Prophecy

PROPHECY INTERNATIONAL HOLDINGS LTD

ACN 079 971 618

Appendix 4E - Preliminary Final Report

For the Year Ended 30 June 2009

PROPHECY INTERNATIONAL HOLDINGS LTD

Results for announcement to the market

For The Year Ended 30 June 2009

Summary of results	$	% change	Direction
Revenue from ordinary activities	6,411,546	9.54%	up
Profit from ordinary activities after tax attributable to members	3,688,404	88.21%	up
Net profit from ordinary activities attributable to members	3,688,404	88.21%	up

The directors have declared a final unfranked dividend of 2.25 cents per ordinary share with a record date of the 14th September 2009 and payment date of 2nd October 2009.
The Conduit Foreign Income portion of the dividend is Nil.

Explanatory information

Prophecy has once again been able to report a full year profit. The 2008-2009 year has produced an after tax profit of $3.688 million and a profit before tax of $2.041 million compared to the last year profit of $2.012 million. This is a particularly pleasing result as the general economic climate for business over the last 12 months has been a difficult one. Despite the slowdown in the world economy, Prophecy has been able to increase its revenues through increased activity and this augers well for the coming year as economies begin to return to normal. The after tax profit reflects the uptake of a Deferred Tax Asset as a result of our return to sustainable profits over the last few years.

Revenues for the year grew to $6.411 million from last year's level of $5.853 million, an increase of 9.6%. Our services revenues showed a very healthy 38.7% increase from $1.484 million last year to $2.059 million in this year. License revenues were on a par with last year at $4.05m Cash on hand at the end of June 2009 was $5.404 million, up from last year's position of $5.295 million. Earlier in the year we paid an interim dividend of 2c per share. We are pleased to be able to announce a final unfranked dividend of 2.25 cents per share, to bring the full year total to 4.25 cents, up from 4.0 cents last year. Earnings per share came in at 8.1 cents per share. Our continued financial progress has powered the share price which has lifted from a level of 26 cents a year ago to near double that figure. Again, this is an outstanding result over the year, particularly in the face of the Global Financial Crisis. Prophecy maintains a very strong Balance Sheet with no debt, over $5.4 million cash on hand and valuable Intellectual Property assets that are not recognized on its books as all development is expensed.

Prophecy runs two major business units which consist of our basis2 billing unit as well as our separate legacy systems comprising the products such as Prophecy Classic, ProphecyOpen and eFoundation. The legacy systems have been running as a profitable unit for some time and have continued to do so in the 2008-2009 year. A highlight of the year for this part of the business was the agreement to extend the contract with the Department of Water,Land and Biodiversity Conservation in South Australia and to embark on a system enhancement program to cater for new requirements as a result of the National Water Initiative. Our eFoundation rapid application development software has once again shown its strengths here with a timely delivery of complex enhancements required in a relatively short time period.

In the year just completed, our basis2 business unit once again made very good progress in establishing its credentials in the world marketplace. A major new project was established with a significant new partner and this project will show the strength of the basis2 solution across all markets. The project is subject to confidentiality, but we will endeavour to announce full details in the near future. The Texas Commission on Environmental Quality (TCEQ) project occupied a large proportion of resources during the year and has now successfully moved to live status. In addition we have continued to provide ongoing resources to projects at the City of Philadelphia during the course of the year.

The directors target this year to continue on with our successful plan of profitable growth, so that we can return dividends to shareholders and enhance the intrinsic value of each of our software products. In addition the directors will be looking for possible new investments in other software companies which own their IP. Our aim is to continue to return value to our shareholders through the profitable management of all of our assets.

Ed Reynolds
Chairman

PROPHECY INTERNATIONAL HOLDINGS LTD
Other Information

For The Year Ended 30 June 2009

1 **Dividends**

A partially franked final dividend of 2.0 cents per ordinary share was paid on 3rd October 2008 in respect of the financial year ended 30 June 2008, as follows:

Franked amount of 1.3 cents per ordinary share
Unfranked amount of 0.7 cents per ordinary share

An unfranked interim dividend of 2.0 cents per ordinary share was paid on 18 March 2009 in respect of the financial year ended 30 June 2009.

2 **Retained Profits**

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Opening balance	(9,805,978)	(10,193,619)	(10,061,929)	(10,351,662)
Profit attributable to members of parent entity	3,688,404	1,959,760	3,438,360	1,861,852
Interim dividend paid	(1,817,178)	(1,572,119)	(1,817,178)	(1,572,119)
Closing balance	**(7,934,752)**	**(9,805,978)**	**(8,440,747)**	**(10,061,929)**

3 **Net Tangible Assets per Security**

	2009	2008
	$	$
Net Tangible Assets	7,266,983	5,495,418
Number of Securities	45,786,955	45,116,955
Net Tangible Assets per Security	0.16	0.12

4 **Changes in Controlled Entities**

There were no changes in Controlled entities during the year.

5 **Audit Statement**

The attached financial statements are currently in the process of being audited.

PROPHECY INTERNATIONAL HOLDINGS LTD AND CONTROLLED ENTITIES

CONSOLIDATED INCOME STATEMENT
For The Year Ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Revenue	2	6,411,546	5,853,265	8,704	15,007
Employee benefits expense		3,157,868	2,880,283	-	-
Depreciation and amortisation expense	3(c)	109,960	135,353	-	-
Other expenses	3(d)	1,102,360	826,083	(2,441,328)	(1,846,845)
Profit before income tax		2,041,358	2,011,546	2,450,032	1,861,852
Income tax recovery/(expense)	4	1,647,046	(51,786)	988,328	-
Profit after income tax		3,688,404	1,959,760	3,438,360	1,861,852
Profit attributable to minority interests		-	-	-	-
Profit attributable to members of Prophecy International Holdings Ltd		3,688,404	1,959,760	3,438,360	1,861,852
Basic earnings per share (cents per share)	36	8.1	4.4		
Diluted earnings per share (cents per share)	36	8.1	4.4		

The accompanying notes form part of these financial statements.

PROPHECY INTERNATIONAL HOLDINGS LTD AND CONTROLLED ENTITIES
CONSOLIDATED BALANCE SHEET
As at 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
CURRENT ASSETS					
Cash and cash equivalents	6	5,404,227	5,295,343	75,990	144,867
Trade and other receivables	7	1,753,380	1,378,292	940,269	905,309
Financial assets at fair value through profit or loss	8	1	1	-	-
Work in progress	9	97,809	10,549	-	-
Current tax assets	10	765	2,556	-	-
Other current assets	11	48,567	45,008	-	-
TOTAL CURRENT ASSETS		7,304,749	6,731,749	1,016,259	1,050,176
NON-CURRENT ASSETS					
Trade and other receivables	12	1,626	16,697	4,930,908	4,203,022
Deferred tax assets	13	1,822,049	-	988,499	-
Other financial assets	14	-	-	351,100	351,100
Property, plant and equipment	15	111,727	108,885	-	-
Intangible assets	16	39,894	99,774	-	-
TOTAL NON-CURRENT ASSETS		1,975,296	225,356	6,270,507	4,554,122
TOTAL ASSETS		9,280,045	6,957,105	7,286,766	5,604,298
CURRENT LIABILITIES					
Trade and other payables	17	828,146	371,196	9,212	6,550
Current tax liabilities	18	4,025	51,219	-	-
Provisions	19	528,501	479,526	-	-
Other current liabilities	20	393,266	430,879	-	-
TOTAL CURRENT LIABILITIES		1,753,938	1,332,820	9,212	6,550
NON-CURRENT LIABILITIES					
Deferred tax liabilities	21	170,978	-	171	-
Provisions	22	47,487	26,537	-	-
TOTAL NON-CURRENT LIABILITIES		218,465	26,537	171	-
TOTAL LIABILITIES		1,972,403	1,359,357	9,383	6,550
NET ASSETS		7,307,642	5,597,748	7,277,554	5,597,748
EQUITY					
Issued capital	23	15,612,800	15,427,850	15,612,800	15,427,850
Reserves		(370,526)	(24,244)	105,501	231,827
Retained earnings		(7,934,752)	(9,805,978)	(8,440,747)	(10,061,929)
Parent interest		7,307,522	5,597,628	7,277,554	5,597,748
Minority equity interest		120	120	-	-
TOTAL EQUITY		7,307,642	5,597,748	7,277,554	5,597,748

The accompanying notes form part of these financial statements.

PROPHECY INTERNATIONAL HOLDINGS LTD AND CONTROLLED ENTITIES
CASH FLOW STATEMENT
For The Year Ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Cash Flows from Operating Activities					
Receipts from customers		5,593,106	4,990,623	-	-
Payments to suppliers and employees		(3,912,725)	(3,319,030)	(52,953)	(59,194)
		1,680,381	1,671,593	(52,953)	(59,194)
Interest received		276,343	288,959	8,704	15,007
Income tax (paid)/refunded		(49,428)	3,225	-	-
Net cash inflow/(outflow) from operating activities	34	1,907,296	1,963,777	(44,249)	(44,187)
Cash Flow from Investing Activities					
Loans from controlled entities		-	-	1,775,000	1,584,999
Proceeds from disposal of property, plant and equipment		-	100	-	-
Payments for property, plant and equipment		(53,785)	(65,421)	-	-
Net cash (outflow)/inflow from investing activities		(53,785)	(65,321)	1,775,000	1,584,999
Cash Flow from Financing Activities					
Dividends paid by parent entity		(1,817,178)	(1,572,119)	(1,817,178)	(1,572,119)
Proceeds from issue of shares from option conversions		17,550	4,050	17,550	4,050
Net cash outflow from financing activities		(1,799,628)	(1,568,069)	(1,799,628)	(1,568,069)
Net increase/(decrease) in cash held		53,883	330,387	(68,877)	(27,257)
Cash at the beginning of the financial year		5,295,343	5,038,836	144,867	172,124
Effect of exchange rates on overseas cash holdings		55,001	(73,880)	-	-
Cash at the end of the financial year	6	5,404,227	5,295,343	75,990	144,867

The accompanying notes form part of these financial statements.

PROPHECY INTERNATIONAL HOLDINGS LTD AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For The Year Ended 30 June 2009

	Consolidated Entity			
	Ordinary Shares	Exchange Fluctuation Reserve	Share Option Reserve	Retained Earnings
Balance at 1 July 2007	15,266,300	(177,487)	19,324	(10,193,619)
Profit attributable to members of parent entity	-	-	-	1,959,760
Dividends paid	-	-	-	(1,572,119)
Translation of net investment in foreign controlled entities	-	(97,908)	-	-
Shares issued as remuneration	157,500	-	-	-
Recognition of bonus element of share options	-	-	231,827	-
Shares issued on the exercise of share options	4,050	-	-	-
Balance at 30 June 2008	15,427,850	(275,395)	251,151	(9,805,978)
Balance at 1 July 2008	15,427,850	(275,395)	251,151	(9,805,978)
Profit attributable to members of parent entity	-	-	-	3,688,404
Dividends paid	-	-	-	(1,817,178)
Translation of net investment in foreign controlled entities	-	(219,956)	-	-
Shares issued as remuneration	167,400	-	(167,400)	-
Recognition of bonus element of share options	-	-	41,074	-
Shares issued on the exercise of share options	17,550	-	-	-
Balance at 30 June 2009	15,612,800	(495,351)	124,825	(7,934,752)

	Parent Entity		
	Ordinary Shares	Share Option Reserve	Retained Earnings
Balance at 1 July 2007	15,266,300	-	(10,351,662)
Profit attributable to members of parent entity	-	-	1,861,852
Dividends paid	-	-	(1,572,119)
Shares issued as remuneration	157,500	-	-
Recognition of bonus element of share options	-	231,827	-
Shares issued on the exercise of share options	4,050	-	-
Balance at 30 June 2008	15,427,850	231,827	(10,061,929)
Balance at 1 July 2008	15,427,850	231,827	(10,061,929)
Profit attributable to members of parent entity	-	-	3,438,360
Dividends paid	-	-	(1,817,178)
Shares issued as remuneration	167,400	(167,400)	-
Recognition of bonus element of share options	-	41,074	-
Shares issued on the exercise of share options	17,550	-	-
Balance at 30 June 2009	15,612,800	105,501	(8,440,747)

The accompanying notes form part of these financial statements.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has 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.

The financial report covers the consolidated entity of Prophecy International Holdings Limited and its controlled entities ("Consolidated Entity"), and Prophecy International Holdings Limited as an individual parent entity ("Parent Entity"). Prophecy International Holdings Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Prophecy International Holdings Limited and its controlled entities and Prophecy International Holdings Limited as an individual parent entity comply with all Australian Equivalents to International Financial Reporting Standards in their entirety.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with the International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applies unless otherwise stated.

All amounts are presented in Australian dollars unless otherwise stated.

Basis of Preparation

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the use of the fair value basis of accounting where mandated by Australian Equivalents to International Financial Reporting Standards.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity controlled by Prophecy International Holdings Limited whereby Prophecy International Holdings Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

Details of controlled entities can be found in Note 24 to the financial statements.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

As at 30 June 2009, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority interests in the results and equity of the subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(b) Income Tax

The consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by the changes in deferred tax assets and liabilities attributable to temporary timing differences and to unused tax losses.

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

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

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

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Prophecy International Holdings Limited and Prophecy R&D Pty Ltd have formed a tax consolidated group pursuant to the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(d) Earnings per Share

(i) Basic Earnings per Share

Basic earnings per share is determined by dividing the profit after income tax attributable to members of Prophecy International Holdings Ltd by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the related weighted average number of shares assumed to have been issued for no consideration.

(e) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is determined by reference to the fair value of the assets acquired, including goodwill where applicable.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.

(f) Intangible Assets

(i) Intellectual Property, Patents and Trademarks

Intellectual Property, patents and trademarks are recognised at cost of acquisition. Intellectual Property, patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Intellectual Property, patents and trademarks are amortised over their useful life which is estimated to be 7 years.

(ii) Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis over the useful life of the project.

(g) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(h) Employee Benefits

(i) Wages and Salaries and Annual Leave

Liabilities for wages and salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. Employee benefits payable later than one year from the reporting date have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(ii) Long Service Leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity to match, as closely as possible, the estimated future cash outflows.

(iii) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(iv) Equity based compensation benefits

Equity based compensation benefits are provided to employees via the Prophecy International Holdings Limited Employee Option Plan. Equity based compensation benefits are also provided to key management personnel by way of individual share option schemes.

Information relating to the schemes is set out in notes 27 and 29.

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

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

(i) Financial assets Held for trading

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

(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 stated at amortised cost using the effective interest rate method.

(iii) Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

(iv) Fair value

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

(v) Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(j) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases.

Payments made under operating leases are charged to the income statement on a straight-line basis over the life of the lease.

(k) Property, Plant and Equipment

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

(i) Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.
The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

(ii) Depreciation

The depreciable amount of all fixed assets is depreciated on a reducing basis over their useful lives to the Consolidated Entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	10% to 40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Revenue Recognition, Work in Progress and Receivables

Amounts disclosed as revenue are net of returns, trade allowances, duties and levies paid and GST.

Sales of the consolidated entity'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.

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.

Work in progress represents consulting services contract revenues which have not been invoiced at the balance date. These revenues are invoiced according to the contract terms, and usually on achievement of significant milestones, as specified in the individual contracts.

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

Interest revenue is recognised using the effective interest rate method.

(m) Foreign Currency Translation

(i) 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.

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

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

(iii) 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.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of the group's net investment in foreign operations with a functional currency different from the group's presentation currency are transferred directly to the group's exchange fluctuation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(n) 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 results and that outflow can be reliably measured.

(o) Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

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

(p) Impairment of assets
At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired.

If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Contributed equity
Ordinary shares are recognised as equity.
Incremental costs directly attributed to the issue of new shares or options are shown in equity as a deduction, net of tax from the proceeds.

(r) Comparative Figures
When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(s) New accounting standards and interpretations for application in future periods
The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Consolidated Entity and Parent Entity have decided against early adoption of those future requirements. A discussion of those future requirements that may have a material impact on either the Consolidated Entity or Parent entity are shown below:

- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reproting periods commencing from 1 January 2009).

The revised AASB 101 redefines the composition of financial statements, and in particular replaces the income statement with a statement of comprehensive income.
The impact on both the Consolidated Entity and Parent Entity is expected to be of disclosure only.

Critical Accounting Estimates and Judgements

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

Key judgements

Included in the non-current trade and other receivables of the parent entity are loans to the subsidiary entities. At each balance date, the directors review these loans for impairment against the available net assets of each subsidiary. A provision for impairment is recognised in the parent entity's financial statements, to the extent that a parent entity loan exceeds a subsidiary's net assets.

Deferred tax assets include amounts related to unused tax losses. At each balance date, the directors review the likelihood that the consolidated entity will 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 4.

NOTE 2 - REVENUE

		Consolidated		Parent	
		2009	2008	2009	2008
		$	$	$	$
Sales revenue - goods	2(a)	4,063,136	4,060,012	-	-
Sales revenue - services		2,059,407	1,483,950	-	-
Other revenue					
Interest received / receivable		289,003	309,303	8,704	15,007
		6,411,546	5,853,265	8,704	15,007

2(a) 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.

NOTE 3 - PROFIT BEFORE INCOME TAX

		Consolidated		Parent	
	Profit before income tax includes the following specific items:	2009 $	2008 $	2009 $	2008 $
3(a)	Net gains				
	Interest revenue	289,003	309,303	8,704	15,007
	Net foreign exchange	385,610	51,535	-	-
	Bad debt recovery	310	17,938	-	-
3(b)	Expenses				
	Rent and associated operating leases	153,621	148,530	-	-
	Research expenses	648,658	505,579	-	-
	Impairment provision - financial assets	57,673	-	-	-
	Superannuation expenses - defined contribution plans	625,777	459,714	-	-
	Provision for employee entitlements	69,925	55,844	-	-
3(c)	Depreciation and amortisation charge comprises				
	Amortisation of Intellectual property	59,880	59,880	-	-
	Depreciation - plant and equipment	50,080	75,473	-	-
		109,960	135,353	-	-

NOTE 3 - PROFIT BEFORE INCOME TAX (Continued)

		Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
3(d)	Other expenses comprises				
	Licence fees	84,819	116,512	-	-
	Rent and associated operating leases	153,621	148,530	-	-
	Travel and accommodation	259,165	195,396	-	-
	Insurance	76,462	72,984	-	-
	External consultants and contract programmers	411,084	77,244	-	-
	Communications expense	44,698	42,889	-	-
	Audit and Accountancy	86,098	62,182	5,000	5,000
	Bad Debt recovery	(310)	(17,938)	-	-
	Impairment provision - financial assets	57,673	-	-	-
	Loss on sale of property, plant and equipment	863	13	-	-
	Impairment of loans to related entities	-	-	(2,497,886)	(1,895,680)
	Net foreign exchange	(385,610)	(51,535)	-	-
	Unrecoverable direct taxes	76,091	-	-	-
	Other expenses	237,706	179,806	51,558	43,835
		1,102,360	826,083	(2,441,328)	(1,846,845)

NOTE 4 - INCOME TAX EXPENSE

		Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
4(a)	Income tax attributable to operating profit comprises:				
	Current tax expense	4,025	51,786	-	-
	Deferred tax recovery	(1,651,071)	-	(988,328)	-
		(1,647,046)	51,786	(988,328)	-
4(b)	The aggregate amount of income tax attributable to the financial period differs from the amount calculated on the operating profit . The differences are reconciled as follows:				
	Profit before income tax	2,041,358	2,011,546	2,450,032	1,861,852
	Income tax at 30% (2008 : 30%)	612,407	603,464	735,009	558,555
	Tax effect of amounts not deductible/(taxable) in calculating taxable income:				
	Non deductible depreciation and amortisation	14,421	17,964	-	-
	Other non deductible items	(62,821)	957	(747,311)	(568,704)
	Utilisation of tax losses	(551,887)	(533,617)	-	-
	Recognition of tax losses	12,302		12,302	-
		24,422	88,768	-	(10,149)
	Recognition of previously unrecognised deferred tax asset	(1,822,049)		(988,499)	
	Recognition of previously unrecognised deferred tax liability	170,978	-	171	-
	Non recognition of deferred tax assets related to losses	-	-	-	10,149
	Effect of differing rates of tax on overseas income	(20,397)	(36,982)	-	-
	Income tax expense	(1,647,046)	51,786	(988,328)	-
4(c)	The directors estimate that the unused tax losses not brought to account is:	4,863,956	11,247,276	-	-

The benefit of tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
(ii) the losses are transferred to an eligible entity in the consolidated entity, and
(iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
(iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

NOTE 5 - DIVIDENDS

Dividends paid	Parent 2009 $	Parent 2008 $
Final fully franked ordinary dividend in respect of the financial year ended 30 June 2008 of 1.3 (2008 : 1.5) cents per share franked at the tax rate of 30% (2008 : 30%)	586,520	669,780
Final unfranked ordinary dividend in respect of the financial year ended 30 June 2008 of 0.7 (2008 : Nil) cents per share.	315,819	-
Interim fully franked ordinary dividend in respect of the financial year ended 30 June 2009 of Nil (2008 : 2.0) cents per share franked at the tax rate of 30% (2008 : 30%)	-	902,339
Interim unfranked ordinary dividend in respect of the financial year ended 30 June 2009 of 2.0 (2008 : Nil) cents per share.	914,839	-
	1,817,178	1,572,119

Dividends proposed

	Parent 2009 $	Parent 2008 $
Proposed final fully franked ordinary dividend of Nil (2008 : 1.30) cents per share franked at the tax rate of 30% (2008 : 30%) and not recognised as a liability	-	618,107
Proposed final unfranked ordinary dividend of 2.25 (2008 : 0.70) cents per share and not recognised as a liability	1,030,206	284,232
	1,030,206	902,339

Franking account balance

	Parent 2009 $	Parent 2008 $
Balance of franking account at year end adjusted for franking credits arising from payment of income tax, dividends received, payment of dividends and franking credits which may be prevented from distribution in subsequent financial years.	-	264,903
Impact on the franking account of dividends proposed before the financial report was issued but not recognised as a distribution to equity holders during the period	-	(264,903)
	-	-

NOTE 6 - CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Cash at bank and on hand	2,404,227	1,795,343	75,990	144,867
Short term deposits	3,000,000	3,500,000	-	-
	5,404,227	5,295,343	75,990	144,867

NOTE 7 - CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Trade receivables	331,111	977,389	-	-
Less: Provision for impairment	(42,350)	-	-	-
Accrued revenue	1,386,114	319,914	-	-
Less: Provision for impairment	(15,323)	-	-	-
	1,659,552	1,297,303	-	-
Loans to related entities	-	-	938,412	902,339
	-	-	938,412	902,339
Other receivables	93,828	80,989	1,857	2,970
	1,753,380	1,378,292	940,269	905,309

NOTE 8 - CURRENT ASSETS - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Held for Trading Financial Assets	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Shares in other corporations at fair value - US listed equity	1	1	-	-

Changes in the fair value of these assets are recorded in the income statement as other income or other expense.

NOTE 9 - CURRENT ASSETS - WORK IN PROGRESS

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Work in Progress	97,809	10,549	-	-

NOTE 10 - CURRENT ASSETS - CURRENT TAX ASSETS

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Refundable tax payments	765	2,556	-	-

NOTES TO AND FORMING PART OF THE ACCOUNTS
For The Year Ended 30 June 2009

	Consolidated		Parent	
	2009	2008	2009	2008
NOTE 11 - CURRENT ASSETS - OTHER CURRENT ASSETS	$	$	$	$
Prepayments	48,567	45,008	-	-
NOTE 12 - NON-CURRENT ASSETS - TRADE AND OTHER RECEIVABLES				
Bonds and security deposits	24	24	-	-
Accrued revenue	-	15,322	-	-
Other	1,602	1,351	-	-
	1,626	16,697	-	-
Loans to related entities	-	-	15,945,263	17,715,263
Less: Provision for impairment	-	-	(11,014,355)	(13,512,241)
	-	-	4,930,908	4,203,022
Total non-current assets - trade and other receivables	1,626	16,697	4,930,908	4,203,022

NOTE 13 - NON-CURRENT ASSETS - DEFERRED TAX ASSETS

Consolidated entity 2009

	Opening balance $	Initial recognition $	Credit/ (charge) to income $	Net credit/ (charge) to income $	Closing balance $
Deferred tax asset					
Plant, property and equipment					
- tax allowance	-	12,052	(4,787)	7,265	7,265
Taxation losses	-	2,007,476	(398,892)	1,608,584	1,608,584
Employee benefits	-	150,787	19,337	170,124	170,124
Doubtful debts	-	-	12,705	12,705	12,705
s40-880 deduction	-	3,964	(1,328)	2,636	2,636
Accrued expenses	-	16,367	4,368	20,735	20,735
	-	**2,190,646**	**(368,597)**	**1,822,049**	**1,822,049**

Parent entity 2009

	Opening balance $	Initial recognition $	Credit/ (charge) to income $	Net credit/ (charge) to income $	Closing balance $
Deferred tax asset					
Taxation losses	-	974,697	12,302	986,999	986,999
Accrued expenses	-	1,500	-	1,500	1,500
	-	**976,197**	**12,302**	**988,499**	**988,499**

NOTE 14 - NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

Shares in controlled entities at cost (refer note 24)	-	-	1,851,101	1,851,101
Less: Provision for impairment	-	-	(1,500,001)	(1,500,001)
	-	-	351,100	351,100

NOTE 15 - NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Furniture and Fittings				
Furniture and fittings - at cost	238,459	238,459	-	-
Less: accumulated depreciation	(221,145)	(216,190)	-	-
Total furniture and fittings	17,314	22,269	-	-
Plant and Equipment				
Plant and equipment - at cost	512,886	465,177	-	-
Less: accumulated depreciation	(418,473)	(378,561)	-	-
Total plant and equipment	94,413	86,616	-	-
Total Property, Plant & Equipment	111,727	108,885	-	-

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	Fixtures & Fittings	Plant & Equipment	Total
	$	$	$
Consolidated Entity			
Carrying amount at the beginning of the year	22,269	86,616	108,885
Additions	-	53,785	53,785
Disposals	-	(863)	(863)
Depreciation expense	(4,955)	(45,125)	(50,080)
Carrying amount at the end of the year	17,314	94,413	111,727

NOTE 16 - NON-CURRENT ASSETS - INTANGIBLE ASSETS

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Intellectual Property acquired - at cost	419,132	419,132	-	-
Less: accumulated amortisation	(379,238)	(319,358)	-	-
	39,894	99,774	-	-

Reconciliations of the carrying amounts of intangible assets at the beginning and end of the current financial year are set out below:

	Intellectual Property
	$
Consolidated Entity	
Carrying amount at the beginning of the year	99,774
Amortisation Expense	(59,880)
Carrying amount at the end of the year	39,894

NOTE 17 - CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Trade payables	37,509	21,728	1,260	1,550
Accruals	744,869	341,011	5,000	5,000
Other payables	45,768	8,457	2,952	-
	828,146	371,196	9,212	6,550

NOTE 18 - CURRENT LIABILITIES - CURRENT TAX LIABILITIES

Income tax payable	4,025	51,219	-	-

NOTE 19 - CURRENT LIABILITIES - PROVISIONS

Employee benefits	528,501	479,526	-	-

NOTE 20 - CURRENT LIABILITIES - OTHER CURRENT LIABILITIES

Unearned income	393,266	430,879	-	-

NOTE 21 - NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

Consolidated entity 2009	Opening balance $	Initial recognition $	Credit/ (charge) to income $	Net credit/ (charge) to income $	Closing balance $
Deferred tax liability					
Work in progress	-	(80,362)	(28,266)	(108,628)	(108,628)
Prepayments	-	(276)	(811)	(1,087)	(1,087)
Other current assets	-	(5,723)	5,552	(171)	(171)
Related entities	-	-	(61,092)	(61,092)	(61,092)
Balance at 30 June 2009	**-**	**(86,361)**	**(84,617)**	**(170,978)**	**(170,978)**

-

Parent entity 2009	Opening balance $	Initial recognition $	Credit/ (charge) to income $	Net credit/ (charge) to income $	Closing balance $
Deferred tax liability					
Other current assets	-	(725)	554	(171)	(171)
Balance at 30 June 2009	**-**	**(725)**	**554**	**(171)**	**(171)**

-

NOTE 22 - NON-CURRENT LIABILITIES - PROVISIONS

Employee benefits	47,487	26,537	-	-

NOTE 23 - ISSUED CAPITAL

	Parent Entity Shares 2009	Parent Entity Shares 2008	Parent Entity $ 2009	Parent Entity $ 2008
Authorised				
Ordinary Shares of $0.01	500,000,000	500,000,000		
Paid up Capital				
Ordinary shares fully paid	45,786,955	45,116,955	15,612,800	15,427,850
Movements in paid up capital				
Opening balance at 1 July 2008	45,116,955		15,427,850	
Issue of shares on exercise of share options - see note 29 for details	130,000		17,550	
Issue of shares in respect of director remuneration - see note 27 for details	540,000		167,400	
Closing balance at 30 June 2009	45,786,955		15,612,800	

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders' meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Information relating to the company's employee share option scheme is set out in note 29(ii).

Information relating to directors' share options is set out in note 27.

The Consolidated entity's capital comprises ordinary share capital. Management controls capital to fund its operations, remain as a going concern and provide adequate returns to shareholders. There are no externally imposed capital requirements.
capital management requirements are assessed by reference to the consolidated entity's financial and operating risks and adjusting its capital structure in response to changes in those risks, whilst considering the cost of capital. Responses consist of changes to shareholder distributions. Management's strategy is to fund the consolidated entity's requirments solely through equity, and this strategy remains unchanged during the year.

NOTE 24 - INVESTMENT IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Equity Holding 2009 %	Equity Holding 2008 %	Book Value of Shares Held 2009 $	Book Value of Shares Held 2008 $
Directly controlled by Prophecy International Holdings Ltd:					
Prophecy International Pty Ltd as trustee for	Australia	100	100	20	20
CSP Unit Trust		100	100	351,080	351,080
Prophecy R & D Pty Ltd	Australia	100	100	1,500,001	1,500,001
Less: provision for impairment				(1,500,001)	(1,500,001)
				351,100	351,100
Directly controlled by Prophecy International Pty Ltd:					
Prophecy Americas' Inc	United States	93.1	93.1	44,692	44,692
Prophecy Europe Limited *	United Kingdom	100	100	71	71
Prophecy Asia Pacific Malaysia (M) (SDN BHD) **	Malaysia	100	100	2	2
				44,765	44,765

All shares owned in controlled entities are Ordinary shares.

* audited by firms other than the auditors of Prophecy International Holdings Ltd.
** unaudited since company now dormant.

NOTE 25 - FINANCIAL INSTRUMENTS

(a) Foreign exchange rate risk management

Prophecy International Holdings Ltd and certain of its controlled entities are parties to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates.

Forward Exchange Contracts

The consolidated entity derives a significant amount of its income from overseas. In order to protect against exchange rate movements the consolidated entity has, when appropriate, entered into forward exchange rate contracts to sell UK pounds, and US dollars.

There were no outstanding forward exchange contracts at 30 June 2009 or 30 June 2008.

(b) Interest Rate Risk Exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

	Floating Interest Rate		Non Interest Bearing		Total	
	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
Financial Assets						
Loans and other receivables						
Cash and cash equivalents	5,404,227	5,295,343	-	-	5,404,227	5,295,343
Trade and other receivables	-	-	1,755,006	1,394,989	1,755,006	1,394,989
Held for trading						
Financial assets at fair value through profit or loss	-	-	1	1	1	1
	5,404,227	5,295,343	1,755,007	1,394,990	7,159,234	6,690,333
Weighted Average interest rate	5.8%	6.4%	-	-		
Financial Liabilities						
Financial liabilities at amortised cost						
Trade and other payables	-	-	828,146	371,196	828,146	371,196
	-	-	828,146	371,196	828,146	371,196

Trade and other payables have an expected maturity of less than one year.

Weighted Average interest rate	-	-				
Total Net Financial Assets	5,404,227	5,295,343	926,861	1,023,794	6,331,088	6,319,137

NOTE 25 - FINANCIAL INSTRUMENTS (continued)

Reconciliation of Net Financial Assets to Net Assets	**2009 $**	**2008 $**
Net financial assets (as above)	6,331,088	6,319,137
Non-financial assets and liabilities		
Work in progress	97,809	10,549
Tax assets	1,822,814	2,556
Other current assets	48,567	45,008
Property, plant and equipment	111,727	108,885
Intangible assets	39,894	99,774
Tax Liabilities	(175,003)	(51,219)
Provisions	(575,988)	(506,063)
Other liabilities	(393,266)	(430,879)
Net assets per balance sheet	7,307,642	5,597,748

Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximate their carrying value.
The net fair value of other monetary financial assets and financial liabilities is based on discounting future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The balances are not materially different from those disclosed in the balance sheet of the consolidated entity.

(c) Credit Risk

Credit Risk for financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The consolidated entity's maximum credit risk exposure is the carrying value of those financial instruments.

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

Financial assets that are past due but not impaired are aged as follows:

	Consolidated		**Parent**	
	2009 $	**2008 $**	**2009 $**	**2008 $**
Trade and other receivables				
Not overdue	1,648,025	753,664	5,871,177	5,108,331
Overdue by less than 30 days	47,883	136,535	-	-
Overdue by less than 60 days	-	51,186	-	-
Overdue by less than 90 days	-	-	-	-
Overdue by more than 90 days	59,098	453,604	-	-
	1,755,006	1,394,989	5,871,177	5,108,331

Financial assets that are past due and impaired are as follows:

Trade and other receivables	57,673	-	11,014,355	13,512,241

Movement in the provision for impairment of receivables is as follows:

	Consolidated		**Parent**	
	2009	**2008**	**2009**	**2008**
Trade and other receivables	**$**	**$**	**$**	**$**
Opening balance at 1 July	-	-	13,512,241	15,407,921
Charge for the year	57,673	-	-	-
Reversals	-	-	(2,497,886)	(1,895,680)
Closing balance at 30 June	57,673	-	11,014,355	13,512,241

The consolidated entity 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 entity 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 entity's policy to subject these organisations to credit verification procedures.
It is the consolidated entity's policy to review all outstanding accounts monthly, and any overdue accounts are contacted to ascertain their payment intentions.

(d) Liquidity Risk
The current liquidity policy of the consolidated entity is to hold only current creditor debt; no bank overdraft facilities and a significant cash balance to offset any unexpected down turn in a quarter's trade performance.
The 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 entity'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.

NOTE 25 - FINANCIAL INSTRUMENTS (continued)

(e) Sensitivity Analysis

The consolidated entity has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at the balance date.
This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest rate sensitivity analysis
At 30 June 2009, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2009 $	2008 $
Change in profit		
- Increase interest rate by 1%	54,042	52,953
- Decrease interest rate by 1%	(54,042)	(52,953)
Change in equity		
- Increase interest rate by 1%	54,042	52,953
- Decrease interest rate by 1%	(54,042)	(52,953)

Foreign currency sensitivity analysis
At 30 June 2009, the effect on profit and equity as a result of changes in foreign currency exchange rates, with all other variables remaining constant would be as follows:

	2009 $	2008 $
Change in profit		
- AUD strengthens against USD by 10% (2008:5%)	(19,090)	(536)
- AUD weakens against USD by 10% (2008: 5%)	23,332	592
- AUD strengthens against GBP by 10% (2008: 5%)	(69)	(129)
- AUD weakens against GBP by 10% (2008: 5%)	153	272
Change in equity		
- AUD strengthens against USD by 10% (2008:5%)	(15,373)	(36,144)
- AUD weakens against USD by 10% (2008: 5%)	18,789	39,949
- AUD strengthens against GBP by 10% (2008: 5%)	(104,573)	(18,440)
- AUD weakens against GBP by 10% (2008: 5%)	127,880	20,510

(f) Items of Income, Expense, Gains or Losses on Financial Instruments

	2009 $	2008 $
Income and Gains		
Loans and other receivables		
Interest revenue	289,003	309,303
Foreign exchange gains	385,610	51,535
Bad debt recovery	310	17,938
	674,923	378,776
Expenses and Losses		
Loans and other receivables		
Impairment expense - financial assets	57,673	-
Bad debt expense	-	-
	57,673	-

NOTE 26 - RECEIVABLES AND PAYABLES DENOMINATED IN FOREIGN CURRENCIES

Amounts subject to exchange rate movements

	Consolidated 2009	Consolidated 2008	Parent 2009	Parent 2008
Receivables				
Current				
- United States Dollars	71,796	758,669	-	-
- United Kingdom Pounds	65,135	43,475	-	-
- Malaysian Ringgit	-	7,200	-	-
Payables				
Current				
- United States Dollars	76,346	35,701	-	-
- United Kingdom Pounds	9,889	4,859	-	-
- Malaysian Ringgit	9,000	-	-	-

NOTE 27 - KEY MANAGEMENT PERSONNEL DISCLOSURES

The following directors and executives were key management personnel of the consolidated entity during the financial year.

Directors
The following persons were directors of Prophecy International Holdings Ltd during the financial year:

Non-executive chairman
E Reynolds

Directors
L R Challans (Managing director)
A P Weber

All of the persons listed above were directors for the whole of the financial year and as at the date of this report except as stated above.

Executives (other than directors) with the greatest authority for strategic direction and management
The following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity during the financial year ended 30 June 2009:

Name	Position	Employer
P Barzen	EVP Sales and Alliances	Prophecy Americas Inc.

The person listed above was a member of key management personnel for the whole of the 2009 financial year.

The following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity during the financial year ended 30 June 2008:

Name	Position	Employer
P Barzen	EVP Sales and Alliances	Prophecy Americas Inc.
L R Challans (until 30 July 2007)	General Manager - Software and Services	Prophecy International Pty Ltd

All of the persons listed above were key management personnel for the whole of the 2008 financial year, except as stated above. L R Challans was appointed managing director on 30 July 2007.

Remuneration of directors and executives
The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures, through delegation to the remuneration committee, that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board ensures that all directors' fees and payments are appropriate and in line with the market. Non-executive directors have also received company performance related share options to align their rewards with increases in shareholder wealth.

NOTE 27 - KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

Details of remuneration

Details of the remuneration of each director of Prophecy International Holdings Limited and each of the other key management personnel of the consolidated entity, including their personally related entities, are set out below:

	Short term benefits					Share based payments	Post employment benefits	
2009	Directors fees	Consulting fees	Base remuneration	Incentives	Health cover		Superannuation	Total
E Reynolds	25,000	48,441	-	-	-	55,800	2,250	131,491
L R Challans	-	-	150,875	-	-	55,800	15,829	222,504
A P Weber	27,500	63,116	-	-	-	55,800	8,155	154,571
P Barzen	-	-	158,826	84,139	25,277	-	23,740	291,982
	52,500	111,557	309,701	84,139	25,277	167,400	49,974	800,548

Share based payments consist of shares and share options granted as remuneration. The shares were issued at a share price of $0.31 (2008 : $0.35) for no consideration, pursuant to a shareholder resolution at an Extraordinary General Meeting held on 16 December 2008. Details of the share options issued can be found in the section headed "options" below.

The fair value of the shares granted as remuneration is:

	2009		2008		2009		2008	
	Number of ordinary shares	Fair value $	Number of ordinary shares	Fair value $	Number of ordinary share options	Fair value $	Number of ordinary share options	Fair value $
E Reynolds	180,000*	55,800	200,000	70,000	(500,000)*	(58,000)	500,000	58,000
L R Challans	180,000*	55,800	50,000	17,500	(500,000)*	(58,000)	500,000	58,000
A P Weber	180,000*	55,800	200,000	70,000	(500,000)*	(58,000)	500,000	58,000
	540,000	167,400	450,000	157,500	(1,500,000)	(174,000)	1,500,000	174,000

* At the 16 December 2008 Extraordinary General Meeting, Directors were granted 540,000 shares, in lieu of 1,500,000 share options approved at the 30th November 2007 AGM; and subsequently cancelled, for their achievement of the $1.5 million profit before tax target for the 2007/08 financial year. The shares issued were valued at $0.31 cents each, being the market price of the Company's ordinary shares quoted on the ASX at close of business on 21 October 2008.

At the 13th November 2009 AGM, shareholders will be asked to approve the issue of 452,829 shares to directors for their achievement of the $1.75 million pre tax profit target for the 2008/09 financial year. If the share issue is not approved by shareholders an amount of $240,000 is payable as a cash bonus for achieving the profit target

Cash settled incentives for L R Challans relate to payments on the achievement of consolidated entity profits at the half year and full year. The purpose of the incentive is to increase the profitability of the group and so improve shareholder wealth.

L R Challans is also entitled to long service leave in accordance with applicable legislation. The long service leave expense charged to the profit and loss account for the financial year was $10,514.

Incentives for P Barzen relate to commission payments on licence fee revenue from sales of products to customers, in accordance with an incentive plan approved on 15 February 2007. The purpose of the incentive is to increase licence fee revenues and so improve shareholder wealth.

The remuneration detailed above includes consultancy fees of $48,441 (2008: $44,446) paid to Reyer Investments Pty Limited, a company in which E Reynolds is a director and shareholder. The transactions were at arms length.

At the balance date $3,974 (2008:$3,666) was due to Reyer Investments Pty Limited in respect of consultancy fees.

For all key management personnel, Incentives are the only form of cash settled remuneration that is performance based.

Details of the share options issued can be found in the section headed "options" below.

	Short term benefits					Share based payments	Post employment benefits	
2008	Directors fees	Consulting fees	Base Remuneration	Incentives	Health cover		Superannuation	Total
E Reynolds	25,000	44,446	-	-	-	128,000	2,250	199,696
A P Weber	25,000	54,500	-	-	-	128,000	7,155	214,655
L R Challans	-	-	136,016	25,000	-	75,500	13,148	249,664
P Barzen	-	-	179,250	60,070	19,576	9,768	15,054	283,718
	50,000	98,946	315,266	85,070	19,576	341,268	37,607	947,733

NOTE 27 - KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

Incentives for P Barzen relate to commission payments on Initial Licence Fee sales of basis2 products to new customers, in accordance with an incentive plan approved on 15 February 2007. The purpose of the incentive is to increase sales of basis2 and so improve shareholder wealth.

Incentives for L R Challans relate to payments on the achievement of consolidated entity profits at the half year and full year, in accordance with an incentive plan dated 1 July 2005. The purpose of the incentive is to increase the profitability of the group and so improve shareholder wealth.
For all key management personnel, incentives are the only form of cash settled remuneration that is performance based.
L R Challans is also entitled to long service leave in accordance with applicable legislation. The long service leave expense charged to the profit and loss account for the financial year was $7,357.

Shareholdings

The number of shares in the company held during the year by the key management personnel of Prophecy International Holdings Limited and the consolidated entity, including their personally related entities are set out below:

	Balance at 1 July 2008	Acquisitions	Granted as remuneration	Received on exercise of share options	Disposals	Balance at 30 June 2009
E Reynolds	6,600,000	661,000	180,000	-	-	7,441,000
L R Challans	443,937	-	180,000	-	-	623,937
A P Weber	700,000	-	180,000	-	(99,963)	780,037
P Barzen	536,203	-	-	-	-	536,203
	8,280,140	661,000	540,000	-	(99,963)	9,381,177

Options

The number of share options in the company held during the year by the key management personnel of Prophecy International Holdings Limited and the consolidated entity, including their personally related entities are set out below:

	Balance at 1 July 2008	Granted as remuneration	Exercised	Cancelled	Lapsed	Balance at 30 June 2009	Exercisable at 30 June 2009
E Reynolds	500,000	-	-	(500,000)	-	-	-
L R Challans	500,000	-	-	(500,000)	-	-	-
A P Weber	500,000	-	-	(500,000)	-	-	-
P Barzen	80,000	-	-	-	-	80,000	80,000
	1,580,000	-	-	(1,500,000)	-	80,000	80,000

The options held by P Barzen were issued pursuant to the Prophecy International Holdings Ltd Employee Share Option Plan, details of which may be found in Note 29.

NOTE 28 - AUDITORS REMUNERATION

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditors of the parent entity				
- Parent entity	5,000	5,000	5,000	5,000
- Controlled entity	35,750	33,500	-	-
Other auditors of controlled entities	11,685	12,060	-	-
	52,435	50,560	5,000	5,000
Remuneration for non-audit services provided by:				
Auditors of the parent entity				
- Controlled entity taxation services	15,595	(1,562)	-	-
- Controlled entity accounting services	8,929	-	-	-
Related practices to the parent entity auditors				
Other auditors of controlled entities				
- taxation services	7,240	9,908	-	-
- Payroll services	1,398	1,037	-	-
- Company secretarial services	501	581	-	-
- Accountancy services	-	1,658	-	-
	33,663	11,622	-	-

NOTE 29 - EMPLOYEE BENEFITS

(i) Employee benefit and related on-cost liabilities

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Included in other creditors and accruals (see note 17)	366,514	259,502	-	-
Provision for employee benefits - Current (see note 19)	528,501	479,526	-	-
Provision for employee benefits - Non Current (see note 22)	47,487	26,537	-	-
	942,502	765,565	-	-
Full time equivalent employees at year-end	24	19	-	-

(ii) Prophecy International Holdings Ltd Employee Share Option Plan

On 30 September 1997 the company established an employee share option scheme. All employees of the consolidated entity are eligible to participate in the plan after a qualifying period of 12 months employment, unless the Board decides otherwise.

The allocation of options is at the discretion of the board and when aggregated the issues to Australian employees during the previous five years pursuant to the plan must not exceed 5% of the company's issued share capital.

At 30 June 2009 the options outstanding under the employee option plan were:

Grant date	Balance at 30 June 2008	Exercised during the year	Granted during the year	Lapsed during the year	Balance at 30 June 2009	Conversion dates from	Conversion dates before	Exercise price	Exercisable at 30 June 2009
21-May-04	130,000	(130,000)	-	-	-	21-May-06	21-May-09	$0.135	-
29-Nov-07	810,000	-	-	-	810,000	29-Nov-08	29-Nov-12	$0.365	810,000
	940,000	(130,000)	-	-	810,000				810,000

There were 130,000 options exercised during the year with a weighted average share price of $0.43 per share at exercise date.
Share options were exercised throughout the financial year. The weighted average share price during this period was $0.35.

NOTE 30 - MINORITY INTERESTS IN CONTROLLED ENTITIES

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Interest in:				
Share capital	120	120	-	-
Reserves	-	-	-	-
Retained profits	-	-	-	-
	120	120	-	-

NOTE 31 - RESERVES

Exchange Fluctuation Reserve
The Exchange Fluctuation Reserve records exchange differences arising on translation of the net investment in foreign subsidiaries.

Share Option Reserve
The Share Option Reserve records items recognised as expenses on the issue of employee share options.

NOTE 32 - RELATED PARTIES

Directors
Transactions with key management personnel are set out in note 27.

Wholly Owned Group
The wholly owned group consists of those entities listed in Note 24.

Transactions with related parties
All transactions with related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. Those related party transactions not disclosed elsewhere in this financial report are shown below.
Transactions between Prophecy International Holdings Ltd and other entities in the group consist of receipt of profit distributions from CSP Unit Trust and distribution of working capital.
During the financial year, Prophecy International Holdings Ltd received $1,775,000 from Prophecy International Pty Ltd by way of loan repayments.

Transactions between Prophecy International Pty Ltd and other entities in the group consist of receipt of fees in respect of software sublicences granted to third parties by those group entities; fees for professional services including sales, management and administration, and distribution of working capital.

The following fees were received by Prophecy International Pty Ltd from group entities during the financial year:

Entity	2009 $	2008 $
Prophecy Americas' Inc	1,502,614	1,807,300
Prophecy Europe Limited	1,029,912	904,600

During the year, Prophecy R&D Pty Ltd received fees of $146,181 (2008: $110,612) from Prophecy International Pty Ltd in relation to the sale of software licences in respect of the e-foundation suite of products to third parties by Prophecy International Pty Ltd and other group entities.

Prophecy International Pty Ltd received fees of $44,000 (2008: $85,000) in respect of board, finance and administration services provided to Prophecy Europe Limited.

Prophecy International Pty Ltd received fees of $135,000 (2008: $Nil) in respect of board, finance and administration services provided to Prophecy Americas' Inc.

Prophecy Americas Inc. received fees of $202,989 (2008: $231,033) in respect of sales assitance services provided to other entities in the group.

Prophecy Asia Pacific Malaysia (M) (SDN BHD) paid a dividend of $Nil (2008: $25,923) to Prophecy International Pty Ltd.

Outstanding balances as at 30 June 2009 between group entities are shown below:

	2009 $	2008 $
Prophecy International Holdings Limited	16,883,675	18,617,602
Prophecy International Pty Limited	(11,978,894)	(10,149,033)
Prophecy R & D Pty Ltd	(3,723,540)	(3,869,721)
Prophecy Americas' Inc	(1,062,537)	(4,817,553)
Prophecy Europe Limited	(118,704)	218,705

Prophecy International Holdings Limited carries a provision of $11,014,355 against inter-company receivable balances.
Interest is charged on all loans to group entities.
During the year ended 2009 interest was charged by Prophecy International Pty Ltd at a rate of 5.75% as follows:

	2009 $	2008 $
Prophecy Europe Limited	3,441	18,163
Prophecy Americas Inc.	88,981	359,597

In addition, Prophecy Europe Limited charged Prophecy International Pty Ltd interest of $9,534 (2008: $Nil).

All transactions between group companies are eliminated in full on consolidation.

NOTE 33 - SEGMENT INFORMATION

The company operates in the computer software industry. Segments are detailed below.

The company's primary segmentation is geographic. A geographic segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those in other segments.

2008

Geographic segments	Australia $	Europe $	America $	South East Asia $	Intersegment Eliminations $	Consolidated $
Sales to customers outside consolidated entity	1,482,470	1,644,727	2,416,765	-	-	5,543,962
Intersegment sales	2,822,512	-	231,033	-	(3,053,545)	-
Other revenue	291,702	17,601	-	-	-	309,303
Total Revenue	4,596,684	1,662,328	2,647,798	0	(3,053,545)	5,853,265
Depreciation and amortisation	132,989	-	2,364	-	-	135,353
Segment result	1,681,872	425,147	(135,032)	(12,227)	-	1,959,760
Segment assets	5,444,060	457,816	1,029,988	22,685	-	6,954,549
Additions to Fixed Assets	65,421	-	-	-	-	65,421
Segment Liabilities	1,014,022	60,361	233,755	-	-	1,308,138

2009

Geographic segments	Australia $	Europe $	America $	South East Asia $	Africa $	Intersegment Eliminations $	Consolidated $
Sales to customers outside consolidated entity	1,685,847	836,288	2,312,554	185,081	1,102,773	-	6,122,543
Intersegment sales	2,678,707	-	215,706	-	-	(2,894,414)	-
Other revenue	275,767	13,236	-	-	-	-	289,003
Total Revenue	4,640,321	849,524	2,528,260	185,081	1,102,773	(2,894,414)	6,411,546
Depreciation and amortisation	107,894	-	2,066	-	-	-	109,960
Segment result	1,706,372	(599,932)	(81,863)	(9,901)	1,026,682	-	2,041,358
Segment assets	5,911,086	1,208,229	332,873	5,043	-	-	7,457,231
Additions to fixed assets	46,278	-	7,507	-	-	-	53,785
Segment liabilities	(2,261,325)	59,321	3,999,404	-	-	-	1,797,400

The company does not have any differentiated business segments.

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard AASB 114*Segment Reporting* .

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, property, plant and equipment and intangible assets, net of related provisions.

Segment liabilities consist primarily of trade and other creditors and employee benefit provisions.

A reconciliation of segment assets to total assets presented in the balance sheet is shown below:

	Consolidated 2009 $	Consolidated 2008 $
Segment assets reported	7,457,231	6,954,549
Current tax assets	765	2,556
Deferred tax assets	1,822,049	-
Total assets reported in the balance sheet	9,280,045	6,957,105

A reconciliation of segment liabilities to total liabilities presented in the balance sheet is shown below:

	Consolidated 2009 $	Consolidated 2008 $
Segment assets reported	1,797,400	1,308,138
Current tax liabilities	4,025	51,219
Deferred tax liabilities	170,978	-
Total liabilities reported in the balance sheet	1,972,403	1,359,357

NOTE 34 - CASH FLOW INFORMATION

		Consolidated		Parent	
		2009	2008	2009	2008
		$	$	$	$
(i)	**Reconciliation of profit/(loss) from ordinary activities after income tax to net cash outflow from operating activities**				
	Operating profit after income tax	3,688,404	1,959,760	3,438,360	1,861,852
	Depreciation and amortisation	109,960	135,353	-	-
	Loss on disposal of property, plant and equipment	863	13	-	-
	Provision for impairment of financial assets	57,673	-	-	-
	Provision on loan to related entities	-	-	(2,497,886)	(1,895,680)
	Foreign exchange (gain)/loss	(55,001)	73,880	-	-
	Share based payments to directors and employees	41,074	389,327	-	-
	Foreign exchange differences arising on translation of foreign subsidiaries recognised in reserves	(219,956)	(97,908)	-	-
	Change in operating assets and liabilities				
	(Increase)/Decrease in Trade and other receivables	(417,690)	(429,118)	1,114	(519)
	Increase in Work in progress	(87,260)	(8,956)	-	-
	(Increase)/Decrease in Tax assets	(1,820,258)	4,793	(988,499)	-
	(Increase)/Decrease in Other assets	(3,559)	24,213	-	-
	Increase/(Decrease) in Trade and other payables	456,950	(37,348)	2,491	(9,840)
	Increase in Tax liabilities	123,784	50,218	171	-
	Increase in Provisions	69,925	55,844	-	-
	Decrease in Other liabilities	(37,613)	(156,294)	-	-
		1,907,296	1,963,777	(44,249)	(44,187)

Prophecy International Pty Ltd, a controlled entity, has credit card facilities as follows:

Used	2,136	894	-	-
Available	7,864	9,106	-	-
	10,000	10,000	-	-

NOTE 35 - COMMITMENTS

Commitments for minimum lease payments in relation to non-cancellable operating leases on premises are:

	2009	2008
	$	$
No later than one year	149,761	142,641
Greater than one year but less than five years	127,425	249,948
	277,186	392,589

Prophecy International Pty Limited has entered into leases in respect of its Adelaide and Brisbane premises. The Adelaide premises are subject to a 4% escalation factor each July. The lease terminates on 30 June 2011, with no renewal option.
The Brisbane premises are subject to a 12 month tenancy, terminating on 23 March 2010.
Prophecy Americas Inc. has entered into a 12 month tenancy, terminating on 31 May 2010.

NOTE 36 - EARNINGS PER SHARE

Basic earnings per share (cents per share)	**8.1c**	**4.4c**
Weighted average number of ordinary shares outstanding during the year used to calculate basic EPS	45,447,462	44,904,777
Earnings used to calculate basic EPS	3,688,404	1,959,760
Diluted earnings per share (cents per share)	**8.1c**	**4.4c**
Weighted average number of ordinary shares outstanding during the year used to calculate diluted EPS	45,508,575	44,992,954
Earnings used to calculate diluted EPS	3,688,404	1,959,760

Reconciliation of weighted average number of ordinary shares used to calculate basic and diluted EPS

Weighted average number of ordinary shares used to calculate basic EPS	45,447,462	44,904,777
Weighted average number of dilutive options outstanding during the year	61,113	88,177
Weighted average number of ordinary shares used to calculate diluted EPS	45,508,575	44,992,954

NOTE 37 - CONTINGENT LIABILITIES

Prophecy International Pty Ltd, a controlled entity, has provided guarantees to third parties in respect of property lease rentals. The maximum amounts payable are:

	2009 $	2008 $
Lease rentals	68,750	68,750

The lease rental guarantees match the term of the leases. Details of leases can be found in note 35. The guarantee is secured by a fixed charge over Prophecy International Pty Ltd's bank balances.

No material losses are anticipated in respect of any of these contingent liabilities.

NOTE 38 - EVENTS AFTER THE BALANCE SHEET DATE

There are no events after the balance sheet date that would require adjustment to the financial statements or further disclosure at the date this report was authorised for issue.