

2016

2017

annual report



Prophecy **International Holdings Limited**

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Corporate Directory

For the Year Ended 30 June 2017

#### Prophecy International Holdings Ltd

ACN 079 971 618  
ABN 16 079 971 618

#### Directors

Edwin Reynolds  
Leanne R Challans  
Matthew T Michalewicz  
Grant R Miles

#### Company Secretary

Grant R Miles

#### Registered Office

Level 1, 76 Waymouth Street  
Adelaide, South Australia 5000  
Telephone + 61 8 8213 1200

#### Subsidiaries

##### Prophecy Americas Inc

8480 East Orchard Road, Suite 4350  
Greenwood Village, CO 80111 USA  
Telephone: +1 800 834 1060  
Facsimile: +1 303 771 2666

##### Prophecy Europe Ltd

Holland House  
1-5 Oakfield  
Sale, Cheshire M33 6TT  
United Kingdom

##### Promadis Pty Ltd

Level 1, 76 Waymouth Street  
Adelaide, South Australia 5000  
Telephone + 61 8 8213 1200

##### Intersect Alliance International Pty Ltd

Level 1, 76 Waymouth Street  
Adelaide, South Australia 5000  
Telephone + 61 8 8213 1200

##### eMite Pty Ltd

Level 5, 220 George Street  
Sydney, NSW 2000  
Australia  
Telephone + 61 2 9252 9252

#### Email

info@prophecyinternational.com

#### Internet

prophecyinternational.com  
intersectalliance.com  
eMite.com

#### Share Registry

Computershare Investor Services Pty Ltd  
Level 5, 115 Grenfell Street  
Adelaide, South Australia 5000  
GPO Box 1903  
Adelaide, South Australia 5001

Phone (from within Australia): 1300 556 161  
Phone (from overseas) : + 61 3 9415 4000  
Email: web.queries@computershare.com.au  
www.computershare.com

#### Auditors

Grant Thornton Audit Pty Ltd  
Level 3  
170 Frome Street  
Adelaide, South Australia 5000

#### Solicitors

O'Loughlins, Barristers & Solicitors  
99 Frome Street  
Adelaide, South Australia 5000

#### Bankers

Commonwealth Bank of Australia  
96 King William Street  
Adelaide, South Australia 5000

National Australia Bank  
Business Banking Centre  
Level 9, 22 King William Street  
Adelaide, South Australia 5000

#### Corporate Governance Statement

<http://www.prophecyinternational.com/wp-content/uploads/00-PRO-2017-Corporate-Governance-Statement.pdf>

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# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Company Profile

### For the Year Ended 30 June 2017

Prophecy is a global software company specialising in innovative and secure business & data management solutions. The company is headquartered in Adelaide and has offices in Sydney, Denver USA, and the UK. Prophecy is listed on the ASX under the PRO code.

Founded in 1980, Prophecy has been involved in the development of software solutions to provide business-critical insights which help transform our global client base which includes Fortune 500 companies and Federal and state governments.

Our product set has evolved over time to ensure our solutions remain relevant in the fast-changing world of technology and in response to market changes, customer needs and regulatory requirements.

Prophecy software has been deployed at more than 1000 customer sites globally and our continuous re-invention and commitment to customer-driven product development has enabled Prophecy to maintain our leading position as a trusted advisor within industries such as Banking and Finance, Public sector, Healthcare, Utilities, Manufacturing and Retail.

Prophecy has 3 areas of strategic focus

- Sales and Marketing – responsible for the sale of software product license fees and providing customer support to business partners and clients
- Research & Development (R&D) – ensures ongoing integration and continued innovation of current & future product offerings
- Consulting Services – includes the consultation, implementation and customised development of large-scale purpose built deployments.

## PRODUCT SET

Our current product set includes SNARE, eMite, and e-foundation

### SNARE

SNARE (System iNtrusion Analysis and Reporting Environment) is a critical component of any IT systems security strategy for an organisation today.

Multinational business and Government organisations around the world rely on SNARE every second of every day as the military-grade platform of choice for audit, collection, analysis, reporting, management and archival of event information.

Whether for a mission-critical or highly sensitive site or a robust departmental solution, SNARE is a comprehensive set of event monitoring and analysis tools which address complex auditing requirements.

Comprised of two separate yet complementary components; Snare Central (Server) and Snare Agents together provide a complete solution to auditing, managing and protecting your IT systems and data.

The SNARE Server collects events and logs from operating systems, applications, devices and from any other type of event-generating system. It provides a platform for powerful drill-down analysis and centralised log management in a format that is easy to use and navigate. Snare's growing and dynamic set of event analysis reports, coupled with effective query capabilities, provide regulatory compliance options, while managing network and environment defences.

The SNARE Enterprise Agents define the security relevant events for collection. SNARE agents are the industry standard for logging and can forward events to a SNARE Server, Syslog server or another proprietary SIEM server.

Cyber security continues to grow in importance to IT professionals and companies around the globe. The SNARE product provides protection with a range of agents which are secure, efficient, stable, reliable and easy to use for any sized company or enterprise.

## Prophecy International Holdings Limited and Controlled Entities

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### Company Profile

For the Year Ended 30 June 2017

#### eMITE

eMite provides 'Business Intelligence Analytics software' to customers based on an easy to deploy, simple to scale BI system with high-level analytics in a user adjustable interface.

Through the intuitive representation of real time data from any system in their company, customers are able to make the right business decisions at the right time and gain real business insight and competitive advantage.

eMite correlates and combines data from multiple business sources into tailored, real-time dashboard reports, and helps to break down traditional information silos, enabling organisations to make faster better and more insightful decisions.

eMite currently provides multilingual support in French, Spanish, Chinese, and Malaysian and has Tier 1 customers in multiple industry verticals across the globe.

#### e-Foundation includes:

- **Prophecy Framework**  
A rapid application assembly tool that offers fast to market solutions.
- **Prophecy Business Applications**  
Financials, Procurement, Distribution and Asset Management modules for medium to large organisations that require enterprise-wide solutions.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

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# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Message from the CEO For the Year Ended 30 June 2017

### Letter to Shareholders

On behalf of Prophecy International Holdings Limited I would like to present our financial results for the FY17 year.

### Prophecy Vision

At Prophecy International, our vision is to find the best of emerging software and take it to the world through our global channels.

Our aim is to deliver a cloud based software platform that enables our customers to effectively and efficiently manage their digital business in the primary areas of IT Operations, IT Security and in Omni-channel Contact Centres.

Our product strategy is not to simply provide software tools for business but to develop deep market or segment based IP that is built into the software ensuring it provides immediate business value for our customers.

### Analysis of full year Results

In the last financial year there has been a substantial amount of change at Prophecy. Our most significant challenge came from the transition of the eMite business from complex “on premise” solutions using a perpetual licence model to a cloud based subscription solution. This transition took longer than anticipated and was the primary reason for the revenue decrease in FY17. I am pleased to say that this is now complete and we anticipate strong growth from eMite going forward.

Summary of results	Percentage	Direction	AUD \$ Amount
Revenue from continuing ordinary activities	26%	down	9,188,005
Loss from continuing ordinary activities before tax attributable to members	118%	down	(610,585)
Profit from continuing and discontinued ordinary activities after tax attributable to members	19%	down	1,955,759
Profit from continuing and discontinued ordinary activities attributable to members (after non-controlling interests)	18%	down	1,975,519

Total revenue for FY17 was \$14.113 million including revenue from the sale of the basis2 business. Revenue from continuing normal business operations fell across the group to \$9.188M from \$12.334M with after tax profits falling from \$2.416M to \$1.955M.

After tax profit from ordinary discontinued operations in FY17 was \$0.369M, and the after tax gain from the sale of business was \$1.807M.

Overall EBITDA was \$3.682M which also includes the profits from the sale of the basis2 business.

Cash on hand was \$3.317M against \$1.869M previously and the company remains debt free.

### Business Structure

In FY17 we made several improvements to the structure of our business. Most notably the divestment of the basis2 business to Novatti (ASX: NOV). I am pleased that this transaction progressed smoothly with no impact to customers during this transition. basis2 was sold for AUD\$2.75M in cash and as a result we have strengthened our cash position substantially.

Immediately after the 2017 financial year the transaction for the sale of 100% of the shares of Promadis was also completed. This leaves Prophecy with eMite and Intersect Alliance (holder of the Snare IP) as our primary growth businesses and our focus is on maximising our results from the products of these two companies.

It's important to note that we have retained eFoundation as our only legacy business and this will be continued with no additional investment for as long as our existing customers continue to use the software.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Message from the CEO For the Year Ended 30 June 2017

### Business Strategy

Generally investors in small cap tech stocks like Prophecy, our existing staff and potential employees look for growth. At Prophecy we all want to build something great.

Our goal is to grow the Prophecy business over the medium to long term and to achieve a substantial share price gain for our investors. To achieve this, we have implemented a comprehensive revenue growth plan that will deliver revenue and profit growth both organically and through future acquisitions.

### In FY18 our focus is on four strategic pillars

- Sales & Marketing Optimisation – improved marketing execution and increased global sales coverage both direct and through partners
- Product Innovation – increase value and IP & enter new markets adjacent to our core offerings
- Customer Experience – increase renewal rate, cross sell and upsell; implement global support capability; be easy to do business with.
- Operational Efficiency – consolidate operations and achieve synergies, modernise the operations and automate processes.

Delivering on these strategic pillars will ensure we have a platform for future sustainable growth. In the process, we will evolve our organisational structure to better align resources around our largest market opportunities and to accelerate sales.

While we have no immediate plans for acquisition, we will continue to scan the market for opportunities that are aligned to our strategic direction and which will enable us to expand our customer base and product capability or enter new markets.

### R&D

R&D continues to be a significant focus at Prophecy with our priority being expanding the capabilities and addressable markets of our two core products, eMite and Snare. Our development teams are based in Adelaide (Snare) and Sydney (eMite), Australia.

In the last fiscal year, we have finalised the transition of eMite from a large complex “on premise” solution to a scalable and repeatable cloud based SaaS solution for contact centres and the ITSM/IT Ops segment. A significant amount of time and investment was made in developing the IP to provide immediate value to contact centre managers through the eMite technology platform.

This complements the IP we already have for IT Service Management.

The eMite technology stack has also been significantly updated with the release of eMite 6.0 in September 2017 which delivers a number of benefits to our customers.

- New scalability to handle even larger data sets at faster speeds
- Enhancements to our cloud services capability
- Ability to move to real time from “near real time”.

We also continue to invest in connecting to new data sources and systems, enabling our customers to correlate and consume data from multiple applications and databases.

Prophecy is close to completion of the integration of eMite and Snare products to deliver a comprehensive security analytics tool capable of competing in the SIEM market. In the past we have been only a component part of a SIEM solution with Snare.

Snare will continue to receive investment as we develop new future product releases to make the Snare platform even more comprehensive and attractive to our target customer segments. In FY17 we have released updates to existing products in the Snare Suite including:

- Snare Central (Server) 7.2
- Snare Agent software for Windows 5.0
- Snare for Windows Event Collection

Snare continues to be a military grade security solution for log collection, management and forensics.

# Prophecy International Holdings Limited and Controlled Entities

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## Message from the CEO For the Year Ended 30 June 2017

### Partnerships

Significant news during the reporting period and since that time includes several new partnerships that will drive revenue and profit growth.

eMite has signed two global agreements with Genesys, the largest vendor in the contact centre software market. Genesys has over 10,000 customers globally and approximately 1,000 partners. eMite is now on the Genesys price book and available to be sold through Genesys global channels.

The first agreement was to include eMite as an analytics and reporting tool for PureCloud. This is the Genesys SaaS solution for Contact Centres. This agreement finalised in May 2017.

The second agreement was the AppFoundry Agreement for PureConnect and PureEngage – these are the “on premise” solutions from Genesys. This agreement enables Genesys sales teams and partners to add eMite as an add on for this software solution.

eMite’s initial engagement in contact centres was with Interactive Intelligence who was acquired by Genesys at the end of 2016. This acquisition did slow down our engagement and contributed to a delay in achieving any significant revenue through this channel in FY17. While sales were effected in the short term the partnership has also substantially increased our addressable market for the future.

Following on from this agreement with Genesys eMite has also completed a worldwide license agreement with Telstra to provide contact centre analytics capability to Telstra customers on the Telstra price book.

eMite has also formed an OEM partnership with Prospecta, an Australian based software company selling applications in the SAP market to provide analytics and reporting for their Connexthub software to their customers in Australia, India and the US.

Similar relationships with other potential partners around the globe are in also in the pipeline.

### Market focus

Three of the leading drivers of IT spend are Cloud Computing, Big Data and IT Security. With our increased focus on Snare and eMite we work in all these segments and we have a global footprint via both our direct sales force and through our partners.

eMite’s focus is delivering big data and analytics capability to our customers to optimise the management of the contact centre and ITSM pillars within their IT environments.

- Contact Centres with Genesys
- ITSM with BMC, ServiceNow and Cherwell
- Security Analytics with Snare

These solutions work across verticals from SMB to Tier 1 Corporate and Government.

Snare delivers IT Security and Log Management capability in the SIEM market globally in a number of key verticals and market segments. Most notable are:

- Government, Defence and Military
- Banking & Finance
- Companies with valuable IP to protect including professional services and complex manufacturing
- Other large complex corporate environments

Snare and eMite together will provide a complete SIEM solution for our customers and prospects.

Snare also partners with a range of Managed Security Service providers like Dell SecureWorks, Oakton and NTT Solutionary.



# Prophecy International Holdings Limited and Controlled Entities

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## Message from the CEO

For the Year Ended 30 June 2017

Snare currently plays an important and growing role in assisting customers to comply with global regulations like PCI, SOX, GDPR and HIPAA among others. Snare also helps customers manage their IT security environment by monitoring activity like user behaviour and delivering comprehensive forensic logging capability.

### Scope of Operations

Prophecy currently operates globally both with direct staff and through our partners. Our major sites around the globe are in Australia, both Sydney and Adelaide, Hei Fei in China, Denver in the USA and London in the United Kingdom.

We have customers on every continent.

As a small Australian company trading globally we are proud that more than 70% of our revenues are generated offshore.

### Summary

For Prophecy to succeed and grow to achieve the returns that we want for our business and our shareholders we will need to continue to invest in new products, partnerships and people. We have set an ambitious goal for the business and we have a team of people around the world committed to building a great business that delivers true value for our customers, staff and shareholders.

Cyber Security remains a growth market and our focus in this market continued success in this area will be driven by product innovation. We also see an increasing requirement for compliance like GDPR in Europe and Australia's new data breach notification bill.

Big data analytics is helping customers innovate in their business and cloud moves the cost model and makes software easier to implement and consume.

These drivers of growth in IT are indicators of new opportunities for Prophecy.

While FY17 has been a challenging year for our investors we continue to have a significant opportunity globally in our chosen markets that all of us at Prophecy look forward to realising.

I would like to thank our investors for their continued support.



**Brad Thomas OAM**  
Chief Executive Officer.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Directors' Report For the Year Ended 30 June 2017

The directors present their report, together with the financial statements of the Group, being Prophecy International Holdings Limited and Controlled Entities (the Company) and its controlled entities, for the financial year ended 30 June 2017.

### 1. General information

#### Information on directors

The names, qualifications, experience and special responsibilities of each person who has been a director during the year and to the date of this report are:

Ed Reynolds	Bachelor of Science
Qualifications	Ed was appointed Non-executive Chairman on 8th December 2006.
Experience	He has held various positions within the IT industry, which has given him wide-ranging and extensive experience. Ed joined Prophecy as general manager in 1987 and contributed to the company in various roles, including CEO. In his current Non-executive role, Ed is passionate about ensuring the company achieves its targets and is on track to deliver future success
Interest in shares and options	7,640,000 ordinary shares in Prophecy International Holdings Limited and no options
Special responsibilities	Chairman of the Board of Directors Chair of the Strategy Committee Member of the Remuneration Committee Member of the Audit Committee
Other current directorships in listed entities now and in the previous 3 years	None
Grant R Miles	Bachelor of Arts in Accountancy
Qualifications	Chartered Accountant – Fellow (FCA)
Experience	Grant is the Managing Partner of Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd. Grant was appointed Company Secretary of Prophecy in May 2013 and a Director in May 2015. Grant has over 25 years' experience in Finance and Accounting matters and provides the Prophecy Board with strong skills in this area
Interest in shares and options	150,000 ordinary shares in Prophecy International Holdings Limited and no options
Special responsibilities	Chief Financial Officer Chair of the Audit Committee Chair of the Remuneration Committee
Other current directorships in listed entities now and in the previous 3 years	None

# Prophecy International Holdings Limited and Controlled Entities

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## Directors' Report For the Year Ended 30 June 2017

### 1. General information continued

#### Information on directors continued

Leanne Challans Qualifications Experience	Bachelor of Science Leanne joined Prophecy in 1990, with a strong background in software design and development. Her initial role was Product Development Manager for the flagship Prophecy Classic product. The growing partner network for classic opened up new opportunities, so Leanne took on responsibility for Partner Support and Marketing through the mid 1990's. Leanne returned to her strengths in software development in 2000, heading up the successful Emergency Services Levy project, and then managing the development and support of the e-Foundation product suite. She then moved into the role of General Manager, Software & Services, with responsibility for the ongoing development, support and consulting services relating to all of Prophecy International's product lines. Leanne joined the Board of Directors in December 2006, and was appointed Managing Director in July 2007. The acquisition of Intersect Alliance International in August 2011 saw Leanne take on responsibility for the inclusion of this new company into the Prophecy culture, with a focus on growth in this important new part of the group.
Interest in shares and options	774,880 ordinary shares in Prophecy International Holdings Limited and no options
Special responsibilities	Managing Director (Retired 14 July 2017) Member of the Audit Committee
Other current directorships in listed entities now and in the previous 3 years	None
Matthew Michalewicz Qualifications Experience	Bachelor of Science Matthew is an international expert in entrepreneurship, innovation, and success psychology. He has a 20-year track record of starting, growing, and exiting high growth businesses in the United States and Australia. His last venture, SolveIT Software, grew to become Australia's 3rd fastest growing company before being acquired by Schneider Electric in 2012. In addition to being the author of several books – including Life in Half a Second, Winning Credibility, Adaptive Business Intelligence, and Puzzle-based Learning – Matthew is also a Visiting Fellow at the University of Adelaide where he lectures on the subject of technology commercialisation, and a Limited Partner in Blackbird Ventures, an Australian early-stage venture capital fund
Interest in shares and options	None
Special responsibilities	Member of the Strategy Committee
Other current directorships in listed entities now and in the previous 3 years	COMOPS Limited LBT Innovations Limited

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## **Directors' Report**

### **For the Year Ended 30 June 2017**

#### **1. General information continued**

##### **Principal activities and significant changes in nature of activities**

The principal activities of the Group during the financial year were the design, development and marketing of computer software applications and services aimed at the worldwide corporate marketplace.

There were no significant changes in the nature of the Group's principal activities during the financial year.

#### **2. Operating results and review of operations for the year**

##### **Operating results**

The consolidated loss before tax from continuing operations of the Group amounted to (\$610,585) down 118% on the 30 June 2016 result.

The consolidated profit from continuing and discontinued operations of the Group amounted to \$1,955,759, after providing for income tax, this represented a 19% decrease on the results reported for the year ended 30 June 2016.

##### **Review of operations**

A review of the operations of the Group during the financial year and the results of those operations is set out in the section headed "Message from the CEO" in this report.

#### **3. Other items**

##### **Significant changes in state of affairs**

On 25 May 2017 the group sold the basis2 product, a part of the Legacy division, details can be found in Note 5 Discontinued Operations of the Financial Statements.

The Group disposed of the company Promadis Pty Ltd on 1 July 2017.

##### **Dividends paid or recommended**

2016 final unfranked dividend declared in the prior year, paid on 8 November 2016	\$ 1,280,196
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##### **Events after the end of the reporting period**

Other than matters disclosed in this report, no matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations the state of affairs of the Group in future financial years.

# Prophecy International Holdings Limited and Controlled Entities

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## Directors' Report For the Year Ended 30 June 2017

### 3. Other items continued

#### Future developments and results

Comments on the company's future direction are included in the "Message from the CEO".

#### Environmental issues

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia

#### Company secretary

The following person held the position of Company secretary at the end of the financial year:

Grant R Miles has been the company secretary since 21 March 2013. Grant R Miles is the Managing Partner of Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd.

#### Meetings of directors

During the financial year, 25 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee		Remuneration Committee		Strategy Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Ed Reynolds	12	12	2	2	11	11	-	-
Leanne R Challans	12	12	2	2	-	-	-	-
Matthew T Michalewicz	12	12	-	-	-	-	-	-
Grant R Miles	12	12	2	2	11	11	-	-

#### Unissued shares under option

There are no unissued ordinary shares of Prophecy International Holdings Limited under option at the date of this report.

#### Shares issued during or since the end of the year as a result of exercise

There were no shares issued during or since the end of the year as a result of exercise.

#### Indemnification and insurance of officers and auditors

In the financial year, the company has paid premiums of \$64,142 in respect of a contract of insurance for all the Directors and Officers of Prophecy International Holdings Limited and its controlled entities against any liability incurred in their roles as Directors or Officers of the company or its controlled entities, except where:

- the liability arises out of conduct involving a wilful breach of duty; or
- there has been a contravention of Section 199(C) of the Corporations Act 2001.

## **Directors' Report**

### **For the Year Ended 30 June 2017**

#### **3. Other items continued**

##### **Non-audit services**

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 30 June 2017:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Taxation services	<b>28,300</b>	24,325

##### **Remuneration report (audited)**

##### **Remuneration policy**

The remuneration policy of Prophecy International Holdings Limited and Controlled Entities has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Prophecy International Holdings Limited and Controlled Entities believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

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

- The remuneration policy, setting the terms and conditions for the directors and other senior executives, was developed by the Remuneration Committee and approved by the Board.
- All executives receive a base salary (which is based on factors such as responsibilities and experience), superannuation, fringe benefits, options and performance incentives. The Remuneration Committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.
- The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value.
- All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

## **Directors' Report**

### **For the Year Ended 30 June 2017**

#### **3. Other items continued**

##### **Remuneration report (audited) continued**

- Executives are also entitled to participate in the employee share and option arrangements.
- The non-executive directors receive superannuation contributions but do not receive any other retirement benefits. Australian based executives receive both superannuation contributions and long service leave benefits.
- All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares issued to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using a Black-Scholes methodology.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the company option plans.

As approved by the shareholders at the 2015 Annual General Meeting, the maximum amounts payable to directors is \$400,000. This compares with an actual charge of \$240,000 in the 2016/17 year.

Key management personnel receive a superannuation guarantee contribution required by the law, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

##### **Key Management Personnel**

Key management personnel are as follows:

###### **Directors**

Edwin Reynolds (Appointed 4 September 1997)	Non-executive Chairman
Leanne R Challans (Appointed 8 December 2006)	Managing Director
Matthew T Michalewicz (Appointed 15 May 2014)	Non-executive Director
Grant R Miles (Appointed 1 May 2015)	Non-executive Director

###### **Executives**

Brad Thomas (Appointed 26 September 2016)	CEO – Prophecy Group
Peter Barzen (Appointed 1 September 1999)	EVP Sales and Alliances
Stuart Geros (Appointed 1 July 2015)	CEO - eMite

There have been no changes to Key Management Personnel after the reporting date and before the date the financial accounts were authorised for issue.

##### **Relationship between remuneration policy and company performance**

As part of each 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 key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over, and are mainly related to increases in profit and revenue. The KPIs target areas the Board believes hold greater potential for Group expansion and profit, covering financial short-term goals. The level set for each KPI is based on budgeted figures for the Group.

## Directors' Report

### For the Year Ended 30 June 2017

#### 3. Other items continued

##### Remuneration report (audited) continued

##### Relationship between remuneration policy and company performance continued

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the level of achievement against KPIs. Following the assessment, the KPIs are reviewed by the Remuneration Committee 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 satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility.

The following table shows the gross revenue, profits and dividends for the last five years for the Company, as well as the share prices at the end of the respective financial years.

	2017	2016	2015	2014	2013
	\$	\$	\$	\$	\$
Revenue from continuing operations	<b>9,188,005</b>	12,333,897	9,956,360	7,078,458	6,888,043
Profit/(Loss) from continuing operations before tax	<b>(610,585)</b>	3,386,410	3,447,811	1,317,678	1,768,667
Profit from continuing and discontinued operations	<b>1,955,795</b>	2,416,038	2,378,480	906,848	1,268,506
Share Price at Year-end	<b>0.51</b>	1.15	1.25	0.43	0.33
Dividends Paid (cents)	<b>2.0</b>	4.20	2.75	3.50	3.00

##### Performance conditions linked to remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to directors and executives to encourage the alignment of personal and shareholder interests.

The company believes that the factors affecting shareholder wealth are linked to the company's trading conditions. The company experienced difficult trading conditions last year due to the global economic crisis.

The board feels that the company has consolidated the move towards increasing shareholder wealth, and that the executive and director remuneration policies in place will help facilitate achievement of this goal.

##### Employment details of members of key management personnel

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the Group. The table also illustrates the proportion of remuneration that was performance based and the proportion of remuneration received in the form of options.

		Performance based remuneration		
		Bonus	Shares	Options / rights
		%	%	%
<b>Director</b>				
Leanne Challans	Managing Director	3%	-	-
<b>KMP</b>				
Brad Thomas	CEO – Prophecy Group	2%	-	-
Peter Barzen	EVP Sales and Alliances	42%	-	-
Stuart Geros	CEO - eMite	-	-	-



## Directors' Report

### For the Year Ended 30 June 2017

#### 3. Other items continued

##### Remuneration report (audited) continued

##### Service Agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

The remuneration and other terms of employment for the Managing Director and senior executives are set out in formal service agreements as summarised below:

- All service agreements are for an unlimited duration. The agreements for executives may be terminated by giving four weeks' notice (except in cases of termination for cause where termination is immediate).
- In cases of resignation, no separation payment is made to the executive, except for amounts due and payable up to the date of ceasing employment, including accrued leave entitlements.

##### Remuneration Consultants

There have been no remuneration consultants used in the period.

##### Changes in KMP (other than directors)

Brad Thomas the CEO of the Prophecy Group has been added to the KMP from 26 September 2016.

##### Remuneration details for the year ended 30 June 2017

The following table of benefits and payment details, in respect to the financial year, the components of remuneration for each member of the key management personnel of the Group.

##### Table of benefits and payments

	<u>Short Term</u>			<u>Post Employment</u>		<u>Total</u>
	cash salary fees	bonus	consulting fees	health care & allowances	pension and superannuation	
<b>2017</b>	\$	\$	\$	\$	\$	\$
<b>Directors</b>						
Ed Reynolds	39,000	-	131,271	-	3,705	173,976
Leanne Challans	182,588	7,377	-	-	18,047	208,012
Matthew Michalewicz	70,000	-	-	-	-	70,000
Grant R Miles	70,000	-	-	-	-	70,000
<b>KMP</b>						
Brad Thomas	161,140	4,686	-	-	15,753	181,579
(Appointed 26 September 2016)	-					
Peter Barzen	177,082	186,942	-	32,801	45,554	442,379
Stuart Geros	250,005	-	-	-	23,750	273,755
	<b>949,815</b>	<b>199,005</b>	<b>131,271</b>	<b>32,801</b>	<b>106,809</b>	<b>1,419,701</b>

The remuneration detailed above for Ed Reynolds includes director's fees of \$100,000 and consulting fees of \$70,271 (2016 – director's fees \$100,000 and consulting fees \$88,886) of which \$131,271 was paid to Reyer Investments Pty Limited, a company in which Ed Reynolds is a director and shareholder.

Grant R Miles director's fees are paid to Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd, a company directed by Grant R Miles.

## Directors' Report

### For the Year Ended 30 June 2017

#### 3. Other items continued

##### Remuneration report (audited) continued

##### Remuneration details for the year ended 30 June 2017 continued

Short term bonus for L R Challans relates to profit share allowance, in accordance with an incentive plan approved on 13th February 2012. The purpose of the incentive is to increase profits and so improve shareholder wealth.

Short term bonus for P Barzen relates to commission payments on licence fee revenue from sales of products to customers, in accordance with an incentive plan approved on 18th April 2013. The purpose of the incentive is to increase licence fee revenues and so improve shareholder wealth.

	<u>Short Term</u>				<u>Post Employment</u>	<u>Total</u>
	cash salary fees	bonus	consulting fees	health care & allowances	pension and superannuation	
<b>2016</b>	\$	\$	\$	\$	\$	\$
<b>Directors</b>						
Ed Reynolds	39,000	-	149,886	-	3,705	192,591
Anthony P (Tony) Weber	29,166	-	15,170	-	4,212	48,548
Leanne Challans	178,500	52,117	-	-	21,909	252,526
Matthew Michalewicz	70,000	-	1,100	-	-	71,100
Grant R Miles	70,000	-	-	-	-	70,000
<b>KMP</b>						
Peter Barzen	187,263	330,245	-	34,574	47,323	599,405
Stuart Geros	250,000	-	-	-	23,750	273,750
(Appointed 1 July 2015)						
	<b>823,929</b>	<b>382,362</b>	<b>166,156</b>	<b>34,574</b>	<b>100,899</b>	<b>1,507,920</b>

##### Securities received that are not performance related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

##### Voting and comments made at the Company's last Annual General Meeting

Prophecy International Holdings Limited received more than 94% of 'yes' votes on its Remuneration Report for the financial year ending 30 June 2016. The company received no specific feedback on its Remuneration Report at the Annual General Meeting.

##### Key management personnel options and rights holdings

There are currently no options or rights held by any Directors or key management personnel.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Directors' Report For the Year Ended 30 June 2017

### 3. Other items continued

#### Remuneration report (audited) continued

#### Key management personnel shareholdings

The number of ordinary shares in Prophecy International Holdings Limited and Controlled Entities held by each key management person of the Group during the financial year is as follows:

	Balance at beginning of year	On exercise of options	Acquisitions	Disposals	Other Changes	Balance at end of year
<b>30 June 2017</b>						
Ed Reynolds	7,540,000	-	100,000	-	-	7,640,000
Leanne R Challans	774,880	-	-	-	-	774,880
Matthew T Michalewicz	-	-	-	-	-	-
Grant R Miles	150,000	-	-	-	-	150,000
<b>Other KMP</b>						
Peter Barzen	10,000	-	3,773	-	-	13,773
Stuart Geros	1,820,677	-	57,500	-	-	1,878,177
Brad Thomas	-	-	-	-	-	-
	<b>10,295,557</b>	-	161,273	-	-	<b>10,456,830</b>

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd, a company directed by Grant Miles, provided Accounting services to the Group of \$28,864 (2016: \$30,946)

#### **End of Remuneration Report**

#### **Proceedings on Behalf of 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.

## Prophecy International Holdings Limited and Controlled Entities

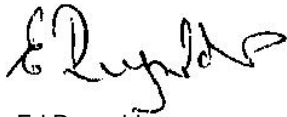
ABN: 16 079 971 618

### Directors' Report

For the Year Ended 30 June 2017

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2017 has been received and can be found on page 20 of the financial report.

This director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



Ed Reynolds  
**Chairman**



Leanne Challans  
**Director**

Dated this 27<sup>th</sup> day of September, 2017

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618



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## Auditor's Independence Declaration To the Directors of Prophecy International Holdings Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Prophecy International Holdings Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

A handwritten signature in blue ink that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

A handwritten signature in blue ink that reads "I S Kemp".

I S Kemp  
Partner - Audit & Assurance

Adelaide, 27 September 2017

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# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2017

	Note	2017 \$	2016 \$
Revenue from continuing operations	2	9,188,005	12,333,897
Other income		20,013	316,271
Employee benefits expense		(6,028,419)	(5,585,230)
Depreciation and amortisation	3	(1,218,425)	(1,091,424)
Other expenses	3	(2,567,591)	(2,586,501)
Finance costs		(4,168)	(603)
<b>Profit / (Loss) before income tax</b>		<b>(610,585)</b>	3,386,410
Income tax expense	4	389,449	(1,235,126)
<b>Profit / (Loss) from continuing operations</b>		<b>(221,136)</b>	2,151,284
Profit from discontinued operations	5	2,176,895	264,754
<b>Profit for the year</b>		<b>1,955,759</b>	2,416,038
<b>Other comprehensive income, net of income tax</b>			
<b>Items that will be reclassified to profit or loss when specific conditions are met</b>			
Exchange differences on translating foreign controlled entities		(4,493)	(104,870)
<b>Other comprehensive income for the year, net of tax</b>		<b>(4,493)</b>	(104,870)
<b>Total comprehensive income for the year</b>		<b>1,951,266</b>	2,311,168
Profit attributable to:			
Members of the parent entity		1,975,519	2,402,233
Non-controlling interest		(19,760)	13,805
		<b>1,955,759</b>	2,416,038
Total comprehensive income attributable to:			
Members of the parent entity		1,971,026	2,297,363
Non-controlling interest		(19,760)	13,805
		<b>1,951,266</b>	2,311,168
<b>Earnings / (Loss) per share</b>			
From continuing and discontinued operations:			
Basic earnings per share (cents)		3.09	3.80
Diluted earnings per share (cents)		3.09	3.80
From continuing operations:			
Basic earnings per share (cents)	10	(0.31)	3.38
Diluted earnings per share (cents)	10	(0.31)	3.38
From discontinued operations:			
Basic earnings per share (cents)		3.40	0.42
Diluted earnings per share (cents)		3.40	0.42

The accompanying notes form part of these financial statements.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Consolidated Statement of Financial Position

As At 30 June 2017

	Note	2017 \$	2016 \$
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	11	3,316,579	1,869,140
Trade and other receivables	12	1,899,750	3,281,692
Work in progress	13	30,300	30,959
Other assets	17	125,498	126,628
Non-current assets held for sale	6	121,625	-
<b>TOTAL CURRENT ASSETS</b>		<b>5,493,752</b>	<b>5,308,419</b>
NON-CURRENT ASSETS			
Trade and other receivables	12	7,320	7,581
Property, plant and equipment	15	265,976	334,949
Deferred tax assets	27	316,444	373,921
Intangible assets	16	17,284,972	17,662,487
<b>TOTAL NON-CURRENT ASSETS</b>		<b>17,874,712</b>	<b>18,378,938</b>
<b>TOTAL ASSETS</b>		<b>23,368,464</b>	<b>23,687,357</b>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables	18	891,643	836,740
Current tax liabilities	27	129,717	614,723
Employee benefits	20	757,113	880,390
Deferred income	19	2,723,042	3,387,079
Liabilities directly associated with Non-current assets classified as held for sale	6	125,001	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,626,516</b>	<b>5,718,932</b>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	496,615	429,898
Employee benefits	20	95,830	60,094
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>592,445</b>	<b>489,992</b>
<b>TOTAL LIABILITIES</b>		<b>5,218,961</b>	<b>6,208,924</b>
<b>NET ASSETS</b>		<b>18,149,503</b>	<b>17,478,433</b>
<b>EQUITY</b>			
Issued capital	21	28,469,564	28,469,564
Reserves		(229,219)	(224,726)
Retained earnings		(9,865,843)	(10,561,166)
<b>Total equity attributable to equity holders of the Company</b>		<b>18,374,502</b>	<b>17,683,672</b>
Non-controlling interest		(224,999)	(205,239)
<b>TOTAL EQUITY</b>		<b>18,149,503</b>	<b>17,478,433</b>

The accompanying notes form part of these financial statements.

**Prophecy International Holdings Limited and Controlled Entities**

ABN: 16 079 971 618

**Consolidated Statement of Changes in Equity**

**For the Year Ended 30 June 2017**

2017

	Issued Capital	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Non- controlling Interests	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2016</b>	<b>28,469,564</b>	<b>(10,561,166)</b>	<b>(349,551)</b>	<b>124,825</b>	<b>(205,239)</b>	<b>17,478,433</b>
Profit attributable to members of the parent entity	-	1,975,519	-	-	-	1,975,519
Profit attributable to non-controlling interests	-	-	-	-	(19,760)	(19,760)
Total other comprehensive income for the year	-	-	(4,493)	-	-	(4,493)
<b>Transactions with owners</b>						
Dividends paid or provided for	-	(1,280,196)	-	-	-	(1,280,196)
<b>Balance at 30 June 2017</b>	<b>28,469,564</b>	<b>(9,865,843)</b>	<b>(354,044)</b>	<b>124,825</b>	<b>(224,999)</b>	<b>18,149,503</b>

2016

	Issued Capital	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Non- controlling Interests	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2015</b>	<b>18,959,464</b>	<b>(10,274,988)</b>	<b>(244,681)</b>	<b>124,825</b>	<b>(219,044)</b>	<b>8,345,576</b>
Profit attributable to members of the parent entity	-	2,402,233	-	-	-	2,402,233
Profit attributable to non-controlling interests	-	-	-	-	13,805	13,805
Total other comprehensive income for the year	-	-	(104,870)	-	-	(104,870)
<b>Transactions with owners</b>						
Dividends provided for or paid	-	(2,688,411)	-	-	-	(2,688,411)
Shares issued during the year	2,454,100	-	-	-	-	2,454,100
Shares issued in consideration of business combinations	7,056,000	-	-	-	-	7,056,000
<b>Balance at 30 June 2016</b>	<b>28,469,564</b>	<b>(10,561,166)</b>	<b>(349,551)</b>	<b>124,825</b>	<b>(205,239)</b>	<b>17,478,433</b>

The accompanying notes form part of these financial statements.



# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Consolidated Statement of Cash Flows

For the Year Ended 30 June 2017

	2017	2016
Note	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	12,577,105	16,323,586
Payments to suppliers and employees	<b>(9,976,909)</b>	(10,516,307)
Interest received	5,991	41,488
Income taxes (paid)/refunded	<b>(785,471)</b>	(949,725)
Net cash provided by operating activities	24 <b>1,820,716</b>	4,899,042
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of plant and equipment	1,934	-
Purchase of property, plant and equipment	<b>(62,600)</b>	(208,212)
Payment in respect of business combinations, net of cash acquired	-	(7,526,230)
Development expenditure	<b>(733,095)</b>	(693,518)
Proceeds from sale of basis2 division	5 <b>1,835,095</b>	-
Net cash provided/(used) by investing activities	<b>1,041,334</b>	(8,427,960)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issue of shares	-	2,530,000
Payments for capital raise	-	(75,900)
Dividends paid by parent entity	<b>(1,280,196)</b>	(2,688,411)
Net cash used by financing activities	<b>(1,280,196)</b>	(234,311)
Effects of foreign exchange rates on overseas cash holdings	<b>(110,166)</b>	29,557
Net increase/(decrease) in cash and cash equivalents held	<b>1,471,688</b>	(3,733,672)
Cash and cash equivalents at beginning of year	<b>1,869,140</b>	5,602,812
Cash and cash equivalents at end of financial year	11 <b>3,340,828</b>	1,869,140

The accompanying notes form part of these financial statements.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

This financial report covers the consolidated financial statements and notes of Prophecy International Holdings Limited and Controlled Entities (the 'group'). Prophecy International Holdings Limited and Controlled Entities is a for profit Company domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The financial report was approved for issue by the Board on the 27<sup>th</sup> of September, 2017.

### 1 Summary of Significant Accounting Policies

#### (a) Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are based on historical costs, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### (b) Principles of Consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a June financial year end.

A list of controlled entities is contained in Note 14 to the financial statements.

#### *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(c) Business Combinations**

Business combinations are accounted for by applying the acquisition method which requires an acquiring entity to be identified in all cases. The acquisition date under this method is the date that the acquiring entity obtains control over the acquired entity.

The fair value of identifiable assets and liabilities acquired are recognised in the consolidated financial statements at the acquisition date.

Goodwill or a gain on bargain purchase may arise on the acquisition date, this is calculated by comparing the consideration transferred and the amount of non-controlling interest in the acquiree with the fair value of the net identifiable assets acquired. Where consideration is greater than the net assets acquired, the excess is recorded as goodwill. Where the net assets acquired are greater than the consideration, the measurement basis of the net assets are reassessed and then a gain from bargain purchase recognised in profit or loss.

All acquisition-related costs are recognised as expenses in the periods in which the costs are incurred except for costs to issue debt or equity securities.

Any contingent consideration which forms part of the combination is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not remeasured and the settlement is accounted for within equity. Otherwise subsequent changes in the value of the contingent consideration liability are measured through profit or loss.

#### **(d) Income Tax**

The tax expense recognised in the consolidated statement of profit or loss and other comprehensive income comprises of current income tax expense plus deferred tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(d) Income Tax continued**

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

The Company and its wholly-owned Australian controlled entities have formed a tax-consolidated group under the legislation and as a consequence these entities are taxed as a single entity.

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

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment.

Where the cost model is used, the asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

##### **Depreciation**

Property, plant and equipment, is depreciated on a reducing balance basis over the assets useful life to the Company, commencing when the asset is ready for use.

Leased assets and leasehold improvements are amortised over the shorter of either the unexpired period of the lease or their estimated useful life.

The depreciation rates used for each class of depreciable asset are shown below:

<b>Fixed asset class</b>	<b>Depreciation rate</b>
Plant and Equipment	10% - 40%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(f) Non-current assets held for sale and discontinued operations**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Assets classified as held for sale are not amortised or depreciated.

Non-current assets classified as held for sale and any associated liabilities are presented separately in the consolidated statement of financial position.

A discontinued operation is a component of an entity, being a cash-generating unit (or a group of cash-generating units), that either has been disposed of, or is classified as held for sale, and: represents a separate major line of business or geographical area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with the view to resale.

Impairment losses are recognised for any initial or subsequent write-down of an asset (or disposal group) classified as held for sale to fair value less costs to sell. Any reversal of impairment recognised on classification as held for sale or prior to such classification is recognised as a gain in profit or loss in the period in which it occurs.

#### **(g) Leases**

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

## Notes to the Financial Statements

For the Year Ended 30 June 2017

### 1 Summary of Significant Accounting Policies continued

#### (h) Financial Instruments

##### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is the equivalent to the date that the Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

##### Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as:

- . the amount at which the financial asset or financial liability is measured at initial recognition;
- . less principal repayments;
- . plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- . less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The classification of financial instruments depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and at the end of each reporting period for held-to-maturity assets.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

#### (i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(h) Financial Instruments continued**

##### *(ii) 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 subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting year.

##### *(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to be realised within 12 months after the end of the reporting period, which will be classified as current assets.

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

##### *(iv) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to be sold within 12 months after the end of the reporting period.

##### *(v) Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Fees payable on the establishment of loan facilities are recognised as transaction costs of the loan.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

All of the Group's derivative financial instruments that are not designated as hedging instruments in accordance with the strict conditions explained in AASB 139 are accounted for at fair value through profit or loss.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(h) Financial Instruments continued**

##### **Impairment**

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

##### **Financial guarantees**

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised in accordance with AASB 118.



## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(i) Impairment of Non-financial Assets**

At the end of each reporting period the Group determines whether there is an evidence of an impairment indicator for non-financial assets.

Where this indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

#### **(j) Intangible Assets**

##### **Goodwill**

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- . the consideration transferred;
- . any non-controlling interest; and
- . the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired in a business combination.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value ('full goodwill method') or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ('proportionate interest method'). The Group determines which method to adopt for each acquisition.

Under the 'full goodwill method', the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(j) Intangible Assets continued**

##### **Patents and trademarks**

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life which is estimated to be 7 year or 15 years, depending on the product.

##### **Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. 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.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses.

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 projects which are 5 years.

##### **Impairment**

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(k) 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 recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

##### **Group companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period where the average rate approximates the rate at the date of the transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the consolidated statement of financial position. These differences are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which the operation is disposed.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(I) Employee Benefits**

Provision is made for the Group'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 wholly settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits expected to be settled more than one year after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Cashflows are discounted using market yields on high quality corporate bond rates incorporating bonds rated AAA or AA by credit agencies, with terms to maturity that match the expected timing of cashflows. Changes in the measurement of the liability are recognised in profit or loss.

#### **Defined contribution schemes**

All employees of the Group other than those that receive defined benefit entitlements receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution (currently 9.5% of the employee's average ordinary salary) to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's statement of financial position.

#### **Termination benefits**

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of: (a) the date when the Group can no longer withdraw the offer for termination benefits; and (b) when the Group recognises costs for restructuring pursuant to AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(m) 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.

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period.

#### **(n) Cash and Cash Equivalents**

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### **(o) Revenue and Other Income**

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the Group and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

##### **Sale of Goods**

Sales of the consolidated group's products are structured around initial licence fees plus annual licence fees. Initial licence fees together with time and materials consulting services contracts are recognised as income in the year of invoicing. A percentage of annual licence fees is recognised as income in the year of invoicing, the balance covers forward maintenance and support commitments and is brought to account on a pro-rata basis.

##### **Rendering of Services**

Revenue in relation to rendering of services is recognised depending on whether the outcome of the services can be estimated reliably. If the outcome can be estimated reliably then the stage of completion of the services is used to determine the appropriate level of revenue to be recognised in the period.

If the outcome cannot be reliably estimated then revenue is recognised to the extent of expenses recognised that are recoverable.

For fixed price consulting service contracts, revenue is recognised on a stage of completion basis and measured using the proportion of actual hours spent on a contract compared to the total expected hours to complete the contract.

The recoverable amount of trade receivables is reviewed on an ongoing basis. Where there is reasonable doubt that the full amount of a trade receivable will not be recovered, a provision for impairment is recognised.

##### **Interest Revenue**

Interest is recognised using the effective interest method.

All revenue is stated net of the amount of goods and services tax (GST).

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(p) Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(h) for further discussion on the determination of impairment losses.

#### **(q) Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

#### **(r) Borrowing Costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### **(s) Goods and Services Tax (GST)**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows in the consolidated statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

#### **(t) Comparative Amounts**

Comparatives are consistent with prior years, unless otherwise stated.

Where a change in comparatives has also affected the opening retained earnings previously presented in a comparative period, an opening consolidated statement of financial position at the earliest date of the comparative period has been presented.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(u) Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments 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.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

##### **Key estimates - impairment of tax losses**

Deferred tax assets include amounts related to unused tax losses. At each balance date the directors review the likelihood that the Group be able to generate sufficient future taxable profits to utilise these tax losses, and adjusts deferred tax assets accordingly. Further information regarding the conditions under which these tax losses may be utilised can be found in Note 27.

##### **Key estimates - impairment of goodwill and intellectual property**

Included in non-current intangible assets of the Group is goodwill and intellectual property. At each balance date the directors review whether goodwill and intellectual property has suffered any impairment in accordance with the accounting policy stated in Note 1(j).

##### **Key judgments - provision for impairment of receivables**

The value of the provision for impairment of receivables is estimated by considering the ageing of receivables, communication with the debtors and prior history.

#### **(v) Adoption of new and revised accounting standards**

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2016. Information on the more significant standards is presented below.

##### **AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

- 1 The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- 2 When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

AASB 2014-4 is applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these amendments has not had a material impact on the transactions and balances recognised in the financial statements.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(v) Adoption of new and revised accounting standards continued**

##### **AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101**

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project.

The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy

AASB 2015-2 is applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these amendments has not had a material impact on the transactions and balances recognised in the financial statements.

#### **(w) New Accounting Standards issued but not yet effective and not been adopted early by the Group**

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

##### **AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).**

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.



## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(w) New Accounting Standards issued but not yet effective and not been adopted early by the Group continued**

##### **AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods commencing on or after 1 January 2018).**

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

##### **AASB 16 Leases (1 January 2019)**

AASB 16:

- replaces AASB 117 Leases and some lease-related Interpretations
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- requires new and different disclosures about leases

The Group is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the Group's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2020 includes:

- there will be a significant increase in lease assets and financial liabilities recognised on the balance sheet
- the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses
- operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **1 Summary of Significant Accounting Policies continued**

#### **(w) New Accounting Standards issued but not yet effective and not been adopted early by the Group continued**

##### **AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 (1 January 2017)**

AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.

##### **AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle (1 January 2017)**

This Standard clarifies the scope of AASB 12 Disclosure of Interests in Other Entities by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale, held for distribution to owners in their capacity as owners or discontinued operations in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.

##### **Interpretation 22 Foreign Currency Transactions and Advance Consideration (1 January 2018)**

Interpretation 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

Although AASB 121 The Effects of Changes in Foreign Exchange Rates sets out requirements about which exchange rate to use when recording a foreign currency transaction on initial recognition in an entity's functional currency, the IFRS Interpretations Committee had observed diversity in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognised.

Interpretation 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

When this interpretation is adopted for the year ending 30 June 2019, there will be no material impact on the financial statements.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$
<b>2 Revenue and Other Income</b>		
<b>Revenue from continuing operations</b>		
Sales revenue		
- sale of goods	7,491,660	10,659,854
- provision of services	1,690,354	1,632,557
	<u>9,182,014</u>	<u>12,292,411</u>
Finance income		
- interest received	5,991	41,486
<b>Total Revenue</b>	<u>9,188,005</u>	<u>12,333,897</u>
<b>(a) Sale of Licences</b>		
Revenue generated from the sale of goods represents revenue from the sale of computer software licences. It is not possible to develop a meaningful cost of sales figure attributable to this revenue and accordingly none has been disclosed.		
<b>3 Result for the Year</b>		
The result for the year includes the following specific expenses:		
Salaries and wages	4,334,122	3,650,328
Commissions	545,648	868,401
Superannuation contributions	328,159	279,765
Depreciation and amortisation expense comprises:		
- Depreciation - plant and equipment	121,208	128,210
- Amortisation - intellectual property	902,858	902,858
- Amortisation - development costs	194,359	60,356
	<u>1,218,425</u>	<u>1,091,424</u>
<b>Other Expenses:</b>		
Accounting fees	128,621	126,147
Consulting and professional fees	1,145,309	1,307,773
Filing fees	91,391	87,098
Insurance	146,008	121,683
Marketing	239,170	174,462
Rent expense	278,841	255,047
Communications expense	161,713	85,152
Travel and accommodation	217,784	103,078
Other expenses	158,754	326,061
	<u>2,567,591</u>	<u>2,586,501</u>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$
<b>3 Result for the Year</b>		
<b>Research and Development Expenses</b>		
Research and Development costs of \$49,793 are included in the total expenses for the Group and include salaries and wages and on-costs. Research and development costs for 2016 of \$115,045 are included in the total expenses for the Group and include salaries and wages and on-costs.		
Development costs for Intersect Alliance for 2017 of \$733,095 (2016 of \$693,518) have been capitalised and shown in the statement of financial position as an intangible asset.		
<b>4 Income Tax Expense</b>		
(a) The major components of tax expense (income) comprise:		
Current tax expense	(156,624)	1,168,168
Foreign income tax withholding	23,903	566
Deferred tax expense	(7,654)	75,635
Change in tax rate	(17,028)	-
Adjustments for current tax of prior periods	(232,046)	(9,243)
<b>Total income tax expense</b>	<b>(389,449)</b>	<b>1,235,126</b>
(b) Reconciliation of income tax to accounting profit / (Loss):		
Profit	(610,585)	3,386,410
Tax	30%	30%
	<b>(183,176)</b>	<b>1,015,922</b>
Add:		
Tax effect of:		
- non-deductible depreciation and amortisation	34,875	40,500
- non-deductible expenses	3,434	34,807
- tax losses not recognised	-	21,847
	<b>(144,867)</b>	<b>1,113,076</b>
Less:		
Tax effect of:		
- over provision for income tax in prior year	232,046	-
- other	12,537	(122,050)
Income tax expense	<b>(389,450)</b>	<b>1,235,126</b>
Weighted average effective tax rate from continuing operations	<b>63%</b>	<b>36%</b>
The increase in the weighted average effective consolidated tax rate for 2017 is a result of an adjustment to the current period tax expense due to a prior period Research & Development tax claim.		
(c) Income tax relating to each component of other comprehensive income:		
Timing differences on unrealised foreign exchange gains/(losses)	<b>48,896</b>	<b>46,763</b>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$

### 5 Discontinued Operations

On 4 May 2017 the Group announced its decision to sell the basis2 product, thereby discontinuing its operations in the Legacy business segment.

The division was sold on 25 May 2017 and the product disposed of is reported in these consolidated financial statements as a discontinued operation.

The group also disposed of the company Promadis Pty Ltd on 1 July 2017, thereby discontinuing its operations in the Legacy business segment.

Financial information relating to the discontinued operations to the date of disposal is set out below.

The financial performance of the discontinued operation to the date of sale which is included in profit / (loss) from discontinued operations is as follows:

Revenue	2,156,697	2,338,667
Expenses	<u>(1,622,573)</u>	<u>(1,972,262)</u>
Profit before income tax	534,124	366,405
Profit attributable to members of the parent entity	534,124	366,405
Income tax expense	<u>(164,671)</u>	<u>(101,651)</u>
Total profit after tax attributable to the discontinued operation	<u><u>369,453</u></u>	<u><u>264,754</u></u>
Gain on sale of the division before income tax	2,506,702	-
Income tax expense	<u>(699,260)</u>	-
Gain on sale of the division after income tax	<u><u>1,807,442</u></u>	-
Total profit from discontinued operations	<u><u>2,176,895</u></u>	-

The net cash flows of the discontinuing division which have been incorporated into the consolidated statement of cash flows are as follows:

#### Details of the sale

Consideration received	2,078,393	-
Acquisition costs	<u>(243,298)</u>	-
Net proceeds from basis2 sale	<u><u>1,835,095</u></u>	-

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

2017	2016
\$	\$

### 6 Assets and liabilities held for sale

The group disposed of the company Promadis Pty Ltd on 1 July 2017. The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 June 2017.

Non-current assets held for sale

Property, plant and equipment	496	-
Trade and other receivables	73,488	-
Cash	24,249	-
Other assets	23,392	-
Total non-current assets held for sale	<u>121,625</u>	-

The liabilities associated with non-current assets held for sale are:

Associated liabilities

Trade creditors	230	-
Employee benefits	23,371	-
Other liabilities	101,400	-
Total	<u>125,001</u>	-

### 7 Key Management Personnel Disclosures

Key management personnel remuneration included within employee expenses for the year is shown below:

Short-term employee benefits	1,312,892	1,407,022
Post-employment benefits	106,809	100,898
	<u>1,419,701</u>	<u>1,507,920</u>

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the Group's Key Management Personnel for the year ended June 2017.

### 8 Remuneration of Auditors

Remuneration of the auditor of the parent entity, Grant Thornton, for:

- auditing or reviewing the financial statements	81,800	77,500
- taxation services	28,300	24,325

Remuneration of other auditors of subsidiaries for:

- auditing or reviewing the financial statements of subsidiaries	10,082	12,233
<b>Total</b>	<u>120,182</u>	<u>114,058</u>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$
<b>9 Dividends</b>		
Total dividends per share declared and paid	2.00	4.20
Final 2016 unfranked ordinary dividend of 2.0 (2015: 2.2 fully franked) cents per share paid 8 November 2016	1,280,196	1,408,215

No proposed final dividend for 2017 has been declared.

### Franking account

The franking credits available for subsequent financial years at a tax rate of 30%	209,818	(78,131)
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The above available balance is based on the dividend franking account at year-end adjusted for:

· Franking credits that will arise from the payment of the current tax liabilities;		
· Franking debits that will arise from the payment of dividends recognised as a liability at the year end;		
· Franking credits that will arise from the receipt of dividends recognised as receivables at the end of the year.		

The impact on the franking credit of the dividends proposed after the end of the reporting period is to reduce it by zero (2016: zero).

The ability to use the franking credits is dependent upon the Company's future ability to declare dividends.

## 10 Earnings per Share

(a) Reconciliation of earnings to profit or loss from continuing operations		
Profit after income tax	(221,136)	2,174,578
Non-controlling interest	19,760	(13,805)
<b>Profit after income tax attributable to the owners of Prophecy International Holdings Limited</b>	<b>(201,376)</b>	<b>2,160,773</b>

(b) Reconciliation of earnings to profit or loss from discontinuing operations		
Profit from discontinuing operations	2,176,895	264,754
Profit attributable to non-controlling equity interest	-	-
<b>Earnings used to calculated basic EPS from discontinuing operations</b>	<b>2,176,895</b>	<b>241,460</b>

(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	64,009,784	63,204,866
<b>Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS</b>	<b>64,009,784</b>	<b>63,204,866</b>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$
<b>11 Cash and Cash Equivalents</b>		
Cash at bank in hand	3,140,105	1,704,657
Short-term bank deposits	176,474	164,483
	<u>3,316,579</u>	<u>1,869,140</u>
<b>Reconciliation of cash</b>		
Cash and Cash equivalents reported in the consolidated statement of cash flows are reconciled to the equivalent items in the consolidated statement of financial position as follows:		
Cash and cash equivalents	3,316,579	1,869,140
Cash included in assets held for sale	24,249	-
<b>Balance as per consolidated statement of cash flows</b>	<u>3,340,828</u>	<u>1,869,140</u>
<b>12 Trade and Other Receivables</b>		
<b>CURRENT</b>		
Trade receivables	1,825,176	3,157,018
Accrued revenue	65,434	59,964
Other receivables	9,140	64,710
<b>Total current trade and other receivables</b>	<u>1,899,750</u>	<u>3,281,692</u>
<b>NON-CURRENT</b>		
Deposits	24	24
Other receivables	7,296	7,557
<b>Total non-current trade and other receivables</b>	<u>7,320</u>	<u>7,581</u>



# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

2017                      2016  
\$                                      \$

### 12 Trade and Other Receivables continued

The following table details the Group's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount	Past due and impaired	< 30	31-60	61-90	> 90	Within initial trade terms
	\$	\$	\$	\$	\$	\$	\$
<b>2017</b>							
Trade and other receivables	1,907,070	-	540,542	99,355	166,547	33,114	1,067,512
<b>2016</b>							
Trade and other receivables	3,289,273	-	637,073	160,698	229,995	92,745	2,168,762

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

#### (a) Collateral held as security

The Group does not hold any collateral over any receivables balances.

#### (b) Financial assets classified as loans and receivables

Trade and other receivables		
- total current	1,899,750	3,281,692
- total non-current	7,320	7,581
Financial assets	<u>1,907,070</u>	<u>3,289,273</u>

### 13 Inventories

At cost:

Work in progress	<u>30,300</u>	<u>30,959</u>
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## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Notes to the Financial Statements

For the Year Ended 30 June 2017

#### 14 Interests in Subsidiaries

##### Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%) <sup>*</sup> 2017	Percentage Owned (%) <sup>*</sup> 2016
<b>Subsidiaries:</b>			
Promadis Pty Ltd	Australia	100.0	100.0
Intersect Alliance International Pty Ltd	Australia	100.0	100.0
Prophecy International Pty Ltd as trustee for CSP Unit Trust	Australia	100.0	100.0
Prophecy R&D Pty Ltd	Australia	100.0	100.0
Prophecy Americas' Inc	United States	93.1	93.1
Prophecy Europe Limited	United Kingdom	100.0	100.0
eMite Pty Ltd	Australia	100.0	100.0

\*The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

##### Significant judgements and assumptions

The Group holds 93.1% of the ordinary shares and voting rights in Prophecy Americas Inc. One other investor holds 6.9%.

Management has reassessed its involvement in Prophecy Americas' Inc in accordance with AASB 10's revised control definition and guidance. It has concluded that they have control over Prophecy Americas' Inc. In making its judgement, management considered the Group's voting rights, the relative size and dispersion of the voting rights held by the other shareholder and the extent of recent participation by this shareholder in general meetings.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$
<b>15 Property, plant and equipment</b>		
Plant and equipment		
At cost	843,257	793,577
Accumulated depreciation	(640,834)	(518,427)
<b>Total plant and equipment</b>	<b>202,423</b>	<b>275,150</b>
Furniture, fixtures and fittings		
At cost	228,748	210,359
Accumulated depreciation	(165,195)	(150,560)
<b>Total furniture, fixtures and fittings</b>	<b>63,553</b>	<b>59,799</b>
<b>Total property, plant and equipment</b>	<b>265,976</b>	<b>334,949</b>

### Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment	Furniture, Fixtures and Fittings	Total
	\$	\$	\$
<b>Year ended 30 June 2017</b>			
Balance at the beginning of year	275,150	59,799	334,949
Additions	43,427	19,173	62,600
Disposals	(10,303)	-	(10,303)
Depreciation expense	(105,819)	(15,389)	(121,208)
Foreign exchange movements	(32)	(30)	(62)
<b>Balance at the end of the year</b>	<b>202,423</b>	<b>63,553</b>	<b>265,976</b>
<b>Year ended 30 June 2016</b>			
Balance at the beginning of year	119,120	59,643	178,763
Additions	197,362	10,850	208,212
Additions through acquisition of entity	73,988	2,536	76,524
Depreciation expense	(115,400)	(13,229)	(128,629)
Foreign exchange movements	80	(1)	79
<b>Balance at the end of the year</b>	<b>275,150</b>	<b>59,799</b>	<b>334,949</b>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$
<b>16 Intangible Assets</b>		
Goodwill		
Cost	6,128,270	6,128,270
Accumulated impairment losses	<u>(1,020,000)</u>	<u>(1,020,000)</u>
<b>Net carrying value</b>	<u>5,108,270</u>	<u>5,108,270</u>
Intellectual property		
Cost	12,945,000	13,364,132
Accumulated amortisation and impairment	<u>(2,433,575)</u>	<u>(1,936,456)</u>
<b>Net carrying value</b>	<u>10,511,425</u>	<u>11,427,676</u>
Development costs		
Cost	1,975,252	1,242,157
Accumulated amortisation and impairment	<u>(309,975)</u>	<u>(115,616)</u>
<b>Net carrying value</b>	<u>1,665,277</u>	<u>1,126,541</u>
<b>Total Intangibles</b>	<u>17,284,972</u>	<u>17,662,487</u>

**(a) Movements in carrying amounts of intangible assets**

	Intellectual property	Goodwill	Development costs	Total
	\$	\$	\$	\$
<b>Year ended 30 June 2017</b>				
Balance at the beginning of the year	11,427,676	5,108,270	1,126,541	17,662,487
Additions	-	-	733,095	733,095
Amortisation	<u>(916,251)</u>	-	<u>(194,359)</u>	<u>(1,110,610)</u>
<b>Closing value at 30 June 2017</b>	<u>10,511,425</u>	<u>5,108,270</u>	<u>1,665,277</u>	<u>17,284,972</u>
<b>Year ended 30 June 2016</b>				
Balance at the beginning of the year	362,677	2,126,815	493,379	2,982,871
Additions	12,000,000	2,981,455	693,518	15,674,973
Amortisation	<u>(935,001)</u>	-	<u>(60,356)</u>	<u>(995,357)</u>
<b>Closing value at 30 June 2016</b>	<u>11,427,676</u>	<u>5,108,270</u>	<u>1,126,541</u>	<u>17,662,487</u>

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$

### 16 Intangible Assets continued

Intangible assets, other than goodwill have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the profit or loss. Goodwill has an indefinite life and is not amortised.

Intellectual property with a carrying value of \$111,426 (2016: \$214,284) relates to copyright in Intersect Alliance International Pty Ltd's software products. These products have a remaining amortisation period of approximately 1 year.

Intellectual property with a carrying value of \$10,400,000 (2016: \$11,200,000) relates to copyright in eMite Pty Ltd's software products. These products have a remaining amortisation period of 13 years.

Goodwill with a carrying value of \$2,126,815 (2016: \$2,126,815), has been assessed on a value in use basis has been allocated to the Intersect Alliance International Pty Ltd segment. Value in use has been determined by reference to the net present value of cash flow projections over the next 5 years, discounted at a rate of 12%. It is assumed that revenue will grow at 10% per annum over the 5 years of the model, and this will result in 5% per annum profit growth over the cycle. Management has based these assumptions on the targets set for the business.

Goodwill with a value of \$2,981,455 (2016: \$2,981,455), has been assessed on a value in use basis has been allocated to the eMite Pty Ltd segment. Value in use has been determined by reference to the net present value of cash flow projections over the next 4 years, discounted at a rate of 12%. It is assumed revenue growth averaging 90% per annum over the 4 years, as the business achieves the compounding revenue effect of monthly recurring subscription revenue. This results in the eMite business forecasting a reduced loss in 2018, and forecasting increasing profits from 2019 onwards until the end of the 4 year cycle. Management has based these assumptions on the targets set for the business.

### 17 Other Non-financial Assets

Prepayments	<u>125,498</u>	<u>126,628</u>
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### 18 Trade and Other Payables

Unsecured liabilities		
Trade payables	167,103	163,483
Sundry payables and accrued expenses	721,881	670,599
Other payables	<u>2,659</u>	<u>2,658</u>
	<u>891,643</u>	<u>836,740</u>

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying amounts are considered to be a reasonable approximation of fair value.

#### Financial liabilities at amortised cost classified as trade and other payables

Trade and other payables:		
- total current	<u>889,955</u>	<u>775,745</u>
Financial liabilities as trade and other payables	<u>889,955</u>	<u>775,745</u>

### 19 Deferred Income

Deferred income	<u>2,723,042</u>	<u>3,387,079</u>
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# Prophecy International Holdings Limited and Controlled Entities

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## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$
<b>20 Employee Benefits</b>		
CURRENT		
Long service leave	292,760	400,668
Annual leave	464,353	479,722
	<u>757,113</u>	<u>880,390</u>
NON-CURRENT		
Long service leave	<u>95,830</u>	<u>60,094</u>
<b>21 Issued Capital</b>		
64,009,784 (2016: 64,009,784) Ordinary shares	<u>28,469,564</u>	28,469,564
<b>(a) Ordinary shares</b>		
	<b>No.</b>	<b>No.</b>
At the beginning of the reporting period	64,009,784	55,409,784
Shares issued during the year	-	8,600,000
At the end of the reporting period	<u>64,009,784</u>	<u>64,009,784</u>

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Company does not have authorised capital or par value in respect of its shares.

### (b) Capital Management

The key objectives of the Company when managing capital is to safeguard its ability to continue as a going concern and maintain optimal benefits to stakeholders. The Company defines capital as its equity and net debt.

There has been no change to capital risk management policies during the year.

The Company manages its capital structure and makes funding decisions based on the prevailing economic environment and has a number of tools available to manage capital risk. These include the ability to adjust the size and timing of dividends paid to shareholders and the issue of new shares.

The Board monitors a range of financial metrics including return on capital employed and gearing ratios.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

2017	2016
\$	\$

### 22 Capital and Leasing Commitments

#### Operating Leases

Minimum lease payments under non-cancellable operating leases:

- not later than one year	385,014	226,834
- between one year and five years	414,097	628,738
	<u>799,111</u>	<u>855,572</u>

Operating leases have been taken out for premises in Adelaide, Sydney and America.

The Adelaide lease terminates on 30 June 2020.

The Sydney lease terminates on 30 September 2018.

The Prophecy Americas' Inc. lease terminates on 28 February 2019.

### 23 Contingencies

#### Contingent Liabilities

Prophecy International Pty Ltd, a controlled entity, has provided guarantees to third parties in respect of property lease rentals. The maximum amount payable is \$144,618 (2016: \$146,473).

Details of leases can be found in Note 22. The guarantees are secured by a fixed charge over Prophecy International Pty Ltd's bank balances.

No material losses are anticipated in respect to this contingency.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$
<b>24 Cash Flow Information</b>		
<b>(a) Reconciliation of result for the year to cashflows from operating activities</b>		
Profit for the year	1,955,759	2,416,038
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	1,218,425	1,091,424
- depreciation and amortisation from discontinued operations	14,092	32,562
- net (gain)/loss on sale of division	(1,835,095)	-
- foreign exchange (gain)/loss	75,257	(218,549)
- foreign exchange differences arising on translation of foreign subsidiaries	38,148	189,262
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	1,382,203	414,175
- (increase)/decrease in other assets	(96,246)	31,349
- (increase)/decrease in inventories	659	53,542
- (increase)/decrease in deferred tax asset	57,477	1,337
- increase/(decrease) in income in advance	(664,037)	1,278,333
- increase/(decrease) in trade and other payables	54,903	(564,975)
- increase/(decrease) in income taxes payable	(485,006)	(22,711)
- increase/(decrease) in deferred tax liability	66,717	219,164
- increase/(decrease) in other liabilities	125,001	-
- increase/(decrease) in employee benefits	(87,541)	(21,909)
Cashflows from operations	<u>1,820,716</u>	<u>4,899,042</u>
<b>(b) Credit standby arrangements with banks</b>		
Credit facility	40,000	30,000
Amount utilised	(3,772)	(4,811)
	<u>36,228</u>	<u>25,189</u>

The major facilities are summarised as follows:

Credit cards:

Prophecy International Pty Ltd, Intersect Alliance Pty Ltd, Promadis Pty Ltd and eMite Pty Ltd, controlled entities, have credit card facilities.



# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$

### 25 Events Occurring After the Reporting Date

The group disposed of the company Promadis Pty Ltd on 1 July 2017 thereby discontinuing its operations in the Legacy business segment. Its assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 June 2017. There was no cash consideration received for this disposal, however the company is due a royalty stream dependent on future sales. For more details refer to Notes 5 & 6.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### 26 Reserves and retained surplus

#### (a) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income - foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

#### (b) Share option reserve

This reserve records the cumulative value of employee service received for the issue of share options. When the option is exercised the amount in the share option reserve is transferred to share capital.

### 27 Tax

#### Current Tax Liability

Income tax payable	<u>129,717</u>	<u>614,723</u>
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#### Recognised deferred tax assets and liabilities

Deferred tax assets	<u>316,444</u>	<u>373,921</u>
Deferred tax liabilities	<u>496,615</u>	<u>429,898</u>

#### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following:

Tax losses	4,743,730	4,225,513
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Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therein.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

### 27 Tax continued

#### Deferred Tax Assets

	Opening Balance	Charged to Income	Charged directly to Equity	Transferred to asset held for sale	Closing Balance
	\$	\$	\$	\$	\$
Property, plant and equipment					
- tax allowance	1,961	(821)	-	-	1,140
Provisions - employee benefits	234,573	43,542	-	-	278,115
Unrealised foreign exchange/losses	(73,700)	(88,346)	46,763	-	(115,283)
Accruals	100,991	(2,033)	-	-	98,958
Deferred tax assets attributable to tax losses	110,106	-	-	-	110,106
s40-880 deduction	1,327	(442)	-	-	885
<b>Balance at 30 June 2016</b>	<b>375,258</b>	<b>(48,100)</b>	<b>46,763</b>		<b>373,921</b>
Property, plant and equipment					
- tax allowance	1,140	210	-	-	1,350
Provisions - employee benefits	278,115	(50,861)	-	(6,465)	220,789
Unrealised foreign exchange/losses	(115,283)	(44,161)	48,896	-	(110,548)
Accruals	98,958	(4,616)	-	-	94,342
Deferred tax assets attributable to tax losses	110,106	-	-	-	110,106
s40-880 deduction	885	(480)	-	-	405
<b>Balance at 30 June 2017</b>	<b>373,921</b>	<b>(99,908)</b>	<b>48,896</b>	<b>(6,465)</b>	<b>316,444</b>

#### Deferred Tax Liabilities

	Opening Balance	Charged to Income	Charged directly to Equity	Transferred to asset held for sale	Closing Balance
	\$	\$	\$	\$	\$
Work in progress	28,711	(24,826)	-	-	3,885
Prepayments	2,335	3,186	-	-	5,521
Other current assets	167,402	184,267	-	-	351,669
Unrealised foreign currency gains	74,361	(5,538)	-	-	68,823
<b>Balance at 30 June 2016</b>	<b>272,809</b>	<b>157,089</b>	<b>-</b>		<b>429,898</b>
Work in progress	3,885	14,767	-	-	18,652
Prepayments	5,521	(1,344)	-	(1,864)	2,313
Other current assets	351,669	103,534	-	-	455,203
Unrealised foreign currency gains	68,823	(48,376)	-	-	20,447
<b>Balance at 30 June 2017</b>	<b>429,898</b>	<b>68,581</b>	<b>-</b>	<b>(1,864)</b>	<b>496,615</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **28 Operating Segments**

#### **Segment information**

##### **Identification of reportable segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

##### **Basis of accounting for purposes of reporting by operating segments**

###### **(a) Accounting policies adopted**

Unless stated below, all amounts reported to the Board of Directors, being the chief operating decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

Income tax expense is calculated based on the segment operating net profit using a notional charge of 30%. The effect of taxable or deductible temporary differences is not included for internal reporting purposes.

An internally determined transfer price is set for all inter-entity sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates.

###### **(b) Segment assets**

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

###### **(c) Segment liabilities**

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

###### **(d) Unallocated items**

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- deferred tax assets and liabilities
- current tax liabilities
- intangible assets

**Prophecy International Holdings Limited and Controlled Entities**

ABN: 16 079 971 618

**Notes to the Financial Statements**

For the Year Ended 30 June 2017

28 Operating Segments continued

(e) Segment performance

	Legacy		SNARE		eMite		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>REVENUE</b>	\$	\$	\$	\$	\$	\$	\$	\$
External sales	654,652	729,786	6,457,781	7,617,038	1,954,375	3,945,586	9,066,808	12,292,410
Other revenue	16,048	29,671	1,501	4,656	103,648	7,160	121,197	41,487
<b>Total segment revenue</b>	<b>670,700</b>	<b>759,457</b>	<b>6,459,282</b>	<b>7,621,694</b>	<b>2,058,023</b>	<b>3,952,746</b>	<b>9,188,005</b>	<b>12,333,897</b>
<b>Segment operating profit/(loss)</b>	<b>(479,890)</b>	<b>27,839</b>	<b>2,330,614</b>	<b>3,775,721</b>	<b>(2,461,309)</b>	<b>(417,150)</b>	<b>(610,585)</b>	<b>3,386,410</b>

(f) Segment assets

<b>Segment assets</b>	<b>30,500,252</b>	23,738,787	<b>6,101,070</b>	7,120,556	<b>624,459</b>	1,290,740	<b>37,225,781</b>	32,150,083
- Capital expenditure	<b>8,900</b>	44,185	<b>18,609</b>	155,007	<b>35,091</b>	9,020	<b>62,600</b>	208,212
- Intangible assets	-	-	<b>733,095</b>	693,518	-	-	<b>733,095</b>	693,518
- Acquisitions	-	-	-	-	-	12,000,000	-	12,000,000

(g) Segment liabilities

<b>Segment liabilities</b>	<b>39,858,408</b>	32,067,613	<b>2,580,008</b>	3,132,830	<b>2,047,119</b>	1,002,116	<b>44,485,535</b>	36,202,559
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# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$

### 28 Operating Segments continued

#### (h) Reconciliations

*Reconciliation of segment revenue to consolidated statement of profit or loss and other comprehensive income*

Total segment revenue	<b>9,188,005</b>	12,333,897
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*Reconciliation of segment operating profit to the consolidated statement of profit or loss and other comprehensive income*

The Board meets on a monthly basis to assess the performance of each segment, net operating profit does not include non-operating revenue and expenses such as dividends, fair value gains and losses.

Segment net operating profit/(loss)	<b>(610,585)</b>	3,386,410
Income tax expense	<b>389,449</b>	(1,235,126)
Profit from discontinued operations	<b>2,176,895</b>	264,754
Total net profit after tax	<b>1,955,759</b>	2,416,038

*Reconciliation of segment assets to the consolidated statement of financial position*

Segment operating assets	<b>37,225,781</b>	32,150,083
Intersegment eliminations	<b>(31,458,733)</b>	(26,499,134)
Deferred tax assets	<b>316,444</b>	373,921
Intangible assets	<b>17,284,972</b>	17,662,487
Total assets per the consolidated statement of financial position	<b>23,368,464</b>	23,687,357

*Reconciliation of segment liabilities to the consolidated statement of financial position.*

Segment liabilities	<b>44,485,536</b>	36,202,559
Intersegment eliminations	<b>(39,892,907)</b>	(31,038,256)
Current tax liabilities	<b>129,717</b>	614,723
Deferred tax liabilities	<b>496,615</b>	429,898
Total liabilities per the consolidated statement of financial position	<b>5,218,961</b>	6,208,924

#### (i) Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers whereas segment assets are based on the location of the assets.

	2017		2016	
	Revenue	Assets	Revenue	Assets
Australia	<b>2,472,732</b>	<b>20,533,995</b>	3,490,365	19,818,253
United States	<b>5,782,975</b>	<b>2,272,409</b>	7,419,796	3,166,751
Europe	<b>879,017</b>	<b>562,060</b>	1,292,087	702,353
Asia	<b>53,281</b>	-	131,649	-
	<b>9,188,005</b>	<b>23,368,464</b>	12,333,897	23,687,357

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017	2016
	\$	\$

### 29 Related Parties

(a) The Group's main related parties are as follows:

(i) Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity are considered key management personnel.

For details of remuneration disclosures relating to key management personnel, refer to Note 7: Interests of Key Management Personnel (KMP) and the remuneration report in the Directors' Report.

Other transactions with KMP and their related entities are shown below.

(b) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd, a company directed by Grant R Miles, the Company Secretary and Director, provided Company Secretary and accounting services to the Group. Directors Fees of \$70,000 for Grant R Miles were paid to Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd as stated in the Remuneration Report included in the Directors' Report

	28,864	30,946
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### 30 Financial Risk Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and equity price risk.

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note		
<b>Financial Assets</b>			
Cash and cash equivalents	11	3,316,579	1,869,140
Loans and receivables	12	1,907,070	3,289,273
<b>Total financial assets</b>		<b>5,223,649</b>	<b>5,158,413</b>
<b>Financial Liabilities</b>			
Financial liabilities at amortised cost			
- Trade and other payables	18	891,643	836,740
<b>Total financial liabilities</b>		<b>891,643</b>	<b>836,740</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

### **30 Financial Risk Management continued**

#### **Objectives, policies and processes**

The Board of Directors receives overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivatives.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Financial Officer has been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place.

Prophecy International Holdings Limited and Controlled Entities does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

Mitigation strategies for specific risks faced are described below:

#### **(a) Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group and arises principally from the Group's receivables.

The group has a material credit risk exposure to the Commonwealth Bank of Australia and National Australia Bank, although the risk of a material loss from this exposure is considered to be very low.

The consolidated group does not hold any collateral in respect of any financial instruments.

There is no provision for impairment of receivables at 30 June 2017 or at 30 June 2016.

Although trade and other receivables are all unrated, no indicators of impairment have been found at 30 June 2017.

The group at present has two types of customers:

The first consists of small to medium organisations that renew their software licences annually. These organisations have been clients for many years and the consolidated group has experienced little bad debt history from these clients.

The second are new licence/service clients who in the main are large government organisations, and it is the consolidated group's policy to subject these organisations to credit verification procedures.

It is the consolidated group's policy to review all outstanding accounts monthly, and any overdue accounts are contacted to ascertain their payment intentions.

## Notes to the Financial Statements

For the Year Ended 30 June 2017

### 30 Financial Risk Management continued

#### (b) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- holding only creditor debt;
- no bank overdraft facilities;
- maintain a significant cash balance to offset any downturn in a quarter's trade performance;
- cash balances are spread over a mixture of on-call accounts and bank term deposits to maximise operational flexibility and interest receivable;
- foreign currency receipts are remitted to Australia regularly, converted to Australian dollars and banked in the abovementioned accounts to maximise interest receivable;
- cash flow projections are ascertained from the consolidated group's policy of reviewing all its business operations in detail on a quarterly basis, and the board agreeing the revised profit and cash outlooks for the year, and measuring actual performance against these on a monthly basis.

The table/s reflect maturity analysis for financial assets.

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets - cash flows realisable</b>								
Cash and cash equivalents	3,316,579	1,869,140	-	-	-	-	3,316,579	1,869,140
Trade, term and loans receivables	1,899,750	3,281,692	7,320	7,581	-	-	1,907,070	3,289,273
Total anticipated outflows	<b>5,216,329</b>	<b>5,150,832</b>	<b>7,320</b>	<b>7,581</b>	-	-	<b>5,223,649</b>	<b>5,158,413</b>
<b>Financial liabilities</b>								
Trade and other payables	891,643	836,740	-	-	-	-	891,643	836,740
Total contractual outflows	<b>891,643</b>	<b>836,740</b>	-	-	-	-	<b>891,643</b>	<b>836,740</b>

#### *Financial assets pledged as collateral*

No financial assets have been pledged as security for any financial liability.



# Prophecy International Holdings Limited and Controlled Entities

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## Notes to the Financial Statements

For the Year Ended 30 June 2017

### 30 Financial Risk Management continued

#### (c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

##### *i. Foreign exchange risk*

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in UK pounds and US dollars may impact on the Group's financial results unless those exposures are appropriately hedged.

Currently there are no hedges in place.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of operations.

	Net financial assets /(liabilities) in AUD \$			
	USD	EUR	GBP	Total AUD
	\$	\$	\$	\$
<b>2017</b>				
Consolidated				
Trade and other receivables	1,246,119	131,871	89,270	1,467,260
Trade and other payables	(16,621)	-	(10,198)	(26,819)
<b>2016</b>				
Consolidated				
Trade and other receivables	2,228,185	91,866	178,484	2,498,535
Trade and other payables	(73,190)	-	(10,813)	(84,003)

Forward exchange contracts

There were no outstanding forward exchange contracts as at 30 June 2017 or 30 June 2016.

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the US Dollar – Australian Dollar exchange rate, UK Pounds - Australian Dollar exchange rate and Euro – Australian Dollar exchange rate. There have been no changes in the assumptions calculating this sensitivity from prior years.

The year end rate is 0.77 US Dollars, 0.59 UK Pounds and 0.67 Euros.

If the Australian Dollar had strengthened and weakened against the US Dollar, UK Pound and Euro by 10% (30 June 2016: 10%) (30 June 2016: 10%) then this would have had the following impact:

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

### 30 Financial Risk Management continued

	2017		2016	
	+10%	-10%	+10%	-10%
<b>USD</b>				
Net results	<b>(89,689)</b>	<b>109,620</b>	(87,574)	107,035
Equity	<b>(53,518)</b>	<b>65,411</b>	(155,700)	190,300
<b>GBP</b>				
Net results	<b>(7,754)</b>	<b>9,477</b>	(4,424)	5,408
Equity	<b>(6,544)</b>	<b>7,998</b>	(18,758)	22,926
<b>Euro</b>				
Net results	<b>(60)</b>	<b>73</b>	(1,171)	1,431
Equity	-	-	-	-

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

#### Net fair values

#### Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the consolidated statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

	2017		2016	
	Net Carrying Value	Net Fair value	Net Carrying Value	Net Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	<b>3,316,579</b>	<b>3,316,579</b>	1,869,140	1,869,140
Trade and other receivables	<b>1,907,070</b>	<b>1,907,070</b>	3,289,273	3,289,273
<b>Total financial assets</b>	<b>5,223,649</b>	<b>5,223,649</b>	5,158,413	5,158,413
<b>Financial liabilities</b>				
Trade and other payables	<b>891,643</b>	<b>891,643</b>	836,740	836,740
<b>Total financial liabilities</b>	<b>891,643</b>	<b>891,643</b>	836,740	836,740

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2017

### 31 Parent entity

The following information has been extracted from the books and records of the parent, Prophecy International Holdings Limited and Controlled Entities and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, Prophecy International Holdings Limited and Controlled Entities has been prepared on the same basis as the consolidated financial statements except as disclosed below.

#### *Investments in subsidiaries, associates and joint ventures*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

#### *Tax consolidation legislation*

Prophecy International Holdings Limited and Controlled Entities and its wholly-owned Australian subsidiaries have formed an income tax consolidated group.

Each entity in the tax consolidated group accounts for their own current and deferred tax amounts. These tax amounts are measured using the 'stand-alone taxpayer' approach to allocation.

Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the parent entity.

The tax consolidated group has entered into a tax funding agreement whereby each entity within the group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by, or distribution to the head entity.

	2017	2016
	\$	\$
<b>Statement of Financial Position</b>		
Assets		
Current assets	8,018,173	7,476,737
Non-current assets	19,104,668	19,105,147
Total Assets	<u>27,122,841</u>	<u>26,581,884</u>
Liabilities		
Current liabilities	18,625,598	16,488,654
Non-current liabilities	128,123	613,072
Total Liabilities	<u>18,753,721</u>	<u>17,101,726</u>
Equity		
Issued capital	28,469,564	28,469,564
Retained earnings	(20,225,269)	(19,114,231)
Share option reserve	124,825	124,825
Total Equity	<u>8,369,120</u>	<u>9,480,158</u>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Total profit or loss for the year	<u>169,158</u>	<u>(190,474)</u>
<b>Total comprehensive income</b>	<u>169,158</u>	<u>(190,474)</u>

## **Prophecy International Holdings Limited and Controlled Entities**

ABN: 16 079 971 618

### **Notes to the Financial Statements**

**For the Year Ended 30 June 2017**

#### **31 Parent entity continued**

##### **Guarantees**

The parent entity has not entered into any guarantees as at 30 June 2017 or 30 June 2016.

##### **Contingent liabilities**

The parent entity did not have any contingent liabilities as at 30 June 2017 or 30 June 2016.

##### **Contractual commitments**

The parent entity did not have any commitments as at 30 June 2017 or 30 June 2016.

#### **32 Company Details**

The registered office of and principal place of business of the company is:

Prophecy International Holdings Limited and Controlled Entities

Level 1

76 Waymouth Street

Adelaide SA 5000

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Directors' Declaration

For the Year Ended 30 June 2017

The directors of the Company declare that:

1. the consolidated financial statements and notes for the year ended 30 June 2017 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
  - b. give a true and fair view of the financial position and performance of the consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have given the declarations required by Section 295A that:
  - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view.
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.

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



Ed Reynolds  
**Chairman**



Leanne Challans  
**Director**

Dated this 27<sup>th</sup> day of September, 2017



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## Independent Auditor's Report To the Members of Prophecy International Holdings Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Prophecy International Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

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

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

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**Key Audit Matters**

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

Key audit matter	How our audit addressed the key audit matter
<p><b>Revenue recognition Note 1 &amp; 2</b></p> <p>During the period ended 30 June 2017, the Group recognised \$9,188,005 in revenue.</p> <p>The Group generates revenue primarily from computer software license agreements. The agreements generally contain an initial licence, ongoing licensing and maintenance fees.</p> <p>Determining the appropriate allocation of the contract fees requires a degree of management judgement.</p> <p>This area is a key audit matter due to the estimation involved in assessing the status of these contracts.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Documenting the processes and assessing whether internal controls are designed effectively relating to revenue processing and recognition;</li> <li>• Reviewing management’s revenue recognition policies for each revenue stream against the requirements of AASB 118 <i>Revenues</i>;</li> <li>• Performing analytical procedures to understand the movements and trends in revenue and comparing against auditor expectations;</li> <li>• Selecting a sample of sales transactions and performing the following procedures:                             <ul style="list-style-type: none"> <li>- Tracing to supporting documentation to assess whether revenue was recognised in the appropriate period;</li> <li>- Determining if invoices were issued in line with the terms of the sales contracts; and</li> <li>- Agreeing the portion of the sales transaction recognised in work in progress and unearned income;</li> </ul> </li> <li>• Selecting a sample of transactions occurring just prior to and after year end, and tracing to supporting documentation to assess whether revenue transactions were recorded in the correct period; and</li> <li>• Assessing the adequacy of the Group’s disclosures within the financial statements.</li> </ul>



<p><b>Recoverable amount of intangible assets</b> <b>Note 1 &amp; 16</b></p>	
<p>At 30 June 2017, the carrying value of intangible assets was \$17,284,972. Of this balance, \$2,981,455 of goodwill and \$10,400,000 of intangibles were recognised relating to the eMite business segment. This represents a significant portion of the total Group's intangible assets.</p> <p>In accordance with AASB 136 <i>Impairment of Assets</i>, management is required to test intangible assets with indefinite useful lives and goodwill for impairment at least annually.</p> <p>Management has assessed that eMite Pty Ltd is one of three cash-generating units (CGUs), and have allocated goodwill and intangible assets to this CGU as part of the acquisition in the prior period.</p> <p>Management has tested for impairment by comparing the carrying amounts of the CGUs with their recoverable amounts and has determined that no impairment existed at 30 June 2017.</p> <p>Recoverable amounts were determined on a value in use basis. Value in use was determined by management by estimating the future cash inflows and outflows to be derived from the continuing use of the assets in the eMite CGU and applying the appropriate discount rate to those future cash flows.</p> <p>This is a key audit matter due to the judgements and estimates required in determining the appropriate CGUs, allocating assets to CGUs and calculating the recoverable amount on a value in use basis.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Documenting the processes and assessing whether internal controls are designed effectively relating to impairment considerations;</li> <li>• Evaluating management's assessment of CGUs and whether they meet the definition as prescribed by AASB 136;</li> <li>• Obtaining management's latest impairment assessment and discounted cash flow model and performing the following procedures:             <ul style="list-style-type: none"> <li>- Identifying the key assumptions in the model;</li> <li>- Obtaining evidence to support the key assumptions;</li> <li>- Performing sensitivity analysis on the key assumptions;</li> <li>- Testing the mathematical accuracy of the model;</li> <li>- Testing management's ability to perform accurate estimates by comparing historical forecasts to current year performance; and</li> <li>- Involving an auditor's expert to assess the reasonableness of the discount rate; and</li> </ul> </li> </ul> <p>Assessing the adequacy of the Group's disclosures within the financial statements.</p>
<p><b>Capitalised development costs</b> <b>Note 1 &amp; 16</b></p>	
<p>At 30 June 2017 the carrying value of capitalised development costs was \$1,665,277.</p> <p>In accordance with AASB 138 <i>Intangible Assets</i>, capitalised development costs must meet certain development criteria in order to be classified as an intangible asset. Assessing whether this criteria has been met requires an element of management judgement.</p> <p>This area is a key audit matter due to the degree of management judgement involved.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Documenting the processes and assessing whether internal controls are designed effectively relating to capitalised development costs;</li> <li>• Reviewing management's capitalisation policy to against the requirements of AASB 138;</li> <li>• Agreeing a sample of additions to underlying supporting documentation;</li> <li>• Evaluating management's assessment of future economic benefits to be derived from the capitalised development costs and challenging assumptions made by management;</li> <li>• Recalculating the amortisation expense recognised for the year;</li> <li>• Assessing the reasonableness of the amortisation period; and</li> <li>• Assessing the adequacy of the Group's disclosures within the financial statements.</li> </ul>





**Information Other than the Financial Report and Auditor's Report Thereon**

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

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

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

**Responsibilities of the Directors' for the Financial Report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

**Auditor's Responsibilities for the Audit of the Financial Report**

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

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

**Report on the Remuneration Report**

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Prophecy International Holdings Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618



## Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A stylized, handwritten signature of the Grant Thornton firm in blue ink.

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

A handwritten signature of I S Kemp in blue ink.

I S Kemp  
Partner - Audit & Assurance

Adelaide, 27 September 2017

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Additional Information for Listed Public Companies For the Year Ended 30 June 2017

#### ASX Additional Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 27<sup>th</sup> September 2017.

#### Substantial shareholders

The number of substantial shareholders and their associates are set out below:

#### Voting rights

##### *Ordinary Shares*

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

##### *Options*

No voting rights.

#### Distribution of equity security holders

Holding	Ordinary shares	
	Shares	Options
1 - 1,000	473	0
1,001 - 5,000	739	0
5,001 - 10,000	341	0
10,001 - 100,000	461	0
100,001 and over	73	0
<b>Total</b>	<b>2087</b>	<b>0</b>

There were 340 holders of less than a marketable parcel of ordinary shares.

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Additional Information for Listed Public Companies For the Year Ended 30 June 2017

Rank	Twenty Largest Shareholders	Numbers Held	% of Ordinary
1.	REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,640,000	11.94%
2.	DUNMOORE PTY LTD	5,004,052	7.82%
3.	MICROEQUITIES ASSET MANAGEMENT PTY LTD	3,816,885	5.96%
4.	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,358,576	3.68%
5.	CITICORP NOMINEES PTY LIMITED	2,243,342	3.50%
6.	MARIA O'CONNOR + ASSOCIATES PTY LTD	1,937,030	3.03%
7.	MR DARREN M GEROS + MS BELINDA GEROS (GEROS FAMILY A/C)	1,928,489	3.01%
8.	MR STUART C GEROS + MRS MICHELLE D GEROS (THE EMERALD POINT FAM A/C)	1,878,177	2.93%
9.	SMOOTHWARE PTY LTD	1,085,230	1.70%
10.	HOLDEN HOLDEN + ASSOCIATES PTY LTD	1,021,875	1.60%
11.	FIVE TALENTS LIMITED – NEW ZEALAND	900,000	1.41%
12.	MS CHRISTINE A HOLDEN + MR BRIAN P TOWLER (CHRISTINE HOLDEN S/F A/C)	800,000	1.25%
13.	MRS L R CHALLANS + MR S W CHALLANS	774,880	1.21%
14.	SILVERNINE PTY LTD	755,469	1.18%
15.	CUSTODIAL SERVICES LIMITED (BENEFICIARIES HOLDING A/C)	694,677	1.09%
16.	DR DEAN ANDARY	677,201	1.06%
17.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	623,858	0.97%
18.	ANDAMAX INVESTMENTS PTY LTD	622,122	0.97%
19.	MR DARREL RAY SCHNEIDER (SCHNEIDER FAMILY JV A/C)	552,159	0.86%
20.	MR CRAIG GRAEME CHAPMAN (NAMPAC DISCRETIONARY A/C)	500,000	0.78%

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Additional Information for Listed Public Companies For the Year Ended 30 June 2017

#### Substantial Shareholders

Substantial shareholders in the company are set out below:

Name	Ordinary Shares	% held
REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,640,000	11.94%
DUNMOORE PTY LTD	5,004,052	7.82%
MICROEQUITIES ASSET MANAGEMENT PTY LTD	3,816,885	5.96%

#### Other Information

Enquiries from shareholders should be addressed to Prophecy International Holdings Limited on (08) 8213 1200 or the Company's Share Registry, Computershare Investor Services on 1300 55 61 61 from within Australia or +61 3 9415 4000 from outside Australia

Shareholders who have changed their address should advise the Company's Share Registry in writing. Shareholders who do not wish to receive an Annual Report should advise the Company's Share Registry in writing.

#### Voting Rights

Voting rights attaching to ordinary shares are on a show of hands. Every member present in person or by proxy has one vote, and upon a poll each share shall have one

#### Unissued equity securities

Options unissued - nil

#### Securities exchange

The Company is listed on the Australian Securities Exchange.