2008
2009
annual report

Prophecy International Holdings Limited

+ corporate directory

For The Year Ended 30 June 2009

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

Directors
Edwin Reynolds
Anthony P Weber
Leanne R Challans

Company Secretary
Anthony P Weber

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Computershare Investor Services Pty Ltd
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Solicitors
O'Loughlins, Barristers & Solicitors
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Adelaide
South Australia 5000

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

+ company profile

For The Year Ended 30 June 2009

Prophecy designs, develops and markets software through its business partner channel to companies worldwide and has been doing so since 1980. Our software is used by large and complex organisations worldwide and our technology allows dramatic improvements in the development of customer service and business systems. basis2, a suite of billing and customer information solutions, is our core product and is distributed through a network of business partners in each of our territories (Americas, Europe/Middle East/Africa (EMEA) and Asia/Pacific).

Prophecy has built a strong reputation for its innovative 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 complete product set of basis2, e-foundation and Velatte are quality, market driven products built using the latest technologies by highly skilled staff.

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

Function-rich and flexible enough for all regulated, transitioning and deregulated markets, basis2 allows companies to successfully compete in this evolving industry. Research indicates that the CIS market is worth over US$50 billion in software and services and is yet to find a distinct market leader. This presents Prophecy with a unique opportunity to make a significant impact in this industry, at a time when utilities need to update their CIS to remain competitive. 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.

"basis2 is impressive in many ways, including its Oracle application design, its email and bill presentation capability and the flexibility and strength of its billing engine….. basis2 will make an exciting impact on the CIS market"

– Gary Weseloh, Senior Consultant – TMG Consulting (TMG Consulting is one of North America's top utility consultants and provides utilities and their suppliers with customer and financial system review, planning, selection, and project quality assurance.)

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 organizations such as councils and universities, needing to bill customers for a range of products and services.

+ company profile

For The Year Ended 30 June 2009

Prophecy has over 15 years experience in the utilities industry and a comprehensive understanding of the way utility companies work. Our original product – BASIS, is utilised by a number of utilities around the world. 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 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.

• Prophecy e-Portal

Enables organisations to deploy B2B and B2C transactions over the internet.

• Legacy Integration

Addresses the need for businesses to extend the use of existing technology rather than replace – a significant opportunity in today's IT market.

Consulting Services

In conjunction with the sale of licenses for our software products, Prophecy will continue to provide consulting services in conjunction with partners. This will involve mentoring services, design and development of enhancements or new software, project management and support. We have a strong track record of delivery on time and within budget and our rapid application assembly methodology delivers solutions faster than traditional methods. Major projects completed and in progress include those for government and financial services organisations.

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Annual Results Announced

31st August 2009

Annual General Meeting

The Annual General Meeting of the members of Prophecy International Holdings Limited will be held at 11am on Friday 13th November 2009 at The Rendezvous Allegra, 55 Waymouth Street, Adelaide, South Australia 5000.

+ message from the chairman

For The Year Ended 30 June 2009

Dear Fellow Shareholder

Prophecy is very pleased to report an excellent continuation of full year profit, backing up the great result from last year. The 2008-2009 year has produced a profit before tax of $2.041 million compared to the last year profit of $2.012 million. The after tax profit was $3.688 million, reflecting the uptake of a Deferred tax asset which was necessitated with our return to sustainable profits over the last 3 years. The result for the year is a confirmation that the actions and planning over the last few years, plus the fine efforts of all staff have enabled a sustainable profit structure to continue to flourish.

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. Licence revenues were on a par with last year at $4.05 million.

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 unfranked interim dividend of 2c per share. We have declared a final unfranked dividend of 2.25 cents, to bring the full year total to 4.25 cents, up from 4.0 cents last year and 3.5 cents the year before. 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 recognised on its books as all development is expensed.

Prophecy plans for the coming year will see a continuation of the 2008-2009 profitable performance and the directors therefore expect to be able to continue with dividend payouts based on sustained profitability. We have exhausted our franking credits and therefore our dividends will be unfranked until tax losses are cleared.

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 e-Foundation. The legacy systems have been running as a profitable unit for some time and have continued to do so in the 2008-2009 year. As a discrete unit, this part of the business is expected to once again be in profit for the 2009-2010 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 project 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.

The 2009 year saw a major achievement with a very significant deal concluded for our basis2 solution in Egypt. Giza Systems, a very well respected IT company in Cairo, came on board

+ message from the chairman

For The Year Ended 30 June 2009

as a Prophecy partner for the Middle East and won a large contract to provide a new billing system for the Holding Company for Water and Wastewater (HCWW). The HCWW is a relatively new organisation appointed by the Government of Egypt to improve the provision of water and waste water facilities throughout the country of Egypt. Once fully implemented, the basis2 system will handle the billing for all 9.5 million water accounts in the country of Egypt. This is an emphatic recognition of the capabilities of the Prophecy solution and its ability to handle large and sophisticated customer situations. Additional business is expected to flow from the Middle East region as a result of this initial deal.

The Texas Commission on Environmental Quality (TCEQ) basis2 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.

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.

E Reynolds

Ed Reynolds

Chairman

+ directors' report

For The Year Ended 30 June 2009

The Directors of Prophecy International Holdings Limited present their report on the consolidated accounts for the year ended 30th June 2009.

Directors

The following held office as Directors of Prophecy International Holdings Limited throughout the year.

Ed Reynolds B.Sc.

Non-Executive Director & Chairman

Ed was appointed Non-Executive Chairman on the 8th December 2006. He has held various positions within the IT industry, which have 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. Ed is also Chairman of the Strategy Committee.

Anthony P (Tony) Weber FCPA, FCIS

Non-Executive Director, Company Secretary and Chief Financial Officer.

Tony has been an active member of the Prophecy Board throughout the past twelve 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 is Chairman of both the Audit and Remuneration Committees, and took on the role of Chief Financial Officer and Company Secretary on 19th October 2005.

Leanne Challans B.Sc

Managing Director

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 1990s.

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.

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

+ directors' report

For The Year Ended 30 June 2009

Principal Activities

The main activities of the holding company and its subsidiaries were the design, development and marketing of computer software applications and services aimed at the worldwide corporate marketplace. There has been no significant change in the nature of these activities during the year.

Consolidated Results

For the year ended 30th June 2009 the group returned a profit from ordinary activities after tax of $3,688,404.

Dividends

The Directors have declared a final dividend of 2.25 cents per share (unfranked) with a record date of the 14th September, 2009 and payment date of 2nd October, 2009. The Company also paid an interim dividend of 2.0 cents on 18th March 2009. This brings the full year dividend to 4.25 cents per share. The Conduit Foreign Income portion of the final dividend is zero.

Review of Operations

A review of operations is set out in the section headed "Message from the Chairman" of this report.

Significant changes in State of Affairs

There were no significant changes in the state of affairs during the year.

Events subsequent to balance date

Other than the matters disclosed in this report, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

Future Developments

Comments on the company's future direction are included in the section headed "Message from the Chairman" of this report.

Directors Benefits

Except as disclosed in this report, in the 2009 financial year, no Director has received or become entitled to receive a benefit (other than remuneration included in the Accounts) by reason of a contract made by the entity or a related entity with a Director or a firm of which he is a member or with an entity in which he has a substantial financial interest.

Directors Interests in Shares and Share options

The following table shows the particulars of Directors' interests in the ordinary shares and share options of the company as at 16th September 2009.

Director	Ordinary Shares held Directly or Indirectly by the Director	Options held by the Director
E Reynolds	7,484,000	-
A P Weber	780,037	-
L Challans	623,937	-

At the 16th December 2008 Extraordinary General Meeting, Directors were granted 540,000 shares for achieving a profit before tax in excess of the performance target of $1.5 million for the 2007/08 financial year.

+ directors' report

For The Year Ended 30 June 2009

Corporate Governance

The Board has adopted formal policies for those issues which need its approval and has established levels of authority for its senior executives. Such issues of substance are considered by the Board with external advice from its professional advisers as required.

Commentary on the Corporate Governance approach taken by the company is included in the Corporate Governance section of this report.

Share Options

All outstanding share options are over the ordinary shares of Prophecy International Holdings Limited. During the 2009 financial year no options were granted under the Employee Share Option Plan.

At the date of this report the company has the following options outstanding:

Grant Date	Scheme	Exercised since 30-6-09	Balance at 16-9-09	Conversion Dates		Exercise Price
				From	Before	
29 Nov 07	Employee	-	755,000	29 Nov 08	29 Nov-12	$0.365
Total			**755,000**			

There are 18 holders of share options at 28th September 2009

There have been no shares issued since the end of the financial year.

Directors Meetings

In the year ended 30th June 2009, the following Board, Audit Committee, Remuneration Committee and Strategy Committee meetings were held:

	Board Meeting		Audit cmte		Remun cmte		Strategy cmte	
	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend
E Reynolds	13	13	4	4	3	3	10	10
A P Weber	13	13	4	4	3	3	10	10
L Challans	13	11	-	-	-	-	-	-

Indemnification and Insurance of Directors and Officers

In the financial year, the company has paid premiums of $32,319.38 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.

Remuneration Report - Audited

This report details the nature and amount of emoluments for each key management person of the group.

Remuneration Policy

The remuneration policy of Prophecy International Holdings Limited has been designed to align director and executive 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 consolidated entity's financial results. The board of Prophecy International Holdings Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated entity 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.

• Executives are also entitled to participate in the employee share and option arrangements.

• The non-executive directors receive superannuation contributions but do not receive any other retirement benefits. Australian based executives receive both superannuation contributions and long service leave benefits.

• All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares issued to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using a Black-Scholes methodology.

The board's policy is to remunerate non-executive directors at market rates for comparable companies 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 the 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.

Performance Based Remuneration

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 directors/executives to ensure buy-in. The measures are specifically tailored to the areas each director/executive is involved in and has a level of control over, 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.

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.

In determining whether or not a KPI has been achieved, Prophecy International Holdings Limited bases the assessment on audited financial statements.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to the majority of 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 forward towards increasing shareholder wealth, and that the executive and director remuneration policies in place will help facilitate achievement of this goal.

Details of Remuneration for Year Ended 30 June 2009

The remuneration for each director and the Key Management Personnel of the consolidated entity during the year was as follows:

Directors	Directors Fees	Consulting Fees	Share based payments (***)	Superannuation	Total
E Reynolds	25,000	48,441	55,800	2,250	131,491
A P Weber	27,500	63,116	55,800	8,155	154,571

Key Management	Base Remuneration	Incentives	Share based payments (***)	Super-annuation	Health Cover	Total
L R Challans (Managing Director)	150,875	-	55,800	15,829	-	222,504
P Barzen	158,826	84,139	-	23,740	25,277	291,982

***** Details of the calculation of this payment can be found in Note 27 in notes to the accounts.**

2008 Equivalent

Directors	Directors Fees	Consulting Fees	Share based payments (***)	Superannuation	Total
E Reynolds	25,000	44,446	70,000	2,250	141,696
A P Weber	25,000	54,500	70,000	7,155	156,655

Key Management	Base Remuneration	Incentives	Share based payments (***)	Super-annuation	Health Cover	Total
L R Challans (Managing Director)	136,016	25,000	17,500	13,148	-	191,664
P Barzen	179,250	60,070	9,768	15,054	19,576	283,718

*** 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. See note 27 for further details.

Performance Income as a Proportion of Total Remuneration

Executives are paid performance based bonuses based on set monetary figures, rather than proportions of their salary. This has led to the proportions of remuneration related to performance varying between individuals. The remuneration committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the consolidated entity. The remuneration committee will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

Employment Contracts of Senior Executives

The employment conditions of the senior executives are formalised in contracts of employment. Leanne Challans is an employee of Prophecy International Pty Ltd and Peter Barzen is an employee of

Prophecy Americas Inc, which are controlled entities of Prophecy International Holdings Limited.

The employment contracts stipulate a notice period of 4 weeks. Employment contracts are terminable by the company in accordance with South Australian, Federal and USA laws. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse, except in the case of retirement (either age or health related), redundancy, or death of the employee.

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.

Non-audit Services

The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company and/or the group are important.

Details of amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision for non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons.

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 : Code of Ethics and Professional Accountants.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

Taxation and Accounting services: $24,524

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30th June 2009 has been received and can be found on page 21 of this report. This report is made and signed in accordance with a resolution of the Directors, on the 28th day of September, 2009.

Ed Reynolds
Chairman

Leanne Challans
Managing Director

+ corporate governance

For The Year Ended 30 June 2009

Statement of Commitment

The Prophecy International Board and management remain committed to maintaining a high standard of Corporate Governance.

Corporate governance includes not only compliance with the specific obligations contained in the Corporations Law, Australian Stock Exchange Listing Rules and Company Articles of Association, but also the principles of ethical behaviour, risk management, and optimising company performance. Prophecy is committed to meeting these obligations and principles in all regions of Australia, together with ensuring compliance with additional relevant standards and regulations in the other countries in which it operates.

Role of the Board of Directors

The Board of Directors at the date of this report were:

Edwin Reynolds B.Sc – Non-Executive Director and Chairman

Anthony P Weber FCPA, FCIS – Non-Executive Director, Company Secretary and Chief Finance Officer

Leanne R Challans B.Sc – Managing Director

During the reporting year, the Board of Directors had the responsibility for the overall governance and performance of the Prophecy Group. In fulfilling that responsibility, the Board:-

- Sets the strategic direction of the Group.
- Formulates policy guidelines and financial performance targets.
- Establishes levels of authority and approval processes applicable to all management, ensuring that the business risks of the Group's activities can be identified, considered and reviewed.
- Monitors management's running of the business, to ensure implementation of the strategic direction set by the Board.
- Ensures that the company's overseas subsidiaries are audited in accordance with the requirements of the regions in which they operate, and where audit is not formally required, ensures that a comprehensive half yearly and yearly review takes place.
- Establishes the Remuneration Committee, Strategy Committee and Audit Committee described below, and reviews the matters considered and recommendations made by those Committees.
- Conducts a regular review of major activities, by analysis of reports from senior management, and ongoing enquiry of senior management as required.

Any issues of particular significance are the subject of external advice from Prophecy's professional advisors. All reasonable steps are taken to ensure that the company behaves in a prudent and ethical manner in its relationships with staff, customers, business partners, suppliers, regulatory authorities and shareholders.

Directors are aware of their obligations to disclose to the Board any material contract in which they have an interest, any association with any other company, and any dealings with the issued securities of Prophecy International Holdings Ltd.

The Board has adopted a policy that unless otherwise specifically approved by the Board, directors and senior executives may only trade Prophecy International Holdings Ltd shares during the 30 day period immediately following half year and full year announcement of results to the Australian Stock Exchange.

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

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.

+ corporate governance

For The Year Ended 30 June 2009

ASX Corporate Governance Council – Corporate Governance – Principles and Recommendations December 2007

The Board has considered each of the eight (8) Principles of Good Corporate Governance and sets out below its 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 (3) Board Directors – Chairman, Managing Director and Non Executive Director, and (1) Senior Executive. Performance over the past 3 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 have 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:** Report on process to be compliant with this principle.

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 (3) experienced directors including the Managing Director. The Board believe that over the past 3 financial years where the Company has returned to profit and paying dividends to its shareholders, that it has performed an effective job and does not require additional directors at this stage.

• **Recommendations:**

Recommendation 2.1:

A majority of the board should be independent directors.

• **PRO View:** Not possible at this stage without increasing costs considerably.

Recommendation 2.2:

The chair should be an independent director.

• **PRO View:** Appointing an additional director for the role considered not cost effective until 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 an 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:** Report on progress to be compliant with this view.

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, customers, suppliers, creditors, consumers and the broader community in which they operate.

• **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.

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. The CEO and CFO present a S295A certificate to the Board for 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 only of 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 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.

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 Principle 6.

• PRO View: No additional reporting is considered necessary.

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 2008/09 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.

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.

+ auditor's independence declaration

For The Year Ended 30 June 2009

GrantThornton

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF PROPHECY INTERNATIONAL HOLDINGS LTD

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Prophecy International Holdings Ltd for the year ended 30 June 2009, 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
South Australian Partnership
Chartered Accountants

S J Gray
Partner

Signed at Wayville on this 28th day of September 2009

+ consolidated income statement

For The Year Ended 30 June 2009

	NOTE	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Revenues from ordinary activities	**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 benefit / (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 equity interest		-	-	-	-
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.

consolidated balance sheet

For The Year Ended 30 June 2009

		Consolidated		Parent	
	NOTE	2009	2008	2009	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	9,041	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	9,041	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**	**9,212**	**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.

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**

+ 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 (AASB), 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.

NOTE 1 (Continued)

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.

(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.

NOTE 1 (Continued)

(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

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

(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

NOTE 1 (Continued)

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.

(i) *Financial Instruments*

Recognition

Financial instruments are initially

NOTE 1 (Continued)

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

NOTE 1 (Continued)

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.

(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.

NOTE 1 (Continued)

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

NOTE 1 (Continued)

result 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

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.

(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 and accounting interpretations

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

NOTE 1 (Continued)

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.

This financial report was authorised for issue on 28th of September 2009 by the Board of Directors.

+ notes to and forming part of the accounts

For The Year Ended 30 June 2009

NOTE 2 - REVENUES FROM ORDINARY ACTIVITIES

		Consolidated		Parent	
		2009	2008	2009	2008
	NOTE	$	$	$	$
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 FROM ORDINARY ACTIVITIES

Profit from ordinary activities includes the following specific items:

	Consolidated 2009	Consolidated 2008	Parent 2009	Parent 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	-	-

+ notes to and forming part of the accounts

For The Year Ended 30 June 2009

NOTE 3 - PROFIT FROM ORDINARY ACTIVITIES (Continued)

	Consolidated		Parent	
	2009	2008	2009	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		Parent	
	2009	2008	2009	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 (benefit) / 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.

+ notes to and forming part of the accounts

For The Year Ended 30 June 2009

NOTE 5 - DIVIDENDS	Parent	
	2009	2008
Dividends paid	$	$
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		
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		
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		Parent	
	2009	2008	2009	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				
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

+ notes to and forming part of the accounts

For The Year Ended 30 June 2009

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
NOTE 8 - CURRENT ASSETS - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Held for Trading Financial Assets				
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.

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
NOTE 9 - CURRENT ASSETS - WORK IN PROGRESS				
Work in Progress	**97,809**	10,549	-	-
NOTE 10 - CURRENT ASSETS - TAX ASSETS				
Refundable tax payments	**765**	2,556	-	-
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**

+ notes to and forming part of the accounts

For The Year Ended 30 June 2009

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	-	2,160,471	(551,887)	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
		2,343,641	**(521,592)**	**1,822,049**	**1,822,049**

NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	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:

Consolidated Entity	Fixtures & Fittings	Plant & Equipment	Total
	$	$	$
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

+ # notes to and forming part of the accounts

For The Year Ended 30 June 2009

NOTE 16 - NON-CURRENT ASSETS - Intangible Assets	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 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:

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

NOTE 17 - CURRENT LIABILITIES - TRADE AND OTHER PAYABLES	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Trade creditors	37,509	21,728	1,260	1,550
Accruals	744,869	341,011	5,000	5,000
Other creditors	45,768	8,457	2,781	-
	828,146	371,196	9,041	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 liabilities	-	(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 liabilities	-	(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	-	-

+ notes to and forming part of the accounts

For The Year Ended 30 June 2009

NOTES 23 - ISSUED CAPITAL	Parent Entity		Parent Entity	
	Shares	Shares	$	$
Authorised	2009	2008	2009	2008
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	Equity Holding	Book Value of Shares Held	Book Value of Shares Held
		2009	2008	2009	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	44,976

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**

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

NOTE 25 - FINANCIAL INSTRUMENTS (Continued)

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 currrency 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

	Consolidated		Parent	
	2009	2008	2009	2008
Amounts subject to exchange rate movements				
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:

NOTE 27 - KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

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

All of the persons listed above were 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.

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

NOTE 27 - KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

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

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. 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		Parent	
	2009	2008	2009	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	-	-	-
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

	Consolidated		Parent		
	2009	2008	2009	2008	
	$	$	$	$	
(i) Employee benefit and related on-cost liabilities					
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**	**-**	**-**	

NOTE 29 - EMPLOYEE BENEFITS (Continued)

(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 09
21-May-04	130,000	(130,000)	-	-	-	21-May-06	21-May-09	$0.135	-
29-Nov-07	810,000	-	-	(55,000)	755,000	29-Nov-08	29-Nov-12	$0.365	755,000
	940,000	**(130,000)**	**-**	**(55,000)**	**755,000**				**755,000**

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		Parent	
	2009	2008	2009	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.The following fees were received by Prophecy International Pty Ltd from group entities during the financial year:

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

NOTE 32 - RELATED PARTIES (Continued)

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.

	GEOGRAPHIC SEGMENTS						
2008	Australia	Europe	America	South East Asia	Africa	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	-	-	(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

	GEOGRAPHIC SEGMENTS						
2009	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	-	-	(2,894,413)	-
Other revenue	275,767	13,236	-	-	-	-	289,003
Total Revenue	4,640,321	849,524	2,528,260	185,081	1,102,773	(2,894,413)	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

NOTE 33 - SEGMENT INFORMATION (Continued)

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	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	2008
	$	$
Segment liabilities 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

notes to and forming part of the accounts

For The Year Ended 30 June 2009

NOTE 34 - CASH FLOW INFORMATION

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
(i) Reconciliation of profit 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 doubtful debts	57,673	-	-	-
Provision on Loan to Related entities	-	-	(2,497,886)	(1,895,680)
Foreign exchange (loss)/gain	(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)**

NOTE 34 - CASH FLOW INFORMATION (Continued)

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

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Used	2,136	894	-	-
Available	7,864	9,106	-	-
	10,000	10,000	-	-

NOTE 35 - COMMITMENTS

	2009	2008
	$	$
Commitments for minimum lease payments in relation to non-cancellable operating leases on premises are:		
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:

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.

This financial report was authorised for issue on 28th September 2009 by the Board of Directors.

+ directors' declaration

For The Year Ended 30 June 2009

The directors declare that

1. the financial statements and notes are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards, the Corporations Regulations 2001 and other professional reporting requirements; and

   (b) give a true and fair view of the financial position as at 30th June 2009 and of the performance for the financial year ended on that date of the company and consolidated entity.

2. the Managing Director and Chief Financial Officer have each declared that:

   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 268 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 fall due and payable.

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

E Reynolds

Ed Reynolds
Chairman

LL Challans

Leanne Challans
Managing Director

Dated this 28th day of September, 2009

GrantThornton

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

Report on the Financial Report

We have audited the accompanying financial report of Prophecy International Holdings Ltd, (the company) which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

GrantThornton

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

Auditor's responsibility Cont

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

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

Independence

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

Auditor's opinion

In our opinion:

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

  i giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

  ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 13 of the directors' report for the year ended 30 June 2009. 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.

+ independent audit report

For The Year Ended 30 June 2009

GrantThornton

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

Auditor's opinion

In our opinion the Remuneration Report of Prophecy International Holdings Ltd for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

S J Gray
Partner

Signed at Wayville on this 28th day of September 2009

+ shareholders information

For The Year Ended 30 June 2009

The shareholders information set out below was applicable at 15th September 2009.

Distribution of Equity Securities

a) Analysis of numbers of equity Securities by size and holding.

	Ordinary Shares	Options over Ordinary Shares
1 - 1,000	210	0
1,001 - 5,000	341	0
5,001 - 10,000	181	0
10,001 - 100,000	268	18
101,000 - Max	47	0
Total	**1047**	**18**

b) There were 126 holders of less than a marketable parcel of shares.

Issued Shares	Twenty Largest Shareholders	Numbers Held	% of Ordinary
1.	REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,484,000	16.35%
2.	DUNMOORE PTY LTD	6,854,052	14.97%
3.	SMOOTHWARE PTY LTD	3,229,118	7.05%
4.	MARIA O'CONNOR & ASSOCIATES PTY LTD	2,229,784	4.87%
5.	SILVERNINE PTY LTD	1,820,897	3.98%
6.	NUBOUND PTY LTD	1,692,015	3.70%
7.	MR TERRENCE PETER LEWIS	1,440,825	3.15%
8.	HOLDEN HOLDEN & ASSOCIATES PTY LTD	1,021,875	2.23%
9.	CHRISTINE HOLDEN SUPER FUND	917,875	2.00%
10.	MR A P WEBER & MRS P A WEBER (THE APPA WEB S/FUND)	780,037	1.70%
11.	ANDAMAX INVESTMENTS PTY LTD C/- TAYLOR COLLISON LIMITED C/- C P BALL	650,000	1.42%
12.	MRS LEANNE RUTH CHALLANS + MR STEVEN WAYNE CHALLANS	623,937	1.36%
13.	MR MICHAEL WHITFIELD SHARPE + MRS MERYANE WENDY SHARPE	570,220	1.25%
14.	PYC INC	466,203	1.02%
15.	MR ALLAN WAYNE THYGESEN + MRS ANNIE FREDA THYGESEN	455,000	0.99%
16.	FIVE TALENTS LIMITED - NEW ZEALAND	440,000	0.96%
17.	MR P J TATHEM + MRS T A TATHEM (TABRIGG SUPER FUND A/C)	415,000	0.91%
18.	PINEHURST NOMINEES	410,201	0.90%
19.	MR G P JOLLIFFE + MRS M JOLLIFFEE (THE JOLLIFFEE SUPER FUND A/C)	400,000	0.87%
20.	SHAW GROUP SUPER ACCOUNT	332,000	0.73%

+ shareholders information

For The Year Ended 30 June 2009

Substantial Shareholders

Substantial shareholders in the company are set out below:

Name	Ordinary Shares	% held
REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,484,000	16.35%
DUNMOORE PTY LTD	6,854,052	14.97%
SMOOTHWARE PTY LTD	3,229,118	7.05%

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 vote.

PROPHECY INTERNATIONAL HOLDINGS LIMITED

ACN 079 971 618

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY MEMORANDUM

PROXY FORM

Date of Meeting
13 November 2009

Time of Meeting
11.00 am (SA time)

Place of Meeting
The Rendezvous Allegra 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 (SA time) on 13 November 2009.

Please note that an online version of the Company's 2009 Annual Report can be downloaded or viewed at http://www.prophecyinternational.com/attachments/2009_PIHL_AnnualReport.pdf The 2009 Annual Report has also been sent by post to those shareholders who have previously elected to receive a hard copy.

Ordinary Business

To consider the Financial Statements for the financial year ended 30 June 2009 and accompanying reports of the Directors and Auditor.

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

Resolution 1: Re-election of Anthony Weber as Director

"*That Mr Anthony Weber, 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: Issue of Shares to Edwin Reynolds

"*That approval be and is hereby given to the allotment and issue by the Company of 150,943 ordinary shares to Mr Edwin Reynolds (or his nominee) on the terms and conditions described in the Explanatory Memorandum which is attached to and forms part of this Notice.*"

Resolution 3: Issue of Shares to Leanne Challans

"*That approval be and is hereby given to the allotment and issue by the Company of 150,943 ordinary shares to Mrs Leanne Challans (or her nominee) on the terms and conditions described in the Explanatory Memorandum which is attached to and forms part of this Notice.*"

Resolution 4: Issue of Shares to Anthony Weber

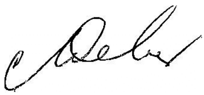
"*That approval be and is hereby given to the allotment and issue by the Company of 150,943 ordinary shares to Mr Anthony Weber (or his nominee) on the terms and conditions described in the Explanatory Memorandum which is attached to and forms part of this Notice.*"

Resolution 5: Adoption of Remuneration Report

"*That the Company adopt the Remuneration Report for the year ended 30 June 2009 as set out in the Company's Annual Report for the year ended 30 June 2009.*"

DATED 16th September, 2009

BY ORDER OF THE BOARD
PROPHECY INTERNATIONAL HOLDINGS LIMITED



ANTHONY P WEBER
COMPANY SECRETARY

+ Notice of Meeting

For The Year Ended 30 June 2009

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 Statement**

   2.1 **Resolutions 1, 2, 3 and 4**

   The Company will disregard any votes in respect of each of these resolutions if they are cast by or on behalf of a person who is named in the relevant resolution or an associate of that named person.

   2.2 **All Resolutions**

   However the Company need not disregard a vote if:

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

   (b) 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.

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 (SA time) on 11 November 2009 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 a Notice convening an Annual General Meeting of shareholders of Prophecy International Holdings Limited to be held on 13 November 2009. 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, 4 and 5.

All of the resolutions are ordinary resolutions. They are separate resolutions and in no way dependent on each other.

1. **RESOLUTION 1: RE-ELECTION OF ANTHONY WEBER AS DIRECTOR**

Mr Anthony Weber was appointed as a Director on 24 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 Weber automatically retired as a Director at the Company's Annual General Meeting held on 30 November 2007 and was re-elected at that Annual General Meeting.

As Mr Weber 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 Weber has extensive experience in the IT industry, with a strong focus on finance and general management. Mr Weber's experience with multi-national and public companies provides invaluable experience to the Board.

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

2. **RESOLUTION 2: ISSUE OF SHARES TO EDWIN REYNOLDS**

2.1 On 26 June 2008 and 25 June 2009 the Board resolved to issue that number of shares calculated by dividing $80,000 by the closing price of the Company's shares on 30 June 2009 to Mr Edwin Reynolds (or his nominee) if the Company earns at least $1,750,000 profit after tax for the financial year ended 30 June 2009.

2.2 The Company earned in excess of $1,750,000 profit after tax for the financial year ended 30 June 2009 and therefore satisfied the performance criteria referred to in paragraph 2.1. The closing price of the Company's shares on 30 June 2009 was $0.53 per share. Subject to shareholder approval, it is therefore proposed that Mr Reynolds (or his nominee) will be issued 150,943 shares.

2.3 The proposed share issue to Mr Reynolds (or his nominee) requires the approval of shareholders pursuant to ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act.

Shareholder approval is required under ASX Listing Rule 10.11 and section 208 of the Corporations Act because Mr Reynolds is a director of the Company and, as such, is a related party of the Company. If shareholder approval is given under ASX Listing Rule 10.11, shareholder approval is not required under ASX Listing Rule 7.1.

2.4 For the purposes of ASX Listing Rule 10.13 and section 219 of the Corporations Act information regarding the proposed share issue is provided as follows to the extent that such information is not disclosed elsewhere in this Explanatory Memorandum:

(a) No funds will be raised by the issue of shares to Mr Reynolds (or his nominee) as they are being issued for no consideration.

(b) The shares will rank equally in all respects with the existing fully paid ordinary shares in the Company.

2.5 The value of the 150,943 shares proposed to be issued to Mr Reynolds (or his nominee) is $86,037.51 at the market price of the Company's shares quoted on ASX at close of trading on 14 September 2009 (that is, $0.57). This value may increase or decrease after 14 September 2009 depending on the future price of the Company's shares.

2.6 For the financial year ended 30 June 2009 Mr Reynolds received a directors fee and superannuation totalling $27,250 from the Company. In addition, for the financial year ended 30 June 2009 a company associated with Mr Reynolds received $48,441 for performing consulting work for the Company. Mr Reynolds also received 180,000 ordinary shares in the Company valued at $55,800 on 16 December 2008.

The Directors are also entitled to reimbursement of all reasonable travelling, accommodation and other expenses that they properly incur in attending meetings of directors or any meetings of committees of directors, in attending meetings of shareholders or in connection with the business of the Company.

2.7 The current share and option holdings of Mr Reynolds and his associates is as follows:

Director	Shares		Options	
	Direct	Indirect	Direct	Indirect
Edwin Reynolds	NIL	7,484,000	NIL	NIL

The share and option holdings of Mr Reynolds and his associates if this resolution is passed will be as follows:

	Direct	Indirect	Direct	Indirect
Edwin Reynolds	NIL	7,634,943	NIL	NIL

2.8 The Directors (other than Mr Reynolds) do not have an interest in the outcome of Resolution 2 and recommend that shareholders vote in favour of Resolution 2.

2.9 If Resolution 2 is passed, the shares to be issued to Mr Reynolds (or his nominee) will be issued not later than one month after the date of the Meeting.

3. **RESOLUTION 3: ISSUE OF SHARES TO LEANNE CHALLANS**

3.1 On 26 June 2008 and 25 June 2009 the Board resolved to issue that number of shares calculated by dividing $80,000 by the closing price of the Company's shares on 30 June 2009 to Mrs Leanne Challans (or her nominee) if the Company earns at least $1,750,00 profit after tax for the financial year ended 30 June 2009.

3.2 The Company earned in excess of $1,750,000 profit after tax for the financial year ended 30 June 2009 and therefore satisfied the performance criteria referred to in paragraph 3.1. The closing price of the Company's shares on 30 June 2009 was $0.53 per share. Subject to shareholder approval, it is therefore proposed that Mrs Challans (or her nominee) will be issued 150,943 shares.

3.3 The proposed share issue to Mrs Challans (or her nominee) requires the approval of shareholders pursuant to ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act.

Shareholder approval is required under ASX Listing Rule 10.11 and section 208 of the Corporations Act because Mrs Challans is a director of the Company and, as such, is a related party of the Company. If shareholder approval is given under ASX Listing Rule 10.11, shareholder approval is not required under ASX Listing Rule 7.1.

3.4 For the purposes of ASX Listing Rule 10.13 and section 219 of the Corporations Act information regarding the proposed share issue is provided as follows to the extent that such information is not disclosed elsewhere in this Explanatory Memorandum:

(a) No funds will be raised by the issue of shares to Mrs Challans (or her nominee) as they are being issued for no consideration.

(b) The shares will rank equally in all respects with the existing fully paid ordinary shares in the Company.

3.5 The value of the 150,943 shares proposed to be issued to Mrs Challans (or her nominee) is $86,037.51 at the market price of the Company's shares quoted on ASX at close of trading on 14 September 2009 (that is, $0.57). This value may increase or decrease after 14 September 2009 depending on the future price of the Company's shares.

For the financial year ended 30 June 2009 Mrs Challans received a salary, incentives and superannuation totalling $166,704 from the Company. Mrs Challans also received 180,000 ordinary shares in the Company valued at $55,800 on 16 December 2008.

The Directors are also entitled to reimbursement of all reasonable travelling, accommodation and other expenses that they properly incur in attending meetings of directors or any meetings of committees of directors, in attending meetings of shareholders or in connection with the business of the Company.

3.6 The current share and option holdings of Mrs Challans and her associates is as follows:

Director	Shares		Options	
	Direct	Indirect	Direct	Indirect
Leanne Challans	334,937	289,000	NIL	NIL

The share and option holdings of Mrs Challans and her associates if this resolution is passed will be as follows:

	Direct	Indirect	Direct	Indirect
Leanne Challans	334,937	439,943	NIL	NIL

3.7 The Directors (other than Mrs Challans) do not have an interest in the outcome of Resolution 3 and recommend that shareholders vote in favour of Resolution 3.

3.8 If Resolution 3 is passed, the shares to be issued to Mrs Challans (or her nominee) will be issued not later than one month after the date of the Meeting.

4. **RESOLUTION 4: ISSUE OF SHARES TO ANTHONY WEBER**

4.1 On 26 June 2008 and 25 June 2009 the Board resolved to issue that number of shares calculated by dividing $80,000 by the closing price of the Company's shares on 30 June 2009 to Mr Anthony Weber (or his nominee) if the Company earns at least $1,750,000 profit after tax for the financial year ended 30 June 2009.

4.2 The Company earned in excess of $1,750,000 profit after tax for the financial year ended 30 June 2009 and therefore satisfied the performance criteria referred to in paragraph 4.1. The closing price of the Company's shares on 30 June 2009 was $0.53 per share. Subject to shareholder approval, it is therefore proposed that Mr Weber (or his nominee) will be issued 150,943 shares.

4.3 The proposed share issue to Mr Weber (or his nominee) requires the approval of shareholders pursuant to ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act.

Shareholder approval is required under ASX Listing Rule 10.11 and section 208 of the Corporations Act because Mr Weber is a director of the Company and, as such, is a related party of the Company. If shareholder approval is given under ASX Listing Rule 10.11, shareholder approval is not required under ASX Listing Rule 7.1.

4.4 For the purposes of ASX Listing Rule 10.13 and section 219 of the Corporations Act information regarding the proposed share issue is provided as follows to the extent that such information is not disclosed elsewhere in this Explanatory Memorandum:

(a) No funds will be raised by the issue of shares to Mr Weber (or his nominee) as they are being issued for no consideration.

(b) The shares will rank equally in all respects with the existing fully paid ordinary shares in the Company.

4.5 The value of the 150,943 shares proposed to be issued to Mr Weber (or his nominee) is $86,037.51 at the market price of the Company's shares quoted on ASX at close of trading on 14 September 2009 (that is, $0.57). This value may increase or decrease after 14 September 2009 depending on the future price of the Company's shares.

4.6 For the financial year ended 30 June 2009 Mr Weber received a directors fee and superannuation totalling $35,655 from the Company. In addition, for the financial year ended 30 June 2009 a company associated with Mr Weber received $63,116 for performing consulting work for the Company. Mr Weber also received 180,000 ordinary shares in the Company valued at $55,800 on 16 December 2008.

The Directors are also entitled to reimbursement of all reasonable travelling, accommodation and other expenses that they properly incur in attending meetings of directors or any meetings of committees of directors, in attending meetings of shareholders or in connection with the business of the Company.

4.7 The current share and option holdings of Mr Weber and his associates is as follows:

Director	Shares		Options	
	Direct	Indirect	Direct	Indirect
Anthony Weber	NIL	780,037	NIL	NIL

The share and option holdings of Mr Weber and his associates if this resolution is passed will be as follows:

	Direct	Indirect	Direct	Indirect
Anthony Weber	NIL	930,980	NIL	NIL

4.8 The Directors (other than Mr Weber) do not have an interest in the outcome of Resolution 4 and recommend that shareholders vote in favour of Resolution 4.

4.9 If Resolution 4 is passed, the shares to be issued to Mr Weber (or his nominee) will be issued not later than one month after the date of the Meeting.

RESOLUTION 5: ADOPTION OF REMUNERATION REPORT

The Annual Report for the year ended 30 June 2009 contains a Remuneration Report which sets out the remuneration policy of the Company.

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 5 is advisory only and 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.

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:

ASX means ASX Limited ACN 008 624 691;

ASX Listing Rules means the official listing rules of ASX;

Board means the board of directors of the Company;

Company or **Prophecy International Holdings Limited** means Prophecy International Holdings Limited ACN 079 971 618;

Constitution means the constitution of the Company;

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

Director means a director of the Company;

Meeting means the meeting of shareholders convened by the Notice; and

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

Prophecy International