2013
2014
annual report

Prophecy **International Holdings Limited**

Corporate Directory
30 June 2014

Prophecy International Holdings Ltd
ACN 079 971 618
ABN 16 079 971 618

Directors
Edwin Reynolds
Anthony P Weber
Leanne R Challans
Matthew Michalewicz

Company Secretary
Grant R Miles

Registered Office
Level 2, 124 Waymouth Street
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South Australia 5000
Telephone + 61 8 8211 6188
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Subsidiaries
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Telephone: +1 303 846 3044
Facsimile: +1 303 846 3045

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

Promadis Pty Ltd
Level 2, 124 Waymouth Street
Adelaide
South Australia 5000
Telephone: +61 8 8212 1516
Facsimile + 61 8 8211 6224

Intersect Alliance International Pty Ltd
Level 2, 124 Waymouth Street
Adelaide
South Australia 5000
Telephone + 61 8 8211 6188
Facsimile + 61 8 8211 6224

Email
info@prophecyinternational.com

Internet
prophecyinternational.com
basis2.com
promadis.com
intersectalliance.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 1
67 Greenhill Road
Wayville
South Australia 5034

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

Company Profile
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Prophecy designs, develops and markets software through its business partner channel to companies worldwide. Since 1980, our software has been used around the world by organisations ranging from small businesses through to the largest and most complex multinationals and government agencies.

Prophecy has built a strong reputation for its innovative technical and business software solutions and has established offices in Australia and the United States. These offices are also the support hubs for our network of business partners. Prophecy software has been deployed at over 500 sites in areas such as Australia, New Zealand, Asia, the US, the Caribbean, Britain, Europe and South Africa.

PRODUCT SET

Our product set includes Snare, basis2, e-foundation and Promadis, all of which are quality, market driven products, built using the latest technologies by highly skilled staff.

SNARE from Intersect Alliance

SNARE (System iNtrusion Analysis and Reporting Environment) is a very important part of an overall IT systems security strategy for all types of commercial and public sector organisations. Many thousands of organisations including Fortune 500, government agencies, multinational businesses and highly sensitive sites around the world rely on Snare every second of every day as the platform of choice for audit, collection, analysis, reporting, management and archival of event information.

SNARE is a comprehensive set of event monitoring and analysis tools designed to address complex and mission critical auditing requirements. It comprises two separate yet complementary components; the Snare Server and the Snare Agents. While both can run independently of each other, together they 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 defenses.

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.

SNARE is a well established solution with an impressive reference list. It has worldwide market potential that Prophecy will seek to exploit. System security is an area of ever growing importance and the SNARE product provides protection with a range of agents which are efficient, stable, reliable and easy to use.

basis2 suite of billing and customer information systems (CIS) for utilities by Prophecy

Function-rich and flexible enough for all regulated, transitioning and deregulated markets, basis2 allows companies to successfully compete in this evolving industry. basis2 is more than a Customer Information System, it is a solution that records, manages and reports on the most important activities within an organisation – those involving customers. Because of the depth of information recorded within the system and the ease with which it can be accessed, basis2 allows exceptional customer service at a lower cost of delivery. A key IT objective for a Utility Customer Services operation is to ensure that systems are capable of delivering users an holistic view of a customer’s interaction with the utility – both current and historic. The subsequent business benefits can be very significant. The basis2 suite is specifically designed to support this objective.

Company Profile
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The flexibility of basis2 enables it to be used for any metered, value or time measured product or service, therefore it is not limited to use only within the utilities industry. It can also be used by organisations such as councils and universities, needing to bill customers for a range of products and services. Prophecy has over 14 years experience in the utilities industry and a comprehensive understanding of the way utility companies work. basis2 has been developed in and for the Oracle RDBMS (Relational Database Management System) and Application Server technology, the single most commonly-used database and enterprise platform. The Oracle environment was used specifically to capitalise on the power and 'future-proofing' capabilities offered by this world leading technology. In addition to being developed in Oracle, basis2 also integrates with the Oracle E-Business Suite. The integration allows Oracle E-Business Suite and basis2 to seamlessly provide information critical to utility customers.

e-Foundation Prophecy enterprise software solutions
Our e-Foundation product suite provides organisations with a fully tailored, affordable, enterprise-wide solution. It delivers Internet technologies for logistics, e-commerce and back office applications and it enables large and middle market organisations to build and deploy web software applications in record time.

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.

Promadis BDM for Civil Registries
Everyone is touched by the vital record management function of a Registry Office, whether as a result of their own family genealogy (birth, marriage or death records) or through the decisions made as a result of the accumulated population statistics.

No matter the use, the need for accurate, reliable and efficient keeping of vital records in the Registry is essential both in fulfilling legislative obligations as well as minimising the budgets associated with running the Registry. New social and government considerations including National Security also increase the demand for delivering new and relevant information services such that BDM systems must be flexible and powerful to suit the constantly changing needs of the Office. As a cornerstone of "proof of identity", vital records and the verification of certificate information are a vital part of the framework of our society and our security. A centralised, secure, fast, reliable, efficient, feature rich and cost-effective software solution is essential to deliver services.

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Message from the Chairman
30 June 2014

Dear Fellow Shareholder,

The 2013-2014 year has been completed with an underlying normalised profit before tax of $1.69 million compared with $1.77 million before tax last year. The Board has taken up a one-off cost of $0.37 million in the form of an impairment of goodwill as set out in the notes to the accounts, and this has reduced the profit before tax to $1.32 million. This impairment is a non cash item and has no effect on the cash position of the company.

Revenues for the full year were up to $7.1 million from $6.9 million previously. Our Intersect Alliance business again showed the strongest growth with a total revenue increase of 15% and a 27% increase in new sales invoiced during the year. Sales activity for this division remains strong with an average 29% per annum new sales growth over the last two years and significant new marketing investment is now planned to increase growth rates in this area during the coming year.

Cash on hand at the end of the full year was $4.67 million compared to $2.69 million last year. Net cash provided through operating activities during the year was $2.15 million compared to $2.34 million in the previous year showing a continued strong cash-flow from the business.

Dividends paid out in the year amounted to $1.86 million, up from $1.51 million in the previous year. A final dividend of 0.75c per share has been declared to complete the year, bringing the full year dividend to 2.75 cents per share. The last 8 years has seen dividends totalling 23.25 cents per share

Prophecy maintains a very strong balance sheet with no debt, cash on hand and valuable intellectual property assets.

Prophecy continues to run four business units, comprising:

- **Intersect Alliance**

  The Intersect Alliance business revolves around the Snare product set, which provides software solutions in the IT security market. The Snare solution has a very strong reputation with worldwide recognition through many well known government and large corporate users. Its sales model incorporates a larger number of smaller sales than our other products provide, leading to smoother revenue and profit flows. Prophecy has added both sales and development resources to allow this business to grow its invoiced new sales by 27% in the year. As a result, total revenues grew by 15% and even though we have added new costs, the business still achieved a respectable profit. The Snare product set still has tremendous growth opportunities which we plan to exploit during the 2014-15 year. It continues to be an exciting business with great potential going forward.

- **basis2 Utilities and Tax Billing Suite**

  Our consulting team continued to provide high quality services to our basis2 customers, resulting in a number of projects including the implementation of automated meter reading for one customer, and a significant software upgrade for another.

  New sales for basis2 were slow during the year, but a number of opportunities have arisen in recent months which we look to close during 2015.

- **Legacy offerings, Prophecy Classic, ProphecyOpen and e-Foundation**

  The legacy systems have been running as a profitable unit for some time, continuing to do so in the 2013-14 year. These mature products provide stable and secure solutions for our traditional customers. They have performed very well over the past year and maximum uptimes have been achieved. Our e-Foundation rapid application development software continues to show its strengths with timely delivery of customer enhancements in short time periods.

Message from the Chairman

30 June 2014

- **Promadis**

  Promadis has continued to make solid progress with its Births, Deaths and Marriages (BDM) registry software. Two major projects for the Australian Capital Territory Office of Regulatory services are progressing well, with new functionality planned for the 2015 financial year. Promadis BDM was also implemented in the Solomon Islands during the 2014 financial year. Prior to this project, the Solomons had one of the lowest birth registration rates among the Pacific nations. The implementation of the Promadis software aims to assist the Solomon Islands to significantly improve in this area. Continued interest in the BDM software is expected to results in a new project for implementation during the 2014-15 year.

The Board focus this year is one of strong growth for Snare product sales. Resources are being invested in a major marketing push together with increased sales resources and an emphasis on new partnerships.

Our staff have once again performed very well during the year, bringing a number of significant projects to a successful conclusion, on time and on budget.

Work has been progressing on our next acquisition with many opportunities reviewed so far. We are working with strict criteria to ensure that our next purchase once again adds value to the Prophecy Group. We expect this next acquisition to take place during the 2015 financial year.

Ed Reynolds
Chairman

Directors' Report
30 June 2014

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 2014.

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	
Qualifications	Bachelor of Science
Experience	Ed was appointed Non-executive Chairman on 8th December 2006. 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	7,250,000 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	None
Other directorships in listed entities held in the previous three years	None

Anthony P (Tony) Weber	
Qualifications	FCPA, FCIS
Experience	Tony has been an active member of the Prophecy Board throughout the past 17 years. He has extensive experience in the IT industry, with a strong focus on finance and general management. Tony's experience with multi-national and public companies provides valuable input and direction to the Prophecy Board. Tony took on the role of Chief Financial Officer and Company Secretary on 19th October 2005. He has since resigned from the Company Secretary role on 21 March 2013.
Interest in shares and options	347,000 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 Member of the Strategy Committee
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None

Directors' Report
30 June 2014

1. General information

Information on directors continued

Leanne Challans	
Qualifications	Bachelor of Science
Experience	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 Limited and no options
Special responsibilities	Managing Director
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None

Matthew Michalewicz	
Qualifications	Bachelor of Science
Experience	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	None
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None
Date Appointed	15 May 2014

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

Directors' Report
30 June 2014

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 profit of the Group amounted to $906,848, after providing for income tax. This represented a 28.5% decrease on the results reported for the year ended 30 June 2013. The decrease was largely due to a one-off cost of $370,000 in the form of an impairment to goodwill.

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 Chairman" in this report.

3. Other items

Significant changes in state of affairs

There have been no significant changes in the state of affairs of entities in the Group during the year.

Dividends paid or recommended

Interim unfranked ordinary dividend of 2.0 (2013: 2.0) cents per share paid on 3 April 2014	$ 1,108,196
Final unfranked ordinary dividend of 0.75 cents per share declared on 18 September 2014 to be paid on 9 October 2014	$ 415,574
2013 final unfranked dividend declared in the prior year, paid on 2 October 2013	$ 753,146

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 or the state of affairs of the Group in future financial years.

Future developments and results

Comments on the company’s future direction are included in the section headed “Message from the Chairman” of this report.

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 Hayes Knight, SA & NT.

Directors' Report
30 June 2014

3. Other items continued

Meetings of directors

During the financial year, 38 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	12	12	12	12
Anthony P (Tony) Weber	12	12	2	2	12	12	12	12
Leanne Challans	12	12	2	2	-	-	-	-
Matthew Michalewicz	2	2	-	-	-	-	-	-

Key management personnel options and rights holdings

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

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	Balance at end of year
30 June 2014					
Ed Reynolds	**8,000,000**	-	250,000	1,000,000	**7,250,000**
Anthony P (Tony) Weber	**605,000**	-	-	258,000	**347,000**
Leanne Challans	**774,880**	-	-	-	**774,880**
Matthew Michalewicz	-	-	-	-	-
Other KMP					
Darren Shaw	**289,000**	-	-	-	**289,000**
Peter Barzen	**466,203**	-	-	466,203	-
	10,135,083		250,000	1,724,203	**8,660,880**

Other key management personnel transactions

For details of other transactions with key management personnel, refer to Note 29: Related Parties:

Indemnification and insurance of officers and auditors

In the financial year, the company has paid premiums of $51,703 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.

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 2014:

	2014 $	2013 $
Taxation services	**39,058**	33,664

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.

3. Other items continued

Remuneration report 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 values 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 2008 Annual General Meeting, the maximum amounts payable to directors is $240,000. This compares with an actual charge of $130,167 in the 2013/14 year.

Key management personnel receive a superannuation guarantee contribution required by the law, which is currently 9.25%, 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
Anthony P Weber (Appointed 24 September 1997)	Non-executive Director
Leanne R Challans (Appointed 8 December 2006)	Managing Director
Matthew Michalewicz (Appointed 15 May 2014)	Non-executive Director

Executives

Darren Shaw (Resigned 19 December 2013)	CEO - Promadis
Peter Barzen (Appointed 1 September 1999)	EVP Sales and Alliances

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
30 June 2014

3. Other items continued

Remuneration report 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.

	2014	**2013**	**2012**	**2011**	**2010**
	$	**$**	**$**	**$**	**$**
Revenue	**7,078,458**	6,888,043	6,702,793	4,867,959	5,053,366
Net Profit	**906,848**	1,268,506	802,282	(9,028)	333,135
Share Price at Year-end	**0.43**	0.33	0.21	0.19	0.41
Dividends Paid (cents)	**3.50**	3.00	1.25	1.00	4.00

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**
		%	**%**	**%**
KMP				
Leanne Challans	Managing Director	6	-	-
Darren Shaw	CEO - Promadis	9	-	-
Peter Barzen	EVP Sales and Alliances	26	-	-

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.

3. Other items continued

Remuneration report continued

Service agreements continued

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)

Darren Shaw resigned on the 19th of December 2013.

Remuneration details for the year ended 30 June 2014

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

	Short Term				Post Employment	Total
	cash salary fees	bonus	consulting fees	health care & allowances	pension and superannuation	
2014	$	$	$	$	$	$
Directors						
Ed Reynolds	39,000	-	80,554	-	3,608	123,162
Anthony P (Tony) Weber	52,500	-	68,570	-	11,199	132,269
Matthew Michalewicz (Appointed - 15 May, 2014)	9,167	-	-	-	-	9,167
KMP						
Leanne Challens	171,600	12,264	-	-	17,007	200,871
Darren Shaw (Resigned - 19 December, 2013)	87,082	11,453	-	14,091	7,952	120,578
Peter Barzen	142,480	68,350	-	20,596	36,294	267,720
	501,829	92,067	149,124	34,687	76,060	853,767

The remuneration detailed above for Ed Reynolds includes director's fees of $68,500 and consulting fees of $51,054 (2013 – director's fees $55,000 and consulting fees $23,808) of which $80,554 was paid to Reyer Investments Pty Limited, a company in which Ed Reynolds is a director and shareholder. The consulting fees were at arm's length.

The remuneration detailed above for Anthony P (Tony) Weber includes director's fees of $52,500 and consulting fees of $68,570 which were paid as salary (2013 – director's fees $46,000 and consulting fees $62,844).

3. Other items continued

Remuneration report continued

Remuneration details for the year ended 30 June 2014 continued

Short term bonus for L R Challans relates to commission payments on licence fee revenue from sales of Intersect Alliance International Pty Ltd products to customers, in accordance with an incentive plan approved on 13th February 2012. The purpose of the incentive is to increase licence fee revenues and so improve shareholder wealth.

Short term bonus for D Shaw relates to commission payments on licence fee revenue from sales of Promadis Pty Ltd products to customers and profit share, in accordance with an incentive plan approved on 27th September 2012. The purpose of the incentive is to increase licence fee revenues 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.

	Short Term				Post Employment	Total
	cash salary fees	bonus	consulting fees	health care & allowances	pension and superannuation	
2013	**$**	**$**	**$**	**$**	**$**	**$**
Directors						
Ed Reynolds	35,500	-	50,308	-	3,195	89,003
Anthony P (Tony) Weber	46,000	-	62,844	-	9,796	118,640
KMP						
Leanne Challens	168,301	10,568	-	-	16,098	194,967
Darren Shaw	155,500	12,383	-	30,000	13,995	211,878
Peter Barzen	138,279	83,119	-	18,759	35,252	275,409
	543,580	106,070	113,152	48,759	78,336	889,897

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 89% of 'yes' votes on its Remuneration Report for the financial year ending 30 June 2013. The company received no specific feedback on its Remuneration Report at the Annual General Meeting.

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.

Directors' Report
30 June 2014

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2014 has been received and can be found on page 25 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	Leanne Challans
Chairman	**Director**

Dated this 24th day of September, 2014

Prophecy also establishes and maintains a program to provide an appropriate level of insurance cover for professional indemnity, directors, officers and public and product liability.

Notwithstanding the Board considers its current composition to be appropriate, it has in place an active program for assessing whether individual directors and the Board as a whole have the skills and knowledge necessary to discharge their responsibilities in accordance with the Board's governance arrangements. Any deficiencies identified by this program can be addressed in a number of ways, including training and the employment of specialist staff.

Audit Committee

The Audit Committee was established by the Board in 1998, and continued to meet regularly during the reporting period. Its membership comprises the Non-Executive Director A P Weber (Chairman) and Non-Executive Chairman E Reynolds. A representative of the company's external auditors attends Audit Committee meetings by invitation.

The functions carried out by the Audit Committee are to:

- Provide the Board with an additional review and assurance regarding the accuracy and appropriateness of financial policies adopted in preparation of half year and full year financial results.
- Review internal controls of the Group and its overseas operations (including audit of the risk management policies applicable to the company's business).
- Recommend the scope of external audit activities and fees.
- Audit and review compliance with statutory and regulatory obligations.
- Periodically review the Group's balance sheets.
- Audit and review compliance with the Levels of Authority and approval policies established by the Board.
- Review and recommend improvements to the company's financial, regulatory and other risk management procedures.
- Monitor the financial and regulatory obligations of the company's overseas operations, in particular by requiring and monitoring the close involvement of the Finance Department in ensuring those obligations are met.

Matters dealt with by the Audit Committee and recommendations made by it are reported to and acted upon by the Board.

Strategy Committee

The Strategy Committee was established in July 2001, and continued to meet through the reporting period.

Its membership comprises Non-Executive Chairman E Reynolds (Chairman) and Non-Executive Director A P Weber.

It meets as required to set the strategic direction of the company, and to provide direction on specific opportunities that may arise.

Remuneration Committee

A Remuneration Committee was established in July 2001, and continued to meet through the reporting period.

Its membership comprises Non-Executive Director A P Weber (Chairman) and Non-Executive Chairman E Reynolds.

The Remuneration Committee is responsible for the review of remuneration packages for executive directors and senior management, and the general principles of remuneration for all company staff. It also gives consideration to remuneration issues affecting directors, and makes recommendations to the Board for its review and consideration.

ASX Corporate Governance Council - Corporate Governance - Principles and Recommendations 2nd Edition

The Board has considered each of the eight (8) Principles of Good Corporate Governance and sets out below Prophecy's (PRO) compliance or otherwise with each of the principles.

Principle 1: Lay solid foundations for management and oversight

Principle:
Companies should establish and disclose the respective roles and responsibilities of Board and management.

PRO Position:
PRO have four (4) Board Directors - Chairman, Managing Director and two (2) Non-Executive Directors, and one (1) Senior Executive. Performance over the past 5 financial years has proved this to be an effective combination

Recommendations:

Recommendation 1.1:
Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

PRO View:
PRO has a documented policy on the Authorities and Delegations of the Board and the Senior Executive Functions.

Recommendation 1.2:
Companies should disclose the process for evaluating the performance of senior executives.

PRO View:
PRO has documented the process for evaluating Senior Executive performance.

Recommendation 1.3:
Companies should provide the information indicated in the Guide to reporting on Principle 1.

PRO View:
No further reporting is considered necessary.

Principle 2: Structure the Board to add Value

Principle:
Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

PRO Position:
PRO have a Board of four (4) experienced directors including the Managing Director. The Board believe that over the past 5 financial years, it has performed an effective job in difficult global conditions. PRO appointed the fourth director recently to provide an additional sales and marketing skill set to the Board.

Recommendations:

Recommendation 2.1:
A majority of the Board should be independent directors.

PRO View:
The recent director appointment was an independent director. PRO will move to a majority of independent directors over time.

Recommendation 2.2:
The chair should be an independent director.

PRO View:
Appointing an additional director for the role of chairman is not considered cost effective until the company grows considerably.

Recommendation 2.3:
The roles of chair and chief executive office should not be exercised by the same individual.

PRO View:
These roles are split in current organisation.

Recommendation 2.4:
The Board should establish a nomination committee

PRO View:
There is no expectation that a further increase in Board numbers will be required in the short term and so a nomination committee is not required.

Recommendation 2.5:
Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

PRO View:
PRO has documented the process for evaluating the performance of the Board, its committees and directors.

Recommendation 2.6:
Companies should provide the information indicated in the Guide to reporting on Principle 2.

PRO View:
No further reporting is considered necessary.

Principle 3: Promote ethical and responsible decision-making

Principle:
To make ethical and responsible decisions companies should not only comply with their legal obligations, but should also consider the reasonable expectations of their stakeholders including; shareholders, employees, suppliers, creditors, consumers and the broader community in which they operate.

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The company is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent. Accordingly, the company is drafting a diversity policy to be implemented over the next twelve months.

This diversity policy outlines requirements for the Board to develop measurable objectives for achieving diversity, and annually assess both the objectives and the progress in achieving those objectives. Accordingly, the Board is developing the following objectives regarding gender diversity and aims to achieve these objectives over the next five years as director and senior executive positions become vacant and appropriately qualified candidates become available:

	2014		2015-2020	
	No.	%	No.	%
Women on the Board	1	25	1	25
Women in senior management roles	2	50	2	50
Women employees in the company	8	30	12	38

Recommendations

Recommendation 3.1:
Companies should establish a code of conduct and disclose the code or a summary of the code.

PRO View:
PRO have a documented Code of Conduct policy.

Recommendation 3.2:
Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.

PRO View:
Such a policy exists

Recommendation 3.3:
Companies should provide the information indicated in the Guide to reporting on Principle 3.

PRO View:
No further reporting is considered necessary.

Recommendation 3.4:
The company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Our recruitment processes encourage the development of diversity in our workplaces, bearing in mind that employees must have the required technological skills to be successful in their positions.

PRO View:
The board has drafted a diversity policy and it will be finalised and introduced over the next 12 months.

Principle 4: Safeguard integrity in financial reporting

Principle:
Companies should have a structure to independently verify and safeguard the integrity of their financial reporting. This requires companies to put in place a structure of review and authorisation designed to ensure the truthful and factual presentation of the company's financial position. The structure would include, for example:

- A review and consideration of the financial statements by the audit committee
- A process to ensure the independence and competence of the company's external auditors.

PRO Position:
Monthly, half and full year financial reports are prepared by the Group accountant, reviewed by the CFO and approved at a detailed level at monthly board meetings. The audit committee with external auditors present, review and recommend approval of half and full year financial statements.

Recommendations:

Recommendation 4.1:
The board should establish an audit committee.

PRO View:
An audit committee exists.

Recommendation 4.2:
The audit committee should be structured so that it:

- consists of only non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not chair of the board
- has at least three members.

PRO View:
The small size and composition of the current board does not allow all of these recommendations to be put in place. The external auditors attend most audit committee meetings.

Recommendation 4.3:
The audit committee should have a formal charter.

PRO View:
This charter exists.

Recommendation 4.4:
Companies should provide the information indicated in the Guide to reporting on Principle 4.

PRO View:
No additional reporting is required.

Corporate Governance Statement
30 June 2014

Principle 5: Make timely and balanced disclosure

Principle:
Companies should put in place mechanisms designed to ensure compliance with the ASX Listing Rule requirements.

Recommendations:

Recommendation 5.1:
Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

PRO View:
History shows that PRO Board submit numerous ASX announcements to keep market and shareholders informed of material information concerning the company.

Recommendation 5.2:
Companies should provide the information indicated in the Guide to reporting on Principle 5.

PRO View:
PRO has a documented Disclosure Policy.

Principle 6: Respect the rights of shareholders

Principle:
Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Recommendations

Recommendation 6.1:
Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy.

PRO View:
The Board believe they communicate adequately with a majority in size of shareholders. PRO have a documented Communications Policy.

Recommendation 6.2:
Companies should provide the information indicated in the Guide to reporting on Principe 6.

PRO View:
No additional reporting is considered necessary.

Corporate Governance Statement

30 June 2014

Principle 7: Recognise and manage risk

Principle:
Companies should establish a sound system of risk oversight and management and internal control.

Recommendations

Recommendation 7.1:
Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

PRO View:
At every monthly Board Meeting attended by the Managing Director, risks relating to individual sales programs, together with ongoing implementation projects and software development programs are reviewed in detail.

Recommendation 7.2:
The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

PRO View:
With a small company with only a small number of sales prospects and technical projects in progress at any time, a complex reporting system is not required.

Recommendation 7.3:
The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

PRO View:
The Board have received this certificate for the 2013/14 year.

Recommendation 7.4:
Companies should provide the information indicated in the Guide to reporting on Principle 7.

PRO View:
No further reporting is considered necessary.

Corporate Governance Statement
30 June 2014

Principle 8: Remunerate fairly and responsibly

Principle:
Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Recommendations

Recommendation 8.1:
The board should establish a remuneration committee.

PRO View:
A remuneration committee exists and is effective.

Recommendation 8.2:
Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

PRO View:
This structure exists.

Recommendation 8.3:
Companies should provide the information indicated in the Guide to reporting on Principle 8:

PRO View:
No further reporting is considered necessary.

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Grant Thornton

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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 2014, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Sheenagh Edwards
Partner - Audit & Assurance

Adelaide, 24 September 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2014

	Note	2014 $	2013 $
Revenue	2	**7,078,458**	6,888,043
Employee benefits expense		**(3,977,346)**	(3,842,627)
Depreciation and amortisation	3	**(177,724)**	(164,845)
Other expenses	3	**(1,235,074)**	(1,105,530)
Finance costs		**(636)**	(6,374)
Impairment of goodwill	15	**(370,000)**	-
Profit before income tax		**1,317,678**	1,768,667
Income tax expense	4	**(410,830)**	(500,161)
Profit from continuing operations		**906,848**	1,268,506
Profit for the year		**906,848**	1,268,506
Other comprehensive income, net of income tax			
Items that may be reclassified to profit or loss when specific conditions are met			
Exchange differences on translating foreign controlled entities		**73,286**	(62,915)
Other comprehensive income for the year, net of tax		**73,286**	(62,915)
Total comprehensive income for the year		**980,134**	1,205,591
Profit attributable to:			
Members of the parent entity		**906,848**	1,268,506
Total comprehensive income attributable to:			
Members of the parent entity		**980,134**	1,205,591
Earnings per share			
From continuing operations:			
Basic earnings per share (cents)	8	**1.67**	2.53
Diluted earnings per share (cents)	8	**1.67**	2.53

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As At 30 June 2014

	Note	2014 $	2013 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	**4,669,504**	2,693,254
Trade and other receivables	10	**1,043,293**	1,375,934
Work in progress	11	**46,761**	11,008
Other financial assets	12	**-**	1
Other assets	16	**62,304**	53,356
TOTAL CURRENT ASSETS		**5,821,862**	4,133,553
NON-CURRENT ASSETS			
Trade and other receivables	10	**1,404**	1,426
Property, plant and equipment	14	**130,833**	70,115
Deferred tax assets	27	**609,155**	686,621
Intangible assets	15	**3,476,450**	3,779,493
TOTAL NON-CURRENT ASSETS		**4,217,842**	4,537,655
TOTAL ASSETS		**10,039,704**	8,671,208
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	**289,470**	328,546
Current tax liabilities	27	**289,761**	(1,828)
Employee benefits	20	**705,678**	775,411
Other financial liabilities	18	**1,027,601**	885,096
TOTAL CURRENT LIABILITIES		**2,312,510**	1,987,225
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**93,429**	54,314
Employee benefits	20	**31,817**	24,513
Other liabilities	19	**-**	150,000
TOTAL NON-CURRENT LIABILITIES		**125,246**	228,827
TOTAL LIABILITIES		**2,437,756**	2,216,052
NET ASSETS		**7,601,948**	6,455,156
EQUITY			
Issued capital	21	**18,959,464**	16,931,464
Reserves		**(8,774)**	(82,060)
Retained earnings		**(11,085,306)**	(10,394,368)
Total equity attributable to equity holders of the Company		**7,865,384**	6,455,036
Non-controlling interest		**(263,436)**	120
TOTAL EQUITY		**7,601,948**	6,455,156

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2014

2014

	Note	Ordinary Shares $	Retained Earnings $	Foreign Currency Translation Reserve $	Option Reserve $	Non-controlling Interests $	Total $
Balance at 1 July 2013		**16,931,464**	**(10,394,368)**	**(206,885)**	**124,825**	**120**	**6,455,156**
Profit attributable to members of the parent entity		**-**	**906,848**	**-**	**-**	**-**	**906,848**
Total other comprehensive income for the year		**-**	**-**	**73,286**	**-**	**-**	**73,286**
Dividends provided for or paid	7	**-**	**(1,861,342)**	**-**	**-**	**-**	**(1,861,342)**
Shares issued during the year	21	**2,028,000**	**-**	**-**	**-**	**-**	**2,028,000**
Reserve transfer		**-**	**263,556**	**-**	**-**	**(263,556)**	**-**
Balance at 30 June 2014		**18,959,464**	**(11,085,306)**	**(133,599)**	**124,825**	**(263,436)**	**7,601,948**

2013

	Note	Ordinary Shares $	Retained Earnings $	Foreign Currency Translation Reserve $	Option Reserve $	Non-controlling Interests $	Total $
Balance at 1 July 2012		16,931,464	(10,156,580)	(143,970)	124,825	120	6,755,859
Profit attributable to members of the parent entity		-	1,268,506	-	-	-	1,268,506
Total other comprehensive income for the year		-	-	(62,915)	-	-	(62,915)
Dividends provided for or paid	7	-	(1,506,294)	-	-	-	(1,506,294)
Balance at 30 June 2013		16,931,464	(10,394,368)	(206,885)	124,825	120	6,455,156

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2014

	Note	2014 $	2013 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**7,443,436**	6,529,993
Payments to suppliers and employees		**(5,376,696)**	(4,396,917)
Interest received		**61,933**	75,496
Interest and other costs of finance paid		**(636)**	(6,374)
Income taxes refunded		**24,737**	142,219
Net cash provided by operating activities	24	**2,152,774**	2,344,417
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(92,508)**	(33,099)
Development expenditure		**(213,171)**	-
Net cash used by investing activities		**(305,679)**	(33,099)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of shares		**2,028,000**	-
Dividends paid by parent entity		**(1,861,342)**	(1,506,294)
Net cash provided by/(used by) financing activities		**166,658**	(1,506,294)
Net increase in cash and cash equivalents held		**2,013,753**	805,024
Cash and cash equivalents at beginning of year		**2,693,254**	1,893,832
Effects of foreign exchange rates on overseas cash holdings		**(37,503)**	(5,602)
Cash and cash equivalents at end of financial year	9	**4,669,504**	2,693,254

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2014

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 and authorised for issue by the Board on 24th September, 2014.

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 Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2014. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

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 13 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.

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 assets, 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 relates to current income tax expense plus deferred tax expense (being the movement in deferred tax assets and liabilities and unused tax losses during the year).

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax 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 tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

Deferred tax consequences relating to a non-monetary asset carried at fair value are determined using the

1 Summary of Significant Accounting Policies continued

(d) Income Tax continued

assumption that the carrying amount of the asset will be recovered through sale.

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 tax assets and liabilities are offset where there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset where there is a legal right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

Tax consolidated group

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

Classes of property, plant and equipment are measured at cost.

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

The depreciable amount of all property, plant and equipment is depreciated on a reducing balance method from the date that management determine that the asset is available for use.

Assets held under a finance lease and leasehold improvements are depreciated over the shorter of the term of the lease and the assets useful life.

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

Fixed asset class	Depreciation rate
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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise.

1 Summary of Significant Accounting Policies continued

(f) 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.

(g) 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:

(a) the amount at which the financial asset or financial liability is measured at initial recognition;

(b) less principal repayments;

(c) 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

(d) 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.

1 Summary of Significant Accounting Policies continued

(g) Financial instruments continued

(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.

(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 Company'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.

1 Summary of Significant Accounting Policies continued

(g) Financial instruments continued

Hedging

On initial recognition of the hedge, documentation is prepared which shows the relationship between the hedged item and the hedging instrument, the risk management plan for the hedge and the methods for testing prospective and retrospective effectiveness.

Cash flow hedges

Where the risk management plan is to reduced variability in cashflows for a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss – the hedge is deemed to be a cash flow hedge.

The effective portion of the change in the fair value of the derivative is taken to other comprehensive income until the period in which the non-financial asset affects profit or loss. Any ineffective portion of the change in fair value of the derivative is taken immediately to profit or loss.

Fair value hedges

Changes in the fair value of derivatives and the hedged item where the hedge has been designated as a fair value hedge are taken to profit or loss.

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.

1 Summary of Significant Accounting Policies continued

(g) Financial instruments continued

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(h) Impairment of non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset’s fair value less costs to sell and value in use, to the asset’s carrying amount. Any excess of the asset’s carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: Property, Plant and Equipment).

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

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

(i) Intangible Assets

Goodwill

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

i) the consideration transferred;

ii) any non-controlling interest; and

iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

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 2014

1 Summary of Significant Accounting Policies continued

(i) 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 years.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised as intangible assets only when technical feasibility studies identify the following recognition requirements:

- the development costs can be measured reliably;
- the project is technically and commercially feasible;
- the Group intends to and has sufficient resources to complete the project;
- the Group has the ability to use or sell the software.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

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. 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 estimated to be 5 years.

Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing as described in Note 15.

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.

1 Summary of Significant Accounting Policies continued

(i) Intangible Assets continued

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 risks factors.

(j) 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.

1 Summary of Significant Accounting Policies continued

(k) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits expected to be settled more than twelve months 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 national government bonds with terms to maturity that match the expected timing of cashflows. Changes in the measurement of the liability are recognised in profit or loss.

Employee benefits are presented as current liabilities in the consolidated statement of financial position if the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date regardless of the classification of the liability for measurement purposes under AASB 119.

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 9.25% 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.

(l) 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.

1 Summary of Significant Accounting Policies continued

(m) 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.

Bank overdrafts also form part of cash equivalents for the purpose of the consolidated statement of cash flows and are presented within current liabilities on the consolidated statement of financial position.

(n) 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 entity 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

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).

(o) 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.

Notes to the Financial Statements

For the Year Ended 30 June 2014

1 Summary of Significant Accounting Policies continued

(p) 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.

(q) 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.

(r) 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 payables 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.

(s) 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.

(t) Adoption of new and revised accounting standards

During the current year, the following standards became mandatory and have been adopted retrospectively by the Group:

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosure of Interests in Other Entities*
- AASB 13 *Fair Value Measurement*
- AASB 119 *Employee Benefits*

The accounting policies have been updated to reflect changes in the recognition and measurement of assets, liabilities, income and expenses and the impact of adoption of these standards is discussed below.

1 Summary of Significant Accounting Policies continued

(t) Adoption of new and revised accounting standards continued

AASB 10 *Consolidated Financial Statements* is effective for annual reporting periods beginning on or after 1 January 2013 and therefore the Group has applied it for the first time in these financial statements. AASB 10 includes a new definition of control, including additional guidance for specific situations such as control in a principal / agent situation and when holding less than majority voting rights may give control. AASB 10 supersedes the previous requirements of AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation - Special Purpose Entities* and resulted in consequential amendments to a number of other standards.

The Group has reviewed its investment in other entities to determine whether any changes were required to the consolidated entity under AASB 10. The composition of the consolidated entity is the same under AASB 10 and therefore there is no change to the reported financial position and performance.

AASB 11 *Joint Arrangements* replaces AASB 131 *Interests in Joint Ventures* and Interpretation 112 *Jointly-Controlled Entities - Non-monetary Contributions by Venturers* as well as consequential amendments to a number of other standards**.** AASB 11 uses the revised definition of control from AASB 10 and once joint control is determined, then classifies joint arrangements as either joint ventures or joint operations. Joint ventures are accounted for using the equity method, proportionate consolidation is not permitted under AASB 11. Joint operations are accounted for by incorporating the venturer's share of assets, liabilities, income and expenses into the financial statements. There were no changes to the accounting for joint arrangements under AASB 11.

AASB 12 *Disclosure of Interests in Other Entities* includes all disclosures relating to an entity's interest in associates, joint arrangements, subsidiaries and structured entities. On adoption of AASB 12, additional disclosures have been included in the financial statements in relation to investments held.

AASB 13 *Fair Value Measurement* does not change what and when assets or liabilities are recorded at fair value. It provides guidance on how to measure assets and liabilities at fair value, including the concept of highest and best use for non-financial assets. AASB 13 has not changed the fair value measurement basis for any assets or liabilities held at fair value, however additional disclosures on the methodology and fair value hierarchy have been included in the financial statements.

AASB 119 *Employee benefits* changes the basis for determining the income or expense relating to defined benefit plans and introduces revised definitions for short-term employee benefits and termination benefits.

The Group reviewed the annual leave liability to determine the level of annual leave which is expected to be paid more than 12 months after the end of the reporting period. Whilst this has been considered to be a long-term employee benefits for the purpose of measuring the leave under AASB 119, the effect of discounting was not considered to be material and therefore has not been performed.

(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.

1 Summary of Significant Accounting Policies continued

(u) Critical accounting estimates and judgments continued

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

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

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) New Accounting Standards and Interpretations

The accounting standards that have not been early adopted for the year ended 30 June 2014, but will be applicable to the group in future reporting periods, are detailed below. Apart from these standards, other accounting standards that will be applicable in future periods have been reviewed, however they have been considered to be insignificant to the group.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the group. Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements is provided below.

Year* ended *30 June 2015:

AASB 1031: Materiality

AASB 2013-4, Novation of Derivatives and Continuation of Hedge Accounting

AASB 2013-5, Investment Entities

AASB 2013-9, Conceptual Framework, Materiality and Financial Instruments

AASB 2014-1, Amendments to Australian Accounting Standards
These standards make changes to a number of existing Australian Accounting Standards and are not expected to result in a material change to the manner in which the Group's financial result is determined or upon the extent of disclosures included in future financial reports.

Year ended 30 June 2017: Amendments to AASB 116 and AASB 138, Clarification of acceptable methods of depreciation and amortisation
This standard will clarify that revenue based methods to calculate depreciation and amortisation are not considered appropriate. This will not result in a change to the manner in which the Group's financial result is determined as no such method is currently in use.

1 Summary of Significant Accounting Policies continued

(v) New Accounting Standards and Interpretations continued

Year ended 30 June 2018: IFRS 15: Revenue from Contracts with Customers
This standard will change the timing and in some cases the quantum of revenue received from customers. IFRS 15 requires an entity to recognise revenue by identifying for each customer contract, the performance obligations in the contract and the transaction price. The transaction price is then allocated against the performance obligations in the contract with revenue recognised when (or as) the entity satisfies each performance obligation. Management are currently assessing the impact of the new standard but it is not expected to have a material impact on the financial performance or financial position of the consolidated entity.

Year ended 30 June 2019: AASB 9: Financial Instruments
This standard introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are

- Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss).
- Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted by presenting changes in credit risk in other comprehensive income (OCI) and the remaining change in the statement of profit or loss.

This standard is not expected to result in a material change to the manner in which the Group's financial result is determined or upon the extent of disclosures included in future financial reports although the Group will quantify the effect of the application of AASB 9 when the final standard, including all phases, is issued.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Financial Statements
For the Year Ended 30 June 2014

2 Revenue and Other Income

	2014 $	2013 $
Revenue from continuing operations		
Sales revenue		
- sale of goods	**5,649,253**	5,372,107
- provision of services	**1,217,272**	1,290,440
	6,866,525	6,662,547
Other income		
- other interest received	**61,933**	75,496
- adjustment of earnout balance payable	**150,000**	150,000
Total Revenue	**7,078,458**	6,888,043

(a) Sale of Licences

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.

3 Result for the Year

The result for the year includes the following specific expenses:

	2014 $	2013 $
Expenses		
Salaries and wages	**2,951,986**	2,891,246
Superannuation contributions	**255,960**	244,035
Depreciation and amortisation expense comprises:		
- Depreciation - plant and equipment	**31,510**	29,844
- Amortisation - intellectual property	**135,001**	135,001
- Amortisation - development costs	**11,213**	-
	177,724	164,845
Impairment		
Impairment of goodwill	**370,000**	-
Other Expenses:		
Accounting fees	**97,237**	126,294
Consulting and professional fees	**111,989**	45,777
Electricity and water	**32,922**	45,188
Filing fees	**63,473**	55,998
Insurance	**102,168**	104,083
Rent expense	**184,679**	200,384
License fees	**27,745**	57,259
Communications expense	**40,962**	41,444
Travel and accommodation	**189,618**	214,401
Other expenses	**384,281**	214,702
	1,235,074	1,105,530

Notes to the Financial Statements

For the Year Ended 30 June 2014

	2014 $	2013 $

3 Result for the Year continued

(a) Research and Development Expenses

Research and Development costs of $467,310 are included in the total expenses for the Group and include salaries and wages and on-costs. Research and development costs for 2013 of $889,853 are included in the total expenses for the Group and include salaries and wages and on-costs.

Development costs for Intersect Alliance for 2014 of $213,171 have been capitalised and shown in the statement of financial position as an intangible asset.

4 Income Tax Expense

(a) The major components of tax expense comprise:

	2014 $	2013 $
Current tax expense	**263,140**	-
Deferred tax expense	**147,690**	500,161
Total income tax expense	**410,830**	500,161

(b) Reconciliation of income tax to accounting profit:

	2014 $	2013 $
Profit	**1,317,678**	1,768,667
Tax	**30%**	30%
	395,303	530,600
Add:		
Tax effect of:		
- non-deductible depreciation and amortisation	**40,500**	40,500
- goodwill impairment	**111,000**	-
- non-deductible expenses	**761**	539
- tax losses not recognised	**-**	110,383
	547,564	682,022
Less:		
Tax effect of:		
- over provision for income tax in prior year	**-**	3,873
- previously non-deductible expenses	**-**	28,609
- other	**40,652**	-
Recoupment of prior year tax losses not previously brought to account	**96,082**	149,379
Income tax expense	**410,830**	500,161
Weighted average effective tax rate	**31%**	28%

The increase in the weighted average effective consolidated tax rate for 2014 is a result of the impairment of goodwill.

(c) Income tax relating to each component of other comprehensive income:

	2014 $	2013 $
Timing differences on unrealised foreign exchange gains/(losses)	**(17,429)**	101,755

Notes to the Financial Statements

For the Year Ended 30 June 2014

	2014 $	2013 $

5 Key Management Personnel Disclosures

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

	2014 $	2013 $
Short-term employee benefits	**777,707**	811,561
Post-employment benefits	**76,060**	78,336
	853,767	889,897

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 30 June 2014.

6 Remuneration of Auditors

	2014 $	2013 $
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing the financial report	**63,500**	61,700
- taxation services	**39,058**	33,664
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial report of subsidiaries	**10,624**	9,171

7 Dividends

	2014 $	2013 $
a.The following dividends were declared and paid:		
Interim unfranked ordinary dividend of 2.0 (2013: 2.0) cents per share paid on 3 April 2014	**1,108,196**	1,004,196
Final unfranked ordinary dividend of 1.5 (2013: 1.0) cents per share paid on 2 October 2013	**753,146**	502,098
Total	**1,861,342**	1,506,294
Total dividends per share declared and paid	**3.50**	3.00
b. Proposed final 2014 unfranked ordinary dividend of 0.75 (2013: 1.5) cents per share to be paid 9 October 2014	**415,574**	753,147

The proposed final dividend for 2014 was declared after the end of the reporting period and therefore has not been provided for in the financial statements. There are no income tax consequences arising from this dividend at 30 June 2014.

Franking account

	2014 $	2013 $
The franking credits available for subsequent financial years at a tax rate of 30%	**-**	-

The above available balance is based on the dividend franking account at year-end adjusted for:

(a) Franking credits that will arise from the payment of the current tax liabilities;

(b) Franking debits that will arise from the payment of dividends recognised as a liability at the year end;

(c) 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 $ Nil (2013: $ Nil).

Notes to the Financial Statements

For the Year Ended 30 June 2014

	2014 $	2013 $
8 Earnings per Share		
(a) Reconciliation of earnings to profit or loss from continuing operations		
Profit from continuing operations	**906,848**	1,268,506
Earnings used to calculate basic EPS from continuing operations	**906,848**	1,268,506
Earnings used in the calculation of dilutive EPS from continuing operations	**906,848**	1,268,506
(b) Earnings used to calculate overall earnings per share		
Earnings used to calculate overall earnings per share	**906,848**	1,268,506
(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS		
	No.	**No.**
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**54,270,058**	50,209,784
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**54,270,058**	50,209,784
9 Cash and cash equivalents		
Cash at bank and in hand	**4,632,612**	1,924,504
Short-term bank deposits	**36,892**	768,750
	4,669,504	2,693,254
10 Trade and other receivables		
CURRENT		
Trade receivables	**975,828**	1,260,626
Accrued revenue	**58,364**	98,128
Other receivables	**9,101**	17,180
Total current trade and other receivables	**1,043,293**	1,375,934
NON-CURRENT		
Deposits	**24**	24
Other receivables	**1,380**	1,402
Total non-current trade and other receivables	**1,404**	1,426

10 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 $
2014							
Trade and other receivables	**1,044,697**	**-**	**189,198**	**41,597**	**57,792**	**55,791**	**700,319**
2013							
Trade and other receivables	1,377,360	-	194,903	150,600	50,952	410,701	570,204

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.

	2014 $	2013 $
(b) Financial assets classified as loans and receivables		
Trade and other receivables		
- total current	**1,043,293**	1,375,934
- total non-current	**1,404**	1,426
Financial assets	**1,044,697**	1,377,360

11 Inventories

	2014 $	2013 $
CURRENT		
At cost:		
Work in progress	**46,761**	11,008

Notes to the Financial Statements
For the Year Ended 30 June 2014

	2014 $	2013 $
12 Other financial assets		
Financial assets at fair value through profit or loss		
listed shares	-	1

13 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2014	Percentage Owned (%)* 2013
Parent Entity:			
Prophecy International Holdings Limited	Australia	**100.0**	100.0
Subsidiaries:			
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

*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 America Inc. One other investor holds 6.9%.

Management has reassessed its involvement in Prophecy America Inc in accordance with AASB 10's revised control definition and guidance. It has concluded that they have control over Prophecy America. 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.

Notes to the Financial Statements
For the Year Ended 30 June 2014

14 Property, plant and equipment

	2014 $	2013 $
PLANT AND EQUIPMENT		
Plant and equipment		
At cost	**603,582**	561,340
Accumulated depreciation	**(508,570)**	(505,167)
Total plant and equipment	**95,012**	56,173
Furniture, fixtures and fittings		
At cost	**243,701**	220,005
Accumulated depreciation	**(207,880)**	(206,063)
Total furniture, fixtures and fittings	**35,821**	13,942
Total property, plant and equipment	**130,833**	70,115

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:

Consolidated	Plant and Equipment $	Furniture, Fixtures and Fittings $	Total $
Year ended 30 June 2014			
Balance at the beginning of year	**56,173**	**13,942**	**70,115**
Additions	**68,543**	**23,965**	**92,508**
Depreciation expense	**(29,424)**	**(2,086)**	**(31,510)**
Foreign exchange movements	**(280)**	**-**	**(280)**
Balance at the end of the year	**95,012**	**35,821**	**130,833**

Consolidated	Plant and Equipment $	Furniture, Fixtures and Fittings $	Total $
Year ended 30 June 2013			
Balance at the beginning of year	47,154	19,580	66,734
Additions	33,099	-	33,099
Depreciation expense	(24,206)	(5,638)	(29,844)
Foreign exchange movements	126	-	126
Balance at the end of the year	56,173	13,942	70,115

Notes to the Financial Statements

For the Year Ended 30 June 2014

15 Intangible Assets

	2014 $	2013 $
Goodwill		
Cost	**3,146,815**	3,146,815
Accumulated impairment losses	**(370,000)**	-
Net carrying value	**2,776,815**	3,146,815
Patents, trademarks and other rights		
Cost	**1,364,132**	1,364,132
Accumulated amortisation and impairment	**(866,455)**	(731,454)
Net carrying value	**497,677**	632,678
Development costs		
Cost	**213,171**	-
Accumulated amortisation and impairment	**(11,213)**	-
Net carrying value	**201,958**	-
Total Intangibles	**3,476,450**	3,779,493

Consolidated	**Intellectual property - at cost $**	**Goodwill - at cost $**	**Development costs $**	**Total $**
Year ended 30 June 2014				
Balance at the beginning of the year	**632,678**	**3,146,815**	**-**	**3,779,493**
Additions	**-**	**-**	**213,171**	**213,171**
Amortisation	**(135,001)**	**-**	**(11,213)**	**(146,214)**
Impairment of goodwill	**-**	**(370,000)**	**-**	**(370,000)**
Closing value at 30 June 2014	**497,677**	**2,776,815**	**201,958**	**3,476,450**

Consolidated	**Intellectual property - at cost $**	**Goodwill - at cost $**	**Development costs $**	**Total $**
Year ended 30 June 2013				
Balance at the beginning of the year	767,679	3,146,815	-	3,914,494
Amortisation	(135,001)	-	-	(135,001)
Closing value at 30 June 2013	632,678	3,146,815	-	3,779,493

15 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 consolidated statement of profit or loss and other comprehensive income. Goodwill has an indefinite life and is not amortised.

Intellectual property with a carrying value of $77,679 (2013: $111,249) relates to copyright in Promadis Ltd's Forensic Science LIMS and Cardiology products. These products have a remaining amortisation period of 2.5 years.

Intellectual property with a carrying value of $419,998 (2013: $521,429) relates to copyright in Intersect Alliance International Pty Ltd's software products. These products have a remaining amortisation period of approximately 4 years.

Goodwill with a carrying value of $650,000 (2013: $1,020,000), determined on a value in use basis has been allocated to the Promadis 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 10%. It is assumed that 3% revenue growth will occur over the five year period. Management has based these assumptions on the targets set for the Promadis business.

Goodwill with a carrying value of $2,126,815 (2013: $2,126,815), determined 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 10%. It is assumed that revenue will continue to grow at 10% rates over the five years of the model, and this will result in 5% profit growth over the cycle. Management has based these assumptions on the targets set for the business.

Goodwill Impairment

The following table sets out the key assumptions for cash generating units that have significant goodwill allocated to them:

	Growth rate		Discount rate	
	2014	**2013**	**2014**	**2013**
	%	%	%	%
Promadis	3	19	10	15
Intersect	5	18	10	15

Impairment testing, taking into account these latest developments, resulted in the reduction of goodwill in 2014 to its recoverable amount for Promadis.

Based on the assumptions used and impairment expense of $370,000 in 2014 (2013: $Nil) has been recognised for the Promadis cash generating unit.

Apart from the considerations described in determining the value-in-use of the cash-generating units described above, management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

Notes to the Financial Statements

For the Year Ended 30 June 2014

	2014 $	2013 $
16 Other non-financial assets		
CURRENT		
Prepayments	**62,304**	53,356
17 Trade and other payables		
CURRENT		
Unsecured liabilities		
Trade payables	**61,665**	110,777
Sundry payables and accrued expenses	**225,149**	215,113
Other payables	**2,656**	2,656
	289,470	328,546
(a) Financial liabilities at amortised cost classified as trade and other payables		
Trade and other payables:		
- total current	**289,470**	328,546
Financial liabilities as trade and other payables	**289,470**	328,546
18 Other Financial Liabilities		
CURRENT		
Deferred income	**1,027,601**	885,096
19 Other liabilities		
NON-CURRENT		
Deferred consideration	**-**	150,000

The deferred consideration was not paid out as the profit of Intersect Alliance Pty Ltd for 2014 did not meet the earn out agreement requirements.

	2014 $	2013 $
20 Employee Benefits		
Current liabilities		
Long service leave	**459,400**	502,093
Provision for employee benefits	**246,278**	273,318
	705,678	775,411
Non-current liabilities		
Long service leave	**31,817**	24,513

Notes to the Financial Statements

For the Year Ended 30 June 2014

	2014 $	2013 $
21 Issued Capital		
55,409,784 (2013: 50,209,784) Ordinary shares	**18,959,464**	16,931,464

(a) Ordinary shares

	No.	No.
At the beginning of the reporting period	**50,209,784**	50,209,784
Shares issued during the year	**5,200,000**	-
At the end of the reporting period	**55,409,784**	50,209,784

	2014 $	2013 $
Ordinary shares	**16,931,464**	16,931,464
5,200,000 shares @ .39c issued during the year	**2,028,000**	-
	18,959,464	16,931,464

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

Capital of the Group is managed in order to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The Group's capital comprises of share capital, retained profit and non-controlling interests of the group.

There are no externally imposed capital requirements.

The Group monitors capital through the gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is defined as equity per the consolidated statement of financial position plus net debt.

	2014 $	2013 $
22 Capital and Leasing Commitments		
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	**184,021**	174,228
- between one year and five years	**16,803**	141,918
	200,824	316,146

Operating leases have been taken out for premises in Adelaide and Brisbane.

The Adelaide lease terminates on 30 June 2015.

The Brisbane premises are subject to a 12 month tenancy, terminating on 23 March 2015.

Prophecy Americas' Inc. has entered into a 24 month tenancy, terminating on 31 May 2016.

Notes to the Financial Statements
For the Year Ended 30 June 2014

23 Contingencies

Contingent Liabilities

Prophecy International Pty Ltd, a controlled entity, has provided a guarantee to a third party in respect of a property lease rental. The maximum amount payable is $26,982 (2013: $68,750).

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

No material losses are anticipated in respect to this contingency.

24 Cash Flow Information

(a) Reconciliation of result for the year to cashflows from operating activities

	2014 $	2013 $
Profit for the year	**906,848**	1,268,506
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	**177,724**	164,846
- impairment of goodwill	**370,000**	-
- foreign exchange (gain)/loss	**117,609**	126,380
- foreign exchange differences arising on translation of foreign subsidiaries	**(6,541)**	(62,913)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	**332,665**	(148,560)
- (increase)/decrease in inventories	**(35,753)**	61,825
- (increase)/decrease in deferred tax receivable	**77,466**	466,446
- (increase)/decrease in other assets	**(8,948)**	33,954
- increase/(decrease) in income in advance	**142,505**	358,706
- increase/(decrease) in trade and other payables	**(189,076)**	(144,958)
- increase/(decrease) in income taxes payable	**291,589**	146,264
- increase/(decrease) in deferred taxes payable	**39,115**	15,617
- increase/(decrease) in employee benefits	**(62,429)**	58,304
Cashflow from operations	**2,152,774**	2,344,417

(b) Credit standby arrangements with banks

	2014 $	2013 $
Credit facility	**20,000**	20,000
Amount utilised	**(453)**	(370)
	19,547	19,630

The major facilities are summarised as follows:

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

Notes to the Financial Statements

For the Year Ended 30 June 2014

	2014	2013
	$	$

25 Events Occurring After the Reporting Date

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, 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

	2014 $	2013 $
Current Tax Liability		
Income tax payable	**289,761**	(1,828)
Recognised deferred tax assets and liabilities		
Deferred tax assets	**609,155**	686,621
Deferred tax liabilities	**93,429**	54,314

27 Tax continued

	Opening Balance $	Charged to Income $	Charged directly to Equity $	Closing Balance $
Deferred tax assets				
Property, plant and equipment				
- tax allowance	4,053	(2,377)	-	1,676
Provisions - employee benefits	216,165	17,502	-	233,667
Unrealised foreign exchange	250,451	(5,944)	(101,755)	142,752
Accruals	104,753	2,274	-	107,027
Deferred tax assets attributable to tax losses	698,550	(497,051)	-	201,499
Balance at 30 June 2013	1,273,972	(485,596)	(101,755)	686,621
Property, plant and equipment				
- tax allowance	**1,676**	**(1,108)**	**-**	**568**
Provisions - employee benefits	**233,667**	**(19,681)**	**-**	**213,986**
Unrealised foreign exchange	**142,752**	**31,472**	**17,429**	**191,653**
Accruals	**107,027**	**(3,901)**	**-**	**103,126**
Deferred tax assets attributable to tax losses	**201,499**	**(103,446)**	**-**	**98,053**
s40-880 deduction	**-**	**1,769**	**-**	**1,769**
Balance at 30 June 2014	**686,621**	**(94,895)**	**17,429**	**609,155**
Deferred tax liability				
Work in progress	2,574	19,209	-	21,783
Prepayments	1,781	(903)	-	878
Other current assets	35	17,369	-	17,404
Unrealised foreign currency gains	34,307	(20,058)	-	14,249
Balance at 30 June 2013	38,697	15,617	-	54,314
Work in progress	**21,783**	**(4,350)**	**-**	**17,433**
Prepayments	**878**	**131**	**-**	**1,009**
Other current assets	**17,404**	**57,008**	**-**	**74,412**
Unrealised foreign currency gains	**14,249**	**(13,674)**	**-**	**575**
Balance at 30 June 2014	**54,314**	**39,115**	**-**	**93,429**

Unrecognised deferred tax assets

	2014 $	2013 $
Deferred tax assets have not been recognised in respect of the following:		
Tax losses	3,860,663	3,681,396

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.

Notes to the Financial Statements
For the Year Ended 30 June 2014

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. All segments derive revenue from the sale of computer software and associated consulting and maintenance services.

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 to those adopted in the annual financial statements of the Group.

Income tax expense

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 difference 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. This policy represents a departure from that applied to the statutory financial statements.

(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

28 Operating Segments continued

(e) Segment performance

	Prophecy International Holdings Ltd		Prophecy International Pty Ltd		Prophecy R&D Pty Ltd		Promadis Pty Ltd		Prophecy Americas Inc		Prophecy Europe Limited		Intersect Alliance International Pty Ltd		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
REVENUE																
External sales	-	-	1,416,777	1,472,047	-	-	1,198,846	1,286,234	2,388,842	1,848,381	169,325	162,280	1,690,981	1,891,508	6,864,771	6,660,450
Inter-segment revenue	-	-	1,959,190	1,623,537	200,100	185,300	-	-	-	125,027	16,810	11,157	-	-	2,176,100	1,945,021
Other revenue	180,753	150,318	7,596	20,046		-	-	-	522	-	-	-	24,816	57,229	213,687	227,593
Total segment revenue	180,753	150,318	3,383,563	3,115,630	200,100	185,300	1,198,846	1,286,234	2,389,364	1,973,408	186,135	173,437	1,715,797	1,948,737	9,254,558	8,833,064
Segment operating profit	108,731	92,468	684,466	533,863	200,100	185,300	(288,688)	107,970	124,287	(15,055)	(977)	(13,343)	489,759	877,465	1,317,678	1,768,668
Goodwill impairment	-	-	-	-	-	-	370,000	-	-	-	-	-	-	-	370,000	-

(f) Segment assets

	Prophecy International Holdings Ltd 2014	2013	Prophecy International Pty Ltd 2014	2013	Prophecy R&D Pty Ltd 2014	2013	Promadis Pty Ltd 2014	2013	Prophecy Americas Inc 2014	2013	Prophecy Europe Limited 2014	2013	Intersect Alliance International Pty Ltd 2014	2013	Total 2014	2013
Segment assets	14,371,302	11,646,010	15,128,639	14,159,036	552,398	503,284	398,943	690,175	721,206	754,890	800,829	545,030	2,400,305	2,674,180	34,373,622	30,972,605
- Capital expenditure	-	-	33,923	14,168	-	-	-	1,178	-	-	-	-	58,585	17,753	92,508	33,099
- Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	213,171	-	213,171	-

(g) Segment liabilities

	Prophecy International Holdings Ltd 2014	2013	Prophecy International Pty Ltd 2014	2013	Prophecy R&D Pty Ltd 2014	2013	Promadis Pty Ltd 2014	2013	Prophecy Americas Inc 2014	2013	Prophecy Europe Limited 2014	2013	Intersect Alliance International Pty Ltd 2014	2013	Total 2014	2013
Segment liabilities	5,707,490	5,063,316	17,199,660	16,811,427	3,577,793	3,673,188	411,089	852,065	4,537,821	4,779,825	227,312	21,727	512,354	1,147,412	32,173,519	32,348,960

Notes to the Financial Statements

For the Year Ended 30 June 2014

28 Operating Segments continued

(h) Reconciliations

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

	2014 $	2013 $
Total segment revenue	**9,254,558**	8,833,064
Intersegment eliminations	**(2,176,100)**	(1,945,021)
Total revenue	**7,078,458**	6,888,043

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.

	2014 $	2013 $
Segment net operating profit	**1,317,678**	1,768,668
Income tax expense	**(410,830)**	(500,161)
Total net profit after tax	**906,848**	1,268,507

Reconciliation of segment assets to the consolidated statement of financial position

	2014 $	2013 $
Segment operating assets	**34,373,622**	30,972,605
Intersegment eliminations	**(28,419,523)**	(26,767,511)
Deferred tax assets	**609,155**	686,621
Intangible assets	**3,476,450**	3,779,493
Total assets per the consolidated statement of financial position	**10,039,704**	8,671,208

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

	2014 $	2013 $
Segment liabilities	**32,173,519**	32,348,960
Intersegment eliminations	**(30,118,953)**	(30,185,394)
Current tax liabilities	**289,761**	(1,828)
Deferred tax liabilities	**93,429**	54,314
Total liabilities per the consolidated statement of financial position	**2,437,756**	2,216,052

Notes to the Financial Statements
For the Year Ended 30 June 2014

28 Operating Segments continued

(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.

	2014		2013	
	Revenue	Assets	Revenue	Assets
Australia	**3,305,008**	**8,426,545**	3,719,303	7,288,282
United States	**2,872,308**	**721,186**	2,509,193	754,867
Africa	**3,587**	**-**	4,780	-
Europe	**609,440**	**891,973**	560,545	628,059
Asia	**288,115**	**-**	94,222	-
	7,078,458	**10,039,704**	6,888,043	8,671,208

(j) Major customers

Revenues of approximately $ 1,471,765 (2013: $ 1,836,466) are derived from 3 (2013: 4) customers in Australia.

Revenues of approximately $1,561,456 (2013: $1,901,577) are derived from 4 (2013: 4) customers in the United States of America.

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 5: Key Management Personnel Disclosures and the remuneration report in the Directors' Report.

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

The consolidated financial statements include the financial statements of Prophecy International Holdings Limited and Controlled Entities and the following subsidiaries:

Name of subsidiary	% ownership interest 2014	% ownership interest 2013
Promadis Pty Ltd	**100.0**	100.0
Intersect Alliance International Pty Ltd	**100.0**	100.0
Prophecy International Pty Ltd as trustee for CSP Unit Trust	**100.0**	100.0
Prophecy R&D Pty Ltd	**100.0**	100.0
Prophecy Americas' Inc	**93.1**	93.1
Prophecy Europe Limited	**100.0**	100.0

(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:

Hayes Knight (SA) Pty Ltd, a company directed by Grant Miles, the Company Secretary, provided Company Secretarial and accounting services to the Group	**38,210**	26,200

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:

30 Financial Risk Management continued

	Note	2014 $	2013 $
Financial Assets			
Cash and cash equivalents	9	**4,669,504**	2,693,254
Financial assets at fair value through profit or loss			
- listed shares	12	**-**	1
Loans and receivables	10	**1,044,697**	1,377,360
Total financial assets		**5,714,201**	4,070,615
Financial Liabilities			
Financial liabilities at amortised cost			
- Trade and other payables	17	**289,470**	328,546
- Other liabilities	19	**-**	150,000
Total financial liabilities		**289,470**	478,546

Financial risk management policies

The Board of Directors has 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:

Specific financial risk exposures and management

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

(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.

30 Financial Risk Management continued

(a) Credit risk continued

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 2014 or at 30 June 2013.

Although trade and other receivables are all unrated, no indicators of impairment have been found at 30 June 2014.

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.

(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.

Notes to the Financial Statements

For the Year Ended 30 June 2014

30 Financial Risk Management continued

(b) Liquidity risk continued

The table/s below reflect maturity analysis for financial assets.

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Financial assets - cash flows realisable								
Cash and cash equivalents	**4,669,504**	2,693,254	**-**	-	**-**	-	**4,669,504**	2,693,254
Trade, term and loans receivables	**1,043,293**	1,375,934	**1,404**	1,426	**-**	-	**1,044,697**	1,377,360
Other investments	**-**	1	**-**	-	**-**	-	**-**	1
Total anticipated outflows	**5,712,797**	4,069,189	**1,404**	1,426	**-**	-	**5,714,201**	4,070,615
Financial liabilities								
Trade and other payables	**289,470**	328,546	**-**	-	**-**	-	**289,470**	328,546
Other liabilities	**-**	-	**-**	150,000	**-**	-	**-**	150,000
	289,470	328,546	**-**	150,000	**-**	-	**289,470**	478,546

Financial assets pledged as collateral

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

(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. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period, whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

ii. 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, US dollars and Euros 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.

30 Financial Risk Management continued

Foreign currency risk sensitivity analysis continued

	Net financial assets /(liabilities) in AUD $			
	USD	EUR	GBP	Total AUD
2014	**$**	**$**	**$**	**$**
Consolidated				
Cash and cash equivalents	**9**	**-**	**-**	**9**
Trade and other receivables	**469,530**	**64,190**	**102,299**	**636,019**
	469,539	**64,190**	**102,299**	**636,028**
Trade and other payables	**9,720**	**-**	**10,848**	**20,568**
2013				
Consolidated				
Cash and cash equivalents	49,599	-	5,957	55,556
Trade and other receivables	553,235	10,980	14,736	578,951
	602,834	10,980	20,693	634,507
Trade and other payables	15,067	-	10,211	25,278

Forward exchange contracts

There were no outstanding forward exchange contracts as at 30 June 2014 or 30 June 2013.

Foreign currency risk sensitivity analysis

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

The year end rate is 0.94 US dollars, 0.55 UK pounds and 0.69 Euros.

If the Australian Dollar had strengthened and weakened against the US dollar, UK pound and Euro by 10% ((30 June 2013: 10%) and 10% ((30 June 2013: 10%) respectively then this would have had the following impact:

	2014		2013	
	+10%	-10%	+10%	-10%
USD				
Net results	**(283,580)**	**346,598**	(23)	29
Equity	**(22,975)**	**28,081**	(12,060)	14,740
GBP				
Net results	**(2,641)**	**3,228**	(16)	36
Equity	**(23,529)**	**28,758**	(54,420)	66,514
Euro				
Net results	**(100)**	**122**	-	-
Equity	**-**	**-**	-	-

30 Financial Risk Management continued

Foreign currency risk sensitivity analysis continued

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 Company'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.

	2014		2013	
	Net Carrying Value	Net Fair value	Net Carrying Value	Net Fair value
	$	$	$	$
Financial assets				
Cash and cash equivalents	**4,669,504**	**4,669,504**	2,693,254	2,693,254
Trade and other receivables	**1,044,697**	**1,044,697**	1,377,360	1,377,360
Financial assets at fair value through profit or loss:	**-**	**-**	1	1
Total financial assets	**5,714,201**	**5,714,201**	4,070,615	4,070,615
Financial liabilities				
Trade and other payables	**289,470**	**289,470**	478,546	478,546
Total financial liabilities	**289,470**	**289,470**	478,546	478,546

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.

Notes to the Financial Statements

For the Year Ended 30 June 2014

31 Parent entity continued

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.

	2014 $	2013 $
Consolidated Statement of Financial Position		
Assets		
Current assets	**6,023,625**	4,841,356
Non-current assets	**4,150,032**	6,865,951
Total Assets	**10,173,657**	11,707,307
Liabilities		
Current liabilities	**5,566,249**	6,420,959
Non-current liabilities	**288,459**	3,150
Total Liabilities	**5,854,708**	6,424,109
Equity		
Issued capital	**18,959,464**	16,931,464
Retained earnings	**(14,765,340)**	(11,773,091)
Share option reserve	**124,825**	124,825
Total Equity	**4,318,949**	5,283,198
Consolidated Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	**(31,186)**	(40,271)
Total comprehensive income	**(31,186)**	(40,271)

Guarantees

The parent entity has not entered into any guarantees as at 30 June 2014 or 30 June 2013.

Contingent liabilities

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

Contractual commitments

The parent entity did not have any commitments as at 30 June 2014 or 30 June 2013.

Directors' Declaration

For the Year Ended 30 June 2014

The directors of the Company declare that:

1. the consolidated financial statements and notes for the year ended 30 June 2014 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 24th day of September, 2014

GrantThornton

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PROPHECY INTERNATIONAL HOLDINGS LIMITED

Report on the financial report

We have audited the accompanying financial report of Prophecy International Holdings Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

GrantThornton

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

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

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

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

Auditor's opinion
In our opinion:

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

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

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

Report on the remuneration report
We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Prophecy International Holdings Limited for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Sheenagh Edwards
Partner - Audit & Assurance

Adelaide, 24 September 2014

Additional Information for Listed Public Companies

30 June 2014

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 24th September 2014.

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

		Ordinary shares	
Holding		**Shares**	**Options**
1 - 1,000		189	0
1,001 - 5,000		316	0
5,001 - 10,000		184	0
10,001 - 100,000		318	0
100,000 and over		59	0
	Total	**1066**	0

There were 196 holders of less than a marketable parcel of ordinary shares.

Additional Information for Listed Public Companies

30 June 2014

Rank	Twenty Largest Shareholders	Numbers Held	% of Ordinary
1.	REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,312,300	13.20%
2.	MICROEQUITIES ASSET MANAGEMENT PTY LTD	6,765,453	12.21%
3.	DUNMOORE PTY LTD	6,104,052	11.02%
4.	MARIA O'CONNOR + ASSOCIATES PTY LTD	2,229,784	4.02%
5.	EQUITAS NOMINEES PTY LIMITED	1,728,448	3.12%
6.	MR TERRENCE P LEWIS	1,440,825	2.60%
7.	SMOOTHWARE PTY LTD	1,433,230	2.59%
8.	SILVERNINE PTY LTD	1,255,469	2.27%
9.	HOLDEN HOLDEN + ASSOCIATES PTY LTD	1,021,875	1.84%
10.	FIVE TALENTS LIMITED – NEW ZEALAND	853,447	1.54%
11.	CHRISTINE HOLDEN SUPER FUND	800,000	1.44%
12.	MRS LEANNE R CHALLANS + MR STEVEN W CHALLANS	774,880	1.40%
13,	CUSTODIAL SERVICES LIMITED (BENEFICIARIES HOLDING A/C)	710,884	1.28%
14.	DR DEAN ANDARY	692,201	1.25%
15.	ANDAMAX INVESTMENTS PTY LTD C/- TAYLOR COLLISON LTD C/- C P BALL	650,000	1.17%
16.	MRS GLENIS NITA O'DONNELL	505,949	0.91%
17.	MR ALLEN JOHN TAPP + MS MARIA POLYMENEAS (SUPER ACOUNT)	429,069	0.77%
18.	MR PETER J TATHEM + MRS THERESA A TATHEM (TABRIGG SUPER FUND A/C)	415,000	0.75%
19.	MR ALLAN WAYNE THYGESEN + MRS ANNIE FREDA THYGESEN	400,000	0.72%
20.	FORSYTH BARR CUSTODIANS LTD (FORSYTH BARR LTD-NOMINEE A/C)	396,673	0.72%

Additional Information for Listed Public Companies
30 June 2014

Substantial Shareholders
Substantial shareholders in the company are set out below:

Name	Ordinary Shares	% held
REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,312,300	13.20%
MICROEQUITIES ASSET MANAGEMENT PTY LTD	6,765,453	12.21%
DUNMOORE PTY LTD	6,104,052	11.02%

Other Information
Enquiries from shareholders should be addressed to Prophecy International Holdings Limited on (08) 8211 6188 or the Company's Share Registry, Computershare Investor Services on 1300 556 161 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.

PROPHECY INTERNATIONAL HOLDINGS LIMITED
ACN 079 971 618

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY MEMORANDUM

PROXY FORM

Date of Meeting
21 November 2014

Time of Meeting
11.00 am (Adelaide time)

Place of Meeting
The Rendezvous Grand Hotel
55 Waymouth Street
ADELAIDE SA 5000

NOTICE OF ANNUAL GENERAL MEETING

PROPHECY INTERNATIONAL HOLDINGS LIMITED
ACN 079 971 618

Notice is hereby given that the Annual General Meeting of shareholders of Prophecy International Holdings Limited (**Company**) will be held at The Rendezvous Allegra Hotel, 55 Waymouth Street, Adelaide, South Australia at 11.00 am (Adelaide time) on 21 November 2014.

Ordinary Business

To consider the Financial Statements for the financial year ended 30 June 2014 and accompanying reports of the Directors and Auditor.

Resolution 1: Re-election of Edwin Reynolds as Director

To consider and, if thought fit, pass, with or without amendment, the following resolution as an ordinary resolution:

'*That Mr Edwin Reynolds, being a Director of the Company, retires at the Annual General Meeting of the Company and being eligible, and offering himself, for re-election, is re-elected as a Director.*'

Resolution 2: Re-election of Matthew Michalewicz as Director

To consider and, if thought fit, pass, with or without amendment, the following resolution as an ordinary resolution:

'*That Mr Matthew Michalewicz, being a Director who was appointed since the last Annual General Meeting of the Company, retires pursuant to Listing Rule 14.4 and rule 9.2 of the Company's Constitution and being eligible, and offering himself, for re-election, is re-elected as a Director.*'

Resolution 3: Adoption of Remuneration Report

To consider and, if thought fit, pass, with or without amendment, the following resolution as an ordinary resolution:

'*That the Company adopt the Remuneration Report for the year ended 30 June 2014 as set out in the Company's Annual Report for the year ended 30 June 2014.*'

Resolution 4: Approval of 10% Placement Facility

To consider and, if thought fit, pass, with or without amendment, the following resolution as a **special resolution**:

'*That, pursuant to and in accordance with Listing Rule 7.1A and for all other purposes, shareholders approve the issue of Equity Securities up to 10% of the issued capital of the Company (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Memorandum.*'

DATED 26 SEPTEMBER 2014

BY ORDER OF THE BOARD
PROPHECY INTERNATIONAL HOLDINGS LIMITED

GRANT MILES
COMPANY SECRETARY

NOTES:

1. **Explanatory Memorandum**

   The Explanatory Memorandum accompanying this Notice of Annual General Meeting is incorporated in and comprises part of this Notice of Annual General Meeting and should be read in conjunction with this Notice of Annual General Meeting.

   Shareholders are specifically referred to the Glossary in the Explanatory Memorandum which contains definitions of capitalised terms used in both this Notice of Annual General Meeting and the Explanatory Memorandum.

2. **Voting Exclusion Statements**

   (a) **Resolution 3**

   A vote on Resolution 3 must not be cast (in any capacity) by or on behalf of any of the following persons:

   (i) a member of the Key Management Personnel details of whose remuneration are included in the Remuneration Report; or

   (ii) a Closely Related Party of such a member.

   However, a person described above may cast a vote on Resolution 3 as a proxy if the vote is not cast on behalf of a person described above and either:

   (i) the person is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or

   (ii) the person is the chair of the meeting and the appointment of the chair as proxy:

   - does not specify the way the proxy is to vote on the resolution; and
   - expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company or, if the Company is part of a consolidated entity, for the entity.

   (b) **Resolution 4**

   The Company will disregard any votes cast on Resolution 4 by a person (and any associates of such a person) who may participate in the 10% Placement Facility and a person (and any associates of such a person) who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, if Resolution 4 is passed.

   However, the Company will not disregard a vote if:

   (i) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the proxy form; or

   (ii) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

3. **Proxies**

   A shareholder entitled to attend this Meeting and vote is entitled to appoint a proxy to attend and vote for the shareholder at the Meeting. A proxy need not be a shareholder. If the shareholder is entitled to cast two or more votes at the Meeting the shareholder may appoint two proxies and may specify the proportion or number of votes which each proxy is appointed to exercise. A form of proxy accompanies this Notice.

To record a valid vote, a shareholder will need to take the following steps:

3.1 cast the shareholder's vote online by visiting www.investorvote.com.au and entering the shareholder's Control Number, SRN/HIN and postcode, which are shown on the first page of the enclosed proxy form; or

3.2 complete and lodge the manual proxy form at the share registry of the Company, Computershare Investor Services Pty Limited:

(a) by post at the following address:

Computershare Investor Services Pty Limited
GPO Box 242
MELBOURNE VIC 3001

OR

(b) by facsimile on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or

3.3 for Intermediary Online subscribers only (custodians), cast the shareholder's vote online by visiting www.intermediaryonline.com,

so that it is received no later than 11.00 am (Adelaide time) on 19 November 2014.

Please note that if the chair of the meeting is your proxy (or becomes your proxy by default), you expressly authorise the chair to exercise your proxy on Resolution 3 even though it is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, which includes the chair. If you appoint the chair as your proxy you can direct the chair to vote for or against or abstain from voting on Resolution 3 by marking the appropriate box on the proxy form.

The chair intends to vote undirected proxies in favour of each item of business.

4. 'Snap Shot' Time

The Company may specify a time, not more than 48 hours before the Meeting, at which a 'snap-shot' of shareholders will be taken for the purposes of determining shareholder entitlements to vote at the Meeting. The Directors have determined that all shares of the Company that are quoted on ASX as at 7.00 pm (Adelaide time) on 19 November 2014 shall, for the purposes of determining voting entitlements at the Meeting, be taken to be held by the persons registered as holding the shares at that time.

5. Corporate Representative

Any corporate shareholder who has appointed a person to act as its corporate representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company and/or registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative.

EXPLANATORY MEMORANDUM

This Explanatory Memorandum forms part of the Notice convening an Annual General Meeting of shareholders of Prophecy International Holdings Limited to be held on 21 November 2014. This Explanatory Memorandum is to assist shareholders in understanding the background to and the legal and other implications of the Notice and the reasons for the resolutions proposed. Both documents should be read in their entirety and in conjunction with each other.

Other than the information set out in this Explanatory Memorandum, the Directors believe that there is no other information that could reasonably be required by shareholders to consider Resolutions 1, 2, 3 and 4.

1. RESOLUTION 1: RE-ELECTION OF EDWIN REYNOLDS AS DIRECTOR

Mr Edwin Reynolds was appointed as a Director on 4 September 1997.

The Constitution requires that any Director who, if they did not retire at the Annual General Meeting, would at the next Annual General Meeting have held office for more than three years must automatically retire, but is eligible for re-election at the Annual General Meeting. Mr Reynolds automatically retired as a Director at the Company's Annual General Meeting held on 23 November 2012 and was re-elected at that Annual General Meeting.

As Mr Reynolds would at the next Annual General Meeting have held office for more than three years, he retires as a Director but, being eligible, offers himself for re-election.

Mr Reynolds has held various positions within the IT industry, which have given him wide-ranging and extensive experience. Mr Reynolds joined the Company as General Manager in 1987 and has contributed to the Company in various roles. Mr Reynolds is passionate about ensuring the Company achieves its targets and is on track to deliver future success.

Resolution 1 is an ordinary resolution.

The Directors (other than Mr Reynolds) recommend that shareholders vote in favour of Resolution 1.

The chair intends to vote undirected proxies in favour of Resolution 1.

2. RESOLUTION 2: RE-ELECTION OF MATTHEW MICHALEWICZ AS DIRECTOR

Listing Rule 14.4 and rule 9.2 of the Constitution requires that any Director appointed by the Board, either to fill a casual vacancy or as an addition to the Board, holds office only until the termination of the next Annual General Meeting of the Company and is eligible for re-election at that Annual General Meeting.

The Board appointed Mr Matthew Michalewicz as an addition to the Board after the Company's last Annual General Meeting. Accordingly, Mr Michalewicz retires pursuant to Listing Rule 14.4 and rule 9.2 of the Constitution and, being eligible, offers himself for re-election.

Mr Michalewicz is an international IT entrepreneur who co-founded SolveIT Software, a supply chain optimisation business he grew from zero to almost 180 employees and $20 million in revenue before selling the business to Schneider Electric. Under his leadership, SolveIT Software became the third fastest-growing company in Australia in 2012. He was also the co-founder and CEO of NuTech Solutions in the USA, which grew to almost 200 employees across six international offices.

Resolution 2 is an ordinary resolution.

The Directors (other than Mr Michalewicz) recommend that shareholders vote in favour of Resolution 2.

The chair intends to vote undirected proxies in favour of Resolution 2.

3. RESOLUTION 3: ADOPTION OF REMUNERATION REPORT

The Annual Report for the year ended 30 June 2014 contains a Remuneration Report which sets out the remuneration policy of the Company. The Annual Report either accompanies this Notice or is available on the Company's website www.prophecyinternational.com/attachments/2014_PIHL_AnnualReport.pdf

Section 250R(2) of the Corporations Act requires that a resolution to adopt the Remuneration Report be put to the vote of the Company. Shareholders should note that the vote on Resolution 3 is advisory only and, subject to the matters outlined below, will not bind the Company or the Directors. However, the Board will take the outcome of the vote into consideration when reviewing the Company's remuneration policy.

Section 250R(4) of the Corporations Act prohibits a vote on this resolution being cast (in any capacity) by or on behalf of any of the following persons:

(a) a member of the Key Management Personnel details of whose remuneration are included in the Remuneration Report; or

(b) a Closely Related Party of such a member.

However, under section 250R(5) of the Corporations Act a person described above may cast a vote on Resolution 3 as a proxy if the vote is not cast on behalf of a person described above and either:

(a) the person is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or

(b) the person is the chair of the meeting and the appointment of the chair as proxy:

  (i) does not specify the way the proxy is to vote on the resolution; and

  (ii) expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company or, if the Company is part of a consolidated entity, for the entity.

<u>Please note that if the chair of the meeting is your proxy (or becomes your proxy by default), you expressly authorise the chair to exercise your proxy on Resolution 3 even though it is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, which includes the chair. If you appoint the chair as your proxy you can direct the chair to vote for or against or abstain from voting on Resolution 3 by marking the appropriate box on the proxy form.</u>

The chair intends to vote undirected proxies in favour of Resolution 3.

Resolution 3 is an ordinary resolution.

Please also note that under sections 250U and 250V of the Corporations Act, if at two consecutive annual general meetings of a listed company at least 25% of votes cast on a resolution that the remuneration report be adopted are against adoption of the report, at the second of these annual general meetings there must be put to the vote a resolution that another meeting be held within 90 days at which all directors (except the managing director) who were directors at the date the remuneration report was approved at the second annual general meeting must stand for re-election. So, in summary, shareholders will be entitled to vote in favour of holding a general meeting to re-elect the Board if the Remuneration Report receives 'two strikes'. The Remuneration Report did not receive a 'first strike' at the Company's 2013 annual general meeting.

4. RESOLUTION 4: APPROVAL OF 10% PLACEMENT FACILITY

4.1 General

Listing Rule 7.1A enables an eligible entity to issue Equity Securities up to 10% of its issued ordinary share capital through placements over a 12 month period after the annual general meeting (**10% Placement Facility**). The 10% Placement Facility is in addition to the eligible entity's 15% placement capacity under Listing Rule 7.1.

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of $300 million or less. The Company is an eligible entity, having a market capitalisation of $24,380,304 (using the Company's closing share price of $0.44 on 24 September 2014).

The Company is now seeking shareholder approval by way of a special resolution to have the ability to issue Equity Securities under the 10% Placement Facility.

The exact number of Equity Securities which may be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to section 4.2(c)).

4.2 Description of Listing Rule 7.1A

(a) **Shareholder approval**

The ability to issue Equity Securities under the 10% Placement Facility is subject to shareholder approval by way of a special resolution at an annual general meeting.

(b) **Equity Securities**

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company.

The Company, as at the date of the Notice, has on issue one class of Equity Securities, namely fully paid ordinary shares.

(c) **Formula for calculating 10% Placement Facility**

Listing Rule 7.1A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 10% Placement Period (refer to section 4.2(f)), a number of Equity Securities calculated in accordance with the following formula:

$$(A \times D) - E$$

Where:

A is the number of fully paid ordinary shares on issue 12 months before the date of issue or agreement:

- plus the number of fully paid ordinary shares issued in the 12 months under an exception in Listing Rule 7.2;

- plus the number of partly paid ordinary shares that became fully paid in the 12 months;

- plus the number of fully paid ordinary shares issued in the 12 months with approval of holders of ordinary shares under Listing Rules 7.1 and 7.4;

- less the number of fully paid ordinary shares cancelled in the 12 months.

(*Note that A has the same meaning in Listing Rule 7.1 when calculating an entity's 15% placement capacity*.)

D is 10%

E is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of shareholders under Listing Rule 7.1 or 7.4.

(d) **Listing Rule 7.1 and Listing Rule 7.1A**

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.l.

At the date of this Notice, the Company has on issue 55,409,784 ordinary shares and therefore has a capacity to issue:

(i) 8,311,467 Equity Securities under Listing Rule 7.1; and

(ii) subject to shareholder approval being obtained under Resolution 4, 5,540,978 Equity Securities under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to section 4.2(c)).

(e) **Minimum Issue Price**

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the VWAP of Equity Securities in the same class calculated over the 15 Trading Days on which trades in that class were recorded immediately before:

(i) the date on which the price at which the Equity Securities are to be issued is agreed; or

(ii) if the Equity Securities are not issued within five Trading Days of the date referred to in section 4.2(e)(i), the date on which the Equity Securities are issued.

(f) **10% Placement Period**

Shareholder approval of the 10% Placement Facility under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained and expires on the earlier to occur of:

(i) the date that is 12 months after the date of the annual general meeting at which the approval is obtained; and

(ii) the date of the approval by shareholders of a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

(**10% Placement Period**).

4.3 **Listing Rule 7.1A**

The effect of Resolution 4 will be to allow the Directors to issue the Equity Securities under Listing Rule 7.1A during the 10% Placement Period in addition to using the Company's 15% placement capacity under Listing Rule 7.1.

Resolution 4 is a special resolution and therefore requires approval of at least 75% of the votes cast by shareholders entitled to vote (in person, by proxy, by attorney or, in the case of a corporate shareholder, by a corporate representative) on the Resolution.

4.4 **Specific information required by Listing Rule 7.3A**

Pursuant to and in accordance with Listing Rule 7.3A, information is provided in relation to the approval of the 10% Placement Facility as follows to the extent that such information is not disclosed elsewhere in this Explanatory Memorandum:

(a) The Equity Securities will be issued at an issue price of not less than 75% of the VWAP for the Company's Equity Securities in the same class over the 15 Trading Days on which trades in that class were recorded immediately before:

(i) the date on which the price at which the Equity Securities are to be issued is agreed; or

(ii) if the Equity Securities are not issued within five Trading Days of the date referred to in section 4.4(a)(i), the date on which the Equity Securities are issued.

(b) There is a risk that:

(i) the market price for the Company's Equity Securities in the same class may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and

(ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities in the same class on the issue date,

which may have an effect on the amount of funds raised by the issue of the Equity Securities.

The table below shows the risk of voting dilution of existing shareholders on the basis of the current market price of shares and the current number of ordinary shares for variable 'A' calculated in accordance with the formula in Listing Rule 7.1A(2) as at the date of this Notice.

The table also shows:

(i) two examples where variable 'A' has increased, by 50% and 100%. Variable 'A' is based on the number of ordinary shares the Company has on issue. The number of ordinary shares on issue may increase as a result of issues of ordinary shares that do not require shareholder approval (for example, a pro rata entitlements issue) or future specific placements under Listing Rule 7.1 that are approved at a future shareholders' meeting; and

(ii) two examples of where the issue price of ordinary shares has decreased by 50% and increased by 100% as against the current market price.

Variable 'A' in formula in Listing Rule 7.1A.2		**Issue Price**		
		$0.22 **50% decrease in issue price**	$0.44 **issue price**	$0.88 **100% increase in issue price**
Current Variable 'A' 55,409,784 shares	**10% voting dilution**	5,540,978 shares	5,540,978 shares	5,540,978 shares
	Funds raised	$1,219,015	$2,438,030	$4,876,060
50% increase in current Variable 'A' 83,114,676 shares	**10% voting dilution**	8,311,467 shares	8,311,467 shares	8,311,467 shares
	Funds raised	$1,828,522	$3,657,045	$7,314,090
100% increase in current Variable 'A' 110,819,568 shares	**10% voting dilution**	11,081,956 shares	11,081,956 shares	11,081,956 shares
	Funds raised	$2,438,030	$4,876,060	$9,752,121

The table has been prepared on the following assumptions:

- The Company issues the maximum number of Equity Securities available under the 10% Placement Facility.
- No current options are exercised into shares before the date of the issue of the Equity Securities.
- The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
- The table does not show an example of dilution that may be caused to a particular shareholder by reason of placements pursuant to the 10%

Placement Facility, based on that shareholder's holding at the date of the Meeting.

- The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A and no other issues of Equity Securities.
- The issue of Equity Securities under the 10% Placement Facility consists only of shares.
- The issue price is $0.44, being the closing price of the shares on ASX on 24 September 2014.

(c) The Company will only issue and allot the Equity Securities during the 10% Placement Period. The approval under Resolution 4 for the issue of the Equity Securities will cease to be valid in the event that shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or Listing Rule 11.2 (disposal of main undertaking).

(d) The Company may seek to issue the Equity Securities for the following purposes:

(i) non-cash consideration for the acquisition of new assets and investments. In such circumstances the Company will provide a valuation of the non-cash consideration as referred to in the Note to Listing Rule 7.1A.3; or

(ii) cash consideration. In such circumstances, the Company intends to use the funds raised towards an acquisition of new assets or investments (including expense associated with such acquisition) and/or general working capital.

(e) The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities.

(f) The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the allottees of Equity Securities and the number of Equity Securities allotted to each will be determined on a case-by-case basis having regard to factors including, but not limited to, the following:

(i) the methods of raising funds that are available to the Company including, but not limited to, rights issue or other issue in which the existing security holders can participate;

(ii) the effect of the issue of the Equity Securities on the control of the Company;

(iii) the financial situation and solvency of the Company; and

(iv) advice from corporate, financial and broking advisers (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing substantial shareholders and/or new shareholders who are not related parties or associates of a related party of the Company.

Further, if the Company is successful in acquiring new assets or investments, it is likely that the allottees under the 10% Placement Facility will be the vendors of the new assets or investments or the nominee of such vendors.

(g) The Company previously obtained shareholder approval under Listing Rule 7.1A at its 2013 Annual General Meeting. The Company has not issued any Equity Securities in the 12 months preceding the date of this Meeting.

(h) A voting exclusion statement is included in the Notice. At the date of the Notice, the Company has not approached any particular existing shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing shareholder's votes will therefore be excluded under the voting exclusion statement in the Notice.

Resolution 4 is a **special resolution**.

The Directors recommend that shareholders vote in favour of Resolution 4.

The chair intends to vote undirected proxies in favour of Resolution 4.

5. GLOSSARY

In this Explanatory Memorandum and Notice of Annual General Meeting the following expressions have the following meanings unless stated otherwise or unless the context otherwise requires:

10% Placement Facility has the meaning given in section 4.1;

10% Placement Period has the meaning given in section 4.2(f);

ASX means ASX Limited ACN 008 624 691;

Board means the board of directors of the Company;

Closely Related Party of a member of the Key Management Personnel for an entity means:

(a) a spouse or child of the member;

(b) a child of the member's spouse;

(c) a dependant of the member or of the member's spouse;

(d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity;

(e) a company the member controls; or

(f) a person prescribed as such by the *Corporations Regulations 2001* (Cth);

Company means Prophecy International Holdings Limited ACN 079 971 618;

Constitution means the existing constitution of the Company;

Corporations Act means *Corporations Act 2001* (Cth);

Director means a director of the Company;

Equity Securities has the same meaning as in the Listing Rules;

Key Management Personnel has the same meaning as in the accounting standards as defined in section 9 of the Corporations Act (so the term broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director, whether executive or otherwise, of the Company);

Listing Rules means the listing rules of ASX;

Meeting means the meeting of shareholders convened by the Notice;

Notice means the notice of meeting to which this Explanatory Memorandum is attached;

Trading Day means a day determined by ASX to be a trading day in accordance with the Listing Rules; and

VWAP means volume weighted average price.

Prophecy International Holdings Limited
ABN 16 079 971 618

⊢ 000001 000 PRO
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 556 161
(outside Australia) +61 3 9415 4000

Proxy Form

Vote and view the annual report online

- Go to www.investorvote.com.au **or** scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 999999

SRN/HIN: I9999999999 **PIN: 99999**

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 11:00am (Adelaide time) Wednesday 19 November 2014

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate “Certificate of Appointment of Corporate Representative” prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO VOTE,
or turn over to complete the form ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

I 9999999999 I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Prophecy International Holdings Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** ____________________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Prophecy International Holdings Limited to be held at The Rendezvous Grand Hotel, 55 Waymouth Street, Adelaide SA 5000 on Friday 21 November 2014 at 11:00am (Adelaide time) and at any adjournment or postponement of that Meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on **Item 3** (except where I/we have indicated a different voting intention below) even though **Item 3** is/are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on **Item 3** by marking the appropriate box in step 2 below.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS		For	Against	Abstain
1	Re-election of Edwin Reynolds as Director	☐	☐	☐
2	Re-election of Matthew Michalewicz as Director	☐	☐	☐
3	Adoption of the Remuneration Report	☐	☐	☐
4	Approval of 10% Placement Facility	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ____________________ Contact Daytime Telephone ____________________ Date ____ / ____ / ____

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