



**ANNUAL REPORT  
AS AT 30 JUNE 2010**

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**Tranzact Financial Services Limited**  
**Annual General Meeting**  
**10 November 2010, 3.30 p.m.**  
Level 5  
241 Castlereagh Street  
Sydney NSW



# REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

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## OVERVIEW OF THE FINANCIAL YEAR

The Company recorded an operating profit before tax, depreciation and amortisation (“EBTDA”) of \$2.016 million (FY2009: \$2.030 million) for the year ended 30 June 2010 (“FY2010”). The result was achieved on operating revenue of \$7.831 million (FY2009: \$7.968 million) and was consistent with the earnings guidance that had been provided to shareholders.

Net profit after tax (“NPAT”) was \$1.509 million in FY2010 compared with \$1.612 million for the previous corresponding period. The slight reduction in NPAT was due to an increase in amortisation as well as the one-off costs associated with the rationalisation of the Smartsave Master Plan.

The Directors were pleased with the Company’s performance in what were generally acknowledged as challenging global economic and financial services environments. Global equities markets continued to experience significant volatility as doubts persisted about the strength of the global economic recovery.

In Australia, the various reviews and government statements about proposed structural changes in the financial advisory and superannuation sectors created additional uncertainty in the financial services sector. Whilst this uncertainty is not ideal, the proposed changes also create opportunities for the Company. For example, streamlining the money handling processes in the superannuation area would be of significant benefit to the Company’s administration business.

The Company intends to maintain its operational structure as efficiently and as flexibly as possible so that it can react and adapt to the anticipated changes. The Directors are confident that as a boutique business, with a capable management team, a focused strategy and a strong financial position, the Company will be able to respond more quickly than its larger competitors. Furthermore, the diversity of the Company’s operations will mitigate the risks from these changes.

The Directors are pleased to note that the Company continues to make large strides in implementing its strategic plans, particularly in the Master Trust and Partnership for Growth segments.

## Partnership for Growth

The Company achieved a significant new milestone with the implementation of the Partnership for Growth program through the recently announced proposal (since balance date) to acquire a controlling interest in the Templetons Group based in Brisbane. Templetons is well respected in the corporate sector, with several large companies and key Queensland business leaders choosing Templetons for specialist superannuation, insurance and financial planning advice.

Templetons has had an ongoing relationship with the Company since 2003 through the utilisation of the Investor Directed Portfolio Service (IDPS) and self managed superannuation fund administration services offered by Tranzact. The acquisition is expected to strengthen and build on this relationship. The Company intends to use Templetons as the launching pad for further acquisitions and partnerships with quality advisory practices in Australia that share the Company’s vision of sustainable growth partnerships.

The Camelot Partnership for Growth program continues to make good progress in growing its business in New Zealand both organically and through acquisitions. The Company has successfully acquired a significant number of client ledgers and undertaken mergers with new advisers over the last two years. Total investments in the Camelot Partnership for Growth program have increased by almost \$2 million since the start of the 2009 financial year.

It is also pleasing to note that the returns to date from these investments have met the Directors’ expectations and further expansion of the Partnership for Growth program is targeted in the future.



## Master Trust

The Company has focussed and devoted an enormous amount of resources over the last 2-3 years on attempting to merge and rationalise the various retail master trusts under its promotorship and administration into a single viable Master Trust, Smartsave. The Company is committed to creating a viable boutique style Master Trust that is a meaningful alternative for advisers and members to the “low-cost, dumb-down” style alternative which seems to be riveting the attention of governments and the media. This has clearly been manipulated cleverly by the Industry Super Funds who obviously believe that they can gain from this campaign.

The Company believes that there are sufficient informed and “engaged” advisers and members for whom a credible good value for money superannuation option, built around returns after fees and quality products and services, will be highly appealing.

The rationalisation of the Company’s Master Trust has three components, focussing on changes and enhancements in the areas of Insurance, Fees and Investments. As previously reported to ASX, the Insurance component was approved and implemented in June 2010.

The Company’s present expectation is for the Fees and Investments restructure proposals to be approved by the end of this calendar year and implemented in the second half of the current financial year.

A key part of the Investment restructure proposal involves the Company being appointed as the Investment Manager of the Master Trust. The Company believes that its skills and track record, in conjunction with the resources it has available through its majority shareholder, Grosvenor Financial Services Group Limited, will allow Tranzact to provide and add significant value to the advisers and members of the Master Trust.

The section below is a brief commentary on the Company’s outstanding investment performance and portfolio stewardship over the last five years.

## Investment Performance and Portfolio Stewardship

Although share markets came under some renewed selling pressure in the final quarter of FY2010, they finished the year around 10% higher than where they started, thanks mainly to a strong rebound during the September 2009 quarter. However, volatility remained a central theme as markets and economies continued to grapple with the ongoing negative effects of the global financial crisis (something the Directors expect to persist for the foreseeable future).

During this time, the Company maintained a cautious bias to its investment strategies, but good returns from the key share sectors delivered another very good performance year relative to peers. The same underlying investment philosophy and portfolio structures have been maintained in Australia for five years now and Grosvenor’s track record on both sides of the Tasman should provide a solid platform for ongoing growth in both markets.

The table below summarises the Company’s investment performance for the last one and five years in the key Australian market sectors, versus both internal benchmarks and Morningstar peer group averages. Having now established a five year performance track record in Australia, this should provide a solid platform for exploring ongoing growth opportunities in the management of pooled superannuation trust business.

Multi Sector	Last Year	Last 5 Years
Defensive	6.8%	4.6%
Morningstar Median	6.6%	3.2%
Morningstar Quartile Ranking	2	1
Balanced	10.2%	4.0%
Morningstar Median	9.6%	2.5%
Morningstar Quartile Ranking	2	1
Growth	11.3%	3.3%
Morningstar Median	10.5%	2.2%
Morningstar Quartile Ranking	2	1
High Growth	13.8%	2.6%
Morningstar Median	12.0%	1.6%
Morningstar Quartile Ranking	1	1

Returns are to 30 June 2010 and are after tax and fees.

Index returns have also been adjusted for tax and fees.



### Self Managed Superannuation Fund

The Company completed the planned migration of clients to its preferred Self Managed Superannuation Funds (“SMSF”) business model in FY2010, thereby reducing the seasonality of its cash flows. The SMSF business has significant capacity for expansion and has established a sustainable base from which to grow. The Company intends to promote its consulting services related to the compliance and technical advice aspects of SMSF and seek merger and acquisition opportunities.

### Investor Directed Portfolio Service / Custodial Services

As previously advised to shareholders, the Directors believe that the growth of the Company’s Investor Directed Portfolio Service (“IDPS”) / Custodian Services business is linked to the development of its Partnership for Growth program in Australia. The recent proposal for the Company to acquire Templetons should act as a catalyst for its development of IDPS / Custodial Services in Australia.

### GIS Concepts

GIS Concepts improved its performance in FY2010. The contribution of this business is expected to increase in future years due to the rationalisation of the Smartsave Master Plan as GIS Concepts is the promoter of the fund.

### Summary

The Directors and senior management of the Company are positive about the outlook for the Company and confident of its future prospects. In particular, the initiatives that have been undertaken in the Company’s major business segments should generate significant returns.

The Directors advised with the release of the FY2010 preliminary final result that, in the absence of unforeseen circumstances, they expected the after tax earnings of the Company to increase substantially in the 2011 financial year (“FY2011”) particularly in the second half.

The Directors are pleased to confirm that the continued development of the strategic plan is well on track and the trading results for the year to date (based on unaudited management accounts) are in line with expectations. The Directors now advise that, in the absence of unforeseen circumstances, they expect the Company to achieve EBTDA growth of almost 50% in FY2011 to over \$3.0 million (FY 2010: \$2.016 million).

The Directors would like to take the opportunity to thank the shareholders of the Company for their continued support. The Directors would also like to recognise the dedication and efforts of all staff towards the success of the Company.

Phillip L Harry AM  
Non-Executive Chairman

Allan S T Yeo  
Managing Director and  
Chief Executive Officer

Sydney, 30 September 2009



# DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Tranzact Financial Services Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

The following persons were Directors of Tranzact Financial Services Limited during the whole or part of the period and up to the date of this report:

Director	Period of directorship
Mr P L Harry AM	Director since 8 Feb 2000
Mr R L Rodgers	Director since 21 Aug 2002
Mr A S T Yeo	Director since 24 Nov 2003
Mr W A Ractliffe	Director since 24 Nov 2003

Particulars of the Directors' qualifications, experience, all directorships in listed public companies held for the past three years and special responsibilities are set out below.

**Phillip Lloyd Harry AM**, B Econ  
Non-Executive Chairman  
Mr Harry graduated with a Bachelor of Economics from the University of Sydney in 1959. He is an experienced businessman with significant international experience. Mr Harry is a former Chairman of Mulford Holdings Pty Ltd, an international plastics group and a former president of the New South Wales Rugby Union and the Australian Rugby Union.



**Allan Seng Tong Yeo**, BCA (Hons), BA  
Managing Director,  
Chief Executive Officer  
Mr Yeo has held a number of senior banking roles with Barclays Bank PLC in New Zealand, Australia and the United Kingdom. Mr Yeo is also the Executive Chair of Grosvenor Financial Services Group Limited and a Director of TriMax Assurance Services Limited, an innovative insurance joint venture company.



**Richard Lynn Rodgers**, BCom, CA  
Non-Executive Director,  
Chairman of the Audit Committee  
Member of the Risk and Compliance Committee  
Mr Rodgers has over 35 years experience in the Australian accounting industry. Mr Rodgers, a Chartered Accountant, established his own practice in 1984, which he continues to operate. As part of his day to day business Mr Rodgers is involved in many aspects of the Australian financial and superannuation industry and is a director of a number of private companies.



**William Anthony Ractliffe**, BA, BCom  
Non-Executive Deputy Chairman,  
Member of the Audit Committee  
Member of the Risk and Compliance Committee  
A business consultant and professional Company Director, Mr Ractliffe is Chairman of the NZ Export Credit Office and a Director of Grosvenor Financial Services Group Limited. Previously he was Deputy Chairman of Accident Compensation Corporation (NZ) and before that NZ CEO of the National Mutual Group (now AXA NZ).





## PRINCIPAL ACTIVITIES

During the year the principal activities of the consolidated entity were:

- providing specialist administration services to various superannuation entities;
- operating an Investor Directed Portfolio Service and Custodial Services;
- providing Asset Consulting and Investment Management services;
- acting as a Promoter of superannuation entities; and
- acting as an Australian Financial Services Licensee.

## DIVIDENDS PAID OR RECOMMENDED

A fully franked final dividend of 0.35 cents per share has been declared by the Board after balance date for the year ended 30 June 2010. Refer to Note 5.

## REVIEW OF OPERATIONS & RESULTS

The Directors of the Company are pleased to announce an operating profit before tax, depreciation and amortisation ("EBTDA") of \$2.016 million (FY2009: \$2.030 million) for the full year ended 30 June 2010 ("FY2010"). This result is consistent with the guidance provided by the Board in previous releases.

Net profit after tax attributable to shareholders was \$1.509 million, compared with \$1.612 million for the previous corresponding period. The decrease of 6.4% was due mainly to a \$0.078 million increase in depreciation and amortisation charges.

The profit was achieved on operating revenues of \$7.831 million, down 1.7% from \$7.968 million in the previous year. The small decline in operating revenues was mainly attributable to a re-organisation of the Australian Superannuation Consultants business ("ASC").

Net cashflow from operating activities increased by 40% to reach \$2.012 million, underpinning the strong cash position of the Company. The Company has over \$2 million of net cash available for investment as well as a \$3 million, 3 years committed bank facility that is currently un-utilised.

The Directors are pleased with the Company's performance in the challenging economic environment. The results were achieved despite continued volatility in global equities markets during the second half of FY2010 and notwithstanding significant doubts about the strength

of the global economic recovery and the extent to which fragilities and systemic problems in global financial markets have been addressed and remedied.

Within the Company, all segments of the business made positive contributions to the overall result. Each business segment continues to pursue cautiously both organic and growth opportunities from a position of business and financial strength.

### Master Trust

• Total revenue from the Master Trust business of \$3.185 million in FY2010 was 3.8% ahead of the previous corresponding period. EBTDA for this segment was lower than the previous year primarily due to one-off costs associated with the planned product rationalisation undertaken during the year.

• Funds under management and administration in this business segment increased by 3.3% to \$249 million at 30 June 2010.

• As reported in February 2010, the Company incurred significant one-off costs (exceeding \$200,000) during the year in order to complete a comprehensive review aimed at rationalising the Smartsave 'Member's Choice' Superannuation Master Plan ("Smartsave").

• The first component of the rationalisation process involved a re-structure of the members' insurance arrangements and had been implemented successfully by 1 June 2010. This initiative should improve significantly the financial viability and returns of this business.

• The Company expects that the next two components of the process, involving the re-structuring of the investment offering and the harmonisation of the members' fees arrangements, should take effect in the second half of the current 2011 financial year.

• Once the rationalisation is fully implemented, the Company expects to have a very competitive product offering that will appeal to new members and financial advisers, as well as a vehicle that can be used as a catalyst for further earnings accretive mergers and acquisitions.

### Partnership for Growth

• The partnership s continued to perform very well during FY2010. The benefits of the model's unique structure, coupled with a stronger market position as a direct result of the size and growth of the Camelot group, has positioned Camelot well to take advantage of the significant changes in the regulatory environment in New Zealand over the next few years.

• There were further acquisitions of clients' registers by the various partnerships during FY2010. The Company expects that these opportunities will continue to arise as it foresees a significant number of departures from the industry as a result of tighter regulatory oversight.

• The Company has made good preparatory progress towards the introduction of the partnership model



to Australia and is hopeful of making a significant announcement on this initiative in the near future.

- The Company's interests in its partnership practices withstood the challenges posed by the global financial crisis. As a result, the Board is satisfied that, despite valuation pressures on many financial planning practices, there is no impairment in the carrying value of these interests.

#### **Self-Managed Superannuation Funds**

- The previously announced migration of clients to the Company's preferred Self Managed Superannuation Funds ("SMSF") business model, reducing the seasonality of cash flows, is now largely complete.

- This transition has not been without cost and has resulted in some loss of funds under administration. However, the exercise also improved business efficiency and earnings margins with the result that the EBTDA contribution for this segment increased by 25% in FY2010 from the previous year.

- Most importantly, the Company believes that its SMSF business has considerable opportunities to expand and is capable of performing even better in the future. The operation has significant capacity and the merger of the Company's two acquired businesses (Total Super and ASC) with its original SMSF business will create a more sustainable base from which to grow.

- To meet this objective, the Company intends to promote itself better, especially in the provision of consulting services related to the compliance and technical advice aspects of SMSF. In addition, the Company continues to seek out further merger and acquisition opportunities within what is still a very fragmented sector.

#### **Investor Directed Portfolio Service ("IDPS")/Custodial Services**

- The Company has previously advised that it believes opportunities in the IDPS/Custodial Services segment are linked to its initiatives in the Partnership for Growth programme in Australia. Accordingly, the Company prioritised other opportunities while the expansion of its partnership programme was being developed.

- The Company also made a strategic decision to provide custodial services only where it is the IDPS operator. The custodial services business is one where the margins are very lean and size is the primary determinant of profitability. Similarly, activity in this segment is quite exposed to the turmoil in global financial markets and due to its relatively small size the loss of a few clients can prove significant.

- The fall in revenue and profitability of just over 10% from the IDPS/Custodial Services operations during FY2010 was considered to be a reasonable outcome in

these circumstances. However, the Company believes that its resources are better utilised in expanding other segments for the time being.

#### **GIS Concepts**

- GIS Concepts operated profitably during FY2010 with a significant increase in its underlying profitability.

- GIS Concepts provided the Company with an equity accounted profit contribution of \$0.120 million after tax, representing a 9.7% after tax return on the Company's original investment.

- As the main promoter of Smartsave, GIS Concepts is also expected to benefit from the rationalisation of the fund. Consequently, it is anticipated that the contribution of GIS Concepts to the Company will increase significantly during the current 2011 financial year and beyond.

#### **Dividend**

The Directors are pleased to announce a fully franked final dividend for the year of 0.35 cents per share (FY2009: 0.35 cents per share), bringing total dividends for FY2010 to 0.60 cents per share (FY2009: 0.35 cents per share). The Record Date for the final dividend is 24th September 2010 and the Payment Date will be 8th October 2010.

#### **Outlook**

While economic conditions remain challenging, the Company is in a strong financial position and well placed to achieve both organic and strategic acquisition growth. The business initiatives undertaken by the Company as outlined in this report, in particular the rationalisation of Smartsave, should have a significant effect on the performance of the Company in future years.

The Directors are pleased to advise that, in the absence of unforeseen circumstances, it expects after tax earnings to increase substantially in FY2011, particularly in the second half of the year. An update on the Company's first quarter trading performance will be provided to shareholders at the Annual General Meeting in October 2010.

#### **EARNINGS PER SHARE**

For the consolidated entity in respect of the 2009/2010 year of operation, the basic earnings per share was \$0.013 and diluted earnings per share was \$0.013 (Note 6 to the financial statements).

#### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Other than already disclosed, there have been no other significant changes in the state of affairs of the Company.





## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Refer to the Report from the Chairman and Managing Director for the description of a recent acquisition of a controlling interest in the Tempeltons Group (page 1).

## FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Company intends to implement the following strategies in the foreseeable future:

- Take further strategic financial interests in profitable adviser practices.
- Continue to grow its self-managed superannuation fund services through its association with Gold Financial Pty Ltd and through its subsidiaries Total Super Pty Ltd and Australian Superannuation Consultants Pty Ltd.
- Continue to market its IDPS and Custody services.

## INFORMATION ON DIRECTORS' INTERESTS

Particulars of Directors' interests in shares, unsecured notes and options of Tranzact Financial Services Limited up to the date of the report are shown in the table below.

Director	Ordinary Shares	Options
Mr P L Harry AM <sup>(1)</sup>	3,474,836	868,709
Mr W A Ractliffe <sup>(2)</sup>	68,943,726	17,235,932
Mr R L Rodgers <sup>(3)</sup>	1,750,836	437,709
Mr A S T Yeo <sup>(4)</sup>	67,405,726	16,851,432

<sup>(1)</sup> A company associated with Mr Harry, Conclude Pty Ltd, holds 1,824,000 shares and 456,000 options. Mr Harry also holds 1,650,836 shares and 412,709 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 25).

<sup>(2)</sup> A company associated with Mr Ractliffe, Gro-Aust Holdings Ltd, holds 65,304,015 shares and 16,326,004 options. In addition, Mr Ractliffe holds 1,538,000 shares and 384,500 options as trustee of the Ractliffe Australian Family Trust and 450,875 shares and 112,719 options as trustee of the Grosvenor Employee Share Scheme. Mr Ractliffe also holds 1,650,836 shares and 412,709 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 25).

<sup>(3)</sup> These holdings include 1,650,836 shares and 412,709 options held by Mr Rodgers as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 25).

<sup>(4)</sup> A company associated with Mr Yeo, Gro-Aust Holdings Ltd, holds 65,304,015 shares and 16,326,004 options. In addition, Mr Yeo holds 450,875 shares and 112,719 options as trustee of the Grosvenor Employee Share Scheme. Mr Yeo also holds 1,650,836 shares and 412,709 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 25).

## BOARD AND COMMITTEE MEETINGS

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2010, and the number of meetings attended by each Director were:

Director	Directors' Meetings		Audit Committee Meetings		Risk and Compliance Meetings	
	Entitled	Attended	Entitled	Attended	Entitled	Attended
Mr P L Harry AM	12	11	*	*	**	**
Mr W A Ractliffe	12	12	4	4	9	9
Mr A S T Yeo	12	11	*	*	**	**
Mr R L Rodgers	12	12	4	4	9	9

\* Not a member of the Audit Committee

\*\* Not a member of the Risk and Compliance Committee

The Risk and Compliance Committee also includes 3 non-board members who attended all meetings



## ENVIRONMENTAL REGULATIONS

There are no environmental issues resulting from the consolidated entity's activities, which are likely to affect future operations.

## REMUNERATION REPORT - AUDITED

As the whole Board currently consists of only 4 members, the Company does not have a separately constituted Remuneration Committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues. The Board has however delegated to the Chief Executive Officer the task of determining senior executive remuneration, with the exception of equity benefits which are approved by the Board.

### (a) Policy for determining the nature and amount of key management personnel remuneration

The objective of the remuneration framework is to ensure remuneration is competitive and appropriate for the results delivered and aligns reward with achievement of strategic objectives and the creation of value for shareholders.

Factors taken into consideration include the overall performance of the Company, particular experience of the individual concerned, level of responsibility and the demands made on the key management personnel.

As part of each executive director and executive's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with directors/executives to ensure buy-in. The measures are specifically tailored to the areas each director/executive is involved in and has a level of control over.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

The Board has delegated to the Chief Executive Officer the task of determining the remuneration of key management

personnel remuneration who are not directors, with the exception of equity benefits which are approved by the Board.

The Board confirms the performance evaluation was applied consistently with the policy for the reporting period.

The Board's policy for determining the nature of remuneration for key management personnel for the group is as follows:

### Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market competitive, consistent with best practice and supports the interests of shareholders. The Company aims to align the interests of senior executives with those of shareholders by remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

Consequently, senior executive remuneration typically consists of the following elements:

- fixed salary;
- short-term incentive bonus based on performance;
- long-term incentive option scheme; and
- other benefits including superannuation.

### Fixed Salary

The salaries of senior executives are determined from a review of the market and reflect core performance requirements and expectations. In addition, the Company considers the following:

- the scope of the individual's role;
- the individual's level of skill and experience;
- the Company's legal and industrial obligations; and
- labour market conditions.

### Performance Bonus

The purpose of the performance bonus is to reward actual achievement by the individual of performance objectives and for improved company performance. Consequently, performance-based remuneration is paid where a clear contribution to successful outcomes for the Company is demonstrated and the individual attains pre-agreed key performance indicators during a performance cycle.

The pre-agreed performance measures for the Chief



Executive Officer's Bonus are:

- Operating profit of the Company.
- Performance of the Company's business units.
- General criteria including leadership, innovation, succession, planning, training and adherence to agreed culture.

The method of assessing if each of the above measures is met are:

- Non-executive directors of the Company set the target operating profit that has to be met.
- Non-executive directors of the Company approve the profit objectives of the business units.
- Based on the discretion and judgement of non-executive directors of the Company.

Performance measures used in determining the discretionary bonuses of other senior executives include:

- Operating profit.
- Exceeding service standards (internal and external).
- Attainment of relevant qualifications.
- Accuracy and timeliness of work outputs.
- Staff development and training.

### **Long-Term Incentives**

The Company has an option scheme that has been approved by shareholders in which senior executives may participate. The number of shares and options issued under the scheme is reasonable in relation to the existing capitalisation of the Company and all issues of options under the scheme are made in accordance with thresholds previously approved by shareholders. The issue of options is not subject to any performance conditions as they are an incentive for senior executives to remain employed with the Company.

A policy has been implemented such that participants in the TFS Group Employee Bonus and Share Scheme may not enter into derivative transactions with third parties to eliminate the performance element of the options. This rule is enforced via an annual declaration of compliance by all employees.

### **Other Benefits**

Senior executives are entitled to statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance.

### **Company Performance, Shareholder Wealth and Executives' Remuneration**

The remuneration policy has been tailored to align the goals of shareholders and executives.

There have been two main methods in achieving this aim, the first being a performance-based bonus on key performance indicators, and the second being the issue of shares and options.

Details of the company's performance over the last five years is shown in the table on page 10. The Board maintains promotional activity amongst analysts so as to increase investor awareness of the company and to stabilise the share price in line with the Company's consistent and stable financial position.

### **Non-Executive Director Remuneration Policy**

The objective of the non-executive director remuneration framework is to ensure that performance is competitive and appropriate for the results delivered and aligns reward with achievement of strategic objectives and the creation of value for shareholders.

Factors taken into consideration include the overall performance of the Company, particular experience of the individual concerned, level of responsibility and the demands made on the directors.

The contracts for the service between the Company and directors are on a continuing basis and are not expected to change in the immediate future. Non-executive directors are however subject to rotation requirements of the ASX listing rules and the Company's Constitution.

Non-executive directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of non-executive directors. This amount is currently \$300,000 per annum.



## FIVE YEAR COMPANY PERFORMANCE

	2006	2007	2008	2009	2010
Revenue	\$3,680,001	\$4,420,741	\$5,824,646	\$7,968,367	\$7,831,000
Net Profit	\$184,020	\$631,005	\$1,754,471	\$1,612,140	\$1,509,000
Share Price at 30 June	\$0.05/share	\$0.24/share	\$0.025/ share	\$0.14/share	\$0.15/share
Dividends Paid	-	-	-	\$0.0035/share	\$0.0060/share
Share Buy Back Programme - Number repurchased	-	-	-	600,000	1,362,146
Share Buy Back Programme - Price per share	-	-	-	\$0.16/share	\$0.15/share

Non-Executive Directors currently do not receive performance based bonuses and do not participate in equity schemes of the Company. Non-Executive Directors are entitled to statutory superannuation.

### (b) Key management personnel

The names of persons who were key management personnel of Tranzact Financial Services Limited Group at any time during the current financial year are as follows\*:

Name	Position Held
Mr P L Harry AM Mr W A Ractliffe	Chairman - Non-Executive Deputy Chairman - Non-Executive Member of Audit Committee Member of the Risk and Compliance Committee
Mr R L Rodgers	Director - Non- Executive Chairman - Audit Committee Chairman - Risk & Compliance Committee
Mr A S T Yeo	Managing Director & Chief Executive Officer
Mr C Yip ** Mr M Beydoun	General Manager Senior Technical Manager & Company Secretary Member of the Risk and Compliance Committee
Ms V T Luong Mrs C J Dixon	Administration Manager General Manager, Tranzact Super ***

\*Mrs S Tawil was included in Key Management Personnel in 2009 but due to changes in reporting lines, is no longer considered to be part of key management personnel for the purposes of this disclosure.

\*\* Mr Yip is not an employee of the Group but had been assigned to the Group as part of the management arrangement between the Company and Grosvenor Financial Services Group Limited. This arrangement ceased on 30 June 2010.

In addition, the following persons must be disclosed as they are among the 5 highest remunerated Group executives:

Name	Position Held
G W Leake M R Ellem	Senior Fund Accountant Senior Manager, SMSE, Tranzact Super ***

\*\*\* Tranzact Super is the trading name of the combined operation of Total Super Pty Ltd and Australian Superannuation Consultants Pty Ltd.



### (c) Details of Remuneration

Details of the compensation key management personnel and other executives of the Tranzact Financial Services Group are set out below:

O./.	-----Short Term Benefits-----			Post-employment benefits	Long Term Benefits	-----Equity----- Benefits		Percentage of remuneration consisting of shares	Percentage of remuneration performance related	
	Salary & Fees (\$)	Cash Bonus (\$)	Other Benefits (\$)	Super-annuation (\$)	Long Service Leave (\$)	Shares <sup>(4)</sup> (\$)	Options (\$)			Total (\$)
Mr P L Harry	49,045	-	-	-	-	-	-	49,045	-	-
Mr W A Ractliffe	30,000	-	-	2,700	-	-	-	32,700	-	-
Mr R L Rodgers	30,000	-	-	2,700	-	-	-	32,700	-	-
Mr A S T Yeo <sup>(1)</sup>	256,791	35,000	-	-	-	-	-	291,791	-	12.0
<b>Other key management personnel</b>										
Mr C Yip <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-
Ms V T Luong	57,204	4,000	-	5,958	13,375	14,324	-	94,861	15.1	4.2
Mr M Beydoun	84,615	5,000	-	7,615	-	5,086	-	102,316	5.0	4.9
Mrs C Dixon	42,308	-	-	50,000	1,234	18,067	-	111,609	16.2	-
<b>Total key management personnel compensation</b>	<b>549,963</b>	<b>44,000</b>	<b>-</b>	<b>68,973</b>	<b>14,609</b>	<b>37,477</b>	<b>-</b>	<b>715,022</b>		
<b>Other executives</b>										
Mr G W Leake <sup>(3)</sup>	95,991	-	-	8,954	636	10,499	-	116,080	9.0	-
Mr M R Ellem <sup>(3)</sup>	90,300	-	-	8,931	1,422	-	-	100,653		
	<b>736,254</b>	<b>44,000</b>	<b>-</b>	<b>86,858</b>	<b>16,667</b>	<b>47,976</b>	<b>-</b>	<b>931,755</b>		

<sup>(1)</sup> In the current year, payment of \$230,631 was made directly by Tranzact Financial Services Limited to Mr Yeo for services provided in addition to directors fees. In 2009 payment for such services was paid as part of a management fee charged by the ultimate parent company, Grosvenor Financial Services Group Limited. During the year, the independent Non-Executive Directors approved a cash bonus payment to the Managing Director.

<sup>(2)</sup> Mr Yip is not an employee of the Group but had been assigned to the Group as part of the management arrangement between the Company and Grosvenor Financial Services Group Limited. This arrangement ceased on 30 June 2010.

<sup>(3)</sup> Included as one of the 5 highest paid executives of the group, although not considered part of key management personnel, as required under the Corporations Act 2001.

<sup>(4)</sup> These shares were acquired under the TFS Group Employee Bonus and Share Scheme. The shares only vest if the personnel remains an employee throughout the vesting period and are expensed on a pro-rata basis.

2009	-----Short Term Benefits-----			Post-employment benefits	Long Term Benefits	-----Equity----- Benefits		Percentage of remuneration consisting of shares	Percentage of remuneration performance related	
	Salary & Fees (\$)	Cash Bonus (\$)	Other Benefits <sup>(3)</sup> (\$)	Super-annuation (\$)	Long Service Leave (\$)	Shares <sup>(6)</sup> (\$)	Options (\$)			Total (\$)
Mr P L Harry	49,050	-	-	-	-	-	-	49,050	-	-
Mr W A Ractliffe	30,000	-	-	2,700	-	-	-	32,700	-	-
Mr R L Rodgers	30,000	-	-	2,700	-	-	-	32,700	-	-
Mr A S T Yeo <sup>(1)</sup>	26,160	35,000	-	-	-	-	-	61,160	-	57.2
<b>Other key management personnel</b>										
Mr C Yip <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-
Ms V T Luong	104,185	9,000	-	9,440	3,290	14,733	-	140,648	10.5	6.4
Mrs S Tawil	72,605	3,000	-	6,534	1,402	6,400	-	89,941	7.1	7.1
Mrs C Dixon <sup>(3)</sup>	52,968	-	-	57,185	323	-	-	110,476	-	-
Ms G Ingram <sup>(7)</sup>	-	-	-	-	-	-	-	-	-	-
Mr G Day <sup>(4)</sup>	43,858	-	-	2,245	-	-	-	46,103	-	-
<b>Total key management personnel compensation</b>	<b>408,826</b>	<b>47,000</b>	<b>-</b>	<b>80,804</b>	<b>5,015</b>	<b>21,133</b>	<b>-</b>	<b>562,778</b>		
<b>Other executives</b>										
Mr D J Busoli <sup>(5)</sup>	183,679	-	-	12,403	41,892	-	-	237,974	-	-
Mr G W Leake <sup>(5)</sup>	84,984	3,500	-	12,990	3,652	-	-	105,126	-	3.3
Mr M R Ellem <sup>(5)</sup>	91,000	-	-	9,000	1,515	-	-	101,515		
	<b>768,489</b>	<b>50,500</b>	<b>-</b>	<b>115,197</b>	<b>52,074</b>	<b>21,133</b>	<b>-</b>	<b>1,007,393</b>		

<sup>(1)</sup> During the year, the independent Non-Executive Directors approved a cash bonus payment to the Managing Director.

<sup>(2)</sup> Mr Yip is not an employee of the Group but had been assigned to the Group as part of the management arrangement between the Company and Grosvenor Financial Services Group Limited.

<sup>(3)</sup> Appointed as General Manager, Tranzact Super on 2 February 2009.

<sup>(4)</sup> Resigned 18 September 2008.

<sup>(5)</sup> Included as one of the 5 highest paid executives of the group, although not considered part of key management personnel, as required under the Corporations Act 2001.

<sup>(6)</sup> The above shares (each of which has a free option attached enabling the holder to subscribe for a further share @ \$0.30 before 30 April 2010) were acquired under the TFS Group Employee Bonus Share Scheme. The shares only vest if the personnel remains an employee throughout the vesting period and are expensed on a pro-rata basis.

<sup>(7)</sup> Ms G Ingram ceased to be a part of key management personnel on 15 October 2008 following her assignment.



**(d) Cash bonuses**

During the year, cash bonuses were approved for the Managing Director and other key management personnel. These bonuses were granted on 30 June 2010 in relation to the 2010 financial year and were in recognition of the company achieving performance objectives and individuals achieving pre-agreed key performance indicators. The quantum of each bonus is discretionary and approved in accordance with the remuneration policy contained in this report.

**(e) Share-based payments**

Share-based payments made to key management personnel and executives as compensation during the financial year are shown in the above table.

**(f) Options and rights granted as remuneration**

No options or rights were granted to key management personnel and executives as remuneration during the financial year.

**(g) Equity instruments issued on exercise of remuneration options**

During the period 50,000 options from the staff share option plan, previously granted as compensation to key management personnel and executives, were exercised as follows:

G W Leake, Senior Fund Manager	
Grant date of the option	01 July 2006
Number of shares issued on exercise of options	50,000
Number of options exercised	50,000
Amount paid per share	\$0.04
Amount unpaid per share	nil
Value of the option at grant date	\$0.06
Value of the option exercised at exercise date	\$0.11

**(h) Service contracts**

Service contracts have been entered into by the Group with all key management personnel and executives with the exception of Mr Allan Yeo and Mr Colin Yip who have service contracts with the ultimate parent company, Grosvenor Financial Services Group Limited. The service contracts describe the components and amounts of remuneration applicable on their initial appointment, including terms and performance criteria for performance-related cash bonuses and entitlements to equity benefits. These contracts do not fix the amount of remuneration increases from year to year. Remuneration levels are reviewed generally each year by the Managing Director in the absence of a Remuneration Committee to align

with changes in job responsibilities and market salary expectations. All service contracts are for an ongoing period which can be terminated by either party giving a minimum of 4 weeks notice, or more. No service contract provides for a payment on termination.

**END OF AUDITED REMUNERATION REPORT**

**SHARE OPTIONS**

No share options were granted up to the date of this report to any directors or executives, other than options issued in relation to the free bonus issue dated 14 May 2010. Refer to Note 23 for details of listed options and Note 21 for details of unlisted options outstanding at the end of the financial year, and for details of share options exercised during the year.

The free bonus issue of one bonus option for every four shares held applied to all shareholders who were registered as shareholders on 14 May 2010. Any director or executive who held shares directly, indirectly or beneficially on 14 May 2010 received these bonus options. Each bonus option gives the holder the right to acquire one share and will be exercisable at \$0.25 at any time prior to 31 October 2012. A total of 27,953,049 options were issued to shareholders in the bonus issue.

In addition, 36,069,395 options which had been issued in terms of the rights issue of 24 May 2007, including those held by directors or executives, expired on 30 April 2010 without being exercised.

Since the end of the financial year no options were exercised.

**INDEMNIFICATION AND INSURANCE OF OFFICERS OR AUDITOR**

The Company indemnifies all current and former officers of the Company against any liability to another person (other than the Company or its related bodies corporate) unless the liability arises out of conduct involving lack of good faith.

The Company also indemnifies all current and former officers of the Company against any liabilities or expenses incurred in defending proceedings except proceedings in which the person is found guilty or which arise out of conduct involving lack of good faith.



During the year ended 30 June 2010 the Company paid a premium of \$26,689 to insure the officers of the Group.

The Officers of the Company are:

- Phillip L Harry AM Non-Executive Chairman
- W Anthony Ractliffe Non-Executive Deputy Chairman
- Allan S T Yeo Chief Executive Officer
- Richard L Rodgers Non-Executive Director

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the Officers in their capacity as Officers of entities in the consolidated entity.

#### **PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

#### **AUDIT COMMITTEE**

At the date of this report Tranzact Financial Services Limited has a formally constituted Audit Committee of the Board of Directors.

#### **CORPORATE GOVERNANCE**

A statement of the Company's corporate governance standards is set out on pages 15 to 20 of this Annual Report.

#### **NON-AUDIT SERVICES**

The auditors BDO did not perform any non-audit services during the period.

#### **AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration under Section 307C of the Corporations Act 2001 in relation to the audit for the financial year is on page 14 and forms part of the Directors' Report.

This Directors' Report is signed on behalf of, and in accordance with, a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

**P L Harry AM**  
Non-Executive Chairman

**A S T Yeo**  
Managing Director and Chief Executive Officer

Sydney, 30 September 2009



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Australia

**DECLARATION OF INDEPENDENCE BY NEVILLE SINCLAIR  
TO THE DIRECTORS OF TRANZACT FINANCIAL SERVICES LIMITED**

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

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

This declaration is in respect of Tranzact Financial Services Limited and the entities it controlled during the period.

N E Sinclair

Director

**BDO Audit (NSW-VIC) Pty Ltd**

Sydney, 30 September 2010





# CORPORATE GOVERNANCE REPORT

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The Board is committed to implementing the highest standards of corporate governance in accordance with stakeholder expectations.

## 1. Board of Directors

### 1.1 Role and Responsibilities of the Board

The Board is responsible to its shareholders for the overall governance of the Company with the main role of the Board being to drive the performance of the Company.

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principle functions and responsibilities of the Board include the following:

- i. Leadership of the Company: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
- ii. Strategy Formulation: set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- iii. Overseeing Planning Activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long-term budgets.
- iv. Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- v. Monitoring, Compliance and Risk Management: overseeing the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- vi. Company Finances: approving material expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.

The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body.

To assist the Board carry out its functions, the Company has developed a Code of Conduct to guide the directors in the performance of their roles.

### 1.2 Composition of the Board

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are stated on page 4 along with the term of office held by each of the Directors. Directors are appointed based on the specific governance skills required by the Company and on the independence of their decision-making and judgement.

The Company recognises the importance of non-executive directors and the external perspective and advice that non-executive directors can offer. Mr Phillip Harry AM, Mr Richard Rodgers and Mr Anthony Ractcliffe are all non-executive directors.

In addition to being Non-executive directors, Mr Phillip Harry AM and Mr Richard Rodgers also meet the following criteria for independence adopted by the Company.

An independent director:

- i. is a non-executive director;
- ii. is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company (substantial is considered to be a holding of more than 5% of issued share capital consistent with Section 9 of the Corporations Act 2001);
- iii. within the last three years, has not been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold any such employment;
- iv. within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another Group member or an employee materially associated with



the service provider;

- v. is not a material supplier or customer of the Company or another Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- vi. has no material contractual relationship with the Company or other Group member other than as a director of the Company;
- vii. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- viii. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The Board has adopted the policy that the Chairman should in all but exceptional circumstances be an independent director and that the Chairman should not hold the position of CEO. The appointment of Mr Phillip Harry AM as Chairman and Mr Allan Yeo as CEO complies with this policy.

The Board acknowledges that there is not a majority of independent directors. However, whenever the Board considers a matter may give rise to a potential conflict of interest, the conflicted Directors are required to abstain from the decision. As a result, the Board is comfortable with its current composition.

### 1.3 Board Policies

#### 1.3.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations

Act, absent himself from the room when discussion and/or voting occurs on matters about which the conflict relates.

#### 1.3.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a director of the Company.

#### 1.3.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, directors and key executives of the Company have agreed to keep confidential, information received in the course of exercising their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

#### 1.3.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the Australian Stock Exchange (ASX) as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- i. concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- ii. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

#### 1.3.5 Education and Induction

New directors undergo an induction process in which they are given a full briefing on the Company. This includes meetings with key executives, tours of the premises, an induction package and presentations.

In order to achieve continuing improvement in Board performance, all directors are encouraged to undergo continual professional development. Specifically, directors are provided with the resources and training to address skills gaps where they are identified.

#### 1.3.6 Independent Professional Advice

The Board collectively and each director (with the prior approval of the Chairman) has the right to seek independent professional advice at the Company's expense to assist them to carry out their duties and responsibilities.



### 1.3.7 *Related Party Transactions*

Related party transactions include any financial transaction between a director and the Company and will be reported in writing at each Board meeting. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

### 1.3.8 *Shareholder Communication*

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- i. communicating effectively with shareholders through releases to the market via the ASX, newsletters mailed to shareholders and notice of general meetings of the Company;
- ii. giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- iii. making it easy for shareholders to participate in general meetings of the Company; and
- iv. requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and fax number for shareholders to make enquiries of the Company.

### 1.3.9 *Trading in Company Shares*

The Company has an Insider Trading Procedure under which directors, company secretaries and employees of the Company and any of its subsidiaries (each referred to as a Prescribed Person) should not effect any dealing:

- i. in the period from the end of a half year/financial year until that half year's/financial year's result announcement is released to the ASX; or
- ii. at any time when it is known by that Prescribed Person that an announcement of a major event or release of price sensitive information is likely to occur; or
- iii. at any time when that Prescribed Person has any price sensitive information not generally available.

The CEO may in his/her absolute discretion grant a waiver to all or any part of this policy if in his/her opinion all relevant information are in the domain of the public including all information necessary to be disclosed to the ASX in accordance with the Continuous Disclosure requirement. Regardless, notice of an intention to trade must be given prior to trading in the Company's securities as well as a confirmation that the person is not in possession of any unpublished price sensitive information. The completion of any such trade by a director must also be notified to the Company Secretary who in turn advises the ASX.

### 1.3.10 *Performance Review/Evaluation*

The Board considers the ongoing development and improvement of its own performance as a critical input to effective governance. While the Board is committed to accountability, the financial performance of the Company over recent years, recent changes in the composition of the Board and the implementation of the new business strategy has required a significant level of effort from the Board over recent times. As a result, the Board has used informal, ongoing assessments to evaluate its performance. Formal evaluations will be introduced by the Board in the current financial year.

### 1.3.11 *Risk Management*

The Board has overall responsibility for the system of risk management, compliance and internal control across the business to ensure the material business risks have been addressed. The material business risks of the Company fall into the following categories:

- strategic risk
- operational risk
- financial and market risk (including financial reporting)
- product risk
- legal and regulatory compliance risk

The Risk and Compliance Committee supports the Board by monitoring and reviewing the effectiveness of the risk management internal control environment. The Audit Committee supports the Board by its oversight of the Company's financial reporting obligations. The internal audit function provides additional assurance to the Board that risks are being effectively managed.

The management of the Company are charged by the Board to design and implement an appropriate risk management and control environment for the Company. The Board has received regular reporting from management as to the effectiveness of the Company's



management of its material business risks.

### *1.3.12 Assurance by Chief Executive Officer and Group Chief Financial Officer*

In accordance with the Board's policy and section 295A of the Corporations Act, prior to the Board signing this Annual Report, the CEO and the Group Chief Financial Officer report in writing to the Board that in their opinion the consolidated financial statements of the Company and its controlled entities for each half and full financial year present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with accounting standards.

They have also confirmed that their declaration is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material aspects in relation to financial reporting risks.

## **2 Board Committees**

### *2.1 Audit Committee*

The Audit Committee was established on 8 February 2000. Below is a summary of the role, composition and responsibilities of the Audit Committee. Further details are contained in the Audit Committee's Charter.

#### *2.1.1 Role*

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the external audit of the Company.

#### *2.1.2 Composition*

The Audit Committee currently consists of two members. Members are appointed by the Board from amongst the non-executive directors, a majority of whom are also independent if possible. The current members of the Audit Committee are Mr Richard Rodgers (Chairman) and Mr Anthony Ractcliffe. Both members can read and understand financial statements and are financially literate and Mr Rodgers, the Chairman, is a qualified accountant with experience in tax, financial and accounting matters. The details of the members' qualifications may be found on page 4.

Given the substantial experience of the two members of the Committee, the Board is satisfied the Committee can adequately discharge its responsibilities, even though the ASX recommendation is for an Audit Committee of at least three members. Similarly to the composition of the main board, whilst the Committee does not have a majority of independent directors, the Chairman holds

the casting vote, with the effect that this acts as a majority representation.

### *2.1.3 Responsibilities*

The Audit Committee reviews the annual and half-yearly financial statements and any reports which accompany published financial statements and recommends to the Board whether the financial statements and reports should be signed.

The Audit Committee also recommends to the Board the appointment, removal and remuneration of the external auditor. Subsequent to the implementation of the Risk & Compliance Committee, the Audit Committee is no longer also responsible for assisting the Board with internal control and risk management.

### *2.2 Risk and Compliance Committee*

The Risk and Compliance Committee was established on 23 October 2009. Below is a summary of the role, composition and responsibilities of the Risk and Compliance Committee. Further details are contained in the Risk and Compliance Committee's Charter.

#### *2.2.1 Role*

The Risk and Compliance Committee is responsible for the functions of risk management, compliance, controls and procedures, internal audit and such other functions as determined by the Board from time to time.

#### *2.2.2 Composition*

The Risk and Compliance Committee is comprised of five members who are appointed by the Board, being two directors, two members of senior management staff and an external legal adviser. The current members are Mr Richard Rodgers (Chairman) and Mr Anthony Ractcliffe (who are both directors of the Board), Mr Maan Beydoun (Company Secretary and Senior Technical Manager), Mr Gary Scott (Group Chief Financial Officer and Head of Risk Management) and Mr Phil Logan (External Legal Adviser). All members have experience in the areas of law, risk management and/or compliance, and have extensive experience in the financial services industry.

#### *2.2.3 Responsibilities*

The Risk and Compliance Committee is responsible to the Board for:

- the risk management framework and ensuring



compliance with the framework and appropriate management of the key business risks;

- monitoring the extent of compliance by the Company and subsidiaries and report to the Board on any serious breaches;
- assess the adequacy of the compliance framework and encourage a compliance culture;
- monitor the implementation of any remedial action following incidents or breaches;
- determine the scope and work plans of any internal audit review;
- provide advice and recommendations to the Board on matters raised by the internal auditor; and
- monitor and manage the rectification of any findings arising from any internal audit review.

### 2.3 Remuneration Committee

As the Board consists of four members only, the Company does not have a remuneration committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

For information on remuneration policies, please refer to the remuneration report on pages 8-12.

### 2.4 Nomination Committee

As the Board consists of four members only, the Company does not have a nomination committee because it would not be a more efficient mechanism than the full Board focusing on specific issues. The Board takes on the role and responsibilities for receiving, assessing and recommending, where appropriate, nominees for appointment to the Board. All non-executive directors are subject to re-election and to the ASX Listing Rules and Corporations Act provisions concerning removal of a director.

#### 2.4.1 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least two Directors with experience in the financial services industry. In addition, Directors should have the relevant blend of personal experience in:

- accounting and financial management; and/or

- legal skills; and/or
- CEO-level business experience.

#### 2.4.2 Procedure for selection and appointment and Re-election of Directors

The Directors actively seek potential new Directors to join the Board who have relevant commercial and governance experience and would have a strong cultural fit with the Company's values. Any new Directors must, in the opinion of the Board, genuinely be able to add value. Any potential Directors that the Board considers meet the criteria would be nominated for election at the Annual General Meeting.

In accordance with the constitution, a minimum of one-third of incumbent Directors (excluding the Managing Director) are required to retire each year. Directors may be re-elected for a subsequent term, which is to be no more than three years.

## 3 Company Code Of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole. The Company adopted a Code of Conduct which includes the following:

### Responsibilities to Shareholders and the Financial Community Generally

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

### Responsibilities to Clients, Customers and Consumers

Employees have an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers. The Company for its part is committed to providing clients, customers and consumers with fair value.

### Employment Practices

The Company endeavours to provide a safe workplace



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in which there is equal opportunity for all employees at all levels. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

#### **Obligations Relative to Fair Trading and Dealing**

The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with its customers, suppliers, competitors and employees and encourages its employees to strive to do the same.

#### **Responsibilities to the Community**

As part of the community the Company is committed to conducting its business in accordance with applicable environmental laws and regulations.

#### **Responsibility to the Individual**

The Company is committed to keeping private information collected from employees, clients, customers, consumers and investors confidential and protected from uses other than those for which it was provided.

#### **Conflicts of Interest**

Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

#### **How the Company Complies with Legislation Affecting its Operations**

Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, Company policy will prevail.

#### **How the Company Monitors and Ensures Compliance with its Code**

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.



# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

Tranzact Financial Services Limited  
ABN 84 089 997 731

	Note	Consolidated Entity	
		2010 \$'000	2009 \$'000
Revenue from Continuing Operations	2	7,831	7,968
Other Income	2	41	-
		<u>7,872</u>	<u>7,968</u>
<b>Less: Expenses</b>			
Service Expenses		1,456	1,029
Occupancy Costs		353	364
Administration Expenses		1,266	877
Employee Benefits Expense		2,895	3,640
Amortisation and Depreciation Expenses		430	352
Financing Costs		57	85
Other Expenses		-	37
Share of Net (Profit) After Tax of Associates		(120)	(66)
	3	<u>6,337</u>	<u>6,318</u>
<b>Profit before Income Tax Expense</b>		<b>1,535</b>	<b>1,650</b>
Income Tax Expense	4	26	38
<b>Profit for the year</b>		<b><u>1,509</u></b>	<b><u>1,612</u></b>
<b>Other Comprehensive Income</b>		-	-
<b>Total Comprehensive Income for the year</b>		<b><u>1,509</u></b>	<b><u>1,612</u></b>
<b>Profit for the year is attributable to:</b>			
Owners of the Company		1,509	1,612
Non-Controlling Interest		-	-
		<u>1,509</u>	<u>1,612</u>
<b>Total Comprehensive Income for the year is attributable to:</b>			
Owners of the Company		1,509	1,612
Non-Controlling Interest		-	-
		<u>1,509</u>	<u>1,612</u>
		<b>Consolidated</b>	<b>Consolidated</b>
		<b>2010</b>	<b>2009</b>
		<b>\$</b>	<b>\$</b>
<b>EARNINGS PER SHARE</b>			
Basic Earnings per Share	6	0.013	0.014
Diluted Earning per Share	6	0.013	0.014
<b>DIVIDENDS PER SHARE</b>	5	0.006	0.0035

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



## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

Tranzact Financial Services Limited  
ABN 84 089 997 731

		<b>Consolidated Entity</b>	
		<b>2010</b>	<b>2009</b>
		\$'000	\$'000
	Note		
<b>CURRENT ASSETS</b>			
Cash & Cash Equivalents	8	2,093	2,463
Trade & Other Receivables	9	801	1,426
Derivatives	10	-	44
Financial Assets	11	-	966
Other	12	46	45
<b>TOTAL CURRENT ASSETS</b>		<b>2,940</b>	<b>4,944</b>
<b>NON-CURRENT ASSETS</b>			
Property, Plant and Equipment	13	343	445
Financial Assets	14	5,214	4,004
Investments accounted for using the Equity Method	15	1,249	1,241
Intangible Assets	16	7,208	7,396
Deferred Tax Assets	17	159	86
<b>TOTAL NON-CURRENT ASSETS</b>		<b>14,173</b>	<b>13,172</b>
<b>TOTAL ASSETS</b>		<b>17,113</b>	<b>18,116</b>
<b>CURRENT LIABILITIES</b>			
Interest Bearing Liabilities	18	-	1,138
Trade & Other Payables	19	1,025	1,428
Derivatives	10	105	-
Current Tax Liabilities		108	208
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,238</b>	<b>2,774</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade & Other Payables	19	9	19
Provisions	20	93	90
Deferred Tax Liabilities	22	300	394
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>402</b>	<b>503</b>
<b>TOTAL LIABILITIES</b>		<b>1,640</b>	<b>3,277</b>
<b>NET ASSETS</b>		<b>15,473</b>	<b>14,839</b>
<b>EQUITY</b>			
Issued Capital	23	19,853	20,047
Accumulated Losses		(4,424)	(5,283)
Reserves	24	44	75
<b>TOTAL EQUITY</b>		<b>15,473</b>	<b>14,839</b>
<b>Capital and Reserves attributable to owners of Tranzact Financial Services Limited</b>		<b>15,473</b>	<b>14,839</b>

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





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

Tranzact Financial Services Limited  
ABN 84 089 997 731

	Issued Capital \$'000	Employee Options Reserve \$'000	Other Reserve \$'000	Accumulated Losses \$'000	Total \$'000	Non- controlling interest \$'000	Total Equity \$'000
<b>CONSOLIDATED</b>							
<b>As at 30 June 2008</b>	<b>19,999</b>	<b>15</b>	<b>40</b>	<b>(6,471)</b>	<b>13,583</b>	<b>47</b>	<b>13,630</b>
Total comprehensive income for the year	-	-	-	1,612	1,612	-	1,612
<b>Transactions with owners in their capacity as owners</b>							
Shares issued during the year	137	-	-	-	137	-	137
Cancellation of non-controlling interest	-	-	-	(141)	(141)	(47)	(188)
Dividends paid	-	-	-	(283)	(283)	-	(283)
Share buy-back	(96)	-	-	-	(96)	-	(96)
Employee options reserve	7	20	-	-	27	-	27
<b>As at 30 June 2009</b>	<b>20,047</b>	<b>35</b>	<b>40</b>	<b>(5,283)</b>	<b>14,839</b>	<b>-</b>	<b>14,839</b>
Total comprehensive income for the year	-	-	-	1,509	1,509	-	1,509
<b>Transactions with owners in their capacity as owners</b>							
Shares issued during the year	6	(4)	-	-	2	-	2
Dividends paid	-	-	-	(677)	(677)	-	(677)
Share buy-back	(200)	-	-	-	(200)	-	(200)
Share options expired	-	(27)	-	27	-	-	-
<b>As at 30 June 2010</b>	<b>19,853</b>	<b>4</b>	<b>40</b>	<b>(4,424)</b>	<b>15,473</b>	<b>-</b>	<b>15,473</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying Notes.



## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

Tranzact Financial Services Limited  
 ABN 84 089 997 731

	Note	Consolidated Entity	
		2010 \$'000	2009 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers		8,553	7,774
Payments to Suppliers and Employees		(6,893)	(6,791)
Distributions and Interest Received		703	539
Interest and Other Finance Costs Paid		(57)	(85)
Income Taxes Paid		(294)	(4)
<b>Net cash inflow from operating activities</b>	<b>32</b>	<b>2,012</b>	<b>1,433</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for Property, Plant & Equipment		(31)	(89)
Equity Accounted Dividend Received		112	75
Net Loans/Advances to Adviser Practices		(181)	(2,342)
Payments for the Purchase of Investments		(160)	(433)
Payments for Purchases of Software Licenses		(54)	-
Proceeds from the Disposal of Plant & Equipment		-	10
Payments for Acquisition of Financial Licenses		(54)	(28)
<b>Net cash (outflow) from investing activities</b>		<b>(368)</b>	<b>(2,807)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from Share Issues		2	12
Payments for Shares Repurchased		(200)	(96)
Proceeds from Borrowings		-	251
Repayment of Borrowings		(1,138)	-
Dividend Paid		(678)	(283)
<b>Net cash (outflow) from financing activities</b>		<b>(2,014)</b>	<b>(116)</b>
<b>Net (decrease) in cash held</b>		<b>(370)</b>	<b>(1,490)</b>
<b>Cash at the beginning of the financial year</b>		<b>2,463</b>	<b>3,953</b>
<b>Cash at the end of the financial year</b>	<b>8</b>	<b>2,093</b>	<b>2,463</b>

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### **Corporate Information**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements comply with Australian Equivalents to International Financial Reporting Standards (AIFRS) in their entirety. Compliance with AIFRS ensures that the financial statements comply with International Financial Reporting Standards.

The financial statements of Tranzact Financial Services Limited for the year ended 30 June 2010 were authorised for issue in accordance with a resolution of the directors on 23 September 2010 and covers the consolidated entity consisting of Tranzact Financial Services Limited and its subsidiaries as required by the Corporations Act 2001.

Separate financial statements for Tranzact Financial Services Limited as an individual entity are no longer presented as a consequence of a change to the Corporations Act 2001, however limited financial information for Tranzact Financial Services Limited as an individual entity is included in Note 33.

Tranzact Financial Services Limited is a listed public company, incorporated and domiciled in Australia.

The financial statements are presented in Australian currency.

The following is a summary of the significant accounting policies adopted by the Company in the preparation of the accounts. Unless otherwise stated, the accounting policies are consistent with those of the previous year.

#### **Basis of Preparation**

The financial statements have been prepared on an accrual basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

#### **Accounting Policies**

##### **(a) Principles of Consolidation**

Tranzact Financial Services Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. A list of subsidiaries is contained in Note 29 to the financial statements.

Where subsidiaries have entered or left the consolidated entity during the year or comparative year, their operating results have been included from the date control was obtained or until the date control ceased. The effects of all transactions between entities in the consolidated entity are eliminated in full.

The Group has financial interests in New Zealand advisory practices through Camelot Financial Advisers Limited (Camelot). The Group has no influence over the business operations or decisions of the advisory practices. Camelot was set up to source funding for selected advisers to aid them in their growth initiatives. These "Partnership for Growth" financial interests are arranged through loans from a Tranzact subsidiary to Camelot, and the underlying interests are treated as Available for Sale Assets (refer Note 14).

##### **(i) Accounting for Associates**

Investments in associated entities by the Group are accounted for using the equity method of accounting in the consolidated financial statements. Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% to 50% of the voting rights.

Investments in associated entities are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the share of net assets of the associate, less any impairment in value. The profit or loss reflects the share of the results of operations of the associate. The Group's share of losses in the associate is limited to the investment in the associate unless it has incurred obligations or made payments on behalf of the associate.

##### **(b) Property, Plant and Equipment**

Property, plant and equipment are measured on a historical cost less depreciation basis.

The carrying amount of property, plant and equipment is reviewed annually by the Directors to ensure it is not in excess of recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Depreciation**

The depreciable amount of all fixed assets and capitalised leased assets is depreciated on a straight-line basis over their estimated useful lives from when the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Plant and Equipment	5-40%
Leased Plant and Equipment	20%
Leasehold Improvements	25-33%
Motor Vehicle	12.50%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than the recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit or loss.

**(c) Income Tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items and utilised tax losses. It is calculated using the tax rates that have been enacted or are substantially enacted at the end of the reporting period.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit and loss.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or liability is settled. Deferred tax is credited in the profit or loss except where it relates to items that may be credited directly to other comprehensive income, in which case the deferred tax is adjusted directly against other comprehensive income.

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary timing differences can be utilised.

Tranzact Financial Services Limited, as the parent entity, and its subsidiaries implemented the tax consolidation legislation as of 1 July 2002. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the stand-alone taxpayer approach to allocation. The current tax liability for each entity in the Group is subsequently assumed by the parent entity, and becomes a liability of the parent entity.

**(d) Employee Benefits**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to the end of the reporting period.

Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus on costs. Employee benefits expected to be paid later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

A provision is recognised for employee entitlements relating to long service and annual leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data.

**Long Service Leave**

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

**(e) Trade and Other Payables**

Trade payables including accruals not yet billed are recognised when the consolidated entity becomes obliged to make future payments as a result of the purchase of assets or services. These amounts are unsecured and have generally 30-day payment terms.



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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) Share-based Payments

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Share-based payments transactions, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the Company are recognised in the entity's financial statements.

For transactions with employee and others providing similar services, the Company measures the fair value of the equity instruments granted, because it is typically not possible to estimate reliably the fair value of employee services received. The fair value of equity instruments granted is measured at grant date.

#### (g) Subsidiary Companies

The parent entity's interest in the subsidiary companies is recognised at the lower of cost and net recoverable value, being the amount of the subsidiaries' net assets at 30 June 2010.

#### (h) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the economic entity, are classified as finance leases.

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments under operating leases, net of incentives received from the lessor, are charged to the profit or loss on a straight-line basis over the period of the lease.

#### (i) Revenue Recognition

Fee and commission income is recognised when the economic entity has performed the related service. Dividend income is recognised when the dividend has been declared for payment. Interest income and distributions from financial interests are recognised on an accrual basis.

#### (j) Cash and Cash Equivalents

For the purpose of the Statements of Cash Flows, cash includes cash on hand, deposits held at call with a financial institution with original maturities of three months or less, net of bank overdrafts.

#### (k) Intangibles

In accordance with AASB 138: Intangible Assets, intangible assets are classified as having either indefinite or finite useful lives.

An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the asset is expected to be used. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is written evidence to support renewal.

An intangible asset with an indefinite useful life shall not be amortised. Instead it must be tested for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the intangible asset may be impaired.

An intangible asset with a finite useful life shall be amortised over its useful life. The amortisation method used shall reflect the pattern in which the assets future economic benefits are expected to be consumed.



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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Promoter Agreements**

The Group has acquired the rights to be the promoter to superannuation master trusts which are classified as intangible assets. Some promoter agreement assets are deemed to have indefinite useful lives as it is expected that the promotership rights would continue with no foreseeable limit to the period over which they are expected to generate cash flows. As such, they are not amortised but are subject to impairment testing.

The remainder are deemed to have definite useful lives and are amortised over three years. This is a change in accounting estimate from the previous year. For details see the "Critical Accounting Estimates and Judgements" section at the end of Note 1.

#### **Superannuation Administration Agreements**

The Group has acquired agreements to provide administration services to superannuation entities which are classified as intangible assets. Where there is written evidence that these contracts will be renewed on an ongoing basis, the asset is classified as having an indefinite useful life. Such assets are not amortised but subject to impairment testing. Where no such evidence exists, they are classified as having a finite useful life and are amortised over the expected useful life, which may be based on the remaining term of the contract, or as calculated based on past experience where contracts do not have an end date.

The policy relating to the intangible asset for the acquired client bases of Total Super Pty Ltd and Australian Superannuation Consultants Ltd, which are classified as having finite useful lives, is that the useful lives of these contracts is estimated to be 8 years. These intangible assets will be subject to an impairment test on an annual basis (or whenever there is an indication of an impairment issue). This is a change in accounting estimate from the previous year. For details see the "Critical Accounting Estimates and Judgements" section at the end of Note 1.

#### **Australian Financial Services Licences (AFS Licences)**

The Group holds several AFS Licences which enables it to provide financial services including providing advice, dealing, IDPS and custody in return for fees. The costs incurred for obtaining these AFS Licences are capitalised and amortised over a period of no more than 10 years on a straight-line basis.

#### **Software and Website Development**

Software development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the software which is no more than 3 years on a straight-line basis.

#### **Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains or losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### **(l) Earnings Per Share**

- (i) Basic Earnings Per Share: Basic earnings per share is determined by dividing the operating profit/(loss) after income tax and preference share dividends attributable to members of the Company by the weighted average number of ordinary shares outstanding during the year and are adjusted for bonus elements in ordinary shares issued during the year.
- (ii) Diluted Earnings Per Share: Diluted earnings per share adjusts the figures used in 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.

#### **(m) Financial Instruments**

##### **(i) Recognition**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(continued)

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (ii) Financial Assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the profit or loss in the period in which they arise.

#### (iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at the amortised cost using the effective interest rate method.

#### (iv) Held-to-maturity investments

These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by the Group are stated at the amortised cost using the effective interest rate method.

#### (v) Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value, other than the Partnership for Growth investments. Unrealised gains and losses from changes in fair value are taken directly to other comprehensive income.

#### (vi) Equity instruments with no active market

The valuation of financial interests in the Partnership for Growth asset utilises an equity style valuation methodology. These instruments do not have a quoted market price in an active market that is reliably measurable of their market value due to the unique nature of the arrangements and structure of the business. The range of values applicable to these instruments is significant and the probabilities of the various estimates cannot be reasonably assessed. The values depend heavily on the nature of the revenue streams, the sustainability of the revenue streams over time, and the level of continuing involvement of the practice principals in the business. The Board has accordingly retained these assets at cost.

#### (vii) Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

#### (viii) Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in the fair value are taken to the profit or loss unless they are designated as hedges. Gains and losses arising from designated hedges are taken directly to a hedge reserve in other comprehensive income and are transferred to the profit or loss in the periods when the hedged item will affect the profit and loss.

#### (ix) Fair value

Fair value is determined based on the current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value of unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

#### (x) Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. These assessments are based on critical accounting estimates and judgements. Impairment losses are recognised in the profit or loss.

#### (n) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest on short-term and long term borrowings.

#### (o) Goods and Services Tax (GST)

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

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



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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method.

The acquisition method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

#### (q) Foreign Currency Transactions and Balances

##### Functional and presentation currency

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

##### Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in other comprehensive income as a separate component of equity, as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the gain or loss is directly recognised in other comprehensive income, or otherwise the exchange difference is recognised in the profit or loss.

#### (r) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

#### (s) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. See note 7.

#### (t) Trade Receivables

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment include financial difficulties of the debtor, default payments or debts more than 120 days overdue. On confirmation that the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

#### (u) Interest-Bearing Liabilities

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

#### (v) Dividends

Provision is made for dividends declared, and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.





## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(continued)

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (w) Impairment

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

#### (x) New or Amended Australian Accounting Standard

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies nor affected the amounts reported for the current or prior years, other than the following:

**AASB 101 (Revised) - *Presentation of Financial Statements*.** As a result of applying this standard, the Group presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so it is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

**AASB 7 - *Financial Instruments : Disclosure*** (amendment) has been adopted. This amendment requires disclosure of fair value measurements according to three levels. For details of these levels see Note 30 (v). Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

**AASB 8 - *Operating Segments*.** Application of the standards requires a 'management approach' under which the segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

Comparatives have been restated where required. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

At the date of authorisation of the financial report a certain number of the Australian Accounting Standards and Interpretations issued or amended but not yet effective have not been adopted by the Group for the financial reporting year ended 30 June 2010. The Directors have assessed the impact of these new or amended standards (to the extent relevant to the Group) and interpretations as follows:

Reference	Title	Summary	Application Date of Standard*	Impact on Company Financial Report	Application Date for Company
AASB 2009-10	Amendments to Australian Accounting Standards - Classification of Rights Issues	This amendment clarifies the position that rights, options or warrants to acquire an entity's own equity instruments are, in the specified circumstances, equity instruments.	1 February 2010	This amendment is not expected to have an impact on the Group's financial report.	1 July 2010
AASB 9	Financial Instruments	This standard includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	1 January 2013	The Group has yet to assess the impact that the standard is likely to have on the financial report of the Group.	1 July 2013



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) New or Amended Australian Accounting Standard (continued)

Reference	Title	Summary	Application Date of Standard*	Impact on Company Financial Report	Application Date for Company
Revised AASB 124	Related Party Disclosures	The revised standard simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.	1 January 2011	This amendment is not expected to have an impact on the Group's financial report.	1 July 2011

\* Designates the beginning of the applicable annual reporting period unless otherwise stated.

(y) Rounding

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission relating to rounding of amounts in the financial statements. Amounts have been rounded to the nearest thousand dollars ('000) unless otherwise stated.

**Critical Accounting Estimates and Judgements**

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

*Key Estimates - Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives*

The Group tests annually whether goodwill and intangible assets with indefinite useful lives have suffered any impairment, in accordance with the accounting policy stated in Note 1(w). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 16 for details of these assumptions.

*Key Judgements - Intangible Assets with Indefinite Useful Lives*

An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate cash inflows. The Promoter Rights and Administration Contracts of the superannuation master trusts are considered to have indefinite useful lives. This is because of the letter of comfort received from the Trustee stating that it is their preferred option to renew contracts where the incumbent service provider continues to remain competitive and meet its contractual obligations.

Based on this, management are of the opinion that there is no foreseeable limit over which these assets are expected to generate net cash inflows for the Group and therefore no justification for choosing a life that is unrealistically short. Impairment reviews are performed on an ongoing basis.

*Key Judgements - Financial Interests in the Camelot Partnership for Growth Investments*

The valuation of financial interests in the Partnership for Growth asset utilises an equity style valuation methodology. These instruments do not have a quoted market price in an active market that is reliably measurable of their market value. The range of values applicable to these instruments is significant and the probabilities of the various estimates cannot be reasonably assessed. The values depend heavily on the nature of the revenue streams, the sustainability of the revenue streams over time, and the level of continuing involvement of the practice principals in the business. The Board has accordingly retained these assets at cost.

*Key Judgements - Superannuation Administration Agreements*

The policy for intangibles that are classified as having a finite useful life is that they are amortised over the remaining term of their contracts, which was no more than 3 years on a straight-line basis. In 2009 it was identified that this accounting estimate did not adequately cater for such intangibles resulting from the acquisitions of Total Super Pty Ltd and Australian Superannuation Consultants Pty Ltd (ASC). Based on historical experience for these businesses, the expectation was that the relationship with these clients would be a minimum of 15 years and the Board approved a change to the accounting estimate for acquired client bases of this nature with application from 1 July 2009. However during the 2010 financial year, the operations of Total Super Pty Ltd and ASC were combined, with the majority of clients migrating to the Company's Self Managed Superannuation Funds model, but with some loss of funds under administration. As a consequence of these



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

changes, the Group has reassessed the expected period of the relationship with the clients, which is now a minimum of 8 years, and will be subject to an impairment test on an annual basis (or whenever there is an indication of impairment).

*Key Judgements - Change of Accounting Estimates - Superannuation Administration Agreements*

As detailed in Key Judgements - Superannuation Administration Agreements above, during the year the estimated useful lives of superannuation administration agreements acquired from the purchase of Total Super Pty Ltd and Australian Superannuation Consultants Pty Ltd were revised. The impact of this change is to increase the amortisation expense for the current financial year from \$82,629 to \$118,818. This change of accounting estimate will apply from 1 January 2010 and not be applied in retrospect to prior periods.

Assuming the assets are held until the end of their estimated useful lines, amortisation in relation to these assets will be (decreased) / increased by the following amounts:

Year ended 30 June	\$
2011	103,405
2012	103,405
2013	103,405
2014	103,405
2015	66,174
2016	(45,521)
2017	(82,629)
2018	(82,629)
2019	(82,629)
2020	(82,629)
2021	(82,629)
2022	(39,454)
2023	(17,867)

*Key Judgements - Superannuation Eligible Rollover Funds*

In previous years, intangible assets has included asset amounts relating to eligible rollover funds (ERF's) of \$140,000, classified as a promoter agreement with an indefinite life, and of \$120,000, classified as an administration agreement with an indefinite life. Following the announcement of proposed changes to ERF's as a result of a government initiated Super System Review, the Group has reclassified these intangible assets as having definite lives subject to amortisation over a 3 year period beginning 1 January 2010.

*Key Judgements - Change of Accounting Estimates - Superannuation Eligible Rollover Funds*

As detailed in Key Judgements - Superannuation Eligible Rollover Funds above, during the year the estimated useful lives of superannuation promoter and administration agreements relating to ERF's were revised. The impact of this change is to increase the amortisation expense for the current financial year from \$0 to \$43,333.

Assuming the assets are held until the end of their estimated useful lives, amortisation in relation to these assets will be increased by the following amounts:

Year ended 30 June	\$
2011	86,667
2012	86,667
2013	43,333



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

2. REVENUE

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<b>Revenue from Continuing Operations</b>		
Revenue from the Rendering of Services	6,738	6,867
Commission Income	414	443
Bank Interest	50	104
Distributions from financial interests in the Camelot Partnership	622	542
Dividends Received	7	12
<b>TOTAL REVENUE</b>	<b>7,831</b>	<b>7,968</b>
<b>Other Income</b>		
Foreign Exchange Gains	41	-
<b>Total Other Income</b>	<b>41</b>	<b>-</b>

3. PROFIT BEFORE INCOME TAX

Profit before Income Tax includes the following specific expenses.

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<b>Occupancy Costs</b>		
Net Rental Expenses Relating to Operating Leases	292	307
Other Occupancy Costs	61	57
	<b>353</b>	<b>364</b>
<b>Employee Benefits Expenses</b>		
Salary & Wages	2,335	2,893
Superannuation Contributions	205	225
Other Employee Benefits Expense	355	522
	<b>2,895</b>	<b>3,640</b>
<b>Amortisation and Depreciation Expenses</b>		
Depreciation - Property, Plant and Equipment	133	143
Amortisation of Intangible Assets-Administration Contracts	139	82
Amortisation of Intangible Assets-Trade Marks and Other Items	24	19
Amortisation of Intangible Assets-Software & Website Development	108	108
Amortisation of Intangible Assets - Promotor Agreements	23	-
Amortisation of Intangible Assets - Tranzact W/S Investment Fund	3	-
	<b>430</b>	<b>352</b>
<b>Borrowing Costs</b>		
Interest on Borrowings	37	60
Other borrowing costs	20	25
	<b>57</b>	<b>85</b>
<b>Foreign Exchange Losses</b>		
Realised Losses / (Gains)	(109)	(251)
Unrealised Losses	68	288
	<b>(41)</b>	<b>37</b>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

3. PROFIT BEFORE INCOME TAX (continued)

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<b>Loss on Disposal of Non-Current Assets</b>		
Loss on disposal of Plant and Equipment	-	7
	-	7

4. INCOME TAX

(a) The components of tax expense comprise:

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Current Tax	561	658
Deferred Tax	(167)	(169)
Adjustments for previous years	(19)	-
Recoupment of prior year tax losses	(349)	(451)
Total income tax expense in profit or loss	26	38

(b) The prima facie tax payable on the operating profit is reconciled to the income tax provided as follows:

<b>Profit before Income Tax</b>	1,535	1,650
Prima facie tax payable at 30%	461	495
Tax Effect of Differences:		
Non Allowable Deductions	5	14
Share of Net Profit of Associates	(36)	(20)
Fully Franked Dividends	(36)	-
Recoupment of prior year tax losses previously not recognised	(349)	(451)
Differences	45	38
Prior Year Adjustment	(19)	-
Income Tax Benefit	26	38

Tranzact Financial Services Limited and its wholly owned subsidiaries implemented the tax consolidation legislation as at 1 July 2002. The head entity of the tax consolidated group is Tranzact Financial Services Limited.

The wholly owned subsidiaries within the Tranzact Financial Services Group have entered into a tax funding arrangement with the head entity whereby the subsidiaries shall pay to the head entity their respective tax liabilities each year. In the case of subsidiaries having recorded a tax loss it will not need to make a payment to the head entity and it will instead receive a payment from the head entity to the extent that the tax loss can be utilised by the consolidated group. The head entity is entitled to utilise any carry forward losses of the consolidated group. Any associated costs such as general interest charge and penalties shall be paid for by the head entity.

The tax benefit of unused tax losses as at 30 June 2010 amounted to \$422, 801 (2009:\$713,536). The availability of these tax losses is subject to the Company continuing to satisfy the Same Business Test. Deferred Tax Assets are brought to account only if the conditions set out in Note 1 (c) are met.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

4. INCOME TAX (continued)

No benefit from the above carried forward tax losses is included in the Deferred Tax Asset balance. This is due to the possibility of transactions being considered that could result in the inability of tax losses being utilised.

5. DIVIDENDS

Since year end the Directors have recommended the payment of a final fully franked dividend of 0.35 cents per share (2009:0.35 cents). The aggregate amount of the proposed dividend expected to be paid on 8 October 2010, but not recognised as a liability at year end, is \$389,439 (2009:\$395,825).

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Franking credits available for subsequent financial years at a tax rate of 30%	99	182
Franking credits from the receipt of dividends	51	38
Franking credits attached to dividends paid	(290)	(121)
Franking credits attached to income tax paid	294	-
The amount of franking credits available for future reporting periods	154	99

The impact on the franking account of dividends recommended after year end but before the financial report was authorised for issue and not recognised as a liability at year end will be a reduction on the franking account of \$166,902 (2009: \$121,225). Income tax totalling \$32,478 was paid to the Australian Taxation Office on 6 August 2010 creating an additional 32,478 franking credits available for distribution.

6. EARNINGS PER SHARE

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Earnings used in the calculation of basic earnings per share	1,509	1,612
	No.	No.
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	112,779,360	113,049,746
Weighted average number of options outstanding	54,392	91,917
Weighted number of ordinary shares outstanding during the year used in calculating diluted earnings per share	112,833,752	113,141,663
Instruments that could potentially dilute earnings per share but were not included because they were anti-dilutive	27,953,049	36,069,395

Refer to Note 1(l)(ii) for information relating to diluted earnings per share.

No shares or options have been issued since 30 June 2010.

462,500 shares have been repurchased and cancelled since 30 June 2010.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

7. SEGMENT INFORMATION

Within Tranzact Financial Services Limited, the information supplied to executive management and the Board for internal reporting purposes consists of 5 reportable segments as detailed below. Revenue and expenses not pertaining to segments relate to head office and are shown separately below.

The Group's business is located in Australia and New Zealand and is organised into the following segments:

**Superannuation Fund Administration, Asset Consulting & Sponsorship**

The Group operates as a superannuation fund administrator, asset consultant and sponsor for a number of master trust and pooled superannuation trusts. For these services the Group receives fees and commission income.

**Self Managed Superannuation Fund Administration**

The Group operates as a superannuation fund administrator for a large number of self managed superannuation funds. For these services the Group receives administration fee income.

**Investor Directed Portfolio Service (IDPS) Administration**

Tranzact Investment Services Limited, a subsidiary of the Company, holds an Australian Financial Services Licence to operate an investor directed portfolio service (IDPS) and currently provides such a service to external clients for a fee.

**Custodial Services**

Tranzact Investment Services Limited, a subsidiary of the Company, holds an Australian Financial Services Licence to provide custodial services and currently provides such a service to external clients for a fee.

**Partnership for Growth**

The Partnership for Growth interests are loans granted for interests in financial and insurance advisory businesses. The Group receives interest on these loans.

**Segment Information**

These reportable segments are the same as those reported in the previous financial statements for the year ended 30 June 2009.

Segment information provided to the executive management committee and the Board for the year ended 30 June 2010 is as follows:

**Operating Segments**

	Super Fund Admin, Asset Consulting & Sponsorship \$'000	Self Managed Super- annuation Funds \$'000	IDPS Admin \$'000	Custodial Services \$'000	Partnership for Growth \$'000	Head Office \$'000	Total \$'000
<b>2010 Financial Year</b>							
External Revenues	3,184	3,664	159	65	725	34	7,831
Segment Result before depreciation, amortisation, tax and including tax share of profit from equity accounted investee	428	745	133	36	744	(70)	2,016
Depreciation and amortisation expense	(137)	(281)	(10)	(2)	-	-	(430)
Group taxation expense							(26)
Taxation on share of profit of equity accounted investee							(51)
Total comprehensive income attributable to owners of the Company							(1,509)



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

7. SEGMENT INFORMATION (continued)

	Super Fund Admin, Asset Consulting & Sponsorship \$'000	Self Managed Super- annuation Funds \$'000	IDPS Admin \$'000	Custodial Services \$'000	Partnership for Growth \$'000	Head Office \$'000	Total \$'000
<b>2009 Financial Year</b>							
External Revenues	3,069	3,902	177	77	669	168	8,062
Segment Result before depreciation, amortisation, tax and including before tax share of profit from equity accounted investee	802	596	149	43	620	(180)	2,030
Depreciation and amortisation expense	(86)	(254)	(10)	(2)	-	-	(352)
							(38)
Group taxation expense							(28)
Taxation on share of profit of equity accounted investee							(28)
Total comprehensive income attributable to owners of the Company							1,612

Total asset amounts provided to the executive management committee and the Board in internal reports are not broken down by segment. As such, the Group is early adopting the amendment to AASB 8 Operating Segments effected by AASB 2009-5 so that segment assets do not need to be disclosed if they are not provided to the chief operating decision maker.

The executive management committee monitors segment performance based on EBTDA, which includes share of profit of equity accounted investees, but excludes taxation, depreciation and amortisation.

This performance measure differs from the previous annual financial statements for the financial year ended 30 June 2009 which reflected segment result based on net income before taxation.

**Geographical Segments**

Geographical Location:	Segment Revenues from External Customers	
	2010 \$'000	2009 \$'000
Australia	7,113	7,311
New Zealand	718	657
	<u>7,831</u>	<u>7,968</u>

8. CURRENT ASSETS – CASH & CASH EQUIVALENTS

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Cash at Bank	2,014	2,403
Cash on deposit	79	60
	<u>2,093</u>	<u>2,463</u>

Note: Cash on Deposit includes term deposits with original maturities of three months or less, that are lodged as security for the Australian Financial Services Licence requirements and lease guarantees.

The exposure of the Group and the parent entity to interest rate risk is discussed in Note 30.





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

9. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Trade Receivables	608	1,082
Less: Allowance for doubtful debts	-	2
	608	1,080
Other Receivables	13	117
Accrued Revenue	180	229
	<u>801</u>	<u>1,426</u>
<b>Age analysis of trade receivables at the reporting date:</b>		
Total Amounts Not Past Due	556	792
Total Amounts over 30 Days Past Due	13	47
Total Amounts over 60 Days Past Due	6	118
Total Amounts over 90 Days Past Due	33	125
	<u>608</u>	<u>1,082</u>
Total Amounts Impaired	-	2
Total Amounts Not Impaired	<u>608</u>	<u>1,080</u>
<b>Analysis of Allowance Account</b>		
Opening Balance	2	2
Receivables written off during the year	(2)	-
Closing balance	<u>-</u>	<u>2</u>

All the current net trade receivables that are neither past due or impaired are with long standing clients who have a good credit history.

As at 30 June 2010, trade receivables over 30 days past due amounted to \$52,000. The majority of this was owed by long standing clients who have agreements with the company, the conditions of which make it very unlikely that debts will not be repaid.

Based on the above, the directors consider that, of the balances over 30 days past due, none are impaired and no further provision is required.

Information about the exposure of the Group and the parent entity to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 30.

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Refer to Note 30 for more information on the risk management policy of the Group and the credit quality of its trade receivables.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

10. CURRENT ASSETS – DERIVATIVES

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Foreign exchange contracts - held for trading <sup>(1)</sup>	(105)	44
	(105)	44

<sup>(1)</sup> 2010 balance is shown as a Current Liability in the Statement of Financial Position

**Derivative instruments used by the Group**

The Group enters into derivative transactions in the normal course of business to hedge exposures to fluctuations in foreign exchange rates.

As part of the Partnership for Growth strategy \$6,334,433 in New Zealand dollar loans have been granted (2009:\$6,098,639). In order to protect against exchange rate movements, the Group has entered into forward foreign exchange contracts with high credit quality Australasian financial institutions to sell \$6,365,000 New Zealand dollars to hedge principal amounts (2009:\$5,999,109). While not designated hedges, the contracts have been taken out within \$100,000 of the principal amounts in accordance with the Group's financial risk management policies (refer Note 30).

The cash flows are expected to occur at various dates between three months, six months and one year from the balance date. At balance date the details of outstanding contracts are as follows:

**Sell New Zealand dollars**

	<b>Buy Australian dollars</b>		<b>Average exchange rate</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Maturity	\$	\$	\$	\$
0 – 3 months	-	1,404	-	0.7848
3 - 6 months	2,460	2,373	0.8038	0.8459
6 – 12 months	2,655	1,106	0.8035	0.7871

These contracts are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity. Any changes in fair values are taken to the profit or loss immediately. At the end of the reporting period the value of these contracts totalled (\$104,632) (2009: \$44,461), being the decrease in fair value during the year ended 30 June 2010.

11. CURRENT ASSETS – FINANCIAL ASSETS

Held-to-maturity financial assets comprise of:

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Held-to-maturity financial assets –		
Interest Bearing Loans <sup>(1)</sup>	-	966
	-	966

<sup>(1)</sup> These are loans are granted to financial advisory practices under the “Partnership for Growth” Model. The returns are fixed and have maturity of no greater than 12 months.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

12. CURRENT ASSETS – OTHER

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Prepayments and other current assets	46	45

13. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Purchased Assets		
Plant & Equipment at cost	825	792
Less Accumulated Depreciation	549	432
	276	360
Motor Vehicle		
Motor Vehicle at cost	68	68
Less Accumulated Depreciation	19	10
	49	58
Leased Assets		
Capitalised Leased Assets	47	47
Less Accumulated Depreciation	29	20
	18	27
Total	343	445

**Reconciliation**

Reconciliation of the carrying amount of each class of property, plant & equipment at the beginning of the year and at the end of the financial year is set out below:

	Plant & Equipment \$'000	Motor Vehicle \$'000	Leased Plant & Equipment \$'000	Total \$'000
<b>2010</b>				
<b>Consolidated Entity</b>				
Carrying amount as at 30 June 2009	360	57	28	445
Additions	31	-	-	31
Disposals	-	-	-	-
Depreciation charge	(115)	(8)	(10)	(133)
Carrying Amount as at 30 June 2010	276	49	18	343



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

13. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT (continued)

2009	Plant & Equipment \$'000	Motor Vehicle \$'000	Leased Plant & Equipment \$'000	Total \$'000
<b>Consolidated Entity</b>				
Carrying amount as at 30 June 2008	376	65	38	479
Additions	109	-	-	109
Disposals	-	-	-	-
Depreciation charge	(125)	(8)	(10)	(143)
Carrying Amount as at 30 June 2009	360	57	28	445

14. NON-CURRENT – OTHER FINANCIAL ASSETS

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Available for Sale Assets at cost	5,214	4,004
<b>Total</b>	<b>5,214</b>	<b>4,004</b>
Available for sale assets comprise of:		
Shares in unlisted entities at cost:		
Gold Financial Pty Ltd	56	56
Other Investments at cost:		
Financial Interests in Partnership for Growth <sup>(1)</sup>	5,158	3,948
<b>Total</b>	<b>5,214</b>	<b>4,004</b>

<sup>(1)</sup> The Partnership for Growth model involves the Group taking strategic financial interests in profitable adviser practises with the objective of partnering with these practises to achieve growth and improvements in profitability. In New Zealand, the Partnership for Growth model has developed into the creation of a nationwide brand, Camelot, which the various partners operate under. The combined Camelot advisers business will make it one of New Zealand's largest non-aligned financial advisory groups. The Group accesses these financial interests through Camelot Financial Advisers Limited. This entity was set up to obtain the funding needed for the growth initiatives of the adviser practices in the Camelot Partnership. All investments are performing at or better than expectation at the time of the investment being undertaken. There are no indications of impairment from recent changes in market conditions. These investments are held at cost in terms of the Statement of Significant Accounting Policies (Note 1). No intention to dispose of any unlisted available-for-sale financial assets existed at 30 June 2010.

15. NON-CURRENT – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Investments accounted for using the Equity Method		
Associated entities <sup>(1)</sup>	1,249	1,241
<b>Total</b>	<b>1,249</b>	<b>1,241</b>

<sup>(1)</sup> Associated entities consists of a 25% (2009:25%) interest in Group Insurance and Superannuation Concepts Pty Ltd.

**Associated Entities**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<b>Share of associate's profit</b>		
Profit before income tax	171	94
Income tax expense	51	28
Profit after income tax	120	66



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

15. NON-CURRENT – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

**Summarised financial statements of associates**

Group Insurance and Superannuation Concepts Pty Ltd

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Assets	1,065	1,059
Liabilities	148	168
Equity	<u>917</u>	<u>891</u>
Revenues	1,564	1,844
Profit before income tax	694	649
Income tax expense	204	194
Profit after income tax	<u>490</u>	<u>455</u>

16. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<b>Purchased Assets</b>		
Promoter Agreements at Cost (Indefinite Useful Lives)	2,095	2,181
Less Accumulated Impairment Losses	-	-
	<u>2,095</u>	<u>2,181</u>
Promoter Agreements at Cost (Finite Useful Lives)	140	-
Less Accumulated Impairment Losses	23	-
	<u>117</u>	<u>-</u>
Administration Agreements at Cost (Finite Useful Lives)	1,359	1,239
Less Accumulated Amortisation	329	190
	<u>1,030</u>	<u>1,049</u>
Administration Agreements at Cost (Indefinite Useful Lives)	1,069	1,145
Less Accumulated Impairment Losses	-	-
	<u>1,069</u>	<u>1,145</u>
Goodwill on Acquisition	2,654	2,654
Less Accumulated Impairment Losses	-	-
	<u>2,654</u>	<u>2,654</u>
Licences, Trade Marks and Other Items at cost	271	262
Less Accumulated Amortisation	106	80
	<u>165</u>	<u>182</u>
Software & Website Development at cost	328	328
Less Accumulated Amortisation	250	143
	<u>78</u>	<u>185</u>
<b>Total Intangible Assets</b>	<u><b>7,208</b></u>	<u><b>7,396</b></u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

16. NON-CURRENT ASSETS – INTANGIBLE ASSETS (continued)

An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the asset is expected to be used. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is written evidence to support renewal.

An intangible asset with an indefinite useful life shall not be amortised. Instead it must be tested for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the intangible asset may be impaired.

Some of the Promoter Rights and Administration Contracts of the superannuation master trusts are considered to have indefinite useful lives. This is because management are of the opinion that there is no foreseeable limit over which these assets are expected to generate net cash inflows for the Group and therefore no justification for choosing a life that is unrealistically short. Impairment reviews are performed on an ongoing basis.

There is a change in accounting estimate in the current period relating to eligible rollover funds (ERF's). In previous years, intangible assets has included asset amounts relating to ERF's of \$140,000, classified as a promoter agreement with an indefinite life, and of \$120,000, classified as an administration agreement with an indefinite life. Following the announcement of proposed changes to ERF's as a result of a government initiated Super System Review, the Group has reclassified these intangible assets as having definite lives subject to amortisation over a 3 year period beginning 1 January 2010.

There is a change in accounting estimate in relation to Superannuation Administration Agreements relating to the client bases acquired from Total Super Limited and ASC. The estimated useful lives of these agreements has been amended to 8 years (previously 15 years). Full details of the change are contained in Note 1 Critical Accounting Estimates and Judgements on page 32.

A cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgement. If the recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

**Reconciliation**

Reconciliation of the carrying amount of each class of intangible asset at the beginning of the year and at the end of the financial year is set out below:

2010 Consolidated Entity	Promoter	Administration	Goodwill	Licences, Trade Marks and Other	Software	Tranzact W/S	Total
	Agreements	Agreements		Items	& Website Development	Investment Fund	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount as at 30 June 2009	2,181	2,194	2,654	182	185	-	7,396
Additions	54	44	-	-	-	11	109
Disposals	-	-	-	(1)	-	-	(1)
Amortisation charge	(23)	(139)	-	(24)	(107)	(3)	(296)
Carrying Amount as at 30 June 2010	2,212	2,099	2,654	157	78	8	7,208

**Material Intangible Assets**

Smartsave 'Member's Choice' Superannuation Master Plan Promotership Rights

Carrying Amount: \$2,094,973

Type: Indefinite Useful Life

Smartsave 'Member's Choice' Superannuation Master Plan Administration Contract

Carrying Amount: \$1,069,173

Type: Indefinite Useful Life

Goodwill recognised on consolidation in relation to the Total Super and ASC Groups

Carrying Amount: \$2,654,523

Type: Indefinite Useful Life



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(continued)

16. NON-CURRENT ASSETS – INTANGIBLE ASSETS (continued)

2009 Consolidated Entity	Promoter Agreements \$'000	Administration Agreements \$'000	Goodwill \$'000	Licences, Trade Marks and Other Items \$'000	Software & Website Development \$'000	Total \$'000
Carrying amount as at 30 June 2008	2,181	2,008	2,267	143	293	6,892
Additions	-	268	387	58	656	1,369
Disposals	-	-	-	-	(656)	(656)
Amortisation charge	-	(82)	-	(19)	(108)	(209)
Carrying Amount as at 30 June 2009	2,181	2,194	2,654	182	185	7,396

**Material Intangible Assets**

Material Intangible Assets

Smartsave 'Member's Choice' Superannuation Master Plan Promotership Rights

Carrying Amount: \$2,041,403

Type: Indefinite Useful Life

Smartsave 'Member's Choice' Superannuation Master Plan Administration Contract

Carrying Amount: \$1,024,744

Type: Indefinite Useful Life

Goodwill recognised on consolidation in relation to the Total Super Group and ASC Groups

Carrying Amount: \$2,654,523

Type: Indefinite Useful Life

**Impairment Disclosures**

Intangible assets allocated to the cash-generating units of the Group are as follows:

2010 Consolidated Entity	Goodwill \$'000	Intangibles with Indefinite Useful Lives \$'000	Intangibles with Finite Useful Lives \$'000	Licences Trade Marks and Others \$'000	Total \$'000
Smartsave 'Member's Choice' Superannuation Master Plan	-	3,164	-	-	3,164
Super Eligible Rollover Fund	-	-	217	-	217
Self Managed Superannuation Funds	2,654	-	930	134	3,718
Other	-	-	-	109	109
	2,654	3,164	1,147	243	7,208



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

16. NON-CURRENT ASSETS – INTANGIBLE ASSETS (continued)

2009	Goodwill	Intangibles with Indefinite Useful Lives	Intangibles with Finite Useful Lives	Licences Trade Marks and Others	Total
Consolidated Entity	\$'000	\$'000	\$'000	\$'000	\$'000
Smartsave 'Member's Choice' Superannuation Master Plan	-	3,063	-	-	3,063
Super Eligible Rollover Fund	-	263	-	-	263
Self Managed Superannuation Funds	2,654	-	1,049	242	3,945
Other	-	-	-	125	125
	2,654	3,326	1,049	367	7,396

The recoverable amount of the cash-generating units (CGU's) is based on value-in-use calculations. Value-in-use is calculated based on present value of cash flow projections over a five year period for the Smartsave 'Member's Choice' Superannuation Master Plan and the Super Eligible Rollover Fund CGU's and over a ten year period for the Self Managed Superannuation Funds CGU.

The cash flow projections are based on the following year's approved budget and extrapolated for a further four years using an estimated revenue growth rate of 2.5% for the Smartsave 'Member's Choice' Superannuation Master Plan and the Super Eligible Rollover Fund CGU's, and a growth rate of 5% extrapolated for a further 9 years for the Self Managed Superannuation Funds CGU. Costs are projected to increase at a rate of 5% per annum.

The use of a time horizon beyond five years is considered appropriate by the Board because:

- the Board takes a longer term view than five years on the investments made in strategic areas of the business such as Self Managed Superannuation Fund Administration
- the Board does not agree that strategic investments of this kind can be expected to be self funding within five years, based on the market value of these investment opportunities
- the Board is highly confident the Tranzact Group will obtain significant commercial benefit from these investments for the longer term, which is consistent with the current year results and expected future results for this segment of the business.

The cash flows are discounted at a pre-tax rate rate of 16% (2009: 17%).

A sensitivity analysis in relation to changes in key assumptions is detailed below and illustrates the changes in recoverable amounts if the assumptions are varied as shown.

Effect on cashflows

	Smartsave Master Plan \$'000	Super Eligible Rollover Fund \$'000	Self Managed Superannuation Funds \$'000
<b>Cashflow forecast period</b>			
+ one year	452	164	335
- one year	(482)	(175)	(349)
<b>Discount rate</b>			
+ 1%	(294)	(106)	(195)
- 1%	315	114	209
<b>Estimated Revenue Growth rate</b>			
+ 1%	543	128	172
- 1%	(514)	(122)	(164)





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

17. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Deferred Tax Asset	159	86
Deferred tax asset comprises temporary differences attributable to:		
Employee Benefits	70	37
Accruals	155	118
Interest Receivable	(66)	(69)
	<u>159</u>	<u>86</u>

Note: Deferred Tax Asset does not include any carried forward tax losses (refer Note 4).

**Reconciliation**

Gross Movements		
Opening Balance	86	29
Charge to income statement	73	57
Closing Balance	<u>159</u>	<u>86</u>

**Movement in deferred tax assets for each temporary difference during the year is as follows:**

**Employee Benefits**

Opening Balance	37	6
(Charge)/credit to income statement	33	31
Closing Balance	<u>70</u>	<u>37</u>

**Accruals**

Opening Balance	118	23
(Charge)/credit to income statement	37	95
Closing Balance	<u>155</u>	<u>118</u>

**Interest Receivable**

Opening Balance	(69)	-
(Charge)/credit to income statement	3	(69)
Closing Balance	<u>(66)</u>	<u>(69)</u>

18. INTEREST BEARING LIABILITIES

**Short Term**

ANZ Commercial Bill <sup>(1)</sup>	-	1,138
Total	<u>-</u>	<u>1,138</u>

<sup>(1)</sup>Commercial bill facility - \$3,000,000 variable interest rate facility provided by the Australia and New Zealand Banking Group Limited. This facility is unsecured and has a negative pledge.

A Commercial bill facility of \$3,000,000 was in place with St.George Bank at 30 June 2010, but not utilised due to a positive cash position. The facility is secured against all assets of the Group.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

19. TRADE & OTHER PAYABLES

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<b>Short Term</b>		
Trade Payables	241	490
Other Payables and Accruals <sup>(1)</sup>	784	938
	1,025	1,428

<sup>(1)</sup> Includes accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months.

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<b>Long Term</b>		
Other Payables and Accruals <sup>(2)</sup>	9	19
	9	19

<sup>(2)</sup> Includes the finance lease payments which have no interest charged on them. Refer to Note 30 for risk exposures.

20. PROVISIONS

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<b>Long Term</b>		
Employee Entitlements - Long Service Leave	93	90
	93	90
<b>Reconciliation of movements in Provisions</b>		
Opening Balance	90	91
Balance transferred as part of Business Combination	-	15
Charge/(credit) to income statement	3	(16)
Closing Balance	93	90

21. SHARE-BASED PAYMENTS

**Tranzact Financial Services Limited Directors, Executives and Staff Share Option Plan**

The Tranzact Financial Services Limited Directors, Executives and Staff Share Option Plan was approved by shareholders on 6 March 2000. Those eligible to participate are determined by the Board and may in its absolute discretion determine who are the offerees, the number of Ordinary Shares and/or options to be offered to them and the offering dates.

The Company shall offer such number of ordinary shares and/or Options to such offerees in accordance with their eligibility. Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights. Options offered must be accepted within 30 business days after the date of the offer. The vesting period is 3 years from the date they are granted. The total number of ordinary Shares and Options issued under the plan and excluding lapsed or terminated options shall not at any time exceed that number which is 5% of the total number of issued shares.

Expenses arising from options granted under staff share option schemes for the year were \$nil (2009:\$nil).

See Note 23 for summary of movements.



Details of options outstanding as part of the Staff Share Option Plan during the financial year are as follows:

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**  
(continued)

21. SHARE-BASED PAYMENTS (continued)

2010 Grant date	Exercise date	Expiry date	Exercise price	Balance at beginning of year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of year	Exercisable at end of year
1 July 2006	1 July 2009	1 July 2011	\$0.04	125,000	-	-	(50,000)	-	75,000	75,000
Weighted average exercise price				\$0.04					\$0.04	\$0.04

  

2009 Grant date	Exercise date	Expiry date	Exercise price	Balance at beginning of year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of year	Exercisable at end of year
1 May 2005	1 May 2008	1 May 2010	\$0.04	300,000	-	-	(300,000)	-	-	-
1 July 2006	1 July 2009	1 July 2011	\$0.04	125,000	-	-	-	-	125,000	125,000
Weighted average exercise price				\$0.04					\$0.04	\$0.04

**TFS Group Employee Bonus and Share Scheme**

The Company established the TFS Group Employee Bonus and Share Scheme in April 2007 under which the Trustees of the Scheme may be issued or acquire shares in the Company, to hold for the purpose of providing rights to eligible employees provided that, for the purposes of the Scheme, in no event shall the Trustees hold in excess of 10% of the issued share capital of the Company.

Details of shares and options held as part of the Employee Bonus and Share Scheme are as follows:

	Parent Entity		Weighted average price
	Shares	Options	
Balance at 30 June 2008	400,000	400,000	
Shares purchased year ended 30 June 2009	1,717,556	-	\$0.146
Balance at 30 June 2009	2,117,556	400,000	
Vested shares transferred to employees during the year	(350,000)	-	
Options expired on 30 April 2010 <sup>(1)</sup>	-	(400,000)	
Options allocated in the bonus issue of 14 May 2010 <sup>(2)</sup>	-	412,709	
Shares sold during the period	(116,720)	-	
Balance at 30 June 2010 <sup>(3)</sup>	1,650,836	412,709	

<sup>(1)</sup> The options attached to the 400,000 shares purchased in May 2007 expired on 1 April 2010 with no options having been exercised.

<sup>(2)</sup> The Scheme was allocated 412,709 options in the free bonus issue of 14 May 2010 which entitles the holder to acquire one share in Tranzact Financial Services Ltd and may be exercisable at \$0.25 at any time prior to 31 October 2012.

<sup>(3)</sup> These shares are granted to certain key employees and, on the condition that those employees remain full-time employees up to that date, will vest as follows: 70,000 on 1 July 2010, 640,000 on 1 July 2011, 700,000 on 30 June 2011, 50,000 on 10 September 2011 and 190,836 on 1 July 2012.

The amount recognised in Employee Benefits as an expense in relation to the Employee Bonus and Share Scheme for the year ended 30 June 2010 was \$63,445 (2009: \$62,207).



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(continued)

### 22. DEFERRED TAX LIABILITIES

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<b>Deferred tax liabilities comprise temporary differences attributable to:</b>		
Amounts recognised in profit and loss		
Accrued Income	(26)	14
Amounts recognised directly in equity		
Fair value adjustments on acquisition - intangible assets with definite useful lives	326	380
Total deferred tax liabilities	300	394
To be settled within 12 months	79	57
To be settled after more than 12 months	221	337

#### Movements in deferred tax liabilities

	Opening balance at 1 July 2009	Charged/ (credited) to income	Amounts recognised on acquisition of controlled entity	Closing balance at 30 June 2010
<b>2010</b>				
<b>Consolidated Entity</b>				
Amounts recognised in profit and loss				
Accrued Income	26	(26)	-	-
<i>Amounts recognised directly in equity</i>				
Fair value adjustments on acquisition - intangible assets with definite useful lives	368	(68)		300
<b>Total</b>	394	(94)	-	300

	Opening balance at 1 July 2008	Charged/ (credited) to income	Amounts recognised on acquisition of controlled entity	Closing balance at 30 June 2009
<b>2009</b>				
<b>Consolidated Entity</b>				
Amounts recognised in profit and loss				
Accrued Income	12	14	-	26
<i>Amounts recognised directly in equity</i>				
Fair value adjustments on acquisition - intangible assets with definite useful lives	344	(126)	150	368
<b>Total</b>	356	(112)	150	394



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

23. ISSUED CAPITAL

	2010 Shares	2010 \$'000	2009 Shares	2009 \$'000
<b>Consolidated</b>				
<b>Share capital</b>				
Ordinary shares - no par value	111,730,755	19,853	113,042,901	20,038
Options Issued <sup>(1)</sup>	-	-	-	10
Fully paid	111,730,755	19,853	113,042,901	20,048

<sup>(1)</sup> The options issued on 1 December 2008 enabling the holder to acquire 500,100 shares at \$0.30 anytime before 30 April 2010 with no options having been exercised.

Ordinary shares entitle the holder to participate in dividends and the proceeds of winding up the Company in proportion to the number of shares held. On a show of hands every person present who is a member or a representative or an attorney or a proxy of a member has one vote. The Company can issue further shares in accordance with its constitution and the Corporations Act.

**Movements in ordinary share capital**

Date	Details	Number of shares	\$'000
1 July 2008	Balance	112,842,891	19,999
20 August 2008	Exercise of Staff Options <sup>(1)</sup>	300,000	19
1 December 2008	Issue of Shares for GIS Concepts Acquisition <sup>(2)</sup>	500,010	125
3 December 2008	Shares repurchased <sup>(3)</sup>	(400,000)	(64)
9 December 2008	Shares repurchased <sup>(3)</sup>	(200,000)	(32)
		113,042,901	20,047
30 July 2009	Exercise of Staff Options <sup>(4)</sup>	50,000	6
October 2009 to June 2010	Shares repurchased <sup>(5)</sup>	(1,362,146)	(200)
		111,730,755	19,853

<sup>(1)</sup> On 20 August 2008, 300,000 options under the Tranzact Financial Services Ltd Directors, Executives and Staff Share Option Plan were exercised. The exercise price was \$0.04 per share, and a transfer of \$7,141 was made from the employee options reserve.

<sup>(2)</sup> On 1 December 2008, 500,010 shares and options were issued as part of the consideration of the acquisition of an additional 5% interest in Group Insurance & Superannuation Concepts Pty Ltd. The shares were issued at \$0.23 fully paid with an option attached to each share valued at \$0.02 enabling the holder to acquire a further share at \$0.30 anytime before 30 April 2010.

<sup>(3)</sup> 600,000 equity securities were purchased on market in December 2008 at \$0.16 per security under the share buy back scheme announced on 29 September 2008. These securities have subsequently been cancelled.

<sup>(4)</sup> 50,000 equity securities were issued on 30 July 2009 at \$0.04 per security following the exercise of unlisted options under the Staff Share Option Plan. The exercise price of \$0.04 per share, and a transfer of \$3,500 was made from the employee option.

<sup>(5)</sup> 1,362,146 equity securities were purchased on market between October 2009 and June 2010 at prices between \$0.13 and \$0.15 per security under the share buy back scheme announced on 29 September 2008 and subsequent extension notice on 28 September 2009. These securities have subsequently been cancelled.

	Parent 2010 No.	Parent 2010 \$	Parent 2009 No.	Parent 2009 \$
<b>Options</b>				
<b>(i) Listed Options</b>				
Listed Options				
At the beginning of the reporting period	36,069,395	10,001	34,669,385	-
Issue of Options for the acquisition of a 5% interest in Group Insurance & Superannuation Concepts Pty Ltd <sup>(2)</sup>	-	-	500,010	10,001
Options in lieu of Directors' fees <sup>(6)</sup>	-	-	900,000	-
Unexercised options expired <sup>(7)</sup>	(36,069,395)	(10,001)	-	-
Bonus Issue <sup>(8)</sup>	27,953,049			
	27,953,049	-	36,069,395	10,001



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

23. ISSUED CAPITAL (continued)

- <sup>(6)</sup> 900,000 options were issued to the Directors in lieu of an increase of their Director's fees (as approved at the AGM on 21 November 2008). The options were issued at \$0.03 per option and enable the holder to acquire a further share at \$0.30 anytime before 30 April 2010 as per the May 2007 Rights Issue.
- <sup>(7)</sup> The 36,069,395 options on issue at 30 April 2010 expired on that date.
- <sup>(8)</sup> A free bonus issue of one bonus option for every four shares held was made to shareholders registered on 14 May 2010. Each bonus option is exercisable at \$0.25 at any time before 31 October 2012.

	Parent 2010 No.	Parent 2010 \$	Parent 2009 No.	Parent 2009 \$
<b>(ii) Unlisted Options</b>				
<b>Unlisted Options</b>				
At the beginning of the reporting period <sup>(9)</sup>	125,000	-	425,000	-
Exercise of Staff Options	(50,000)	-	(300,000)	-
At Reporting Date	75,000	-	125,000	-

- <sup>(9)</sup> These options were granted under the Tranzact Financial Services Limited Directors, Executives and Staff Share Option Plan enabling the holder to acquire a share for \$0.04 with an exercise date of 1 July 2009 and an expiry date of 1 July 2011. 50,000 options were exercised after reporting date.

Information relating to the Tranzact Financial Services Limited Directors, Executives and Staff Share Option Plan is as set out in Note 21.

24. RESERVES

**Employee Option Reserve**

The employee option reserve records items recognised as expenses on valuation of employee share options.

**Foreign Currency Reserve**

The foreign currency reserve records net unrealised exchange gains on revaluation of foreign currency investments.

**Other Reserve**

The other reserve records items recognised as expenses for share based payments in return for services from external parties.

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated 2010 \$	Consolidated 2009 \$
Short-term employee benefits	593,963	455,826
Post-employment benefits	68,973	80,804
Other long-term benefits	14,609	5,015
Share-based payments	37,477	21,133
<b>Total</b>	715,022	562,778

Further information regarding the identity of key management personnel and their compensation can be found in the Audited Remuneration Report contained in the Directors' Report on pages 4 to 13 of this Annual Report.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(continued)

### 25. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

#### (b) Equity Instruments

##### (i) Options and Rights Holdings

Details of options and rights held directly, indirectly or beneficially by key management personnel and their related parties are as follows <sup>(7)</sup>:

2010 Name	Balance at 01 July 09	Granted as compensation	Options Exercised	Options	Bonus options	Balance at 30 June 10	Total Vested at 30 June 10	Total vested and exercisable at 30 June 10
				expired 30 April 2010	issued 14 May 2010			
Mr P L Harry AM <sup>(1)</sup>	1,324,000	-	-	(1,324,000)	868,709	868,709	868,709	868,709
Mr W A Ractliffe <sup>(2)</sup>	14,094,445	-	-	(14,094,445)	17,235,932	17,235,932	17,235,932	17,235,932
Mr R L Rodgers <sup>(3)</sup>	700,000	-	-	(700,000)	437,709	437,709	437,709	437,709
Mr A S T Yeo <sup>(4)</sup>	13,586,445	-	-	(13,586,445)	16,851,432	16,851,432	16,851,432	16,851,432
Mr C Yip <sup>(5) (6)</sup>	346,830	-	-	(346,830)	53,003	53,003	53,003	53,003
Ms V T Luong	100,000	-	-	(100,000)	27,250	27,250	27,250	27,250
Mr M Beydoun	-	-	-	-	-	-	-	-
Mrs C Dixon	-	-	-	-	85,625	85,625	85,625	85,625

<sup>(1)</sup> 1,324,000 options held by P L Harry AM and related parties expired on 30 April 2010 without being exercised. A company associated with Mr Harry, Conclude Pty Ltd, holds 456,000 Options and Mr Harry also holds 412,709 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21). Options currently held were issued in the Bonus Options Issue to all existing shareholders on 14 May 2010.

<sup>(2)</sup> 14,904,445 options held by W A Ractliffe and related parties expired on 30 April 2010 without being exercised. A company associated with Mr Ractliffe, Gro-Aust Holdings Ltd, holds 16,326,004 options. In addition, Mr Ractliffe holds 384,500 options as trustee of the Ractliffe Australian Family Trust and 112,719 options as trustee of the Grosvenor Employee Share Scheme. Mr Ractliffe also holds 412,709 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21). Options currently held were issued in the Bonus Options Issue to all existing shareholders on 14 May 2010.

<sup>(3)</sup> 700,000 options held by R L Rodgers and related parties expired on 30 April 2010 without being exercised. Mr Rodgers holds 25,000 options, plus a further 412,709 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21), issued in the Bonus Options Issue to all existing shareholders on 14 May 2010.

<sup>(4)</sup> 13,586,445 options held by Mr A S T Yeo and related parties expired on 30 April 2010 without being exercised. A company associated with Mr Yeo, Gro-Aust Holdings Ltd, holds 16,326,004 options. In addition, Mr Yeo holds 112,719 options as trustee of the Grosvenor Employee Share Scheme and also holds 412,709 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21). Options currently held were issued in the Bonus Options Issue to all existing shareholders on 14 May 2010.

<sup>(5)</sup> The options held on 1 July 2009, which were held by the trustees of the Grosvenor Employee Share Scheme, expired on 30 April 2010 without being exercised.

<sup>(6)</sup> Mr Yip is not an employee of the Group but has been assigned to the Group as part of the management arrangement between the Company and Grosvenor Financial Services Group Limited.

<sup>(7)</sup> Mrs S Tawil was included in Key Management Personnel in 2009 but due to changes in reporting lines, is no longer considered to be part of key management personnel for the purposes of this disclosure.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

25. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Equity Instruments (continued)

(i) Options and Rights Holdings (continued)

2009 Name	Balance at 01 July 08	Granted as compensation <sup>(8)</sup>	Options Exercised <sup>(9)</sup>	Other Changes	Balance at 30 June 09	Total Vested at 30 June 09	Total vested and exercisable at 30 June 09
Mr P L Harry AM <sup>(1)</sup>	1,024,000	300,000	-	-	1,324,000	1,324,000	1,324,000
Mr W A Ractliffe <sup>(2)</sup>	13,798,445	200,000	-	96,000	14,094,445	14,094,445	14,094,445
Mr R L Rodgers <sup>(3)</sup>	500,000	200,000	-	-	700,000	700,000	700,000
Mr A S T Yeo <sup>(4)</sup>	13,386,445	200,000	-	-	13,586,445	13,586,445	13,586,445
Mr C Yip <sup>(6)</sup>	300,000	-	-	46,830	346,830 <sup>(5)</sup>	25,830	25,830
Mr G Day	300,000	-	(200,000)	(100,000) <sup>(7)</sup>	-	-	-
Ms V T Luong	100,000	-	-	-	100,000	-	-
Mrs S Tawil	100,000	-	(100,000)	-	-	-	-
Mrs C Dixon	-	-	-	-	-	-	-

<sup>(1)</sup> A company associated with P L Harry AM, Conclude Pty Ltd, holds 624,000 Options. Mr Harry also holds 400,000 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(2)</sup> A company associated with W A Ractliffe, Gro-Aust Holdings Ltd, holds 11,934,445 options. In addition, Mr Ractliffe holds 508,000 options as trustee of the Ractliffe Australian Family Trust and 1,052,000 options as trustee of the Grosvenor Employee Share Scheme. Mr Ractliffe also holds 400,000 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(3)</sup> R L Rodgers holds 400,000 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(4)</sup> A company associated with A S T Yeo, Gro-Aust Holdings Ltd, holds 11,934,445 options. In addition, Mr Yeo holds 1,052,000 options as trustee of the Grosvenor Employee Share Scheme and also holds 400,000 options as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(5)</sup> These options are held by the trustees of the Grosvenor Employee Share Scheme.

<sup>(6)</sup> Mr Yip is not an employee of the Group but has been assigned to the Group as part of the management arrangements between the Company and Grosvenor Financial Services Group Limited.

<sup>(7)</sup> These options were forfeited on the resignation of G Day on 18 September 2009.

<sup>(8)</sup> Relates to the year end 30 June 2008 where the Directors elected to take their increase in directors' fees for the year in the form of options (see Note 23).

<sup>(9)</sup> 300,000 options were exercised at \$0.04 during the year.

(ii) Shareholdings

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by key management personnel and their related parties are as follows<sup>(8)</sup>:

2010 Name	Balance at 1 July 2009	Granted as compensation	Received on exercise of options or rights	Other changes <sup>(1)</sup>	Balance at 30 June 10	Balance held nominally
Mr P L Harry AM <sup>(2)</sup>	3,941,556	-	-	(466,720)	3,474,836	1,650,836
Mr W A Ractliffe <sup>(3)</sup>	68,869,893	-	-	(926,167)	68,943,726	2,101,711
Mr R L Rodgers <sup>(3)</sup>	2,217,556	-	-	(466,720)	1,750,836	1,650,836
Mr A S T Yeo <sup>(4)</sup>	68,331,893	-	-	(926,167)	67,405,726	2,101,711
Mr C Yip <sup>(7)</sup>	346,830	-	-	(134,820)	212,010	-
Ms V T Luong	220,000	60,000 <sup>(6)</sup>	-	9,000	289,000	-
Mrs C Dixon	-	140,000 <sup>(6)</sup>	-	272,500	412,500	-
Mr M Beydoun	-	150,000 <sup>(6)</sup>	-	-	150,000	-

<sup>(1)</sup> Refers to shares purchased, sold or forfeited during the financial year.

<sup>(2)</sup> A company associated with P L Harry AM, Conclude Pty Ltd, holds 1,824,000 shares. Mr Harry also holds 1,650,836 shares as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(3)</sup> R L Rodgers holds 100,000 shares and 1,650,836 shares as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(4)</sup> A company associated with A S T Yeo, Gro-Aust Holdings Ltd, holds 65,304,015 shares. In addition, Mr Yeo holds 450,875 shares as trustee of the Grosvenor Employee Share Scheme and also holds 1,650,836 shares as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(5)</sup> A company associated with W A Ractliffe, Gro-Aust Holdings Ltd, holds 65,304,015 shares. In addition, Mr Ractliffe holds 1,538,000 shares as trustee of the Ractliffe Australian Family Trust and 450,875 shares as trustee of the Grosvenor Employee Share Scheme. Mr Ractliffe also holds 1,650,836 shares as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(6)</sup> Held by the trustees of the TFS Group Employee Bonus and Share Scheme.

<sup>(7)</sup> Mr Yip is not an employee of the Group but has been assigned to the Group as part of the management arrangement between the Company and Grosvenor Financial Services Group Limited.

<sup>(8)</sup> Mrs S Tawil was included in Key Management Personnel in 2009 but due to changes in reporting lines, is no longer considered to be part of key management personnel for the purposes of this disclosure.





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

25. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Equity Instruments (continued)

(ii) Shareholdings

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by key management personnel and their related parties are as follows.

2009 Name	Balance at 1 July 2008	Granted as compensation	Received on exercise of options or rights	Other changes <sup>(1)</sup>	Balance at 30 June 2009	Balance held nominally
Mr P L Harry AM <sup>(2)</sup>	2,224,000	-	-	1,717,556	3,941,556	2,117,556
Mr W A Ractliffe <sup>(5)</sup>	64,893,830	-	-	4,976,063	69,869,893	3,169,556
Mr R L Rodgers <sup>(3)</sup>	500,000	-	-	1,717,556	2,217,556	2,117,556
Mr A S T Yeo <sup>(4)</sup>	63,451,830	-	-	4,880,063	68,331,893	3,169,556
Mr C Yip <sup>(9)</sup>	300,000 <sup>(6)</sup>	-	-	46,830	346,830	-
Mr G Day	109,000	-	200,000	(100,000) <sup>(7)</sup>	209,000	-
Ms V T Luong	100,000 <sup>(8)</sup>	120,000	-	-	220,000	-
Mrs S Tawil	-	120,000	100,000	-	220,000	-
Mrs C Dixon	-	-	-	-	-	-

<sup>(1)</sup> Refers to shares purchased, sold or forfeited during the financial year.

<sup>(2)</sup> A company associated with P L Harry AM, Conclude Pty Ltd, holds 1,824,000 shares. Mr Harry also holds 2,117,556 shares as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(3)</sup> R L Rodgers holds 2,117,556 shares as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(4)</sup> A company associated with A S T Yeo, Gro-Aust Holdings Ltd, holds 65,162,337 shares. In addition, Mr Yeo holds 1,052,000 shares as trustee of the Grosvenor Employee Share Scheme and also holds 2,117,556 shares as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(5)</sup> A company associated with W A Ractliffe, Gro-Aust Holdings Ltd, holds 65,162,337 shares. In addition, Mr Ractliffe holds 1,538,000 shares as trustee of the Ractliffe Australian Family Trust and 1,052,000 shares as trustee of the Grosvenor Employee Share Scheme. Mr Ractliffe also holds 400,000 shares as trustee of the TFS Group Employee Bonus and Share Scheme (refer Note 21).

<sup>(6)</sup> Held by the trustees of the Grosvenor Employee Share Scheme.

<sup>(7)</sup> These shares were forfeited when the personnel resigned.

<sup>(8)</sup> Held by the trustees of the TFS Group Employee Bonus and Share Scheme.

<sup>(9)</sup> Mr Yip is not an employee of the Group but have been assigned to the Group as part of the management arrangements between the Company and Grosvenor Financial Services Group Limited.

(c) Other transactions with Key Management Personnel

A firm associated with Mr R L Rodgers provides tax consulting services to the Group on an arm's length basis and received fees during the year of 2010: \$5,500 (2009: \$5,182).

Messrs W A Ractliffe and A S T Yeo are also directors of Grosvenor Financial Services Group Limited and its associated companies. For transactions between the Grosvenor Group and the Tranzact Group, refer to Note 26.

26. RELATED PARTIES

**Directors and other Key Management Personnel**

Disclosures relating to Directors are set out in Note 25.

**Parent entity**

Tranzact Financial Services Limited is the parent entity of the Group. Grosvenor Financial Services Group Limited is the ultimate parent entity of the Tranzact Financial Services Group. Grosvenor Financial Services Group Limited owns 75% as at 30 June 2010 (2009: 75%) of Gro-Aust Holdings Limited which owns 58.45% of the ordinary shares in Tranzact Financial Services Limited at 30 June 2010 (2009: 57.64%).

**Subsidiaries**

Details of subsidiaries and ownership interests are disclosed in Note 29.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

26. RELATED PARTIES (continued)

Transactions between Tranzact Financial Services Limited and its subsidiaries during the years ended 30 June 2010 and 30 June 2009 consisted of:

- (a) loans advanced between members of the wholly-owned group and interest thereon
- (b) loans repaid by members of the wholly-owned group and interest thereon
- (c) management fees paid to Tranzact Financial Services Limited
- (d) payments between the companies in the Group for the allocation of tax expenses and benefits (refer Note 4).

	<b>Parent Entity 2010 \$'000</b>	<b>Parent Entity 2009 \$'000</b>
<b>Transactions with entities in the Group:</b>		
Management Fees Received by Tranzact Financial Services Limited	3,100	3,542
Interest on loan from subsidiaries to Tranzact Financial Services Limited	79	78
Interest on loan from Tranzact Financial Services Limited to subsidiaries	-	22
Payments by subsidiaries to Tranzact Financial Services Limited for the allocation of income tax expenses	15	94
<b>Loans advanced and repaid:</b>		
Amounts of loans advanced from subsidiaries to Tranzact Financial Services Limited	1,730	1,453
Amounts of loans repaid by Tranzact Financial Services Limited	985	100
Amounts of loans advanced by Tranzact Financial Services Limited to subsidiaries	-	474
<b>Outstanding balances between entities in the Group at balance date:</b>		
Current Receivables	-	179
Loans from subsidiaries to Tranzact Financial Services Limited	2,198	1,453
Loans to subsidiaries by Tranzact Financial Services Limited	-	474
<b>Ultimate Parent and associated companies</b>		
	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<b>Transactions between the Group and the ultimate parent entity and its associated companies:</b>		
Management/Administration Fees paid to: Grosvenor Financial Services Group Limited (GFSG)	497	669
Interest on Loans by GFSG	-	-
Other Expenses reimbursed to GFSG	359	84
<b>Outstanding balances between the Group and the ultimate parent and its associated companies at balance date:</b>		
Other Payables	11	20

Grosvenor Financial Services Group Limited (New Zealand), of which Messrs Yeo and Ractliffe are directors, provides a number of services to the Tranzact Financial Services Limited Group. Grosvenor Financial Services Group Limited owns 75% of Gro - Aust Holdings Limited at 30 June 2010 (2009: 75%), which owns 100% of GFS Aust Pty Ltd at 30 June 2010 (2009: 100%)



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

26. RELATED PARTIES (continued)

Loans receivable from entities in the Group are secured by a debenture over all the assets and operations of the Borrower and any of its subsidiaries, loans are repayable at the option of the lender and interest is charged at the ANZ commercial bill rate applicable at the end of each month, with an average for 2010 of 4.19% (2009:5.13%)

Loans receivable from the ultimate parent entity and its associated companies are unsecured, interest-free and short term in nature with are no fixed repayment terms.

27. AUDITOR'S REMUNERATION

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Audit & Assurance Fees – BDO	122	131
Other Services - Non BDO	27	7
	<u>149</u>	<u>138</u>

BDO was appointed as auditor of Tranzact Financial Services Limited and its wholly-owned subsidiaries for the year ended 30 June 2008. \$12,000 of the payments to BDO in 2010 related to the audit of the 2009 financial year.

Non BDO - Other services fees paid in 2010 relate to an internal controls review.

28. COMMITMENTS FOR EXPENDITURE

(a) **Operating Leases**

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Not Later than One Year	359	383
Later than One Year but not Later than Five Years	863	143
Later than Five Year	70	-
Commitments not Recognised in the Financial Statements	<u>1,292</u>	<u>526</u>

The parent entity's commitment is for a property lease which is non-cancellable. It has a three-year term expiring on 31 May 2013. The lease payments are subject to annual review.

In addition to the parent entity lease, the group is committed to a property lease in Brisbane expiring in November 2015 and plant and equipment with various expiry dates.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

28. COMMITMENTS FOR EXPENDITURE (continued)

(b) **Finance Leases**

Commitments for minimum lease payments in relation to non-cancellable finance leases are payable as follows:

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Not Later than One Year	9	9
Later than One Year but not Later than Five Years	9	19
Commitments Recognised in the Financial Statements	18	28
Less future finance charges	-	-
Commitments Recognised in the Financial Statements	18	28

The finance lease on plant and equipment, which commenced in 2007 has 3 years remaining and had a carrying value of \$18,170 at 30 June 2010 (2009: \$27,650). These are included in Other Creditors and have no interest charged on them.

(c) **Capital Expenditure Commitments**

There are no Capital expenditure commitments contracted for at 30 June 2010 (\$nil: 2009)

29. INVESTMENTS IN SUBSIDIARIES

<b>Name of Entity</b>	<b>Class of Share</b>	<b>Equity Holding 2010 %</b>	<b>Equity Holding 2009 %</b>	<b>Value of Parent Entity's Investment 2010</b>	<b>Value of Parent Entity's Investment 2009</b>
Tranzact Consulting Ltd	Ordinary	100.00	100.00	123,442	123,442
Tranzact Investment Services Ltd	Ordinary	100.00	100.00	5,456,422	5,456,422
Asset Custodian Nominees (Aust) Pty Ltd <sup>(1)</sup>	Ordinary	100.00	100.00	-	-
Australia First Financial Services Pty Ltd	Ordinary	100.00	100.00	1,570,000	1,570,000
Tranzact Superannuation Services Pty Ltd <sup>(2)</sup>	Ordinary	100.00	100.00	-	-
Tranzact Financial Solutions Pty Ltd <sup>(2)</sup>	Ordinary	100.00	100.00	-	-
Australian Superannuation Consultants Pty Ltd	Ordinary	100.00	100.00	811,883	811,883
SMSF Administrators Pty Ltd <sup>(3)</sup>	Ordinary	100.00	100.00	-	-
SMSF Strategist Deeds Ltd <sup>(3)</sup>	Ordinary	100.00	100.00	-	-
Tranzact Tax Services Pty Ltd <sup>(4)</sup>	Ordinary	49.00	49.00	-	-
Total Super Pty Ltd	Ordinary	100.00	100.00	2,801,794	2,801,794
Total Supertec Pty Ltd <sup>(5)</sup>	Ordinary	-	100.00	-	-
				10,763,541	10,763,541

<sup>(1)</sup> Fully owned subsidiary of Tranzact Investment Services Ltd.

<sup>(2)</sup> Fully owned subsidiary of Australia First Financial Services Pty Ltd.

<sup>(3)</sup> Fully owned subsidiary of Australian Superannuation Consultants Pty Ltd, since deregistered on 18 August 2010.

<sup>(4)</sup> Formerly ASC Tax Services Pty Ltd and not a controlled entity but included here for completeness.

<sup>(5)</sup> Fully owned subsidiary of Total Super Pty Ltd deregistered on 26 March 2010.

All companies listed above were incorporated in Australia.

The proportion of ownership interest is equal to the proportion of voting power held.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

30. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise the following:

- (a) Cash, Trade and Other Receivables;
- (b) Held to Maturity, Available for Sale;
- (c) Derivatives;
- (d) Trade and Other Payables; and
- (e) Interest Bearing Liabilities

**Categories of Financial Instruments**

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<b>Financial Assets</b>		
Fair value through profit or loss - held for trading	(105)	44
Held-to maturity investments	-	966
Cash & cash equivalents	2,093	2,463
Trade receivables	608	1,080
Available-for-sale financial assets	6,463	5,245
	<hr/> 9,059	<hr/> 9,798
<b>Financial Liabilities</b>		
Bank Bills	-	1,139
Trade and Other Payables	589	1,223
	<hr/> 589	<hr/> 2,362

**General objectives, policies and processes**

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The main risks arising from the Group's financial instruments are market risk (including foreign currency risk and interest rate risk), liquidity risk and credit risk. Senior management, in conjunction with the Board, review and agree policies for managing each of these risks.

The risks arising in 2010 are unchanged from those of the previous year.

**Risk Exposures and Responses**

**Market Risk**

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

**(i) Foreign Exchange Risk**

As a result of operations in New Zealand the Group's balance sheet is impacted by movements in exchange rates. This risk is assessed on an ongoing basis and forward exchange contracts are taken up from time to time as deemed appropriate. While the forward exchange contracts are not designated hedges, the strategy is to limit the un-hedged amount to \$100,000 at any point in time.

The Group also has currency exposures arising from transactions in a currency other than the Group's functional currency. Approximately 9% of the Group's revenues are denominated in currencies other than the reporting currency of the Group. These revenues are partially offset by expenses incurred in the same currency.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

30. FINANCIAL INSTRUMENTS (continued)

At 30 June 2010, the Group had the following exposure to foreign currencies:

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<b>Financial Assets</b>		
Trade and Other Receivables	219	221
Financial Assets	5,158	4,914
	<u>5,377</u>	<u>5,135</u>
<b>Financial Liabilities</b>		
Derivatives - Forward Contracts	5,115	4,883
Net Exposure	<u>262</u>	<u>252</u>

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. As at 30 June 2010, had the Australian Dollar moved, with all other variables held constant, post tax profit and equity would have been affected as illustrated in the table below.

Management have assessed the closing net position of each entities assets in the table below for movements in a currency to highlight the potential impact on the net asset position. There were no material impacts identified based on the parameters used.

	<b>Post Tax Profit Higher/(Lower)</b>	
<b>Judgements of reasonably possible Movements</b>	<b>2010 \$'000</b>	<b>2008 \$'000</b>
<b>Consolidated Entity</b>		
AUD/NZD + 10%	26	25
AUD/NZD - 10%	<u>(26)</u>	<u>(25)</u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

30. FINANCIAL INSTRUMENTS (continued)

(ii) Interest Rate Risk

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

The following table details the Group's exposure to interest rate risk as at 30 June 2010:

Consolidated 2010	Weighted Average Effective Rate	Variable Interest Rate \$'000	Fixed Interest Rate maturing less than 1 year \$'000	Non-interest Bearing \$'000	Total \$'000
<b>Interest Bearing Assets</b>					
Cash at Bank	2.6%	2,014	-	-	2,014
Cash on Deposit	4.8%	79	-	-	79
Unsecured Loans <sup>(1)</sup>	12.6%	5,158	-	-	5,158
<b>Total Interest Bearing Assets</b>		<b>7,251</b>	<b>-</b>	<b>-</b>	<b>7,251</b>
<b>Non-interest Bearing Assets</b>					
Equity Investments		-	-	1,185	1,185
Other non-interest bearing assets		-	-	608	608
<b>Total Non-interest Bearing Assets</b>		<b>-</b>	<b>-</b>	<b>1,793</b>	<b>1,793</b>
Total Assets		7,251	-	1,793	9,044
<b>Non-interest Bearing Liabilities</b>					
Total Liabilities		-	-	589	589
<b>Net Assets</b>		<b>7,251</b>	<b>-</b>	<b>1,204</b>	<b>8,455</b>

<sup>(1)</sup> Relates to loans as part of the partnership for growth which are repayable at the discretion of the borrower (which could potentially be immediately) and therefore have no fixed maturity profile.

The following table details the Group's exposure to interest rate risk as at 30 June 2009:

Consolidated 2009	Weighted Average Effective Rate	Variable Interest Rate \$'000	Fixed Interest Rate maturing less than 1 year \$'000	Non-interest Bearing \$'000	Total \$'000
<b>Interest Bearing Assets</b>					
Cash at Bank	4.2%	2,403	-	-	2,403
Cash on Deposit	3.4%	60	-	-	60
Unsecured Loans <sup>(1)</sup>	13.4%	3,948	966	-	4,914
<b>Total Interest Bearing Assets</b>		<b>6,411</b>	<b>966</b>	<b>-</b>	<b>7,377</b>
<b>Non-interest Bearing Assets</b>					
Equity Investments		-	-	1,231	1,231
Other non-interest bearing assets		-	-	1,079	1,079
<b>Total Non-interest Bearing Assets</b>		<b>-</b>	<b>-</b>	<b>2,310</b>	<b>2,310</b>
Total Assets		6,411	966	2,310	9,687
<b>Interest Bearing Liabilities</b>					
Bank Bills	5.2%	-	1,138	-	1,138
<b>Total Interest Bearing Liabilities</b>		<b>-</b>	<b>1,138</b>	<b>-</b>	<b>1,138</b>
<b>Non-interest Bearing Liabilities</b>					
Total Liabilities		-	-	1,223	1,223
<b>Net Assets</b>		<b>6,411</b>	<b>(172)</b>	<b>1,087</b>	<b>7,326</b>

<sup>(1)</sup> Relates to loans as part of the partnership for growth which are repayable at the discretion of the borrower (which could potentially be immediately) and therefore have no fixed maturity profile.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

30. FINANCIAL INSTRUMENTS (continued)

The Group manages its interest rate risk by the use of fixed rate instruments and by spreading the tenure of any debt to optimise the balance between costs of funds and liquidity.

Similarly, in terms of interest rate risk on cash and deposits the Group seeks to maximise the interest earned on these funds balanced against the length of the investment and impact on liquidity.

**(ii) Interest Rate Risk**

The following sensitivity analysis is based on the interest rate risk exposures in existence as at balance date.

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

<b>Judgements of reasonably possible Movements</b>	<b>Post Tax Profit Higher/(Lower)</b>	
	<b>2010 \$'000</b>	<b>2008 \$'000</b>
<b>Consolidated Entity</b>		
+ 0.75% (75 basis points)	54	47
- 0.50% (50 basis points)	(36)	(31)

The movements in profit are due to movements in interest costs from variable rate debt and cash movements.

**(iii) Liquidity Risk**

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of credit facilities and bank loans.

The Group minimises liquidity risk by maintaining a significant level of cash and cash equivalents, monitoring of actual performance to budgets, regular cash flow forecasting as well as ensuring the Group has access to use of credit facilities as and when required.

The Group has a credit standby arrangement, being a commercial bill facility with the Australia and New Zealand Banking Group Limited and considers there is no liquidity risk.

At balance date, the Group has \$3,000,000 of unused credit facilities available for its immediate use (Note 32(c)).





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

30. FINANCIAL INSTRUMENTS (continued)

**Maturity Analysis of financial liabilities**

The risks from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations.

<b>Consolidated 2010 Financial Liabilities</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flows</b>	<b>&lt; 6 mths</b>	<b>6 – 12 mths</b>	<b>1 – 3 years</b>	<b>&gt; 3 years</b>
<b>Non-derivatives</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Bank Bills <sup>(1)</sup>	-	-	-	-	-	-
Trade and Other Payables	589	589	576	5	8	-
<b>Derivatives</b>						
Forward Exchange Contracts <sup>(2)</sup>	5,115	5,115	2,460	2,655	-	-
<b>TOTAL</b>	<b>5,704</b>	<b>5,704</b>	<b>3,036</b>	<b>2,660</b>	<b>8</b>	<b>-</b>

<sup>(1)</sup> No further interest is paid on these bank bills as the interest is paid upfront at the time of the drawdown.

<sup>(2)</sup> The gross liability shown is offset by the value of the foreign exchange expected to be received of \$5,010,370, resulting in a net liability of \$104,632.

<b>Consolidated 2009 Financial Liabilities</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flows</b>	<b>&lt; 6 mths</b>	<b>6 – 12 mths</b>	<b>1 – 3 years</b>	<b>&gt; 3 years</b>
<b>Non-derivatives</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Bank Bills <sup>(1)</sup>	1,138	1,138	1,138	-	-	-
Trade and Other Payables	1,223	1,223	1,200	5	18	-
<b>Derivatives</b>						
Forward Exchange Contracts <sup>(2)</sup>	4,883	4,883	4,396	487	-	-
<b>TOTAL</b>	<b>7,244</b>	<b>7,244</b>	<b>6,734</b>	<b>492</b>	<b>18</b>	<b>-</b>

<sup>(1)</sup> No further interest is paid on these bank bills as the interest is paid upfront at the time of the drawdown.

<sup>(2)</sup> The gross liability shown is offset by the value of the foreign exchange expected to be received of \$4,927,033, resulting in a net asset of \$44,461.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

30. FINANCIAL INSTRUMENTS (continued)

**(iv) Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has policies in place to manage these risks. The Group has adopted a policy of only dealing with reputable established businesses as a means of mitigating the risk of financial loss from defaults. The maximum credit risk for financial assets recognised on the balance sheet is the carrying amount less, where applicable, any provisions for doubtful debts.

- **Financial Interests in the Camelot Partnership (as part of the Partnership for Growth Strategy)**

The Company has \$5,158,128 in loans and interest in Camelot Financial Advisers Limited. The loans and financial interests in the Camelot Partnership are unsecured and have a negative pledge. There is no material credit risk exposure to the Group as prior to the advisers joining the Camelot Partnership, they undergo strict due diligence and vetting processes to ensure they meet the necessary revenue and business value expectations. In addition Camelot Financial Advisers Limited, through its subsidiary company, retains the right to assume day to day control of the partnership business in the event of non performance of the operating partner. All investments are performing at or better than expectation at the time of the investment being undertaken. There are no indications of impairment from recent changes in market conditions. Ongoing monitoring is conducted to ensure there is no impairment going forward.

- **Trade and Other Receivables**

The Company has \$280,214 in fees owing from various superannuation funds under the Trusteeship of Trust Company Superannuation Services Limited. There is no material credit risk exposure as the Company is the administrator of these funds and part of its monthly administration process is to arrange for fees to be paid to the various service providers.

- **Foreign Exchange Contracts and Bank Deposits**

There are net proceeds from Forward Exchange Contracts of \$104,632 and \$2,092,932 of funds on deposit for the Consolidated Entity. The Parent has funds on deposit of \$539,998. The credit risk on liquid funds and derivatives is limited because the counterparties are major banks with ratings of AA or higher assigned by international credit rating agencies.

**(v) Net Fair Values**

The carrying amount of all financial assets and liabilities recorded in the financial statements approximates their net values.

**Estimation of Fair Values**

The net fair values of financial assets and liabilities is determined using a hierarchy as follows:

Level one - quoted prices (unadjusted) in active markets for identical assets and liabilities

Level two - inputs other than quoted prices included in level one that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level three - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below analyses financial instruments carried at fair value by valuation method.

Group	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	2010	2010	2010	2009	2009	2009
Financial Assets	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Derivatives	-	-	-	-	966	-
Available-for-sale financial assets	-	1,305	-	-	1,297	-
Fair value through profit and loss - held for trading	-	-	-	-	44	-
	-	1,305	-	-	2,307	-
<b>Financial Liabilities</b>						
Derivatives	-	105	-	-	-	-
<b>TOTAL</b>	-	105	-	-	-	-



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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(continued)

### 30. FINANCIAL INSTRUMENTS (continued)

The net fair values of:

- Term receivables and fixed interest securities and bonds are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.
- Unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.
- Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value.
- Forward exchange contracts are the recognised unrealised gain or loss at balance date determined from the current forward exchange rates for contracts with similar maturities.
- Other assets and other liabilities approximate their carrying value.
- The Partnership for Growth interests are loans to financial and insurance advisory businesses. The valuation of these financial interests utilises an equity style valuation methodology. These instruments do not have a quoted market price in an active market that is reliably measurable of their market value. The range of values applicable to these instruments is significant and the probabilities of the various estimates cannot be reasonably assessed. The values depend heavily on the nature of the revenue streams, the sustainability of the revenue streams over time, and the level of continuing involvement of the practice principals in the business. The Board has accordingly retained these assets at cost.  
It is not part of the Group's strategy to dispose of these loans.

### 31. CAPITAL RISK MANAGEMENT

The Group considers its capital to comprise of its ordinary share capital less accumulated losses.

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

The increase in borrowing at a Group level has been brought about by the Board's decision to take on additional debt finance to fund acquisitions. The Group regularly reviews its capital requirements and determines whether or not to increase or decrease its borrowings. There have been no other significant changes to the Group's capital management objectives, policies and processes in the year nor has there been any change in what the Group considers to be its capital.

The Group does not currently have a gearing ratio policy.

During the period the Group complied with all externally imposed capital requirements and covenants to which it is subject.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

32. CASH FLOW INFORMATION

(a) Reconciliation of Profit After Income Tax to Net Cash Inflow from Operating Activities

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<b>Profit After Income Tax</b>	1,509	1,612
<b>Non-Cash Flows in Operating Profit:</b>		
Provision for Depreciation	133	143
Provision for Amortisation	297	209
Increase/(decrease) in Provision for Staff Entitlements	3	(3)
Share of Profit of Associated Entity	(120)	(66)
Loss on disposal of Plant and Equipment	-	7
Unrealised Foreign Exchange Losses	67	288
Net Operating Assets acquired on purchase of Subsidiaries	-	80
<b>Changes in Assets and Liabilities:</b>		
Decrease/(increase) in Current Receivables	632	(803)
(Increase)/decrease in Prepayments	(1)	3
(Increase) in Deferred Tax Assets	(73)	(57)
(Decrease) in Creditors	(242)	(139)
(Decrease)/increase in Current Tax Liabilities	(99)	181
(Decrease)/increase in Deferred Tax Liabilities	(94)	(22)
<b>Net Cash Inflows from operating activities</b>	<b>2,012</b>	<b>1,433</b>

(b) Non-Cash Financing and Investing Activities

Equity Securities Issued

	Consolidated 2010 No.	Consolidated 2009 No.	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Ordinary Shares Issued <sup>(1) (5) (6)</sup>	50,000	800,010	6	137
Options over Ordinary Shares Issued <sup>(6) (7)</sup>	-	1,400,010	-	27
Options over Ordinary Shares Issued 2007:expired 2010 <sup>(3)</sup>	(36,069,395)	-	-	-
Options over Ordinary Shares Issued May 2010 <sup>(4)</sup>	27,953,049	-	-	-
Ordinary Shares cancelled (under buy back arrangement) <sup>(2) (8)</sup>	(1,362,146)	(600,000)	(200)	(96)

12 months ended 30 June 2010:

<sup>(1)</sup> 50,000 equity securities were issued on 30 July 2009 at \$0.04 per security following the exercise of unlisted options under the Staff Share Option Plan. The exercise price was \$0.04 per share, and a transfer of \$3,500 was made from the employee options reserve.

<sup>(2)</sup> 1,362,146 equity securities were purchased on market between October 2009 and June 2010 at prices between \$0.13 and \$0.15 per security under the share buy back scheme announced on 29 September 2008 and subsequent extension notice on 28 September 2009. These securities have subsequently been cancelled.

<sup>(3)</sup> 36,069,395 options issued between May 2007 and November 2008, enabling the holder of each option to acquire a further share at \$0.30 anytime before 30 April 2010, expired on 30 April 2010 with no options having been exercised.

<sup>(4)</sup> 27,953,049 free bonus options were issued to existing shareholders on 14 May 2010 enabling the holder of each option to acquire a further share at \$0.25 anytime before 31 October 2012.

<sup>(5)</sup> On 20 August 2008, 300,000 options under the Staff Share Option Plan were exercised. The exercise price was \$0.04 per share, and a transfer of \$7,141 was made from the employee options reserve.

<sup>(6)</sup> 500,010 equity securities were issued 1 December 2008 for the acquisition of a further 5.0001% interest in Group Insurance & Superannuation Concepts Pty Ltd. The shares were issued at \$0.23 per share fully paid with an option attached to each share value at \$0.02 enabling the holder to acquire a further share at \$0.30 anytime before 30 April 2010.

<sup>(7)</sup> 900,000 options were issued to the Directors in lieu of an increase of their Director's fees (as approved at the AGM on 21 November 2008). The options were issued at \$0.03 per option and enable the holder to acquire a further share at \$0.30 anytime before 30 April 2010.

<sup>(8)</sup> 600,000 equity securities were purchased on market in December 2008 at \$0.16 per security under the share buy back scheme announced on 29 September 2008.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010  
(continued)

32. CASH FLOW INFORMATION (continued)

(c) Credit Standby Arrangements with Banks

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Credit Facility	3,000	3,000
Amount utilised	-	1,138
Amount unused at reporting date	3,000	1,862

The above is a commercial bill variable interest rate facility of \$3,000,000 provided by St George Bank, a division of Westpac Banking Corporation (2009: \$3,000,000 provided by the Australia and New Zealand Banking Group Limited).

33. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Tranzact Financial Services Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 1.

	2010 \$'000	2009 \$'000
Current Assets	635	848
Non Current Assets	14,532	14,974
Total Assets	15,167	15,822
Current Liabilities	2,539	3,226
Non Current Liabilities	46	53
Total Liabilities	2,585	3,279
Net Assets	12,582	12,543
Issued Capital	19,842	20,048
Retained Earnings	(7,299)	(7,579)
Staff Share Options Reserve	-	35
Other Reserve	39	39
Total Shareholder's Equity	12,582	12,543
Profit for the year	783	1,106
Total Comprehensive Income	783	1,106

The parent has not provided guarantees in relation to the debts of its subsidiaries as at 30 June 2010.

The parent company has no contingent liabilities as at 30 June 2010 (2009:nil)

The parent entity does not have any commitments for expenditures as at 30 June 2010.

34. CONTINGENT LIABILITIES

As at 30 June 2010, contingent liabilities consisted of one claim against a subsidiary of the Company. The most recent settlement offer from the claimant was \$150,000. The Company recognises that a contingent liability between nil and \$150,000 existed at year end in relation to this claim. The Company denies any liability in relation to this claim.

There were no contingent liabilities as at 30 June 2009.

35. EVENTS OCCURRING AFTER REPORTING DATE

There were no events or matters subsequent to reporting date which would require any disclosure in or adjustment of this annual report.



# DIRECTORS' DECLARATION

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## TRANZACT FINANCIAL SERVICES LIMITED AND CONTROLLED ENTITIES DIRECTORS' DECLARATION

ABN 84 089 997 731

The Directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of the performance for the year ended on that date.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. The remuneration disclosures included in pages 8 to 12 of the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2010, comply with section 300A of the Corporations Act 2001.
5. The Directors have been given the declarations by the Chief Executive Officer and Finance Manager required by section 295A.

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

P L Harry AM  
Non-Executive Chairman

A S T Yeo  
Managing Director and Chief Executive Officer

Sydney, 30 September 2010

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## INDEPENDENT AUDITOR'S REPORT

To the members of Tranzact Financial Services Limited

### Report on the Financial Report

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

### Directors' Responsibility for the Financial Report

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

### Auditor's Responsibility

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

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



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

#### Independence

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

#### Auditor's Opinion

In our opinion:

- (a) the financial report of Tranzact Financial Services 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 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

#### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the Directors' Report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (NSW-VIC) Pty Ltd

N E Sinclair

Director

Sydney, 30 September 2010



# SHAREHOLDER INFORMATION



STATEMENTS PURSUANT TO AUSTRALIAN STOCK EXCHANGE  
OFFICIAL LISTING RULES AS AT 15 SEPTEMBER 2010

## SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in the Company are set out below:

### A. Ordinary Shares

	Number Held	Percentage
Gro-Aust Holdings Limited *	65,304,015	58.67%

\* 6,004,185 shares are held through Asset Custodian Nominees Limited

### B. Directors' Shareholding

	Total Interest	Beneficial Interest	Relevant Interest
P L Harry AM	3,474,836	1,824,000	1,650,836
R L Rodgers	1,750,836	100,000	1,650,836
A S T Yeo	67,405,726	-	67,405,726
W A Ractliffe	68,943,726	-	68,943,726

### C. Number of Shareholders

The Company had 469 shareholders with the following distribution of holdings:

Number of Shares	Number of Shareholders
1 – 1,000	20
1,001 – 5,000	100
5,001 – 10,000	74
10,001 – 100,000	188
100,001 – over	87

Of the above, 49 shareholders did not have a marketable parcel.

### D. Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares:

1. At meeting of members or classes of members, each member entitled to vote may vote in person or by representative or by proxy or by attorney.
2. On a show of hands every person present who is, a member, or a representative or an attorney, or a proxy of a member has one vote.
3. On a show of hands a member, representative, attorney and a proxy has only one (1) vote, irrespective of the number of shareholders that person represents.
4. Where a member appoints two (2) proxies, neither proxy may vote for that member on a show of hands.
5. On a poll every member present in person or by proxy or by attorney or other duly authorised representative has one (1) vote for each fully paid share he/she holds, and a fraction of a vote for each partly paid share he/she holds. The fraction must be equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited). The amount paid in advance of a call must be ignored when calculating the proportion.

# TWENTY LARGEST SHAREHOLDINGS

AS AT 15 SEPTEMBER 2010

Name	Holding	% Issued Capital
1 Gro-Aust Holdings Limited	59,299,830	53.27
2 Asset Custodian Nominees Limited	6,282,785	5.64
3 Asset Custodian Nominees (Aust) Pty Ltd	3,306,334	2.97
4 UBS Nominees Pty Ltd	1,956,000	1.76
5 Conclude Pty Limited	1,824,000	1.64
6 Ronald Malek	1,400,000	1.26
7 Contemplator Pty Ltd	1,250,000	1.12
8 Ruaminator Pty Ltd	1,250,000	1.12
9 London City Equities Limited	1,200,000	1.08
10 Tuturau Nominees Ltd	1,197,138	1.08
11 Central Highlands Financial Services Pty Ltd	1,153,680	1.04
12 Cedars Properties Pty Ltd	1,000,000	0.90
13 SM Roberts & CA Sheldon	999,370	0.90
14 Mary Christopher	922,884	0.83
15 Dalbow Superannuation Pty Limited	814,109	0.73
16 Cravat Holdings Pty Ltd	800,000	0.72
17 Howard Securities Pty Ltd	726,999	0.65
18 Forbar Custodians Limited	721,945	0.65
19 Storey Enterprises Pty Ltd	712,820	0.64
20 Alan Scott Storey	670,750	0.60
	<b>87,488,664</b>	<b>78.60</b>

## CORPORATE DIRECTORY

Tranzact Financial Services Limited is a listed Public Company incorporated and domiciled in Australia.

### Registered Office

Tranzact Financial Services Limited  
ABN 84 089 997 731  
Level 5, 241 Castlereagh Street  
SYDNEY NSW 2000  
Tel 02 9236 5600  
Fax 02 9236 5699

### Officers of the Company

Phillip L Harry AM	Non-Executive Chairman
W Anthony Ractliffe	Non-Executive Deputy Chairman
Allan S T Yeo	Managing Director and Chief Executive Officer
Richard L Rodgers	Non-Executive Director
Maan Beydoun	Company Secretary

### BDO

Level 19  
2 Market Street  
SYDNEY NSW 2000  
Tel 02 9286 5555

### Share Registry

Computershare Investor Services Pty Ltd  
ABN 48 078 279 277  
Level 3, 60 Carrington Street  
SYDNEY NSW 2000  
Tel 02 8234 5000  
Australia Only  
Toll Free 1300 850 505





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