

TRANZACT FINANCIAL SERVICES LIMITED
ABN 84 089 997 731
AND ITS CONTROLLED ENTITIES

Appendix 4E

**PRELIMINARY ANNUAL FINANCIAL REPORT FOR
THE YEAR ENDED 30 JUNE 2012**

1. Details of the Reporting Period

This is the preliminary information given to the ASX under Listing Rule 4.3A for the Tranzact Financial Services Limited Consolidated Entity for the year ended 30 June 2012. The previous corresponding period is the year ended 30 June 2011 unless otherwise stated.

The Consolidated Entity is comprised of Tranzact Financial Services Limited as the Chief Entity and its wholly owned or controlled subsidiaries ('Group').

2. Results for Announcement to the Market

| | % Change |
|--|--------------------------|
| 2.1 Revenues from ordinary activities | Up 5% to \$9,313,000 |
| 2.2 Profit from ordinary activities after tax attributable to members | Down -34% to \$1,065,000 |
| 2.3 Net profit for the year attributable to members | Down -34% to \$1,065,000 |
| 2.4 A fully franked final dividend of 0.45 cents per share has been declared. | |
| 2.5 The ex dividend date is 17 September 2012, the record date is 21 September 2012 and the payment date is 5 October 2012 for the proposed dividend. There is no foreign conduit income attributable to the dividend. | |
| 2.6 Refer to the attached preliminary annual financial report for details relating to the profit information stated in 2.1 to 2.3 and the Directors' Report for information on dividends declared in 2.4. | |

3. Income Statement

Refer to the attached preliminary annual financial report.

4. Balance Sheet

Refer to the attached preliminary annual financial report.

5. Statement of Cash Flows

Refer to the attached preliminary annual financial report.

6. Dividends

A final dividend of 0.45 cents per share relating to the 2011 financial year amounting to \$498,298 was paid on 7 October 2011. An interim 2012 dividend of 0.25 cents per share amounting to \$276,263 was paid on 8 April 2012. A 2012 final dividend of 0.45 cents per share has been declared.

7. Details of Dividend Reinvestment Plans

The Company has implemented a Dividend Reinvestment Plan ("DRP") under which shareholders who have a registered address in, and are residents of, Australia and New Zealand are invited to reinvest part of any dividends receivable in additional shares. The price of the shares issued under the plan is either a fixed price as determined by the Board for each dividend, or the volume weighted average market price of Tranzact shares (on an ex-dividend basis) during the five trading days immediately preceding and inclusive of the record date for the relevant dividend less a discount as determined by the Board.

The DRP will be operative in relation to the final dividend and the Board has determined that shares issued pursuant to the DRP in respect of this dividend will be issued at a fixed price of 11 cents per share. Full details of the DRP, including the DRP Rules, are being lodged with the ASX and sent to shareholders shortly. To participate in the DRP with respect to the final dividend, shareholders will be required to return their election form to Computershare by 5:00pm on the record date, which is 21 September 2012.

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8. Statement of Retained Earnings

Refer to Note 12 of the attached preliminary annual financial report.

9. Net Tangible Assets

| | 30/06/2012 | 30/06/2011 |
|---|------------|------------|
| | \$ | \$ |
| Net tangible asset backing per ordinary share | 0.025 | 0.052 |

10. Changes in Controlled Entities

Changes in investments in Controlled Entities from the position as at 30 June 2011 are the acquisition of an additional 40.42% interest in GIS Concepts Limited, increasing the holding to 65.42%. For more information see Note 4 of the attached preliminary annual financial report.

11. Details of Associated Companies

Tranzact Financial Services Limited held a 25% shareholding in Group Insurance & Superannuation Concepts Pty Limited ('GIS') for the 4 months to 1 October 2011 when the holding was increased to 65.42%. GIS is now accounted for on a fully consolidated basis. The group recognised an equity accounted share of the profit of GIS of \$49,232 after tax for the 4 months ended 31 October 2012 and Earnings before tax, depreciation and amortisation ('EBTDA') for the year of \$70,331.

Tranzact Financial Services Limited holds a 33.3% shareholding in Templetons Administrative Services Pty Limited ('TAS'). The group recognised an equity accounted share of loss on TAS of \$19,502 after tax for the year ended 30 June 2012 and EBTDA of \$(4,531) (loss).

12. Other Significant Information

Refer to the attached preliminary annual financial report.

13. Foreign Entity Accounting Standards

Not applicable.

14. Commentary on Results

Refer to the Directors' Report in the attached preliminary annual financial report.

15. Audit Report

The report is based on accounts that are in the process of being audited.

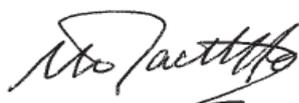
16. Statement if Accounts Not Audited

The accounts of the Tranzact Financial Services Limited Consolidated Entity for the year ended 30 June 2012 are in the process of being audited and are not likely to be subject to dispute or qualification.

17. Statement if Accounts Audited

Not applicable.

Yours faithfully,



Anthony Ractliffe
Non-Executive Chairman
29 August 2012

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PRELIMINARY ANNUAL FINANCIAL REPORT FOR
YEAR ENDED 30 JUNE 2012

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This preliminary financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any other public announcements made by Tranzact Financial Services Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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 2012.

Directors

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:

| <u>Director</u> | <u>Period of directorship</u> |
|-----------------|---------------------------------|
| P L Harry AM | Director since 4 February 2000 |
| R L Rodgers | Director since 21 August 2002 |
| A S T Yeo | Director since 24 November 2003 |
| W A Racliffe | Director since 24 November 2003 |

Review of Operations to 30 June 2012

The Directors of Tranzact Financial Services Limited (the '**Company**') are pleased to report an operating profit before amortisation, depreciation and tax ('**EBTDA**') attributable to shareholders of \$2.649 million for the year ended 30 June 2012. This result was essentially in line with the comparable figure of \$2.666 million for the same period last year.

Net profit after tax attributable to the Company's shareholders fell to \$1.065 million compared with \$1.606 million in the prior corresponding period. This represents earnings of 1.0 cent per share compared with 1.4 cents previously.

The main contributors to the fall in net profit after tax were:

- Depreciation and amortisation – the total expense for the year ended 30 June 2012 increased by \$560,000 over the prior corresponding period to \$1.425 million.
- Taxation expense – as signalled in the 2011 annual report, Tranzact's carried forward tax losses were virtually fully utilised in the 2011 period, resulting in tax expenses increasing from \$220,000 in the prior period to \$553,000 for this reporting period.

Net cash flows from operations remained strong despite the increased payments of tax during the year reflecting the solid cash positive nature of the core businesses.

The Directors have always focussed on the operating EBTDA as the main measure of financial performance. The Company's ability to sustain that measure of profitability in the face of extremely challenging financial market conditions is pleasing.

Each of the Company's business segments has contributed positively to the result but the contribution from the Partnership for Growth strategy is particularly encouraging. A review of the divisional performances is provided below.

Superannuation Fund Administration, Asset Consulting and Promotership (including GIS Concepts)

- The Company continued to focus on consolidating and strengthening its superannuation fund administration, asset consulting and promotership division (collectively referred to as the '**Master Trust division**'). In particular, the Company

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increased its shareholding in GIS Concepts (the Promoter of Smartsave) in October 2011, from 25% to 65%. The purchase reinforces the strong association that the companies have enjoyed over a number of years.

- Total revenue from the Master Trust division attributable to shareholders improved from \$3.823 million in FY2011 to \$4.054 million in this reporting period, whilst the segment's EBTDAs increased marginally from \$801,000 to \$830,000.
- Funds under management and administration (including the Pooled Superannuation Trust and Eligible Rollover Fund) decreased from \$294 million at the end of June 2011 to \$276 million at the end of June 2012. This reflects the challenging investment market performance earlier in the financial year as well as a reduction in the number of members under administration because of transfers of small balance members to the Australian Taxation Office.
- As previously reported, the Board is committed to the implementation of a restructure of the investment offering of Smartsave. This would improve significantly the product for customers and advisers and streamline the administration of the fund. However, the ongoing complexity and regulatory considerations have restricted progress. The Company continues to expend significant energy and resources into this project as the successful completion of the restructure is vital to the long term future of this business segment.

Partnership for Growth

- The Partnership for Growth segment has continued to perform solidly over the period, despite the challenging financial market conditions. The strength of the business model, which the Company introduced and implemented across both Australia and New Zealand, is a key factor in the growth and sustainability of this business segment.
- The New Zealand based interests continue to perform well without having to make many acquisitions. However, there remain opportunities to drive further revenue and profitability growth, organically as well as through more acquisitions.
- Just prior to the year end, the Company reduced its interest in the New Zealand business as the key principals in the business exercised their option to increase their interest. The strength of the business model is the sharing of vested interest between the Company and the key principals operating the business. The Directors welcome the greater involvement of the key principals and the confidence they have in the business.
- This has freed up some capital (\$1.4 million) which will allow the Company to reduce its borrowings.
- In Australia, the Templetons business has reached the target 15% return, and is actively exploring opportunities to increase the scale of its business and thereby improve this return. As with the New Zealand based business, there are on-going opportunities to grow revenue and profit, both organically and through acquisitions.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities

Self Managed Superannuation Funds

- The Self Managed Superannuation Funds ('SMSF') segment of the business continues to face challenging market conditions. A strategic review of the whole division was initiated in the June 2012 quarter and a new structure has been put in place for the 2013 financial year.
- Revenue fell by 8% compared with last year, necessitating a review of the cost structure of this division. The outcome was a reduction in staff numbers and a reduced cost base. However, the Company retained the main core of its highly experienced and dedicated staff.
- The Directors recognise the challenges that this business faces in the current climate but remain confident in the ability of the staff and management to realise the potential in this business segment.

Investor Directed Portfolio Service / Custodial Services

- The EBTDA of the Investor Directed Portfolio Service ('IDPS') / Custodial Services segments declined by 13% compared with last year. The revenue in this segment is entirely related to the level of funds under administration and the weak investment markets had the most direct impact in this area. The Company's exit from providing Custodial Services was also a contributing factor.

Restatement of 2011 Financial Statements

During the year ended 30 June 2011, Tranzact acquired a 61% interest in Camelot Financial Services Pty Ltd ('CFS') for a total cost of \$2.933 million. With the proceeds from the issue of shares, CFS acquired the business of Templetons and other client bases. The acquisition was reported in the June 2011 annual report based on the consideration paid by Tranzact, but it was not grossed up for the non-controlling interest share of the transaction.

As a result of this, the value of the amortised intangible assets and goodwill on Tranzact's balance sheet and the matching non-controlling interest as at 30 June 2011 was understated by \$1.817 million, and the amortisation expense and matching non-controlling interest for the year to 30 June 2011 was understated by \$79,000 (net of tax). A restated financial position as at 30 June 2011 has been provided in the financial statements to show the impact of the correction. Further explanation is also provided in Note 6. The key point to note is that there is no impact on shareholders' funds attributable to the members of Tranzact because the June 2011 annual report fully recognised the price paid for the interest in CFS by the Company.

Dividend and Capital Management

The Directors are pleased to declare a fully franked final dividend of 0.45 cents per share (FY2011 0.45 cents). The Record Date for the dividend is 21 September 2012 and the dividend will be paid on 5 October 2012.

The Company has recently introduced a Dividend Reinvestment Plan ('DRP') which will be operative in relation to the final dividend. Shares issued pursuant to the DRP for the final dividend will be issued at a fixed price of \$0.11 per share.

The Company's major shareholder, Gro-Aust Holdings Limited, has advised the Board that it intends to participate in the DRP in full for its shareholding in relation to the final dividend. The balance of the DRP has been underwritten by Taylor Collison Limited stockbrokers, with the support of London City Equities Limited, an existing institutional shareholder in the Company.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities

The participation of Gro-Aust Holdings Limited, combined with the underwriting arrangement, will assist with the retention of capital within the business.

During the year a total of 745,400 shares were purchased under the Company's on market share buy back scheme and subsequently cancelled.

The net debt position at 30 June 2012 was \$1.097 million, up from \$565,000 at 30 June 2011. The increase reflects the \$2.020 million funding obtained for the purchase of the increased shareholding in GIS Concepts, less the net cash generated from the Company over the period.

Outlook

The Directors, management and staff remain focused on the execution of the key strategic plans of the Company. The Directors are confident in the long term success of these strategies despite the expected challenging and difficult market conditions over the short to medium term.



Anthony Ractliffe
Non-Executive Chairman



Allan S T Yeo
Managing Director

TRANZACT FINANCIAL SERVICES LIMITED AND ITS CONTROLLED ENTITIES

**Consolidated Statement of Comprehensive Income
for the Year Ended 30 June 2012**

| | Note | Consolidated Entity 2012 \$'000 | Restated 2011 \$'000 |
|--|-------------|--|-------------------------------------|
| Revenue from continuing operations | 3 (a) | 9,313 | 8,828 |
| Employee benefits expense | | (3,206) | (3,087) |
| Depreciation and amortisation expenses | 3 (b) | (1,425) | (865) |
| Finance costs | 3 (b) | (244) | (143) |
| Service expenses | | (1,472) | (1,496) |
| Occupancy expenses | 3 (b) | (419) | (362) |
| Administration expenses | | (930) | (1,186) |
| Other revenue | | 110 | 36 |
| Share of net profit after tax of associates | | 30 | 128 |
| Profit before income tax expense | | 1,757 | 1,853 |
| Income tax (expense) | | (553) | (220) |
| Profit after tax from continuing operations | | <u>1,204</u> | <u>1,633</u> |
| Net profit for the year | | <u>1,204</u> | <u>1,633</u> |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | <u>1,204</u> | <u>1,633</u> |
| Profit for the year is attributable to: | | | |
| Owners of the Company | | 1,065 | 1,606 |
| Non-controlling interest | | 139 | 27 |
| | | <u>1,204</u> | <u>1,633</u> |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of the Company | | 1,065 | 1,606 |
| Non-controlling interest | | 139 | 27 |
| | | <u>1,204</u> | <u>1,633</u> |
| | | \$ | \$ |
| Earnings per share for profit from continuing operations attributable to owners of the Company | | | |
| Basic earnings per share | | 0.010 | 0.014 |
| Diluted earnings per share | | 0.010 | 0.014 |
| Earnings per share for profit attributable to owners of the Company | | | |
| Basic earnings per share | | 0.010 | 0.014 |
| Diluted earnings per share | | 0.010 | 0.014 |
| The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share | | 110,877,655 | 111,490,555 |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes and the 30 June 2011 Annual Report.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities
Consolidated Statement of Financial Position
as at 30 June 2012

| | | Consolidated Entity | |
|---|------|-----------------------------|-----------------------------|
| | | 30 June | Restated |
| | | 2012 | 30 June |
| | Note | \$'000 | 2011 |
| | | \$'000 | \$'000 |
| CURRENT ASSETS | | | |
| Cash & cash equivalents | 5 | 1,979 | 811 |
| Trade & other receivables | | 2,181 | 1,136 |
| Derivatives | | 29 | - |
| Other current assets | | 237 | 109 |
| TOTAL CURRENT ASSETS | | <u>4,426</u> | <u>2,056</u> |
| NON-CURRENT ASSETS | | | |
| Available for sale financial assets | 10 | 4,283 | 5,551 |
| Investments accounted for using the equity method | 10 | 330 | 1,618 |
| Property, plant and equipment | | 453 | 531 |
| Intangible assets | 8 | 16,409 | 12,165 |
| Deferred tax assets | | 119 | 243 |
| TOTAL NON-CURRENT ASSETS | | <u>21,594</u> | <u>20,108</u> |
| TOTAL ASSETS | | 26,020 | 22,164 |
| CURRENT LIABILITIES | | | |
| Interest bearing liabilities | 9 | 1,470 | - |
| Trade & other payables | | 1,356 | 989 |
| Derivatives | | - | 117 |
| Current tax liabilities | | 201 | 341 |
| TOTAL CURRENT LIABILITIES | | <u>3,027</u> | <u>1,447</u> |
| NON-CURRENT LIABILITIES | | | |
| Provisions | | 122 | 159 |
| Interest bearing liabilities | 9 | 1,606 | 1,376 |
| Deferred tax liabilities | | 1,937 | 1,011 |
| TOTAL NON-CURRENT LIABILITIES | | <u>3,665</u> | <u>2,546</u> |
| TOTAL LIABILITIES | | 6,692 | 3,993 |
| NET ASSETS | | 19,328 | 18,171 |
| EQUITY | | | |
| Contributed equity | | 19,635 | 19,775 |
| Accumulated losses | 12 | (3,082) | (3,594) |
| Reserves | | 40 | 40 |
| CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY | | <u>16,593</u> | <u>16,221</u> |
| NON CONTROLLING INTEREST | | 2,735 | 1,950 |
| TOTAL EQUITY | | <u><u>19,328</u></u> | <u><u>18,171</u></u> |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes and the 30 June 2011 Annual report.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities

**Consolidated Statement of Changes in Equity
for the Year Ended 30 June 2012**

| | Contributed equity \$'000 | Employee Option reserve \$'000 | Other reserve \$'000 | Accumulated losses \$'000 | Total \$'000 | Non- controlling interest \$'000 | Total equity \$'000 |
|---|---------------------------------|---|----------------------------|---------------------------------|-----------------|---|------------------------|
| As at 30 June 2010 | 19,853 | 4 | 40 | (4,424) | 15,473 | - | 15,473 |
| Profit for the year per annual report | - | - | - | 1,606 | 1,606 | 106 | 1,712 |
| Total comprehensive income for the year | - | - | - | 1,606 | 1,606 | 106 | 1,712 |
| Transactions with owners in their capacity as owners | | | | | | | |
| Capital Introduced by non-controlling interest | - | - | - | - | - | - | - |
| Shares issued during the period | 8 | (4) | - | (4) | - | - | - |
| Share buy-back | (86) | - | - | - | (86) | - | (86) |
| Dividends paid -Tranzact Financial Services | - | - | - | (667) | (667) | - | (667) |
| Dividends paid - Non-controlling interests | - | - | - | - | - | (78) | (78) |
| Transactions with non-controlling interests | - | - | - | (105) | (105) | 105 | - |
| As at 30 June 2011 per annual report | 19,775 | - | 40 | (3,594) | 16,221 | 133 | 16,354 |
| Restatement of Equity | | | | | | | |
| Restatement adjustment of profit reported in 2011 | - | - | - | - | - | (78) | (78) |
| Capital introduced by non-controlling interests | - | - | - | - | - | 1,895 | 1,895 |
| As at 30 June 2011 restated | 19,775 | - | 40 | (3,594) | 16,221 | 1,950 | 18,171 |
| Profit for the year | - | - | - | 1,065 | 1,065 | 139 | 1,204 |
| Total comprehensive income for the year | - | - | - | 1,065 | 1,065 | 139 | 1,204 |
| Transactions with owners in their capacity as owners | | | | | | | |
| Retained earnings on consolidation of acquisition | - | - | - | - | - | 1,119 | 1,119 |
| Share buy-back | (140) | - | - | - | (140) | - | (140) |
| Dividends paid -Tranzact Financial Services | - | - | - | (775) | (775) | - | (775) |
| Dividends paid - Non-controlling interests | - | - | - | - | - | (251) | (251) |
| Transactions with non-controlling interests | - | - | - | 222 | 222 | (222) | - |
| | (140) | - | - | (553) | (693) | 646 | (47) |
| As at 30 June 2012 | 19,635 | - | 40 | (3,082) | 16,593 | 2,735 | 19,328 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes and the 30 June 2011 Annual Report.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities

**Consolidated Statement of Cash Flows
for the Year Ended 30 June 2012**

| | | Consolidated Entity | |
|---|-----------|------------------------------------|------------------------------------|
| | | 30 June 2012 \$'000 | 30 June 2011 \$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| | | 9,015 | 8,737 |
| | | (6,700) | (6,682) |
| | | 883 | 712 |
| | | (244) | (143) |
| | | (1,016) | (223) |
| | 11 | <u>1,938</u> | <u>2,401</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| | | (92) | (313) |
| | | 67 | 150 |
| | | 404 | (1,563) |
| | | 150 | (180) |
| | 4 | (1,412) | (2,600) |
| | | - | (391) |
| | | 617 | 999 |
| | | - | (333) |
| | | (658) | - |
| | | (216) | - |
| | | <u>(1,140)</u> | <u>(4,231)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| | | - | 3 |
| | | (139) | (86) |
| | | 2,350 | 2,676 |
| | | (650) | (1,300) |
| | | (1,191) | (745) |
| | | <u>370</u> | <u>548</u> |
| | | 1,168 | (1,282) |
| | | 811 | 2,093 |
| | | <u>1,979</u> | <u>811</u> |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes and the 30 June 2011 Annual Report.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities
Notes to the Consolidated Financial Statements
for the Year Ended 30 June 2012

Note 1. Basis of Preparation of Preliminary Financial Report

This general purpose preliminary financial report for the year ended 30 June 2012 has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

This preliminary financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any other public announcements made by Tranzact Financial Services Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in these financial statements as compared with the most recent annual financial statements.

Note 2. Operating Segments

Within Tranzact Financial Services Limited, the information supplied to executive management and the Board for internal reporting purposes consists of five reportable segments as detailed below.

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

Superannuation Fund Administration, Asset Consulting & Sponsorship

The Group operates as a superannuation fund administrator, asset consultant and sponsor for a number of master trust superannuation and pooled superannuation trusts. For these services the Group receives fees and commission income. This segment includes the business of GIS from 1 November 2011.

Self Managed Superannuation Fund Administration

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

Investor Directed Portfolio Service Administration (IDPS)

Tranzact Investment Services Limited, a subsidiary of the Company, holds an Australian Financial Services Licence to operate an investor directed portfolio service 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 New Zealand based interests are loans granted for interest in financial and insurance advisory businesses. The Partnership for Growth Australian based interests are shareholdings in businesses providing insurance and financial planning services from which dividends are received and a share of profit recognised.

The Partnership for Growth Australian based interests are in Templetons, which is a Brisbane based business specialising in the provision of insurance and financial planning services. A majority of the shares are held in Camelot Financial Services Pty Ltd ('Camelot') by a subsidiary of Tranzact Financial Services Limited and the income from this investment is recorded in the Partnership segment. A 33.3% interest is held in Templetons Administrative Services Pty Ltd, which provides administration and adviser services to Camelot. The income from this investment is equity accounted.

Segment information

These reportable segments are the same as those reported in the previous annual financial statements for the financial year ended 30 June 2011.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities
Notes to the Consolidated Financial Statements
for the Year Ended 30 June 2012

Note 2 continued. Operating Segments

Segment information continued

Segment information provided to the executive management committee and the Board for the year ended 30 June 2012 is as follows:

Operating Segments

| 2012 Financial Year | Super Fund (1) | SMSF (2) | IDPS & Custodial Services | Partnership for Growth (3) | Head Office | Total |
|---|-------------------|---------------|---------------------------------|-------------------------------|----------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| External revenues | 4,419 | 3,081 | 161 | 1,652 | - | 9,313 |
| Share of profit of associated entities before tax | - | - | - | - | 42 | 42 |
| Less non-controlling interests shares of revenue | (365) | - | - | (294) | - | (659) |
| External revenues attributable to owners of the Company | 4,054 | 3,081 | 161 | 1,358 | 42 | 8,696 |
| Segment Result before depreciation, amortisation, tax and including before tax share of profit from equity accounted investees | 830 | 553 | 133 | 1,373 | (240) | 2,649 |
| Depreciation and amortisation expense | (584) | (306) | (14) | (521) | - | (1,425) |
| Plus non-controlling interests share of depreciation, amortisation and tax | | | | | | 408 |
| Group taxation expense | | | | | | (553) |
| Taxation on share of profit of equity accounted investees | | | | | | (14) |
| Total comprehensive income attributable to owners of the Company | | | | | | 1,065 |
| 2011 Financial Year | | | | | | |
| External revenues | 3,823 | 3,346 | 202 | 1,376 | 81 | 8,828 |
| Share of profit of associated entities before tax | - | - | - | - | 183 | 183 |
| Less non-controlling interests share of revenue | - | - | - | (235) | - | (235) |
| External revenues attributable to owners of the Company | 3,823 | 3,346 | 202 | 1,141 | 264 | 8,776 |
| Segment Result before depreciation, amortisation, tax and including before tax share of profit from equity accounted investees | 801 | 583 | 152 | 1,194 | (64) | 2,666 |
| Depreciation and amortisation expense | (246) | (313) | (14) | (292) | - | (865) |
| Plus non-controlling interests share of depreciation, amortisation and tax | | | | | | 79 |
| Group taxation expense | | | | | | (220) |
| Taxation on share of profit of equity accounted investees | | | | | | (54) |
| Total comprehensive income attributable to owners of the Company | | | | | | 1,606 |

(1) Superannuation fund administration, asset consulting and sponsorship

(2) Self managed superannuation fund administration

(3) The EBTDA for this segment exceeds the revenue due to foreign exchange gains made on hedging contracts.

Total asset amounts provided to executive management and the Board in internal reports are not broken down by segment and are therefore not disclosed.

Executive management and the Board monitor segment performance based on EBTDA attributable to the owners of the Company, which includes share of profit of equity accounted investees, but excludes taxation, depreciation, amortisation and EBTDA attributable to non-controlling interest.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities
Notes to the Consolidated Financial Statements
for the Year Ended 30 June 2012

Note 3. Significant Revenues and Expenses

The following significant revenue and expense items are relevant in explaining the financial performance for the year:

| | 2012 | 2011 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| (a) Revenues | | |
| Revenue from the rendering of services | 6,427 | 6,395 |
| Commission income | 1,112 | 1,102 |
| Bank interest | 66 | 66 |
| Distributions from interests in the Camelot Partnership | 762 | 658 |
| Dividends received | 6 | 4 |
| Financial planning and insurance income | 940 | 603 |
| | 9,313 | 8,828 |
| Before tax share of profit of associated entities | 42 | 183 |
| Less non-controlling interests share of revenue | (659) | (235) |
| | 8,696 | 8,776 |
| (b) Expenses | | |
| <u>Occupancy costs</u> | | |
| Rent paid relating to operating leases | 320 | 294 |
| Other occupancy expenses | 99 | 68 |
| | 419 | 362 |
| <u>Amortisation and depreciation</u> | | |
| Amortisation | 1,273 | 740 |
| Depreciation | 152 | 125 |
| | 1,425 | 865 |
| <u>Financing Costs</u> | | |
| Interest on borrowings | 152 | 108 |
| Other borrowing costs | 92 | 35 |
| | 244 | 143 |

Note 4. Business Combination

Effective 31 October 2011, Tranzact increased its shareholding in GIS Concepts from 25% to 65.42%. The consideration of \$2,020,890 was paid in cash, drawing on the Group's St George Bank loan facility.

The acquisition had the following effect on the Group's assets and liabilities at 1 October 2011:

| | Fair Value |
|--|------------|
| | \$000 |
| Cash | 609 |
| Receivables | 21 |
| Property, plant and equipment | 29 |
| Investments | 11 |
| Deferred tax asset | 15 |
| Intangible assets | 4,155 |
| Payables | (356) |
| Deferred tax liability | (1,247) |
| Net identifiable assets and liabilities acquired | 3,237 |
| Less initial holding at fair value | (1,243) |
| Less non-controlling interest | (1,119) |
| Goodwill on acquisition | 1,146 |
| Net assets acquired | 2,021 |
| Total purchase consideration in cash | 2,021 |

Intangible assets are at fair value and are based on the recurring income stream expected to be realised from existing clients at the time of acquisition under the promotership agreement.

The goodwill is attributable to the profitability that will be generated from new clients acquired in terms of the promotership agreement.

GIS Concepts contributed total revenues of \$1,053,763 (\$689,372 relating to the owners of the Company) and net profit of \$228,232 after amortisation and tax (\$149,309 relating to the owners of the Company) in the eight months from acquisition date. The owners net profit result is after amortisation of \$181,229 on the intangible assets acquired which are amortised over 7 years. The contribution to EBDTA attributable to the owners for the eight months was \$481,276. The Company's interest in GIS Concepts at 30 June 2012 was 65.42%.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities
Notes to the Consolidated Financial Statements
for the Year Ended 30 June 2012

Note 5. Cash and Cash Equivalents

| | 2012 | 2011 |
|---------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Cash at bank | 1,900 | 732 |
| Cash on deposit (1) | 79 | 79 |
| | 1,979 | 811 |

(1) Cash on deposit includes term deposits with maturities of three months or less, that are lodged as security for Australian Financial Services Licence requirements and lease guarantees.

Note 6. Restatement of the Financial Statements

Subsequent to the release of the 30 June 2011 consolidated financial statements, a misstatement was identified with respect to the financial statements of the 61.38% owned subsidiary company, Camelot Financial Services Pty Ltd ('CFS').

The misstatement related to the failure to recognise the capital introduced by non-controlling shareholders into CFS. This impacted the consolidation of the CFS into the consolidated accounts.

The restated figures in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position are provided in the table below.

As the adjustments made through the restatement were solely related to the non-controlling interest, the previously reported profit attributable to the owners of the Company and EPS are unaffected.

Statement of Consolidated Comprehensive Income

Depreciation and amortisation

Income tax expense

Profit attributable to non-controlling interests

Profit attributable to owners of the Company

Statement of Consolidated Financial Position

Intangible assets

Deferred tax liability

Capital and reserves attributable to non-controlling interests

Capital and reserves attributable to owners of the Company

| | Reported June 2011 | Restated June 2011 | Difference |
|--|-----------------------|-----------------------|------------|
| Depreciation and amortisation | 752 | 865 | 113 |
| Income tax expense | 254 | 220 | (34) |
| Profit attributable to non-controlling interests | 106 | 27 | (79) |
| Profit attributable to owners of the Company | 1,606 | 1,606 | - |
| Intangible assets | 9,993 | 12,165 | 2,172 |
| Deferred tax liability | 656 | 1,011 | 355 |
| Capital and reserves attributable to non-controlling interests | 133 | 1,950 | 1,817 |
| Capital and reserves attributable to owners of the Company | 16,221 | 16,221 | - |

The full restated Consolidated Statement of Financial Performance is shown on Page 6, the restated Consolidated Statement of Financial Position is shown on Page 7 and a restated Consolidated Statement of Changes in Equity is shown on page 8. The Consolidated Statement of Changes of Cash Flows is unaffected.

Acquisition of Camelot Financial Services Pty Ltd

In the 30 June 2011 financial statements it was reported that the Company had acquired an interest in Camelot Financial Services Pty Ltd for \$2,600,000 plus a subsequent capital call of \$332,658. These amounts represent the Company's share of the investment only, and did not include the non-controlling interest's contribution.

It should be clarified that the Company acquired a controlling interest in the newly formed company, Camelot Financial Services Pty Ltd ('CFS'), initially through a capital call of \$2,600,000 in September 2010 followed by a subsequent capital call of \$332,658 in May 2011. CFS used the funds obtained from the initial capital call and an issue of share capital to acquire the business of Templetons.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities
Notes to the Consolidated Financial Statements
for the Year Ended 30 June 2012

Note 6. Restatement of the Financial Statements continued

Acquisition of Camelot Financial Services Pty Ltd continued

In the 30 June 2011 financial statements only the Company's share of the cash based capital calls were reported in the business combination disclosure. For purposes of clarity, the restated Fair Value is now shown in the table below for the acquisition of Templetons and the subsequent client book acquisition with their corresponding restatement adjustments.

Details shown below represent the total assets and liabilities recognised in the restated financial statements included in this report.

| | Reported Fair Value ⁽¹⁾ \$'000 | Restatement Adjustment ⁽²⁾ \$'000 | Previously Recorded Subsequent Acquisition ⁽³⁾ \$'000 | Restatement Adjustment ⁽⁴⁾ \$'000 | Restated Fair Value \$'000 |
|--|---|--|--|--|----------------------------------|
| Intangible assets - client contracts and relationships | 1,416 | 1,219 | 181 | 79 | 2,895 |
| Deferred tax liability | (425) | (365) | (54) | (24) | (868) |
| Net identifiable assets and liabilities acquired | 991 | 854 | 127 | 55 | 2,027 |
| Goodwill on acquisition | 1,609 | 897 | 206 | 89 | 2,801 |
| Net assets acquired | <u>2,600</u> | <u>1,751</u> | <u>333</u> | <u>144</u> | <u>4,828</u> |
| Consideration paid in cash | 2,600 | - | 333 | 144 | 3,077 |
| Consideration paid in shares | - | 1,751 | - | - | 1,751 |
| Total purchase consideration | <u>2,600</u> | <u>1,751</u> | <u>333</u> | <u>144</u> | <u>4,828</u> |

(1) The reported fair value of the Templetons business acquired in September 2010.

(2) The adjustment required to reported fair value to correctly present the acquisition of the Templetons business.

(3) The reported fair value of the subsequent acquisition made by CFS in May 2011.

(4) The adjustment required to reported fair value to correctly present the subsequent acquisition made by CFS in May 2011.

Note 7. Controlled Entities

| | | Equity 2012 | Equity 2011 |
|---|----------|----------------|----------------|
| Tranzact Consulting Ltd | Ordinary | 100% | 100% |
| Tranzact Investment Services Ltd | Ordinary | 100% | 100% |
| Asset Custodian Nominees (Aust) Pty Ltd ⁽¹⁾ | Ordinary | 100% | 100% |
| Australia First Financial Services Pty Ltd | Ordinary | 100% | 100% |
| Tranzact Superannuation Services Pty Ltd ⁽²⁾ | Ordinary | 100% | 100% |
| Tranzact Financial Solutions Pty Ltd ⁽²⁾ | Ordinary | 100% | 100% |
| Australian Superannuation Consultants Pty Ltd | Ordinary | 100% | 100% |
| Total Super Pty Ltd | Ordinary | 100% | 100% |
| Camelot Financial Services Pty Ltd ⁽³⁾ | Ordinary | 61.38% | 61.38% |
| Bob Templetons Australia Pty Ltd ⁽⁴⁾ | Ordinary | 61.38% | 61.38% |
| Templetons Financial Planning Pty Ltd ⁽⁴⁾ | Ordinary | 61.38% | 61.38% |
| GIS Concepts Pty Ltd ⁽⁵⁾ | Ordinary | 65.42% | 25% |

⁽¹⁾ Fully owned subsidiary of Tranzact Investment Services Ltd.

⁽²⁾ Fully owned subsidiary of Australia First Financial Services Pty Ltd.

⁽³⁾ Partly owned subsidiary of Australia First Financial Services Pty Ltd

⁽⁴⁾ Fully owned subsidiary of Camelot Financial Services Pty Ltd

⁽⁵⁾ Partly owned subsidiary of Tranzact Financial Services Pty Ltd

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities
Notes to the Consolidated Financial Statements
for the Year Ended 30 June 2012

Note 8. Intangible Assets

| | 2012 | Restated |
|---|----------------------|----------------------|
| | \$'000 | 2011 |
| | | \$'000 |
| Promoter agreements at cost (indefinite useful lives) | 2,095 | 2,095 |
| Less accumulated impairment losses | - | - |
| | <u>2,095</u> | <u>2,095</u> |
| Promoter agreements at cost (finite useful lives) | 140 | 140 |
| Less accumulated amortisation | (117) | (70) |
| | <u>23</u> | <u>70</u> |
| Administration agreements at cost (finite useful lives) | 2,428 | 2,428 |
| Less accumulated amortisation | (897) | (613) |
| | <u>1,531</u> | <u>1,815</u> |
| Client contracts and relationships at cost (finite useful lives) | 7,050 | 2,895 |
| Less accumulated amortisation | (1,209) | (292) |
| | <u>5,841</u> | <u>2,603</u> |
| Goodwill on acquisition (see Note 5 for details of additions in the current year) | 6,603 | 5,456 |
| Less accumulated impairment losses | - | - |
| | <u>6,603</u> | <u>5,456</u> |
| Licences, trade marks and other items at cost | 476 | 260 |
| Less accumulated amortisation | (160) | (134) |
| | <u>316</u> | <u>126</u> |
| Software & website development at cost | 339 | 339 |
| Less accumulated amortisation | (339) | (339) |
| | <u>-</u> | <u>-</u> |
| Total Intangible Assets | <u>16,409</u> | <u>12,165</u> |

Note 9. Borrowings

| | 2012 | 2011 |
|--------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Term Borrowings | | |
| St George Bank Commercial Bill | | |
| Current liabilities | 1,470 | - |
| Non-current liabilities | 1,606 | 1,376 |
| | <u>3,076</u> | <u>1,376</u> |

The financial interest in Camelot NZ Limited Partnership was reduced prior to 30 June 2012, and it is a requirement that the proceeds of the sale are applied to the bank facility. As a result, this amount is treated as a current liability at 30 June 2012. See Note 11 (c) for additional information.

Note 10. Financial assets

| | 2012 | 2011 |
|--|---------------------|---------------------|
| | \$'000 | \$'000 |
| Investments accounted for using the equity method | | |
| Associated companies (1) | 330 | 1,618 |
| Available for sale financial assets | | |
| Shares in unlisted entities at cost | 66 | 56 |
| Financial interests in Partnership for Growth | 4,174 | 5,495 |
| Other investments | 43 | - |
| | <u>4,283</u> | <u>5,551</u> |
| Total financial assets | <u>4,613</u> | <u>7,169</u> |

(1) The Company's holding in GIS, which was accounted for using the equity method at 30 June 2011, was increased during the year and is now fully consolidated.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities
Notes to the Consolidated Financial Statements
for the Year Ended 30 June 2012

Note 11. Cash Flow Information

(a) Reconciliation of Profit after Income tax to Net Cash Flows from Operating Activities

| | 2012 | Restated |
|---|---------------|-----------------|
| | \$'000 | 2011 |
| | | \$'000 |
| Profit after income tax | 1,204 | 1,633 |
| Non-Cash Flows items in Operating Profit: | | |
| Provision for depreciation | 152 | 125 |
| Provision for amortisation | 1,273 | 740 |
| Increase in provision for staff entitlements | 5 | 82 |
| Share of profit of associated entity | (30) | (128) |
| Unrealised foreign exchange losses/(gains) | (420) | 197 |
| Changes in Assets and Liabilities: | | |
| Decrease/(Increase) in current receivables | 102 | (131) |
| (Increase) in prepayments | (126) | (64) |
| Decrease/(Increase) in deferred tax assets | 139 | (84) |
| Increase/(Decrease) in deferred tax liabilities | (321) | (124) |
| Increase/(Decrease) in trade and other payables | 100 | (45) |
| (Decrease)/Increase in current tax liabilities | (140) | 200 |
| Net Cash Inflows from Operating Activities | 1,938 | 2,401 |

(b) Equity Securities Issued

| | 2012 | 2011 | 2012 | 2011 |
|--|----------------|----------------|---------------|---------------|
| | Numbers | Numbers | \$'000 | \$'000 |
| Ordinary shares issued (2) | - | 75,000 | - | 8 |
| Ordinary shares cancelled (under buy back arrangement) (1) (3) | (745,400) | (555,400) | (140) | (86) |

12 months ended 30 June 2012:

(1) 745,400 equity securities were purchased on market between July and October 2011 at prices between \$0.175 and \$0.20 per security under the the share buy back scheme announced on 29 September 2008 and subsequently extended. These securities have subsequently been cancelled.

12 months ended 30 June 2011:

(2) 75,000 equity securities were issued on 4 April 2011 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 \$4,613 was made from the employee options reserve.

(3) 499,900 equity securities were purchased on market between June and September 2010 at \$0.15 per security, and a further 55,500 securities at \$0.20 per security, under the share buy back scheme announced on 29 September 2008 and subsequent extension notice of 6 October 2010. These securities have subsequently been cancelled.

(c) Credit Standby Arrangements with Banks

| | 2012 | 2011 |
|-----------------|---------------|---------------|
| | \$'000 | \$'000 |
| Credit facility | 8,000 | 3,000 |
| Amount utilised | 3,076 | 1,376 |
| | 4,924 | 1,624 |

The above is a commercial bill variable interest rate facility of \$8,000,000 provided by St George Bank, a division of Westpac Banking Corporation (2011: \$3,000,000). This is made up of the three year facility of \$3,000,000 dated 16 August 2010 plus an additional \$5,000,000 acquisition facility which was established during the year.

TRANZACT FINANCIAL SERVICES LIMITED and its Controlled Entities
Notes to the Consolidated Financial Statements
for the Year Ended 30 June 2012

Note 12. Accumulated Losses

| | 2012 | 2011 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Accumulated losses at the beginning of the financial year | (3,594) | (4,424) |
| Dividends paid | (775) | (667) |
| Share options exercised | - | (4) |
| Transactions with non-controlling interests | 222 | (105) |
| Retained earnings on consolidation of acquired entity | - | - |
| Profit attributable to owners of the company | 1,065 | 1,606 |
| Accumulated losses at the end of the financial year | <u>(3,082)</u> | <u>(3,594)</u> |

Note 13. Contingent Liabilities

At 30 June 2011, contingent liabilities consisted of one claim against a subsidiary of the Company with an expected maximum liability of \$150,000. Due to a lack of correspondence for a significant period of time, the Company now considers this case to be closed and there are no contingent liabilities at 30 June 2012.

Note 14. Events subsequent to the end of the reporting period

There has not arisen in the intervening period between the end of the reporting period and the date of these financial statements any item, transaction or other event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Note 15. Rounding

The Company satisfies the requirements of Class Order 98/0100 issued by the Australian Securities and Investments Commission relating to "rounding off" of amounts in the Directors' Report and the preliminary annual financial report to the nearest thousand dollars. Amounts have been rounded off in the Directors' Report and preliminary annual financial report in accordance with that Class Order.

DECLARATION BY DIRECTORS

The directors declare that the financial statements and notes set out on pages 6 to 17:

- (a) give a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 and of their performance, as represented by the results of its operation and its cash flows, for the year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Anthony Ractliffe
Non-Executive Chairman



Allan S T Yeo
Managing Director

Sydney, NSW, Australia
29 August 2012