share issue during the terms of the convertible notes. Interest accrues on each Series IIIB note at 10% per annum, payable on 31 December each year.

*Series IV*
1,799 Series IV convertible notes with a face value of $1,000 each were issued on 7 December 2012 as a result of shareholders' approval at the company's 2012 AGM. The notes have a five year term and are convertible at a variable rate, being the lesser of: (i) $0.42; and (ii) the lowest issue price of any subsequent share issue during the terms of the convertible notes. Interest will accrue on each Series IV note at 10% per annum, payable on 31 December each year.

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

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Bank loans | - | 966 |

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

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Total facilities | | |
| Bank loans | - | 968 |
| Used at the reporting date | | |
| Bank loans | - | 966 |
| Unused at the reporting date | | |
| Bank loans | - | 2 |





## Note 25. Non-current liabilities - derivative financial instruments

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Derivative instrument liabilities | 1,254 | 759 |

Refer to note 34 for further information on financial instruments.

## Note 26. Non-current liabilities - deferred tax

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| *Deferred tax liability comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Goodwill | - | 987 |
| Other intangibles | - | 157 |
| Deferred tax liability | - | 1,144 |
| *Movements:* | | |
| Opening balance | 1,144 | 945 |
| Charged to profit or loss (note 7) | 78 | 199 |
| Amounts disposed on sale of business (note 8) | (1,287) | - |
| Foreign exchange movement | 65 | - |
| Closing balance | - | 1,144 |

## Note 27. Non-current liabilities - provisions

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Employee benefits | 25 | 16 |

## Note 28. Non-current liabilities - other

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Lease incentive liability | - | 462 |

## Note 29. Equity - issued capital

| | Consolidated 2013 Shares | Consolidated 2012 Shares | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|---|---|
| Ordinary shares - fully paid | 198,986,529 | 138,356,402 | 158,942 | 153,443 |

*Movements in ordinary share capital*

| Details | Date | No of shares | Issue price | $'000 |
|---|---|---|---|---|
| Balance | 1 July 2011 | 122,731,123 | | 149,113 |
| Issue of shares on exercise of rights | 28 October 2011 | 1,400,000 | $0.00 | - |
| Issue of shares for additional capital | 22 February 2012 | 14,225,279 | $0.32 | 4,552 |
| Less: share issue costs | | | | (222) |
| Balance | 30 June 2012 | 138,356,402 | | 153,443 |
| Issue of shares | 25 October 2012 | 46,118,801 | $0.10 | 4,612 |
| Issue of shares on exercise of option | 5 December 2012 | 5,147 | $0.14 | 1 |
| Issue of shares on exercise of option | 7 January 2013 | 62 | $0.14 | - |
| Issue of shares on exercise of option | 8 March 2013 | 5,000 | $0.14 | - |
| Issue of shares on exercise of option | 23 May 2013 | 1,117 | $0.14 | - |
| Issue of shares for additional capital | 3 June 2013 | 14,500,000 | $0.10 | 1,450 |
| Less: share issue costs | | | | (564) |
| Balance | 30 June 2013 | 198,986,529 | | 158,942 |

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

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

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

*Unquoted options*
At 30 June 2013 there were 5,250,000 (2012: 11,250,000) options. Each option entitles the holder to subscribe for one fully paid share in the company at the exercise price per share at any time from the date of issue until expiry of the options subject to various vesting dates.

*Quoted options*
At 30 June 2013 there were 43,254,253 (2012: nil) options. Each option entitles the holder to subscribe for one fully paid share in the company at the exercise price of $0.14 per share at any time from the date of issue until expiry of the options at 31 October 2013.





## Note 29. Equity - issued capital (continued)

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

The gearing ratio at the reporting date was as follows:

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Current liabilities - trade and other payables (note 19) | 4,843 | 5,592 |
| Current liabilities - borrowings (note 20) | 11,645 | 10,381 |
| Non-current liabilities - borrowings (note 24) | 5,599 | 3,720 |
| Total borrowings | 22,087 | 19,693 |
| Current assets - cash and cash equivalents (note 9) | (4,146) | (904) |
| Net debt | 17,941 | 18,789 |
| Total equity | (9,568) | 6,395 |
| Total capital | 8,373 | 25,184 |
| Gearing ratio | 214% | 75% |

The gearing ratio has increased as a result of (a) the increase in borrowing by issuing additional convertible notes; (b) the accrual of interest on the convertible notes for the year; (c) the impairment of goodwill; (d) the loss on sale of discontinued business; and (e) the increase of accumulated losses at the financial year end.

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

## Note 30. Equity - reserves

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Foreign currency reserve | (4,844) | (6,124) |

| | Foreign currency $'000 | Total $'000 |
|---|---|---|
| **Consolidated** | | |
| Balance at 1 July 2011 | (6,997) | (6,997) |
| Foreign currency translation | 873 | 873 |
| Balance at 30 June 2012 | (6,124) | (6,124) |
| Foreign currency translation | 1,280 | 1,280 |
| Balance at 30 June 2013 | (4,844) | (4,844) |

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

## Note 31. Equity - accumulated losses

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Accumulated losses at the beginning of the financial year | (140,924) | (129,332) |
| Loss after income tax expense for the year | (23,204) | (12,361) |
| Transfer from share based payments reserve | 462 | 769 |
| Accumulated losses at the end of the financial year | (163,666) | (140,924) |

## Note 32. Equity - dividends

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

## Note 33. Performance rights

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| *Performance rights* | | |
| Opening balance | - | 1,400 |
| Exercised | - | (1,400) |
| Closing balance | - | - |

In accordance with resolutions 12, 13, and 15 of the 2009 Annual General Meeting, rights were granted to the directors under the Director and Executive Equity Plan. The grant of rights formed part of the remuneration of the directors based upon advice from independent remuneration consultant. A total of 3,000,000 rights were granted at zero exercise price. Of the total, 1,480,000 were exercised immediately after approval was given at the AGM, and 120,000 were forfeited. The balance of 1,400,000 was subject to the satisfaction of a Performance Hurdle and exercisable from and including 1 July 2011 to 30 June 2012. The Performance Hurdle was met and the rights were exercised in the prior year.

## Note 34. 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.





## Note 34. Financial instruments (continued)

***Market risk***

*Foreign currency risk*

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

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

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

Creditors and debtors as at 30 June 2013 were reviewed to assess currency risk at year end. The value of transactions denominated in a currency other than the functional currency of the respective subsidiary was insignificant and therefore the risk was determined as immaterial.

*Price risk*

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

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

*Interest rate risk*

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

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

The consolidated entity monitors its interest rate exposure continuously.

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Weighted average interest rate % | Balance $'000 | Weighted average interest rate % | Balance $'000 |
| **Consolidated** | | | | |
| Cash and cash equivalents | 0.06 | 4,146 | 3.72 | 904 |
| Bank loans | - | - | 3.25 | (966) |
| Net exposure to cash flow interest rate risk | | 4,146 | | (62) |

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

The consolidated entity has a net cash surplus totalling $4,146,000 (2012: net cash deficit $62,000). An official increase/decrease in interest rates of one (2012: one) percentage point would have a favourable/adverse effect on profit before tax of $41,000 (2012: adverse/favourable $600) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

**Note 34. Financial instruments (continued)**

***Credit risk***

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

The consolidated entity has a credit risk exposure with one customer, which as at 30 June 2013 owed the consolidated entity $272,928 (38% of trade receivables) (2012: $1,393,627 (39% of trade receivables)). This balance was within its terms of trade and no impairment was made as at 30 June 2013. There are no guarantees against this receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with this customer to mitigate risk.

There is a concentration of credit risk for cash at bank and cash on deposit as most monies in Australia is with one financial institution, St George Bank.

***Liquidity risk***

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

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

The consolidated entity raises capital in the form of ordinary shares and convertible notes, as and when needed to fund its cash flow requirements. The consolidated entity also negotiates where applicable, for the conversion of convertible notes into equity (refer to notes 20 and 24) and debt for equity swaps in relation to capitalised interest and expenses reimbursements.

*Financing arrangements*

Unused borrowing facilities at the reporting date:

| | Consolidated | |
|---|---|---|
| | **2013** | **2012** |
| | **$'000** | **$'000** |
| Bank loans | - | 2 |





**Note 34. Financial instruments (continued)**

*Remaining contractual maturities*

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

| **Consolidated - 2013** | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 966 | - | - | - | 966 |
| Other payables | - | 878 | - | - | - | 878 |
| *Interest-bearing - fixed rate* | | | | | | |
| Convertible notes payable | 10.00 | 12,000 | 1,714 | 6,074 | - | 19,788 |
| Interest payable on convertible notes | - | 3,957 | 942 | 986 | - | 5,885 |
| Total non-derivatives | | 17,801 | 2,656 | 7,060 | - | 27,517 |

| **Consolidated - 2012** | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 2,038 | - | - | - | 2,038 |
| Other payables | - | 650 | - | - | - | 650 |
| *Interest-bearing - variable* | | | | | | |
| Bank loans | 3.25 | 986 | - | - | - | 986 |
| *Interest-bearing - fixed rate* | | | | | | |
| Convertible notes | 10.00 | 12,000 | - | 5,989 | - | 17,989 |
| Interest payable on convertible notes | - | 3,759 | 599 | 759 | - | 5,117 |
| Total non-derivatives | | 19,433 | 599 | 6,748 | - | 26,780 |

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

## Note 34. Financial instruments (continued)

***Fair value of financial instruments***

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

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

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

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

| **Consolidated - 2013** | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| *Liabilities* | | | | |
| Derivative instrument liabilities | - | 1,508 | - | 1,508 |
| Total liabilities | - | 1,508 | - | 1,508 |

| **Consolidated - 2012** | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| *Liabilities* | | | | |
| Derivative instrument liabilities | - | 807 | - | 807 |
| Total liabilities | - | 807 | - | 807 |

There were no transfers between levels during the financial year.

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| **Consolidated** | **Carrying amount $'000** | **Fair value $'000** | **Carrying amount $'000** | **Fair value $'000** |
| *Assets* | | | | |
| Cash at bank | 4,146 | 4,146 | 904 | 904 |
| Trade receivables | 721 | 721 | 3,539 | 3,539 |
| Other receivables | 2 | 2 | 1,793 | 1,793 |
| | 4,869 | 4,869 | 6,236 | 6,236 |
| *Liabilities* | | | | |
| Trade payables | 966 | 966 | 2,038 | 2,038 |
| Other payables | 3,877 | 3,877 | 3,554 | 3,554 |
| Convertible notes | 17,244 | 18,314 | 13,135 | 16,558 |
| Bank loans | - | - | 966 | 966 |
| Derivative instrument liabilities | 1,508 | 1,508 | 807 | 807 |
| | 23,595 | 24,665 | 20,500 | 23,923 |





## Note 35. 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:

| | Consolidated 2013 $ | Consolidated 2012 $ |
|---|---|---|
| Short-term employee benefits | 1,911,625 | 2,193,383 |
| Post-employment benefits | 21,673 | 14,112 |
| Share-based payments | 308,235 | 769,371 |
| | 2,241,533 | 2,976,866 |

*Shareholding*

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

| **2013** | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Ordinary shares* | | | | | |
| M Bouris | 1,887,967 | - | 629,323 | - | 2,517,290 |
| K Ting | 1,600,975 | - | 644,909 | - | 2,245,884 |
| P Casey | 90,000 | - | - | - | 90,000 |
| D Rudduck * | 992,498 | - | 165,416 | (1,157,914) | - |
| B Ford ** | - | - | 250,000 | - | 250,000 |
| | 4,571,440 | - | 1,689,648 | (1,157,914) | 5,103,174 |

* No longer a key management personnel so holding is removed and is not necessarily a disposal of holding.

** Appointed as a key management personnel during the financial year.

The number of shareholdings held nominally at 30 June 2013 are as follows:
M Bouris - 2,495,990;
K Ting - 2,245,884; and
P Casey - 90,000.

| **2012** | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Ordinary shares* | | | | | |
| M Bouris | 1,087,967 | - | 800,000 | - | 1,887,967 |
| K Ting | 1,000,975 | - | 600,000 | - | 1,600,975 |
| D Rudduck | 992,498 | - | - | - | 992,498 |
| P Casey | 90,000 | - | - | - | 90,000 |
| J Wilson * | 58,142 | - | - | (58,142) | - |
| | 3,229,582 | - | 1,400,000 | (58,142) | 4,571,440 |

* No longer a key management personnel so holding is removed and is not necessarily a disposal of holding.

The number of shareholdings held nominally at 30 June 2012 are as follows:
M Bouris - 1,866,667;
K Ting - 1,600,975; and
P Casey - 90,000.

**Note 35. Key management personnel disclosures (continued)**

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

| 2013 | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other * | Balance at the end of the year |
|---|---|---|---|---|---|
| *Options over ordinary shares* | | | | | |
| M Bouris | 3,000,000 | - | - | 314,661 | 3,314,661 |
| K Ting | 2,250,000 | - | - | 322,454 | 2,572,454 |
| | 5,250,000 | - | - | 637,115 | 5,887,115 |

* Issued to existing shareholders as a result of capital raise in October 2012.

| 2013 | Vested and exercisable | Vested and unexercisable | Vested at the end of the year |
|---|---|---|---|
| *Options over ordinary shares* | | | |
| M Bouris | 2,314,661 | 1,000,000 | 3,314,661 |
| K Ting | 1,822,454 | 750,000 | 2,572,454 |
| | 4,137,115 | 1,750,000 | 5,887,115 |

| 2012 | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Options over ordinary shares* | | | | | |
| M Bouris | 3,000,000 | - | - | - | 3,000,000 |
| K Ting | 2,250,000 | - | - | - | 2,250,000 |
| D Rudduck | 10,000 | - | - | (10,000) | - |
| M Schwartz | 10,000 | - | - | (10,000) | - |
| W Leong | 10,000 | - | - | (10,000) | - |
| T Koehler | 30,000 | - | - | (30,000) | - |
| | 5,310,000 | - | - | (60,000) | 5,250,000 |

| 2012 | Vested and exercisable | Vested and unexercisable | Vested at the end of the year |
|---|---|---|---|
| *Options over ordinary shares* | | | |
| M Bouris | 1,000,000 | 1,000,000 | 2,000,000 |
| K Ting | 750,000 | 750,000 | 1,500,000 |
| | 1,750,000 | 1,750,000 | 3,500,000 |

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

| 2012 | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Performance rights over ordinary shares* | | | | | |
| M Bouris | 800,000 | - | (800,000) | - | - |
| K Ting | 600,000 | - | (600,000) | - | - |
| | 1,400,000 | - | (1,400,000) | - | - |





**Note 35. Key management personnel disclosures (continued)**

*Related party transactions*
Related party transactions are set out in note 40.

**Note 36. Remuneration of auditors**

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

| | Consolidated 2013 $ | Consolidated 2012 $ |
|---|---|---|
| *Audit services - Grant Thornton Audit Pty Ltd* | | |
| Audit or review of the financial statements | 130,000 | 89,500 |
| *Audit services - network firms* | | |
| Audit or review of the financial statements | 33,212 | 22,700 |
| *Audit services - unrelated firms* | | |
| Audit or review of the financial statements | - | 53,468 |
| *Other services - unrelated firms* | | |
| Corporate advisory | - | 13,761 |
| | - | 67,229 |

**Note 37. Contingent assets**

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Reimbursement from QVT of withholding tax | 211 | 114 |

In relation to Convertible Notes Series III, IIIB and IV the contingent asset is recognised. Under the terms of the Convertible Note Subscription Deed, in the event that withholding tax is payable on any interest payments to QVT, TZ Limited is required to gross up the interest payments such that QVT receives the same amount of interest that would have been received if withholding tax was not applicable. Furthermore, the Deed provides that in the event that QVT receives a benefit, in the form of a tax credit, QVT will reimburse TZ Limited for this amount.

**Note 38. Contingent liabilities**

The consolidated entity does not have any contingent liabilities at 30 June 2013.

## Note 39. Commitments

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 59 | 693 |
| One to five years | 195 | 2,465 |
| More than five years | - | 921 |
| | 254 | 4,079 |

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 terms usually run for 5 years with a 5 year renewal option. Lease conditions do not impose any restrictions on the ability of TZ Limited and its subsidiaries from borrowing further funds or paying dividends.

## Note 40. Related party transactions

*Parent entity*
TZ Limited is the parent entity.

*Subsidiaries*
Interests in subsidiaries are set out in note 42.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 35 and the remuneration report in the directors' report.

*Transactions with related parties*
The following transactions occurred with related parties:

| | Consolidated 2013 $ | Consolidated 2012 $ |
|---|---|---|
| Payment for other expenses: | | |
| Accounting fees charged by Yellow Brick Road Accounting and Wealth Management Pty Limited, a company in which Mark Bouris is a director. | 397,680 | 386,417 |
| Rent and serviced office expenditure paid to State Capital Property Pty Limited, a company in which Mark Bouris is a director. | 118,560 | 141,111 |
| Directors and Officers Insurance Policy was arranged by Yellow Brick Road Wealth Management Pty Limited (formerly YBR General Insurance Brokers Pty Limited), a company in which Mark Bouris is a director. | 7,775 | 100 |
| Administration fees and storage costs paid to YBR Services Pty Ltd, a company in which Mark Bouris is a director. | 43,372 | 43,372 |
| Marketing expenses paid to Yellow Brick Road Group Pty Limited, a company in which Mark Bouris is a director. | 132,500 | 120,000 |





## Note 40. Related party transactions (continued)

*Receivable from and payable to related parties*
The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | Consolidated 2013 $ | Consolidated 2012 $ |
|---|---|---|
| Current payables: | | |
| Accounting fees payable to Yellow Brick Road Accounting and Wealth Management Pty Ltd, a company in which Mark Bouris is a director. | 36,916 | 51,315 |
| Rent, serviced office expenditure and remaining rental bond payable to State Capital Property Pty Limited, a company in which Mark Bouris is a director. | 13,192 | 13,961 |
| Administration fees and storage costs payable to YBR Services Pty Ltd, a company in which Mark Bouris is a director. | 7,952 | 3,976 |
| Marketing expenses payable to Yellow Brick Road Group Pty Limited, a company in which Mark Bouris is a director. | 22,000 | 11,000 |

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

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

## Note 41. Parent entity information

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

*Statement of profit or loss and other comprehensive income*

| | Parent 2013 $'000 | Parent 2012 $'000 |
|---|---|---|
| Loss after income tax | (21,924) | (11,488) |
| Total comprehensive income | (21,924) | (11,488) |

**Note 41. Parent entity information (continued)**

*Statement of financial position*

| | Parent | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| Total current assets | 369 | 1,537 |
| Total assets | 12,902 | 23,437 |
| Total current liabilities | 15,617 | 12,563 |
| Total liabilities | 22,470 | 17,042 |
| Equity | | |
| Issued capital | 158,942 | 153,443 |
| Accumulated losses | (168,510) | (147,048) |
| Total equity/(deficiency) | (9,568) | 6,395 |

*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 2013 and 30 June 2012.

*Contingent liabilities*
The parent entity had no contingent liabilities as at 30 June 2013 and 30 June 2012.

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for property, plant and equipment at as 30 June 2013 and 30 June 2012.

*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.
- 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 42. 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:

| | | Equity holding | |
|---|---|---|---|
| Name of entity | Country of incorporation | 2013 % | 2012 % |
| 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 |
| CJSC PDT Ukraine | Ukraine | - | 90.00 |
| TZI Australia Pty Limited | Australia | 100.00 | 100.00 |
| Infinity Design Pty Limited * | Australia | 100.00 | 100.00 |

* Formerly known as Product Development Technologies Australia Pty Limited. Name changed on 26 July 2013.

**Note 43. Events after the reporting period**

On 31 July 2013 the company announced that its wholly owned subsidiary, Infinity Design Pty Limited (formally known as Product Development Technologies Australia Pty Limited), had successfully concluded the purchase of the business assets of Infinity Design Development Pty Limited for $300,000 in cash and an issue of 1,719,690 shares.

In satisfaction of the $200,000 share component, the company has agreed to issue 1,719,690 new fully paid ordinary shares to Infinity Design Development Pty Limited on 31 July 2013 at an agreed issue price of 11.63 cents per share.

In addition, the company has agreed with QVT Fund LP and Quintessence Fund L.P. ('the QVT Funds') that the conversion price per ordinary share applying to all the outstanding convertible notes issued by the company to the QVT Funds will not be affected as a result of the issue of the new shares.

No other matter or circumstance has arisen since 30 June 2013 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.

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

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Loss after income tax expense for the year | (23,204) | (12,361) |
| Adjustments for: | | |
| Depreciation and amortisation | 1,674 | 1,768 |
| Impairment of goodwill | 4,010 | - |
| Share-based payments | 308 | 769 |
| Foreign exchange differences | 214 | - |
| Interest accrued on convertible notes | 3,672 | 4,728 |
| Net loss on renegotiation of convertible notes | 1,125 | - |
| Net fair value loss/(gain) of derivatives | 380 | (3,605) |
| Loss on sale of joint venture | - | 224 |
| Loss on disposal of business | 4,992 | - |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | 491 | (666) |
| Increase in inventories | (60) | (10) |
| Decrease/(increase) in deferred tax assets | 942 | (191) |
| Decrease/(increase) in prepayments | (10) | 28 |
| Increase/(decrease) in trade and other payables | 389 | (520) |
| Increase in deferred tax liabilities | 217 | 199 |
| Increase/(decrease) in employee benefits | 51 | (7) |
| Decrease in other operating liabilities | (215) | (134) |
| Net cash used in operating activities | (5,024) | (9,778) |

## Note 45. Earnings per share

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| *Earnings per share from continuing operations* | | |
| Loss after income tax attributable to the owners of TZ Limited | (16,524) | (10,965) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 170,935,255 | 128,728,627 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 170,935,255 | 128,728,627 |
| | **Cents** | **Cents** |
| Basic earnings per share | (9.67) | (8.52) |
| Diluted earnings per share | (9.67) | (8.52) |





## Note 45. Earnings per share (continued)

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| *Earnings per share from discontinued operations* | | |
| Loss after income tax attributable to the owners of TZ Limited | (6,680) | (1,396) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 170,935,255 | 128,728,627 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 170,935,255 | 128,728,627 |
| | **Cents** | **Cents** |
| Basic earnings per share | (3.91) | (1.08) |
| Diluted earnings per share | (3.91) | (1.08) |

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| *Earnings per share for loss* | | |
| Loss after income tax attributable to the owners of TZ Limited | (23,204) | (12,361) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 170,935,255 | 128,728,627 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 170,935,255 | 128,728,627 |
| | **Cents** | **Cents** |
| Basic earnings per share | (13.57) | (9.60) |
| Diluted earnings per share | (13.57) | (9.60) |

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

## Note 46. Share-based payments

*Director and Executive Equity Plan*
The Director and Executive Equity Plan ('DEEP') was approved by shareholders at 2009 Annual General Meeting that was held on 26 February 2010. It gives directors and senior executives the opportunity to participate in the plan. There were three tranches of options and two tranches of rights granted to the directors in prior years. Each tranche of options had a fixed number granted with vesting periods from 1 to 3 years.

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

The rights granted to the directors were at a zero exercise price, which entitle the holder to acquire fully paid ordinary shares in the company, without payment. Each right entitles the holder to acquire one fully paid ordinary share in the company. The first tranche of rights vested immediately. In the case of the second tranche of rights, the satisfaction of a performance hurdle had to be achieved before the rights could be exercised. The performance hurdle was met and the rights were exercised in the prior financial year.

There were three tranches of options granted to the directors during the year ended 30 June 2010. Each option, when validly exercised, entitles the holder to receive one fully paid share in the company. The first tranche of options is exercisable in the period from 1 July 2011 to 30 June 2016 at an exercise price of $1.00 per option. The second tranche of options is exercisable in the period from 1 July 2012 to 30 June 2017 at an exercise price of $2.00 per option. The third tranche of options is exercisable in the period from 1 July 2013 to 30 June 2018 at an exercise price of $3.00 per option.

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

The company issued a total of 15,372,934 options to an underwriter on the same terms and conditions as the options issued to shareholders under the Renounceable Rights Issue in October 2012. The options issued to the underwriter were valued on the basis of equivalent cash payment of $153,729 for the service provided on raising the share capital.

Set out below are summaries of options granted as share-based payments:

**2013**

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 26/02/10 | 30/06/16 * | $1.00 | 1,750,000 | - | - | - | 1,750,000 |
| 26/02/10 | 30/06/17 * | $2.00 | 1,750,000 | - | - | - | 1,750,000 |
| 26/02/10 | 30/06/18 | $3.00 | 1,750,000 | - | - | - | 1,750,000 |
| 26/10/12 | 31/10/13 | $0.14 | - | 11,312,209 | - | - | 11,312,209 |
| 04/12/12 | 31/10/13 | $0.14 | - | 4,060,725 | - | - | 4,060,725 |
| | | | 5,250,000 | 15,372,934 | - | - | 20,622,934 |

**2012**

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 01/08-08/08 | 25/08/11 | $6.00 | 116,666 | - | - | (116,666) | - |
| 24/10/08 | 24/10/11 | $2.50 | 850,000 | - | - | (850,000) | - |
| 24/10/08 | 24/10/11 | $2.50 | 150,000 | - | - | (150,000) | - |
| 15/05/09 | 15/05/12 | $2.50 | 65,000 | - | - | (65,000) | - |
| 26/02/10 | 30/06/16 * | $1.00 | 1,750,000 | - | - | - | 1,750,000 |
| 26/02/10 | 30/06/17 | $2.00 | 1,750,000 | - | - | - | 1,750,000 |
| 26/02/10 | 30/06/18 | $3.00 | 1,750,000 | - | - | - | 1,750,000 |
| | | | 6,431,666 | - | - | (1,181,666) | 5,250,000 |

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

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.27 years (2012: 5.01 years).

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



**TZ Limited**
**Notes to the financial statements**
**30 June 2013**

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

**2012**

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 26/02/10 | 30/06/12 | $0.00 | 1,400,000 | - | (1,400,000) | - | - |
| | | | 1,400,000 | - | (1,400,000) | - | - |

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was nil (2012: nil).

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

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| Share-based payment expense recognised during the financial year: | | |
| Options issued under Director and Executive Equity Plan | 308 | 769 |
| Options issued to underwriter | 154 | - |
| | 462 | 769 |

**TZ Limited**
**Directors' declaration**

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2013 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

Mark Bouris
Director

Kenneth Ting
Director

26 September 2013
Sydney



Grant Thornton

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## Independent Auditor's Report
## To the Members of TZ Limited

### Report on the financial report

We have audited the accompanying financial report of TZ Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2013, 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, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

### Auditor's responsibility

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

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

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

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

**Auditor's opinion**
In our opinion:

a the financial report of TZ Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

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

Convertible notes with a face value of $12,000,000 are due to mature on 18 February 2014. Unless those notes are converted to shares by the holder prior to maturity the principal and interest outstanding on maturity will be payable in cash by TZ Limited. There is a material uncertainty as to whether the consolidated entity will have sufficient cash to redeem the notes, if required.



At 30 June 2013 the consolidated entity's current liabilities exceeded its current assets by $11,172,000. For the year ended 30 June 2013 the consolidated entity incurred losses after income tax of $23,204,000 and net cash outflows from operating activities of $5,024,000.

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

These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

**Report on the remuneration report**
We have audited the remuneration report included in pages 4 to 10 of the directors' report for the year ended 30 June 2013. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**
In our opinion, the remuneration report of TZ Limited for the year ended 30 June 2013, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S M Coulton
Partner - Audit & Assurance

Sydney, 26 September 2013

The shareholder information set out below was applicable as at 5 September 2013.

**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 | Number of holders of convertible notes |
|---|---|---|---|
| 1 to 1,000 | 774 | 200 | - |
| 1,001 to 5,000 | 797 | 107 | - |
| 5,001 to 10,000 | 308 | 43 | - |
| 10,001 to 100,000 | 627 | 111 | - |
| 100,001 and over | 235 | 54 | 2 |
| | 2,741 | 515 | 2 |
| Holding less than a marketable parcel | 1,619 | - | - |

**Equity security holders**

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

| | Ordinary shares | |
|---|---|---|
| | Number held | % of total shares issued |
| National Nominees Limited | 16,664,282 | 8.30 |
| Deutsche Bank AG London | 14,399,999 | 7.17 |
| Deutsche Bank AG London <QVT Fund LP A/C> | 11,654,542 | 5.81 |
| UBS Nominees Pty Limited | 8,393,304 | 4.18 |
| HSBC Custody Nominees (Australia) Limited | 8,274,209 | 4.12 |
| Rod Investments (Vic) Pty Ltd <Gronow Super Fund A/C> | 3,670,359 | 1.83 |
| Equity Trustees Limited <SGH Micro Cap Fund A/C> | 3,111,374 | 1.55 |
| Surflodge Pty Ltd | 2,998,134 | 1.49 |
| Nefco Nominees Pty Ltd | 2,988,857 | 1.49 |
| Surflodge Pty Ltd <JE Lynch Staff Super Fd A/C> | 2,969,198 | 1.48 |
| NGP Investments (No 2) Pty Limited | 2,649,087 | 1.32 |
| Mr David Frederick Oakley | 2,625,000 | 1.31 |
| Equity Trustees Limited <SGH Tiger A/C> | 2,369,198 | 1.18 |
| Mr Christopher Clarke | 2,210,089 | 1.10 |
| Mr Kenneth Ting | 2,044,584 | 1.02 |
| Mr Scott Joseph Bogue | 2,000,000 | 1.00 |
| Mark Leigh Bouris | 1,955,556 | 0.97 |
| JP Morgan Nominees Australia Limited <Cash Income A/C> | 1,913,825 | 0.95 |
| Mr Patrick Chew | 1,801,908 | 0.90 |
| Mrs Jaclyn Stojanocski + Mr Chris Retzos + Mrs Susie Retzoz <Retzos Executive S/F A/C> | 1,750,215 | 0.87 |
| | 96,443,720 | 48.04 |





| | Options over ordinary shares | |
|---|---|---|
| | Number held | % of total options issued |
| UBS Nominees Pty Ltd | 8,179,989 | 18.91 |
| Equity Trustees Limited <SGH Micro Cap Fund A/C> | 3,356,539 | 7.76 |
| Rod Investments (Vic) Pty Ltd <Gronow Super Fund A/C> | 3,273,841 | 7.57 |
| Equity Trustees Limited <SGH Tiger A/C> | 3,151,267 | 7.29 |
| Surflodge Pty Ltd <JE Lynch Staff Super Fd A/C> | 3,151,267 | 7.29 |
| Mrs Deirdre Claire Smart <Hancock Investment A/C> | 1,561,773 | 3.61 |
| Mrs Jaclyn Stojanocski + Mr Chris Retzos + Mrs Susie Retzoz <Retzos Executive S/F A/C> | 1,512,611 | 3.50 |
| National Nominees Limited | 1,072,430 | 2.48 |
| Mr Philip John Hibberd | 906,327 | 2.10 |
| Mr Thomas Philip Gooch | 836,206 | 1.93 |
| Mr Stephen John Dawn | 667,594 | 1.54 |
| T E & J Pasias Pty Ltd | 630,255 | 1.46 |
| Zellvest Pty Ltd <No 2 Account> | 630,255 | 1.46 |
| HSBC Custody Nominees (Australia) Limited | 547,015 | 1.26 |
| NEFCO Nominees Pty Ltd | 537,326 | 1.24 |
| Jetosea Pty Ltd | 506,667 | 1.17 |
| Mr David Frederick Oakley | 441,667 | 1.02 |
| Mrs Sarah Kay Daly | 418,770 | 0.97 |
| Sam Goulopoulos Pty Ltd <S Goulopoulos F/Super A/C> | 400,000 | 0.92 |
| Mr Craig Anthony Nicholls | 389,000 | 0.90 |
| | 32,170,799 | 74.38 |

*Unquoted equity securities*

| | Number on issue | Number of holders |
|---|---|---|
| Options over ordinary shares issued | 5,250,000 | 2 |
| Convertible notes | 19,788 | 2 |

**Substantial holders**
Substantial holders in the company are set out below:

| | Ordinary shares | |
|---|---|---|
| | Number held | % of total shares issued |
| National Nominees Limited | 16,664,282 | 8.30 |
| Deutsche Bank AG London | 14,399,999 | 7.17 |
| Deutsche Bank AG London <QVT Fund LP A/C> | 11,654,542 | 5.81 |

**TZ Limited**
**Shareholder information**
**30 June 2013**

| | Options over ordinary shares | |
|---|---|---|
| | Number held | % of total options issued |
| UBS Nominees Pty Ltd | 8,179,989 | 18.91 |
| Equity Trustees Limited <SGH Micro Cap Fund A/C> | 3,356,539 | 7.76 |
| Rod Investments (Vic) Pty Ltd <Gronow Super Fund A/C> | 3,273,841 | 7.57 |
| Equity Trustees Limited <SGH Tiger A/C> | 3,151,267 | 7.29 |
| Surflodge Pty Ltd <JE Lynch Staff Super Fd A/C> | 3,151,267 | 7.29 |

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

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

*Convertible notes and options*
Convertible note holders and option holders are not entitled to attend nor vote at meetings.

There are no other classes of equity securities.

**TZ Limited**
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