2011 2012 annual report

Prophecy **International Holdings Limited**

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

Registered Office
Level 2, 124 Waymouth Street
Adelaide
South Australia 5000
Telephone + 61 8 8211 6188
Facsimile + 61 8 8211 6224

Brisbane Office
Unit 10, 1990 Logan Road
Mt Gravatt QLD 4122
Australia
Telephone + 61 7 3849 5811
Facsimile + 61 7 3849 7133

Subsidiaries
Prophecy Americas Inc
5445 DTC Parkway, P4
Greenwood Village, CO 80111 USA
Telephone: +1 303 846 3044
Facsimile: +1 303 846 3045

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

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

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

Email
info@prophecyinternational.com

Internet
prophecyinternational.com
basis2.com
promadis.com
intersectalliance.com

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

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

Auditors
Grant Thornton South Australian Partnership
Level 1
67 Greenhill Road
Wayville
South Australia 5034

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

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

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

Prophecy designs, develops and markets software through its business partner channel to companies worldwide. Since 1980, our software has been used by large and complex organisations worldwide. Our technology allows dramatic improvements in the development of customer service and business systems.

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 product set has expanded to include basis2, e-foundation, Promadis products and Intersect Alliance technology, all of which 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 by Prophecy

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

The flexibility of basis2 enables it to be used for any metered, value or time measured product or service, therefore it is not limited to use only within the utilities industry. It can also be used by organisations such as councils and universities, needing to bill customers for a range of products and services. Prophecy has over 13 years experience in the utilities industry and a comprehensive understanding of the way utility companies work. basis2 has been developed in and for the Oracle RDBMS (Relational Database Management System) and Application Server technology, the single most commonly-used database and enterprise platform. The Oracle environment was used specifically to capitalise on the power and 'future-proofing' capabilities offered by this world leading technology. In addition to being developed in Oracle, basis2 also integrates with the Oracle E-Business Suite. The integration allows Oracle E-Business Suite and basis2 to seamlessly provide information critical to utility customers.

The basis2 suite is well-placed for deployment via Cloud computing, utilising the facilities of a number of our partner organisations. The delivery of Billing Software as a Service is expected to provide our future growth with this product.

e-Foundation Prophecy enterprise software solutions

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

e-Foundation includes: Prophecy Framework

A rapid application assembly tool that offers fast to market solutions.

• Prophecy Business Applications

Financials, Procurement, Distribution and Asset Management modules for medium to large organisations that require enterprise-wide solutions.

Births Deaths and Marriages Registry Offices System by Promadis

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

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

Promadis CASEMAN+CSI

A highly efficient software solution that has been especially designed to meet the exacting needs of Police Forensic Science.

As such, it is not just about delivering comprehensive case management capabilities. It is not just about providing a total Crime Scene and Laboratory solution. And nor is it just about offering potent management tools for day-to-day operations. Rather, CaseMan+CSI's role is to bring together all three of these essential capabilities into a single totally integrated IT application. The result is an application which places major emphasis on delivering efficiency, service delivery,quality standards and control.

We are well aware that the demand on every Police Forensic Science section is to provide outstanding support services, and to adopt new sciences and techniques, while generally facing today's inevitably harsh budgetary pressures. And we also recognise that increased government regulation, new legislation, more comprehensive reporting and increasingly demanding clients, all add to the complexity of day to day Forensic Policing.

Promadis Cardiology

At the heart of the Promadis Cardiology Clinical system is a comprehensive suite of well proven software modules that have been designed to potently support each and every aspect of patient management. This includes those parts of the system that address electronic medical records, automatic letters and templates, appointment schedules, scripts, pathology, diagnostic imaging, MIMS and consultation wizards. Also included is our most recent major enhancement, the evidence based heart failure assessment module.

But in delivering these essential facilities and features, Promadis also argues that the system must also precisely mirror your processes and procedures. It must work the way you work and do things the way you do. To achieve that end, all Promadis implementations take our family of core applications and then custom design a totally specific solution. One that will precisely match each practice's exact requirements,specialist focus, day-to-day procedures and strategic ambitions.

This tailor made methodology is highly consultative. One in which experienced Promadis analysts work with you, and your team, to meticulously define exactly what it is you want from your IT. This commitment to customisation also means that your Promadis system can be simply, economically and efficiently modified. So as any number of things change in your practice, IT can readily change with them. As such, this means that your software always remains current and your investment is protected through the long term.

SNARE from Intersect Alliance

Since the close of the 2010/2011 financial year, we have added the SNARE product group to our portfolio. SNARE stands for System Intrusion Analysis and Reporting Environment. The centrepiece product is the proprietary SNARE Server software which provides a range of agents for event monitoring, log collection, analysis, reporting and archiving for future audit. It provides a very important facet of system security for all types of large commercial and government organisations.

The Intersect Alliance SNARE agents are used by thousands of organisations world wide and they are recognized as leaders in their field. Users of the solution include very well respected names such as: NASA, EDS, Northrop Grumman, US Army, Verizon, US Department of Energy, Raytheon, Rolls-Royce, Fujitsu, The Commonwealth Treasury, DPP, Vodaphone, ABB, IOOF and Rockwell Collins.

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

CONTENTS

FINANCIAL CALENDAR 2011-2012

Annual Results Announced
24th August 2012

Annual General Meeting
The Annual General Meeting of shareholders of Prophecy International Holdings Limited will be held at The Rendezvous Allegra Hotel, 55 Waymouth Street, Adelaide, South Australia at 11.00 am (SA time) on 23rd November 2012

Dear Fellow Shareholder

The 2011-2012 year has produced a pleasing turnaround with a before tax profit of $1.229 million compared to the small loss from last year. This has been a very good result as world conditions have remained difficult as highlighted by the strong A$ rate throughout the course of the year.

Revenues for the year rose by 38% to $6.703 million from last year's level of $4.868 million. This was our best Revenue result in the last 7 years and it is a trend that the Directors are planning to continue. The growth in revenue has been in the area of Software licences and maintenance, which are our most profitable areas and that has fuelled the profit turnaround. Our expectation is for further growth in these areas in the 2012-2013 year.

Cash on hand at the end of June 2012 was $1.89 million, down from last year's position of $3.569 million. That is a very good result considering that $1.962 million was paid out in the year, for an acquisition, along with a dividend payment of $0.627 million. A final dividend of 1c per share has been declared to complete the year, bringing the full year dividend to 2.25 cents per share. Overall, a great result for the year.

Prophecy maintains a very strong Balance Sheet with no debt, cash on hand and valuable Intellectual Property assets that are not 100% recognised on its books, as all development is expensed.

Prophecy now runs four business units which consist of:

- our basis2 billing suite
- our legacy offerings, Prophecy Classic, ProphecyOpen and e-Foundation
- Promadis business unit
- Intersect Alliance business unit

The legacy systems have been running as a profitable unit for some time and have continued to do so in the 2011-2012 year. Our legacy solutions have continued to provide stable and secure services for our traditional customers. Those systems have performed very well over the past year and maximum uptimes have been achieved. Our eFoundation rapid application development software continues to show its strengths with timely delivery of customer enhancements in short time periods.

On the Utilities billing software front, basis2 produced a very good new sale in North America, in the City of Yonkers in New York State. Implementation services for that project are well under away and are expect to be completed during the course of this year. In addition, another new project for the city of Addis Ababa in Ethiopia has also been progressing well. At the end of the year we completed our project activities for the Arizona Department of Environmental Quality, closing out a good year for projects in this division. During the latter part of the year, we worked with a new partner in WNS, to provide training for their staff, so that planning could commence for the provision of Cloud based solution for basis2. We expect to be able to progress this aspect during 2012-2013.

Promadis has been engaged in two major projects for the Australian Capital Territory during the course of the year. This project work will complete during this year but resources will then move on to two new projects which are currently under discussion. There has been wide interest in our Births Deaths and Marriages registry software, both in Australia and overseas and we expect to see revenue growth in this area during 2012-2013.

During the year, Prophecy acquired a new software business called Intersect Alliance. Its Snare product set operates in the security part of the software market, and it came with a very strong reputation with worldwide recognition. Its sales model incorporates a larger number of smaller sales than our other products provide, and this has led to smoother revenue and profit flows. Considerable effort has been expended during the course of the year, to incorporate this business within the group structure. Prophecy has added sales resource, administration and management resources, to put this new business in a strong position for growth. As a result, we have been able to add to its revenues and even though we have added new costs, still achieve a respectable profit from the business. The Snare product set has tremendous growth opportunities which we will focus on for the 2012-2013 year, looking for further revenue growth and additional profits. It is an exciting business with great potential going forward.

Based on the excellent turnaround seen in this year’s profit compared to last year, the Board expects that our focus will continue to see additional improvements such that the 2012-2012 year will produce a higher profit again.

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.

Ed Reynolds
Chairman

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 fifteen 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.

The acquisition of Intersect Alliance International in August 2011 saw Leanne take on responsibility for the inclusion of this new company into the Prophecy culture, with a focus on growth in this important new part of the group.

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

None of the directors have held directorships with other listed entities during the last three years.

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 2012 the group returned a profit from ordinary activities after tax of $802,282.

Dividends

The Directors have declared a final dividend of 1.0 cent per share (unfranked) with a record date of 14th September 2012 and a payment date of 5th October 2012. The Company also paid an interim unfranked dividend of 1.25 cents on the 2nd April 2012. This brings the full year dividend to 2.25 cents per share. The conduit Foreign Income portion of the 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

On August 12th 2011, the group purchased an Australian software company named Intersect Alliance. Details are disclosed in Financial Note 22.

Events subsequent to reporting date

Other than the matters disclosed in this report including note 35, 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 2012 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 20th September 2012.

Director	Ordinary Shares held Directly or Indirectly by the Director	Options held by the Director
E. Reynolds	8,000,000	-
A.P. Weber	605,000	-
L. Challans	774,880	-

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 2012 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 30-6-11	Balance at 31-8-2012	Conversion dates from	before	Exercise price
29 Nov 07	Employee		655,000	29 Nov 08	29 Nov-12	$0.365
Total			**655,000**			

There are 14 holders of share options at 20th September 2012
There have been no shares issued as a result of the exercise of share options since the end of the financial year.

Directors Meetings

In the year ended 30th June 2012, the following Board, Audit Committee, Remuneration Committee and Strategy Committee meetings were held:

	Board		Audit		Remuneration		Strategy	
	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend
E Reynolds	12	11	2	2	10	10	8	8
A P Weber	12	12	2	2	10	10	8	8
L Challans	12	12	2	2	-	-	-	1

Indemnification and Insurance of Directors and Officers

In the financial year, the company has paid premiums of $50,131 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.

As approved by the shareholders at the 2008 Annual General Meeting, the maximum amounts payable to directors is $240,000. This compares with an actual charge of $72,000 in the 2011/12 year.

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 towards increasing shareholder wealth, and that the executive and director remuneration policies in place will help facilitate achievement of this goal.

Voting and comments made at the company's 2011 Annual General Meeting

At its 2011 annual general meeting, Prophecy International Holdings Limited received more than 99% of votes in favour of adopting its remuneration report for the 2011 financial year. The company did not receive any specific feedback at the annual general meeting or throughout the year on its remuneration practices.

Details of Remuneration for Year Ended 30 June 2012

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

2012

Directors	Directors Fees $	Consulting Fees $	Share based payments $	Superannuation $	Total $
E Reynolds	31,000	59,556	-	2,790	93,346
A P Weber	41,000	58,890	-	8,990	108,880
Total	**72,000**	**118,446**	**-**	**11,780**	**202,226**

Key Management	Base Remuneration $	Incentives $	Share based payments $	Superannuation $	Health Cover & Allowances $	Total $
L R Challans (Managing Director)	163,100	3,001	-	14,895	-	180,996
D Shaw	142,000	5,190	-	13,247	30,000	190,437
P Barzen	156,119	32,659	-	32,295	15,858	236,931
Total	**461,219**	**40,850**	**-**	**60,437**	**45,858**	**608,364**

No incentives or share based payments will be payable to directors relating to the 2010/11 financial year as the profit target was not achieved.

2011

Directors	Directors Fees $	Consulting Fees $	Share based payments $	Superannuation $	Total $
E Reynolds	30,000	47,556	-	2,700	80,256
A P Weber	40,000	55,783	-	8,621	104,404
Total	**70,000**	**103,339**	**-**	**11,321**	**184,660**

Key Management	Base Remuneration $	Incentives $	Share based payments $	Superannuation $	Health Cover & Allowances $	Total $
L R Challans (Managing Director)	160,000	-	-	14,400	-	174,400
D. Shaw	142,000	-	-	12,780	30,000	184,780
P Barzen	136,691	14,896	-	31,544	17,855	200,986
Total	**438,691**	**14,896**	**-**	**58,724**	**47,855**	**560,166**

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 Directors and 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, Peter Barzen is an employee of Prophecy Americas Inc and Darren Shaw is an employee of Promadis Pty Limited, 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: $49,900.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30th June 2012 has been received and can be found on page 23 of this report.

This report of the directors incorporating the Remuneration Report is signed in accordance with a resolution of the Board of Directors.

Ed Reynolds
Chairman

Leanne Challans
Managing Director

Dated this 20th day of September, 2012

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

The board acknowledges the existence of the amendments to the 2nd edition of the Corporate Governance Principles effective for periods commencing 1 January 2012. The Board are in the process of implementing policies and practices to comply with the amended Corporate Governance principles.

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.

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 Prophecy's (PRO) compliance or otherwise with each of the principles.

Principle 1: Lay solid foundations for management and oversight

- **Principle:**
  Companies should establish and disclose the respective roles and responsibilities of board and management.

- **PRO Position:** PRO have (3) Board Directors – Chairman, Managing Director and Non Executive Director, and (2) Senior Executives. Performance over the past 5 financial years has proved this to be an effective combination.

- **Recommendations:**

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

- **PRO View**: PRO 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 5 financial years, it has performed an effective job in difficult global conditions 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.

- Such a policy exists.

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

- **PRO View:** No further reporting is considered necessary.

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

PRO View: A written diversity policy will be developed by the Board within the next 12 months.

Principle 4: Safeguard integrity in financial reporting

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

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

- **PRO Position:** Monthly, half and full year financial reports are prepared by the Group Accountant, reviewed by the CFO, and approved at a detailed level at monthly board meetings. The audit committee with external auditors present review and recommend approval of half and full year financial statements. 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 2011/12 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.

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Prophecy International Holdings Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

S K Edwards
Partner

Adelaide, 20 September 2012

PROPHECY INTERNATIONAL HOLDINGS LTD AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Year Ended 30 June 2012

	Note	Consolidated group 2012 $	2011 $
Revenue	2	6,702,793	4,867,959
Employee benefits expense		3,856,978	3,642,483
Depreciation and amortisation expense	3(c)	158,647	69,140
Finance costs		10,056	-
Other expenses	3(d)	1,447,598	1,170,548
Profit/(loss) before income tax		1,229,514	(14,212)
Income tax (expense)/recovery	4	(427,232)	5,184
Profit/(loss) for the year		802,282	(9,028)
Profit attributable to non-controlling interests		-	-
Profit/(loss) attributable to members of Prophecy International Holdings Ltd		802,282	(9,028)
Other comprehensive income:			
Exchange differences on translating foreign controlled entities		6,681	(98,843)
Income tax (expense)/recovery relating to components of other comprehensive income		(52,568)	254,209
Total other comprehensive income net of tax		(45,887)	155,366
Total comprehensive income for the year		756,395	146,338
Total comprehensive income attributable to:			
Members of Prophecy International Holdings Ltd		756,395	146,338
Non-controlling interests		-	-
		756,395	146,338
Basic earnings per share (cents per share)	33	1.6	-
Diluted earnings per share (cents per share)	33	1.6	-

The accompanying notes form part of these financial statements.

PROPHECY INTERNATIONAL HOLDINGS LTD AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	Note	Consolidated group 2012 $	2011 $
CURRENT ASSETS			
Cash and cash equivalents	6	1,893,832	3,569,907
Trade and other receivables	7	1,232,971	981,664
Financial assets at fair value through profit or loss	8	1	1
Work in progress	9	72,833	13,735
Current tax assets	10	149,295	555
Other current assets	11	87,310	108,309
TOTAL CURRENT ASSETS		3,436,242	4,674,171
NON-CURRENT ASSETS			
Trade and other receivables	12	5,827	1,235
Deferred tax assets	13	1,273,972	1,679,468
Property, plant and equipment	14	66,734	77,126
Intangible assets	15	3,914,494	1,194,108
TOTAL NON-CURRENT ASSETS		5,261,027	2,951,937
TOTAL ASSETS		8,697,269	7,626,108
CURRENT LIABILITIES			
Trade and other payables	16	333,501	371,112
Current tax liabilities	17	1,203	4,639
Provisions	20	728,452	638,056
Other current liabilities	18	576,390	368,527
TOTAL CURRENT LIABILITIES		1,639,546	1,382,334
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	38,697	4,850
Provisions	20	13,168	11,838
Other non-current liabilities	22	250,000	50,000
TOTAL NON-CURRENT LIABILITIES		301,865	66,688
TOTAL LIABILITIES		1,941,411	1,449,022
NET ASSETS		6,755,858	6,177,086
EQUITY			
Issued capital	21	16,931,464	16,481,464
Reserves		(19,145)	26,742
Retained earnings		(10,156,581)	(10,331,240)
Parent interest		6,755,738	6,176,966
Non-controlling interest		120	120
TOTAL EQUITY		6,755,858	6,177,086

The accompanying notes form part of these financial statements.

PROPHECY INTERNATIONAL HOLDINGS LTD AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS
For The Year Ended 30 June 2012

	Note	Consolidated group 2012 $	2011 $
Cash Flows from Operating Activities			
Receipts from customers		6,084,719	4,360,370
Payments to suppliers and employees		(5,091,876)	(4,833,354)
		992,843	(472,984)
Interest received		93,782	231,716
Interest and other costs of finance paid		(10,056)	-
Income tax (paid)/refunded		(192,633)	29,084
Net cash inflow/(outflow) from operating activities	31	883,936	(212,184)
Cash Flow from Investing Activities			
Payments in respect of business combinations	22(b)	(1,962,170)	(100,100)
Payments for property, plant and equipment		(8,669)	(12,300)
Net cash outflow from investing activities		(1,970,839)	(112,400)
Cash Flow from Financing Activities			
Dividends paid by parent entity		(627,623)	(472,099)
			-
Net cash outflow from financing activities		(627,623)	(472,099)
Net decrease in cash held		(1,714,526)	(796,683)
Cash at the beginning of the financial year		3,569,907	4,449,570
Effect of exchange rates on overseas cash holdings		38,451	(82,980)
Cash at the end of the financial year	6	1,893,832	3,569,907

The accompanying notes form part of these financial statements.

PROPHECY INTERNATIONAL HOLDINGS LTD AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For The Year Ended 30 June 2012

	Consolidated group					
	Ordinary Shares $	Exchange Fluctuation Reserve $	Share Option Reserve $	Retained Earnings $	Non-controlling interest $	Total $
Balance at 1 July 2010	16,481,464	(253,449)	124,825	(9,850,113)	120	6,502,847
Loss attributable to members of parent entity	-	-	-	(9,028)	-	(9,028)
Other comprehensive income attributable to members of parent entity	-	155,366	-	-	-	155,366
Dividends paid	-	-	-	(472,099)	-	(472,099)
Balance at 30 June 2011	16,481,464	(98,083)	124,825	(10,331,240)	120	6,177,086
Balance at 1 July 2011	16,481,464	(98,083)	124,825	(10,331,240)	120	6,177,086
Profit attributable to members of parent entity	-	-	-	802,282	-	802,282
Other comprehensive income attributable to members of parent entity	-	(45,887)	-	-	-	(45,887)
Shares issued in consideration of business combinations	450,000	-	-	-	-	450,000
Dividends paid	-	-	-	(627,623)	-	(627,623)
Balance at 30 June 2012	16,931,464	(143,970)	124,825	(10,156,581)	120	6,755,858

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.

Prophecy International Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report covers the consolidated group of Prophecy International Holdings Limited and its controlled entities ("Consolidated group"). Prophecy International Holdings Limited is a listed public company, incorporated and domiciled in Australia.

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 measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the entities controlled by Prophecy International Holdings Limited. A controlled entity is any entity over which 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 22 to the financial statements.

All inter-company balances and transactions between entities in the Consolidated group, 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 2012, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended.

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

Non-controlling interests in the results and equity of the subsidiaries are shown separately in the consolidated statement of comprehensive income and statement of financial position respectively.

(b) Income Tax

The Consolidated group 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 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 statement of comprehensive income 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. In addition, the Board has decided that Promadis Pty Ltd will join the tax consolidated group from 1 January 2010, and Intersect Alliance International Pty Ltd will join the tax consolidated group from 27 June 2011.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Cash and Cash Equivalents

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

(d) Earnings per Share

(i) Basic Earnings per Share

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

(ii) Diluted Earnings per Share

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

(e) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill (refer to Note 1(f)(iii)) or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

(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 on a prime cost basis over their useful life which is estimated to be 7 years.

(ii) Research and Development

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

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

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Goodwill

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

(i) The consideration transferred;
(ii) Any non-controlling interest, and
(iii) The acquisition date fair value of any previously held equity interest,

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

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

(g) Trade and Other Payables

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

(h) Employee Benefits

(i) Wages and Salaries and Annual Leave

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

(ii) Long Service Leave

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

(iii) Employee benefit on-costs

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

(iv) Equity based compensation benefits

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

Information relating to the schemes is set out in notes 24 and 26.

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

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial Instruments

Recognition

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

(i) Financial assets at fair value through profit and loss

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 statement of comprehensive income 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 statement of comprehensive income.

(iv) Financial liabilities

Non-derivative financial liabilities are subsequently measured at amortised cost.

(v) 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.

(vi) 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 statement of comprehensive income.

(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 statement of comprehensive income on a straight-line basis over the life of the lease.

(k) Property, Plant and Equipment

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

(i) Plant and equipment

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

(ii) Depreciation

The depreciable amount of all fixed assets is depreciated on a reducing basis over their useful lives to the Consolidated group 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 the end of each reporting period.

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 statement of comprehensive income.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Revenue Recognition, Work in Progress and Receivables

Revenue is measured at the fair value of consideration received or receivable after taking account of any returns, trade allowances, duties and levies paid. All revenue is stated net of Goods and Services Tax (GST).

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

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

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

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

Interest revenue 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 statement of comprehensive income.

(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 recognised as other comprehensive income. These cumulative differences are transferred from equity to profit or loss as a reclassification adjustment in the period in which the operation is disposed.

(n) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will results and that outflow can be reliably measured.

(o) Goods and Services Tax (GST)

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

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

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Impairment of assets

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

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

(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) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting requirements provided to the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, identified as the Board.

(t) Parent entity financial information

The financial information for the parent entity, Prophecy International holdings Ltd, disclosed in Note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below:

(i) *Investments in subsidiaries*
Investments in subsidiaries are accounted for at cost

(u) New accounting standards and interpretations for application in future periods

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group’s financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

AASB 9 *Financial Instruments* (effective from 1 January 2015)

The AASB aims to replace AASB 139 *Financial Instruments: Recognition and Measurement* in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards

A package of consolidation standards are effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. The Group’s management have yet to assess the impact of these new and revised standards on the Group’s consolidated financial statements.

AASB 10 Consolidated Financial Statements (AASB 10)

AASB 10 supersedes the consolidation requirements in AASB 127 Consolidated and Separate Financial Statements (AASB 127) and Interpretation 112 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

Consequential amendments to AASB 127 Separate Financial Statements (AASB 127) and AASB 128 Investments in Associates and Joint Ventures (AASB 128)

AASB 127 Consolidated and Separate Financial Statements was amended to AASB 127 Separate Financial Statements which now deals only with separate financial statements. AASB 128 brings investments in joint ventures into its scope. However, AASB 128’s equity accounting methodology remains unchanged.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) New accounting standards and interpretations for application in future periods (continued)

AASB 13 Fair Value Measurement (AASB 13)
AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this new standard.

AASB 2011-9 Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income s (AASB 101 Amendments)
The AASB 101 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs:

(a) will not be reclassified subsequently to profit or loss; and

(b) will be reclassified subsequently to profit or loss when specific conditions are met.

It is applicable for annual periods beginning on or after 1 July 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124 Amendments)
AASB 2011-4 makes amendments to AASB 124 Related Party Disclosures to remove individual key management personnel disclosure requirements, to achieve consistency with the international equivalent (which includes requirements to disclose aggregate (rather than individual) amounts of KMP compensation), and remove duplication with the Corporations Act 2011. The amendments are applicable for annual periods beginning on or after 1 July 2013. The Group's management have yet to assess the impact of these amendments.

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 group 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.

Included in Non-current Intangible assets of the consolidated group is Goodwill. At each balance date the directors review whether Goodwill has suffered any impairment in accordance with the accounting policy stated in Note 1(f)(iii) .

There is presently uncertainty in relation to the impacts of the carbon pricing mechanism recently introduced by the Australian Government. This carbon pricing system could potentially affect the assumptions underlying value-in-use calculations used for asset impairment testing purposes. The consolidated entity has not incorporated the effect of any carbon price implementation in its impairment testing at 30 June 2012.

NOTE 2 - REVENUE

		Consolidated group 2012 $	Consolidated group 2011 $
Sales revenue - goods	2(a)	5,374,547	3,206,657
Sales revenue - services		1,259,333	1,475,222
Other revenue			
Interest received / receivable		68,913	186,080
		6,702,793	4,867,959

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/(LOSS) FOR THE YEAR

Profit/(loss) for the year includes the following specific items:

		Consolidated group 2012 $	Consolidated group 2011 $
3(a)	Net gains		
	Interest revenue	68,913	186,080
3(b)	Expenses		
	Rent and associated operating leases	226,176	240,518
	Finance costs	10,056	-
	Research and development expenses	942,021	709,803
	Bad debt expense	230,296	3,817
	Superannuation expenses - defined contribution plans	547,144	610,349
	Loss on sale of property, plant and equipment	1,873	1,357
	Provision for employee entitlements	91,726	(82,397)
3(c)	Depreciation and amortisation expense comprises		
	Amortisation of Intellectual property	126,429	32,142
	Depreciation - plant and equipment	32,218	36,998
		158,647	69,140

		Note	Consolidated group 2012 $	Consolidated group 2011 $
3(d)	Other expenses comprises			
	Licence fees		43,382	49,923
	Rent and associated operating leases		226,176	240,518
	Travel and accommodation		205,918	149,225
	Insurance		104,034	105,167
	External consultants and contract programmers		9,331	14,627
	Communications expense		50,253	56,561
	Audit and Accountancy	25	172,966	135,873
	Bad Debt expense		230,296	3,817
	Loss on sale of property, plant and equipment		1,873	1,357
	Net foreign exchange		4,620	11,724
	Other expenses		398,749	401,756
			1,447,598	1,170,548

NOTE 4 - INCOME TAX EXPENSE

	Consolidated group 2012 $	Consolidated group 2011 $
4(a) Income tax attributable to operating profit/(loss) comprises:		
Current tax recovery	(148,710)	(33,018)
Under provision in prior year	189,168	-
Deferred tax expense	386,774	27,834
	427,232	(5,184)
4(b) The aggregate amount of income tax attributable to the financial period differs from the amount calculated on the operating profit/(loss) . The differences are reconciled as follows:		
Profit/(loss) before income tax	1,229,514	(14,212)
Income tax at 30% (2011 : 30%)	368,854	(4,264)
Tax effect of amounts not deductible/(taxable) in calculating taxable income:		
Non deductible depreciation and amortisation	39,304	7,584
Other non deductible items	(3,383)	(8,504)
Utilisation of tax losses	(148,710)	-
Entertainment	949	-
	257,014	(5,184)
Under/(over) provision for income tax in prior years	189,168	-
Effect of differing rates of tax on overseas income	(18,950)	-
Income tax expense	427,232	(5,184)
4(c) The directors estimate that the unused tax losses not brought to account is:	3,830,775	4,386,772

The benefit of tax losses will only be obtained if:

(i) the Consolidated group 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 group, and
(iii) the Consolidated group continues to comply with the conditions for deductibility imposed by tax legislation, and
(iv) no changes in tax legislation adversely affect the Consolidated group in realising the benefit from the deductions for the losses.

4(d) Tax expense/(benefit) on items of other comprehensive income are as follows:

	Consolidated group 2012 $	Consolidated group 2011 $
Timing differences on unrealised foreign exchange gains/(losses)	52,568	(254,209)

NOTE 5 - DIVIDENDS

	Parent entity 2012 $	2011 $
Dividends paid		
Final unfranked ordinary dividend in respect of the financial year ended 30 June 2011 of Nil (2011 : 0.5) cents per share.	-	236,049
Interim unfranked ordinary dividend in respect of the financial year ended 30 June 2012 of 1.25 (2011 : 0.5) cents per share.	627,623	236,050
	627,623	472,099

Dividends proposed

	2012 $	2011 $
Proposed final unfranked ordinary dividend of 1.0 (2011 : Nil) cents per share and not recognised as a liability	502,098	-

Franking account balance

The year end franking account balance is Nil (2011: Nil).

NOTE 6 - CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated group 2012 $	2011 $
Cash at bank and on hand	1,124,032	2,000,107
Short term deposits	769,800	1,569,800
	1,893,832	3,569,907

NOTE 7 - CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

Trade receivables	967,356	537,740
Accrued revenue	114,777	260,555
	1,082,133	798,295
Other receivables	150,838	183,369
	1,232,971	981,664

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

	Consolidated group 2012 $	2011 $
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 statement of comprehensive income as other income or other expense.

NOTE 9 - CURRENT ASSETS - WORK IN PROGRESS

Work in Progress	72,833	13,735

NOTE 10 - CURRENT ASSETS - CURRENT TAX ASSETS

Refundable tax payments	149,295	555

NOTE 11 - CURRENT ASSETS - OTHER CURRENT ASSETS

Prepayments	87,310	108,309

NOTE 12 - NON-CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

Bonds and security deposits	24	24
Other	5,803	1,211
Total non-current assets - trade and other receivables	5,827	1,235

NOTE 13 - NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	Consolidated group 2011		
	Opening balance	Credit/ (charge) to income	Closing balance
	$	$	$
Deferred tax asset			
Plant, property and equipment			
- tax allowance	6,890	(2,058)	4,832
Taxation losses	1,158,404	(153,048)	1,005,356
Employee benefits	213,620	(22,037)	191,583
Doubtful debts	-	-	-
s40-880 deduction	1,318	(1,318)	-
Accrued expenses	14,243	80,793	95,036
Unrealised foreign exchange losses	151,651	231,010	382,661
Balance at 30 June 2011	**1,546,126**	**133,342**	**1,679,468**

	Consolidated group 2012			
	Opening balance	Credit/ (charge) to income	Credit/ (charge) to reserves	Closing balance
	$	$	$	$
Deferred tax asset				
Plant, property and equipment				
- tax allowance	4,832	(779)	-	4,053
Taxation losses	1,005,356	(306,806)	-	698,550
Employee benefits	191,583	24,582	-	216,165
Accrued expenses	95,036	9,717	-	104,753
Unrealised foreign exchange losses	382,661	(79,641)	(52,569)	250,451
Balance at 30 June 2012	**1,679,468**	**(352,927)**	**(52,569)**	**1,273,972**

NOTE 14 - NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Consolidated group	
	2012	2011
	$	$
Furniture and Fittings		
Furniture and fittings - at cost	219,218	229,786
Less: accumulated depreciation	(199,638)	(204,257)
Total furniture and fittings	19,580	25,529
Plant and Equipment		
Plant and equipment - at cost	517,281	531,453
Less: accumulated depreciation	(470,127)	(479,856)
Total plant and equipment	47,154	51,597
Total Property, Plant & Equipment	66,734	77,126

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

	Fixtures & Fittings	Plant & Equipment	Total
	$	$	$
Consolidated group			
Carrying amount at the beginning of the year	25,529	51,597	77,126
Additions	597	8,042	8,639
Additions through acquisition of entity	-	15,000	15,000
Disposals	(986)	(857)	(1,843)
Effect of changes in exchange rates recognised in other comprehnsive income	-	30	30
Depreciation expense	(5,560)	(26,658)	(32,218)
Carrying amount at the end of the year	19,580	47,154	66,734

NOTE 15 - NON-CURRENT ASSETS - INTANGIBLE ASSETS

	Consolidated group 2012 $	Consolidated group 2011 $
Intellectual property		
Intellectual Property acquired - at cost	1,364,132	644,132
Less: accumulated amortisation	(596,453)	(470,024)
Net carrying value	767,679	174,108
Goodwill		
Goodwill - at cost	3,146,815	1,020,000
Less: accumulated impairment losses	-	-
Net carrying value	3,146,815	1,020,000
Total intangibles	3,914,494	1,194,108

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

	Intellectual Property $	Goodwill $	Total $
Consolidated group			
Carrying amount at the beginning of the year	174,108	1,020,000	1,194,108
Acquisitions through business combinations	720,000	2,126,815	2,846,815
Amortisation Expense	(126,429)	-	(126,429)
Carrying amount at the end of the year	767,679	3,146,815	3,914,494

Intellectual property with a carrying value of $141,964 (2011: $174,108) relates to copyright in Promadis Pty Ltd's Forensic Science LIMS and Cardiology products. These products have a remaining amortisation period of 4½ years.

Intellectual property with a carrying value of $625,715 (2011: $Nil) relates to copyright in Intersect Alliance International Pty Ltd's software products. These products have a remaining amortisation period of approximately 6 years.

Goodwill with a carrying value of $1,020,000 (2011: $1,020,000), determined on a value in use basis has been allocated to the Promadis Pty Ltd segment. Value in use has been determined by reference to the net present value of cash flow projections over the next 5 years, discounted at a rate of 20%. It is assumed that revenue growth of 37% and 27% will be achieved in the Promadis business in the 2012/13 and 2013/14 financial years on a reduced cost base, and modest profit growth rates in the remaining 3 years of the cycle. Management has based these assumptions on the targets set for the Promadis business.

Goodwill with a carrying value of $2,126,815 (2011: $Nil), determined on a value in use basis has been allocated to the Intersect Alliance International Pty Ltd segment. Value in use has been determined by reference to the net present value of cash flow projections over the next 5 years, discounted at a rate of 20%. It is assumed that revenue growth of 20% will be achieved in the business in the 2012/13 and 2013/14 financial years, and modest profit growth rates in the remaining 3 years of the cycle. Management has based these assumptions on the targets set for the business.

NOTE 16 - CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated group 2012 $	Consolidated group 2011 $
Trade payables	74,538	182,801
Accruals	182,247	159,739
Other payables	76,716	28,572
	333,501	371,112

NOTE 17 - CURRENT LIABILITIES - CURRENT TAX LIABILITIES

	2012 $	2011 $
Income tax payable	1,203	4,639

NOTE 18 - CURRENT LIABILITIES - OTHER CURRENT LIABILITIES

		2012 $	2011 $
Unearned income		526,390	318,527
Contingent consideration	Note 22	50,000	50,000
		576,390	368,527

NOTE 19 - NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

	Consolidated group 2011		
	Opening balance	Net credit/ (charge) to income	Closing balance
	$	$	$
Deferred tax liability			
Work in progress	(87,614)	83,493	(4,121)
Prepayments	(1,090)	425	(665)
Other current assets	(40)	(24)	(64)
Unrealised foreign currency gains	(8,716)	8,716	-
Balance at 30 June 2011	**(97,460)**	**92,610**	**(4,850)**

	Consolidated group 2012		
	Opening balance	Net credit/ (charge) to income	Closing balance
	$	$	$
Deferred tax liability			
Work in progress	(4,121)	1,547	(2,574)
Prepayments	(665)	(1,116)	(1,781)
Other current assets	(64)	29	(35)
Unrealised foreign currency gains	-	(34,307)	(34,307)
Balance at 30 June 2012	**(4,850)**	**(33,847)**	**(38,697)**

NOTE 20 - OTHER NON-CURRENT LIABILITIES

Employee benefits

A provision has been recognised for employee entitlements relating to unused annual leave and long service leave, measured in accordance with Note 1(h).

	Consolidated group
	Employee benefits
	$
Opening carrying value at 1 July 2011	649,894
Net additional	91,726
Closing carrying value at 30 June 2012	741,620

	Consolidated group	
	2012	2011
	$	$
Analysis of total provisions:		
Current	728,452	638,056
Non-current	13,168	11,838
	741,620	649,894

Based on past experience, the Consolidated group does not expect the full balance of the current employee benefit provision to be expended within 12 months. However, as the Consolidated group does not have an unconditional right of deferral, the balance is presented as current.

NOTE 21 - ISSUED CAPITAL

	Parent Entity 2012 Number	Parent Entity 2011 Number	Parent Entity 2012 $	Parent Entity 2011 $
Authorised				
Ordinary Shares of $0.01	500,000,000	500,000,000		
Paid up Capital				
Ordinary shares fully paid	50,209,784	47,209,784	16,931,464	16,481,464
Movements in paid up capital				
Opening balance at 1 July 2011	47,209,784		16,481,464	
Issue of shares in respect of acquistions - see note 22 for details	3,000,000		450,000	
Closing balance at 30 June 2012	50,209,784		16,931,464	

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 26(ii).

Information relating to directors' share options is set out in note 24.

Capital management
The Consolidated group'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 group'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 group's requirements solely through equity, and this strategy remains unchanged during the year.

NOTE 22 - CONTROLLED ENTITIES

(a) Controlled Entities

Name of Entity	Country of Incorporation	Equity Holding 2012 %	Equity Holding 2011 %	Book Value of Shares Held 2012 $	Book Value of Shares Held 2011 $
Directly controlled by Prophecy International Holdings Ltd:					
Promadis Pty Ltd	Australia	100	100	1,284,724	1,284,724
Intersect Alliance International Pty Ltd	Australia	100	100	100	100
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)
				1,635,924	1,635,924
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
				44,763	44,763

All shares owned in controlled entities are Ordinary shares.

NOTE 22 - CONTROLLED ENTITIES (continued)

(b) Acquisition

On 12th August 2011, the group purchased the trade and assets of the business of Intersect Alliance, an Australian software company. The business is being run through Intersect Alliance International Pty Ltd, a subsidiary company of Prophecy International Holdings Ltd.

The fair value of consideration transferred at acquisition date is:

	$
Cash *	2,062,170
3,000,000 Prophecy International Holdings Ltd Ordinary shares	450,000
Contingent consideration **	250,000
Fair value of consideration	2,762,170
Identifiable assets aquired and liabilities assumed	635,355
Goodwill	2,126,815
	2,762,170

* Cash consideration includes a $100,000 deposit paid in the last financial year.

** The contingent consideration consists of an earn out agreement which provides that further consideration will be payable if certain earnings before interest and tax targets are achieved by Intersect Alliance International Pty Ltd for the years ended 31 July 2012, 31 July 2013 and 31 July 2014. The amount payable is 35% of the earnings before interest and tax that exceeds $1.1m in the relevant earn out year. The fair value of the contingent consideration recognised is the expected amount to be paid under the agreement, although the actual amount payable is uncapped. It is assumed that the target for 2012 will not be met and the targets for 2013 and 2014 years will be exceeded by $285,000 and $428,000 respectively in each of those years.

The fair value of assets and liabilities assumed is:

	Fair value $
Property, Plant and Equipment	15,000
Intangible assets - Software developed	720,000
Other liabilities	(99,645)
Identifiable assets acquired and liabilities assumed	635,355
Goodwill	2,126,815

The goodwill is attributable to the potential future growth of Intersect Alliance International Pty Ltd with the additional resources available to it as part of the Group. No part of the goodwill will be deductible for tax purposes.

Acquisition costs representing professional fees and share issue fees of $56,142 have been recognised within "other expenses".

Revenue of Intersect Alliance International Pty Ltd included in the consolidated revenue of the Group since the deemed acquisition date on 1 August 2011 to 30 June 2012 amounted to $2,014,977.
Profit before income tax of Intersect Alliance International Pty Ltd included in the consolidated profit before income tax of the Group since the deemed acquisition date on 1 August 2011 to 30 June 2012 amounted to $966,987.

Had the results of Intersect Alliance International Pty Ltd been consolidated from 1 July 2011 to 30 June 2012, revenue of the Consolidated group would have been $6,852,793 and consolidated profit before income tax would have been $1,345,514 for the year ended 30 June 2012.

NOTE 22 - CONTROLLED ENTITIES (continued)

Other liabilities

Contingent consideration
A liability has been recognised for the potential liability in respect of the contingent consideration included in the Promadis Pty Ltd and Intersect Alliance International Pty Ltd acquisitions as follows:

	Consolidated group	
	2012	2011
	$	$
Contingent consideration - Promadis Pty Ltd	50,000	100,000
Contingent consideration - Intersect Alliance International Pty Ltd	250,000	-
Total	300,000	100,000

	Consolidated group	
	2012	2011
	$	$
Analysis of total contingent consideration:		
Current	50,000	50,000
Non-current	250,000	50,000
	300,000	100,000

NOTE 23 - FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Board is responsible for managing and monitoring financial risk exposures of the Group.
The Board's overall strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance.

(a) Categorisation of financial instruments
The Group's financial instruments consist mainly of bank deposits and accounts receivable and payable.

The totals of each category of financial instrument, measured in accordance with AASB 139 Financial Instrunents: Recognition and Measurement and the Group's accounting policies, detailed in Note 1(i), are as follows:

	Floating Interest Rate		Non Interest Bearing		Total	
	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$
Financial Assets						
Loans and other receivables						
Cash and cash equivalents	1,893,832	3,569,907	-	-	1,893,832	3,569,907
Trade and other receivables	-	-	1,238,798	982,899	1,238,798	982,899
Held for trading						
Financial assets at fair value through profit or loss	-	-	1	1	1	1
Total Financial Assets	1,893,832	3,569,907	1,238,799	982,900	3,132,631	4,552,807
Weighted Average interest rate	4.1%	4.2%	-	-		
Financial Liabilities						
Financial liabilities at amortised cost						
Trade and other payables	-	-	333,501	371,112	333,501	371,112
Other current liabilities	-	-	50,000	50,000	50,000	50,000
Other non-current liabilities	-	-	250,000	50,000	250,000	50,000
Total Financial Liabilities	-	-	633,501	471,112	633,501	471,112

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

Total Net Financial Assets	1,893,832	3,569,907	605,298	511,788	2,499,130	4,081,695

The other non-current liability is expected to be settled in the following financial years:

2013/14	99,750
2014/15	150,250
	250,000

NOTE 23 - FINANCIAL RISK MANAGEMENT (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 group 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 statement of financial position of the Consolidated group.

(b) Credit Risk

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

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

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

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

	Consolidated group	
	2012	**2011**
	$	**$**
Trade and other receivables		
Not overdue	691,200	743,327
Overdue by less than 30 days	216,023	126,293
Overdue by less than 60 days	184,074	21,642
Overdue by less than 90 days	53,874	46,217
Overdue by more than 90 days	93,627	45,420
	1,238,798	982,899

There is no provision for impairment of receivables at 30 June 2012 or at 30 June 2011
Although Trade and other receivables are all unrated, no indicators of impairment have been found at 30 June 2012.

The Consolidated group at present has two types of customers:

The first consists of small to medium organisations that renew their software licences annually. These organisations have been clients for many years and the Consolidated group has experienced little bad debt history from these clients.
The second are new licence/service clients who in the main are large government organisations, and it is the Consolidated group's policy to subject these organisations to credit verification procedures.
It is the Consolidated group's policy to review all outstanding accounts monthly, and any overdue accounts are contacted to ascertain their payment intentions.

(c) Liquidity Risk

The current liquidity policy of the Consolidated group 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 group's policy of reviewing all its business operations in detail on a quarterly basis, and the Board agreeing the revised profit and cash outlooks for the year, and measuring actual performance against these on a monthly basis.

(d) Market Risk

(i) Interest Rate Risk Exposures

The Consolidated group'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 in Note 23(a).

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

NOTE 23 - FINANCIAL RISK MANAGEMENT (continued)

(ii) 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 group derives a significant amount of its income from overseas. In order to protect against exchange rate movements the Consolidated group 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 2012 or 30 June 2011.

Receivables and Payables denominated in foreign currencies

	Consolidated group 2012	2011
The Group has the following receivable and payable balances that are subject to foreign exchange rate movements at 30 June:		
Receivables		
Current		
- United States Dollars	351,460	142,163
- United Kingdom Pounds	58,231	83,491
Payables		
Current		
- United States Dollars	26,015	29,131
- United Kingdom Pounds	6,000	5,670

(e) Sensitivity Analysis

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

Interest rate sensitivity analysis
At 30 June 2012, 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:

	2012 $	2011 $
Change in profit		
- Increase interest rate by 1%	18,938	35,699
- Decrease interest rate by 1%	(18,938)	(35,699)
Change in equity		
- Increase interest rate by 1%	18,938	35,699
- Decrease interest rate by 1%	(18,938)	(35,699)

Foreign currency sensitivity analysis
At 30 June 2012, 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:

	2012 $	2011 $
Change in profit		
- AUD strengthens against USD by 10% (2011:10%)	(27,224)	(4,235)
- AUD weakens against USD by 10% (2011:10%)	33,274	5,176
- AUD strengthens against GBP by 10% (2011:10%)	(789)	(29)
- AUD weakens against GBP by 10% (2011:10%)	1,754	63
Change in equity		
- AUD strengthens against USD by 10% (2011:10%)	(51,913)	(52,538)
- AUD weakens against USD by 10% (2011:10%)	63,450	64,214
- AUD strengthens against GBP by 10% (2011:10%)	(22,601)	(41,768)
- AUD weakens against GBP by 10% (2011:10%)	28,414	51,077

NOTE 23 - FINANCIAL RISK MANAGEMENT (continued)

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

	2012 $	2011 $
Income and Gains		
Loans and other receivables		
Interest revenue	68,913	186,080
	68,913	186,080
Expenses and Losses		
Loans and other receivables		
Foreign exchange losses	4,620	11,724
Bad debt expense	230,296	3,817
	234,916	15,541

NOTE 24 - KEY MANAGEMENT PERSONNEL DISCLOSURES

The following directors and executives were key management personnel of the Consolidated group 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 group during the financial year ended 30 June 2012:

Name	Position	Employer
D Shaw	CEO	Promadis Pty Ltd
P Barzen	EVP Sales and Alliances	Prophecy Americas Inc.

The persons listed above were members of key management personnel for the whole of the 2012 financial year.

The following persons were the executives with the greatest authority for the strategic direction and management of the Consolidated group during the financial year ended 30 June 2011:

Name	Position	Employer
D Shaw (from 1 January 2010)	CEO	Promadis Pty Ltd
P Barzen	EVP Sales and Alliances	Prophecy Americas Inc.

All of the persons listed above were key management personnel for the whole of the 2011 financial year, except as otherwise stated.

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

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

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

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

NOTE 24 - KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

Details of remuneration

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

	Short term benefits					Share based payments	Post employment benefits	
2012	Directors fees	Consulting fees	Base remuneration	Incentives	Other cash benefits		Superannuation	Total
	$	$	$	$	$	$	$	$
E Reynolds	31,000	59,556	-	-	-	-	2,790	93,346
L R Challans	-	-	163,100	3,001	-	-	14,895	180,996
A P Weber	41,000	58,890	-	-	-	-	8,990	108,880
D Shaw	-	-	142,000	5,190	30,000	-	13,247	190,437
P Barzen	-	-	156,119	32,659	15,858	-	32,295	236,931
	72,000	118,446	461,219	40,850	45,858	-	72,217	810,590

Cash settled incentives for L R Challans relate to commission payments on licence fee revenue from sales of Intersect Alliance International Pty Ltd products to customers, in accordance with an incentive plan approved on 13 February 2012. The purpose of the incentive is to increase licence fee revenues 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 $6,756.
D Shaw 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 $1,523.
Cash settled incentives for D Shaw relate to commission payments on licence fee revenue from sales of Promadis Pty Ltd products to customers, in accordance with an incentive plan approved on 1 January 2010. The purpose of the incentive is to increase licence fee revenues and so improve shareholder wealth.
Cash settled 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 $59,556 (2011: $47,556) 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 $4,106 (2011:$6,284) 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	
2011	Directors fees	Consulting fees	Base Remuneration	Incentives	Other cash benefits		Superannuation	Total
	$	$	$	$	$	$	$	$
E Reynolds	30,000	47,556	-	-	-	-	2,700	80,256
L R Challans	-	-	160,000	-	-	-	14,400	174,400
A P Weber	40,000	55,783	-	-	-	-	8,621	104,404
D Shaw	-	-	142,000	-	30,000	-	12,780	184,780
P Barzen	-	-	136,691	14,896	17,855	-	31,544	200,986
	70,000	103,339	438,691	14,896	47,855	-	70,045	744,826

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

Incentives for L R Challans relate to payments on the achievement of Consolidated group profits at the half year and full year, in accordance with an incentive plan dated 1 July 2005. The purpose of the incentive is to increase the profitability of the group and so improve shareholder wealth.

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

L R Challans is also entitled to long service leave in accordance with applicable legislation. The long service leave expense charged to the profit and loss account for the financial year was $4,620.
D Shaw 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 $1,005.

NOTE 24 - KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

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 group, including their personally related entities are set out below:

	Balance at 1 July 2010	Acquisitions	Granted as remuneration	Received on exercise of share options	Disposals	Balance at 30 June 2011
E Reynolds	7,810,000	29,416	-	-	-	7,839,416
L R Challans	774,880	-	-	-	-	774,880
A P Weber	755,943	-	-	-	(150,943)	605,000
D Shaw	240,000	-	-	-	-	240,000
P Barzen	466,203	-	-	-	-	466,203
	10,047,026	29,416	-	-	(150,943)	9,925,499

	Balance at 1 July 2011	Acquisitions	Granted as remuneration	Received on exercise of share options	Disposals	Balance at 30 June 2012
E Reynolds	7,839,416	160,584	-	-	-	8,000,000
L R Challans	774,880	-	-	-	-	774,880
A P Weber	605,000	-	-	-	-	605,000
D Shaw	240,000	49,000	-	-	-	289,000
P Barzen	466,203	-	-	-	-	466,203
	9,925,499	209,584	-	-	-	10,135,083

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 group, including their personally related entities are set out below:

	Balance at 1 July 2010	Granted as remuneration	Exercised	Cancelled	Lapsed	Balance at 30 June 2011	Exercisable 30 June 2011
E Reynolds	-	-	-	-	-	-	-
L R Challans	-	-	-	-	-	-	-
A P Weber	-	-	-	-	-	-	-
D Shaw	-	-	-	-	-	-	-
P Barzen	80,000	-	-	-	-	80,000	80,000
	80,000	-	-	-	-	80,000	80,000

	Balance at 1 July 2011	Granted as remuneration	Exercised	Cancelled	Lapsed	Balance at 30 June 2012	Exercisable at 30 June 2012
E Reynolds	-	-	-	-	-	-	-
L R Challans	-	-	-	-	-	-	-
A P Weber	-	-	-	-	-	-	-
D Shaw	-	-	-	-	-	-	-
P Barzen	80,000	-	-	-	-	80,000	80,000
	80,000	-	-	-	-	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 26.

NOTE 25 - AUDITORS REMUNERATION

	Consolidated group 2012 $	2011 $
Remuneration for auditors of the parent entity for:		
- Audit or review of the financial reports of the parent entity and subsidiary entities	60,500	62,000
- Taxation services	40,500	24,900
- Due diligence services	9,400	-
	110,400	86,900
Remuneration for other auditors of subsidiary entities for:		
- Audit or review of the financial reports of subsidiary entities	8,986	9,654
- taxation services	6,352	5,187
- Payroll services	1,202	1,132
- Other services	13,026	-
	29,566	15,973
Remuneration for other organisations not related to group auditors:		
- Promadis accounting services	33,000	33,000
	172,966	135,873

NOTE 26 - EMPLOYEE BENEFITS

(i) Employee benefit and related on-cost liabilities

	Consolidated group 2012 $	2011 $
Included in other creditors and accruals (see note 16)	62,046	12,567
Provision for employee benefits - Current (see note 20)	728,452	638,056
Provision for employee benefits - Non Current (see note 20)	13,168	11,838
	803,666	662,461

(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 group 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 2012 the options outstanding under the employee option plan were:

Grant date	Balance at 30 June 2011	Exercised during the year	Granted during the year	Lapsed during the year	Balance at 30 June 2012	Conversion dates from	Conversion dates before	Exercise price	Exercisable at 30 June 2012
29-Nov-07	670,000	-	-	(15,000)	655,000	29-Nov-08	29-Nov-12	$0.365	655,000
	670,000	-	-	(15,000)	655,000				655,000

No share options were issued or exercised during the year.

NOTE 27 - NON CONTROLLING INTERESTS IN CONTROLLED ENTITIES

	Consolidated group 2012 $	2011 $
Interest in:		
Share capital	120	120
Reserves	-	-
Retained profits	-	-
	120	120

NOTE 28 - 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 29 - RELATED PARTIES

Directors
Transactions with key management personnel are set out in note 24.

Wholly Owned Group
The wholly owned group consists of those entities listed in Note 22.

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 cash of $2,724,202 from Prophecy International Pty Ltd by way of loan repayments.
During the financial year, Prophecy International Pty Ltd distributed $215,000 to Promadis Pty Ltd by way of loans.

During the financial year, Prophecy International Pty Ltd received $1,186,661 from Prophecy Americas Inc by way of loan repayments.

During the financial year, Prophecy International Pty Ltd received $685,252 from Prophecy Europe Ltd by way of loan repyments.

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	2012 $	2011 $
Prophecy Americas' Inc	977,447	974,096
Prophecy Europe Limited	420,998	418,885

During the year, Prophecy R&D Pty Ltd received fees of $168,099 (2011: $149,885) 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 $43,465 (2011: $72,000) in respect of board, finance and administration services provided to Prophecy Europe Limited.

Prophecy International Pty Ltd received fees of $131,821 (2011: $142,000) in respect of board, finance and administration services provided to Prophecy Americas' Inc.

Prophecy International Pty Ltd received fees of $404,476 (2011: $Nil) in respect of board, management, finance, administration and technical support services provided to Intersect Alliance International Pty Ltd.

Prophecy Americas Inc. received fees of $106,675 (2011: $232,656) in respect of sales assistance services provided to other entities in the group.

During the year ended 30 June 2012 interest was charged by Prophecy International Pty Ltd as follows:

	2012 $	2011 $	2012 %	2011 %
Prophecy Europe Limited	32,876	10,678	7.8%	7.4%
Prophecy Americas Inc.	34,590	48,346	7.8%	7.4%
Promadis Pty Ltd	24,005	2,386	8.0%	8.0%

In addition, Prophecy Europe Limited charged Prophecy International Pty Ltd interest at a weighted average rate of 2.15% (2011: 3.635%), amounting to $16,725 (2011: $13,505).
All transactions between group companies are eliminated in full on consolidation.

NOTE 30 - SEGMENT INFORMATION

(a) Identification of segments

The Group has identified its operating segments on the basis of the reports used by the Board for assessing performance and allocating resources.
Since the group is managed predominantly by entity, operating segments have been similarly defined. All segments derive revenue from the sale of computer software and associated consulting and maintenance services.

(b) Basis of preparation of operating segment information

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standards *AASB 8 Operating Segments,* and *AASB 136 Impairment of assets* .

(i) Accounting policies adopted

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

(ii) Inter-segment transactions

An internally determined transfer price is set for all inter-segment sales. All such transactions are eliminated on consolidation of the Group's financial statements.

Inter-segment loans payable and receivable are recognised at the consideration received/receivable.

(iii) Segment assets and liabilities

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, net of related provisions. Impairment expense and reversals disclosed in Note 23 for the current and prior year were incurred in respect of the Prophecy International Pty Ltd segment.

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

(iv) Unallocated assets

The following assets have not been allocated to any operating segment as they are not considered part of the core operations of any segment:

- Current tax assets and liabilities
- Intangible assets
- Deferred tax assets and liabilities

NOTE 30 - SEGMENT INFORMATION (continued)

(d) Segment performance

2012

	Prophecy International Holdings Ltd	Prophecy International Pty Ltd	Prophecy R&D Pty Ltd	Promadis Pty Ltd	Prophecy Americas Inc	Prophecy Europe Limited	Intersect Alliance International Pty Ltd	Total
	$	$	$	$	$	$	$	$
External sales	-	1,512,770	-	1,157,849	1,276,070	620,310	2,002,309	6,569,308
Intersegment sales	-	1,488,679	168,099	-	105,076	16,623	-	1,778,477
Other revenue	51,338	54,905	-	1	14,573	-	12,668	133,485
Total segment revenue	**51,338**	**3,056,354**	**168,099**	**1,157,850**	**1,395,719**	**636,933**	**2,014,977**	**8,481,270**
Reconciliation of segment revenue to group revenue								
Intersegment sales								(1,778,477)
Total group revenue								**6,702,793**
Segment profit/(loss) before tax	(3,487)	572,437	168,099	(244,031)	(16,704)	(213,787)	966,987	1,229,514
Reconciliation of segment profit/(loss) before tax to group profit/(loss) before tax								
Group net profit/(loss) before income tax								**1,229,514**

2011

	Prophecy International Holdings Ltd	Prophecy International Pty Ltd	Prophecy R&D Pty Ltd	Promadis Pty Ltd	Prophecy Americas Inc	Prophecy Europe Limited	Total
	$	$	$	$	$	$	$
External sales	-	1,423,664	-	1,391,798	1,346,888	519,832	4,682,182
Intersegment sales	-	1,453,567	149,885	-	238,755	23,548	1,865,755
Other revenue	1,893	183,884	-	-	-	-	185,777
Total segment revenue	**1,893**	**3,061,115**	**149,885**	**1,391,798**	**1,585,643**	**543,380**	**6,733,714**
Reconciliation of segment revenue to group revenue							
Intersegment sales							(1,865,755)
Total group revenue							**4,867,959**
Segment profit/(loss) before tax	(50,939)	334,691	149,885	(254,159)	62,397	(223,944)	17,931
Reconciliation of segment profit/(loss) before tax to group profit/(loss) before tax							
Unallocated amortisation expense							(32,143)
Net profit/(loss) before income tax							**(14,212)**

NOTE 30 - SEGMENT INFORMATION (continued)

(e) Segment assets

2012

	Prophecy International Holdings Ltd	Prophecy International Pty Ltd	Prophecy R&D Pty Ltd	Promadis Pty Ltd	Prophecy Americas Inc	Prophecy Europe Limited	Intersect Alliance International Pty Ltd	Total
	$	$	$	$	$	$	$	$
Segment assets	7,854,975	13,207,519	222,589	424,156	701,606	971,040	1,351,039	**24,732,924**

Reconciliation of segment assets to group assets

Inter-segment items eliminated on consolidation	(21,373,416)
Current tax assets	149,295
Deferred tax assets	1,273,972
Intangible assets	3,914,494
Total group assets	**8,697,269**

	Prophecy International Holdings Ltd	Prophecy International Pty Ltd	Prophecy R&D Pty Ltd	Promadis Pty Ltd	Prophecy Americas Inc	Prophecy Europe Limited	Intersect Alliance International Pty Ltd	Total
	$	$	$	$	$	$	$	$
Segment asset increases for period:								
Capital expenditure	-	4,292	-	2,192	1,587	-	568	8,639
Acquisitions	-	-	-	-	-	-	735,000	735,000
Total asset increases	-	4,292	-	2,192	1,587	-	735,568	743,639

2011

	Prophecy International Holdings Ltd	Prophecy International Pty Ltd	Prophecy R&D Pty Ltd	Promadis Pty Ltd	Prophecy Americas Inc	Prophecy Europe Limited	Total
	$	$	$	$	$	$	$
Segment assets	**4,436,132**	**12,233,453**	**149,885**	**366,605**	**811,815**	**1,332,587**	**19,330,477**

Reconciliation of segment assets to group assets

Inter-segment items eliminated on consolidation	(14,578,500)
Current tax assets	555
Deferred tax assets	1,679,468
Intangible assets	1,194,108
Total group assets	**7,626,108**

	Prophecy International Holdings Ltd	Prophecy International Pty Ltd	Prophecy R&D Pty Ltd	Promadis Pty Ltd	Prophecy Americas Inc	Prophecy Europe Limited	Total
	$	$	$	$	$	$	$
Segment asset increases for period:							
Capital expenditure	-	12,819	-	-	-	-	12,819
Acquisitions	-	-	-	-	-	-	-
Total asset increases	-	12,819	-	-	-	-	12,819

NOTE 30 - SEGMENT INFORMATION (continued)

(f) Segment liabilities

2012

	Prophecy International Holdings Ltd	Prophecy International Pty Ltd	Prophecy R&D Pty Ltd	Promadis Pty Ltd	Prophecy Americas Inc	Prophecy Europe Limited	Intersect Alliance International Pty Ltd	Total
	$	$	$	$	$	$	$	$
Segment liabilities	3,591,433	16,750,295	3,577,793	658,446	4,511,720	474,385	3,435,611	**32,999,683**

Reconciliation of segment liabilities to group liabilities

Inter-segment eliminations	(31,098,172)
Current tax liabilities	1,203
Deferred tax liabilities	38,697
Total group liabilities	**1,941,411**

2011

	Prophecy International Holdings Ltd	Prophecy International Pty Ltd	Prophecy R&D Pty Ltd	Promadis Pty Ltd	Prophecy Americas Inc	Prophecy Europe Limited	Total
	$	$	$	$	$	$	$
Segment liabilities	**705,511**	**16,394,426**	**3,622,758**	**479,470**	**5,137,979**	**619,374**	**26,959,518**

Reconciliation of segment liabilities to group liabilities

Inter-segment eliminations	(25,519,985)
Current tax liabilities	4,639
Deferred tax liabilities	4,850
Total group liabilities	**1,449,022**

(g) Geographic information

	Consolidated group	
	2012	**2011**
	$	**$**
Revenue by geographic region		
Revenue attributable to external customers, based on the customer's location is set out below:		
Australia	3,980,809	2,811,090
United States of America	1,881,678	1,346,887
Middle East	-	137,704
Africa	275,386	-
Europe	361,548	405,676
Asia	203,372	166,602
Total Revenue	**6,702,793**	**4,867,959**
Assets by geographic region		
An analysis of the geographic location of segment assets is set out below:		
Australia	6,795,986	6,303,177
United States of America	850,901	721,387
Europe	1,050,382	601,544
Total Assets	**8,697,269**	**7,626,108**

Major customers	**Number of Customers**	**% of Revenue**	**Number of Customers**	**% of Revenue**
		2012		**2011**
Australia	2	17%	2	21%
United States of America	2	15%	3	27%

NOTE 31 - CASH FLOW INFORMATION

(a) Reconciliation of profit/(loss) after income tax to net cash outflow from operating activities

	Consolidated group 2012 $	Consolidated group 2011 $
Profit/(loss) for the year	802,282	(9,028)
Depreciation and amortisation	158,647	69,140
Loss on disposal of property, plant and equipment	1,873	1,357
Foreign exchange (gain)/loss	(38,451)	82,980
Foreign exchange differences arising on translation of foreign subsidiaries recognised in reserves net of tax effect	(45,887)	155,366
Change in operating assets and liabilities		
Increase in Trade and other receivables	(355,899)	(332,538)
(Increase)/Decrease in Work in progress	(59,098)	27,949
Decrease/(Increase) in Tax assets	256,756	(133,198)
Decrease/(Increase) in Other assets	20,999	(54,269)
Add: Other current assets related to Investing activities	-	100,100
(Decrease)/Increase in Trade and other payables	(37,611)	126,782
Increase/(Decrease) in Tax liabilities	30,411	(97,000)
Increase/(Decrease) in Provisions	91,726	(82,397)
Increase/(Decrease) in Other liabilities	58,188	(67,428)
	883,936	(212,184)

(b) Significant non-cash transactions

During the 2012 financial year 3,000,000 Ordinary shares were issued at $0.15 as part of the consideration for the purchase of the assets of Intersect Alliance Pty Ltd. Further details of the acquisition can be found in note 22.

(c) Credit arrangements

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

	2012 $	2011 $
Used	362	1,053
Available	9,638	8,947
	10,000	10,000

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

	2012 $	2011 $
Used	1,798	4,938
Available	3,202	62
	5,000	5,000

(d) Cash and cash equivalents subject to restrictions

Cash equivalents totalling $78,750 (2011: $78,750) is unavailable to the Consolidated group as it secures the consolidated group's credit card facility ($10,000) and property lease guarantees ($68,750).

NOTE 32 - COMMITMENTS

	Consolidated group 2012 $	2011 $
Commitments for minimum lease payments in relation to non-cancellable operating leases on premises are:		
No later than one year	168,796	166,113
Greater than one year but less than five years	13,141	136,460
	181,937	302,573

Prophecy International Pty Limited has entered into leases in respect of its Adelaide and Brisbane premises. The Adelaide lease terminates on 30 June 2013, with a 2 year renewal option.
The Brisbane premises are subject to a 12 month tenancy, terminating on 23 March 2013.
Prophecy Americas Inc. has entered into a 24 month tenancy, terminating on 31 May 2014.

NOTE 33 - EARNINGS PER SHARE

	2012	2011
Basic earnings per share (cents per share)	**1.6c**	**-**
Weighted average number of ordinary shares outstanding during the year used to calculate basic EPS	49,708,414	47,209,784
Earnings used to calculate basic EPS	802,282	(9,028)
Diluted earnings per share (cents per share)	**1.6c**	**-**
Weighted average number of ordinary shares outstanding during the year used to calculate diluted EPS	49,708,414	47,209,784
Earnings used to calculate diluted EPS	802,282	(9,028)

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

	2012	2011
Weighted average number of ordinary shares used to calculate basic EPS	49,708,414	47,209,784
Weighted average number of dilutive options outstanding during the year	-	-
Weighted average number of ordinary shares used to calculate diluted EPS	49,708,414	47,209,784

The 655,000 share options issued on 29 November 2007 are not included in the calculation of diluted earnings per share as they are antidilutive in the period.

NOTE 34 - 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:

	Consolidated group 2012 $	2011 $
Lease rentals	68,750	68,750

The lease rental guarantees match the term of the leases. Details of leases can be found in note 32. 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 35 - EVENTS AFTER THE BALANCE 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.

NOTE 36 - PARENT ENTITY INFORMATION

(a) Summary financial infomation

	Parent entity 2012 $	Parent entity 2011 $
Statement of financial position		
Total current assets	7,365,940	1,124,669
Total non current assets	958,526	3,899,629
Total assets	**8,324,466**	**5,024,298**
Total current liabilities	(3,591,433)	(104,196)
Total non current liabilities	(35)	(64)
Total liabilities	**(3,591,468)**	**(104,260)**
Share capital	16,931,464	16,481,464
Share option reserve	124,825	124,825
Accumulated losses	(12,323,291)	(11,686,251)
Total Equity	**4,732,998**	**4,920,038**
Statement of comprehensive income		
Profit/(loss) for the year	12,558	(1,290,254)
Total comprehensive income	3,141	(1,270,930)

(b) Guarantees entered into by the parent entity

The parent entity has not entered into any guarantees at 30 June 2012 or 30 June 2011.

(c) Contingent liabilities of the parent entity

The parent entity has no contingent liabilities at 30 June 2012 or 30 June 2011.

(c) Commitments of the parent entity

The parent entity has no commitments at 30 June 2012 or 30 June 2011.

directors' declaration

For The Year Ended 30 June 2012

The directors declare that

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

   (a) comply with Accounting Standards; and
   (b) give a true and fair view of the financial position as at 30th June 2012 and of the performance for the financial year ended on that date of the consolidated group.

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.

4. Complies with International Financial Reporting Standards as disclosed in Note 1.

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

Ed Reynolds
Chairman

Leanne Challans
Managing Director

Dated this 20th day of September, 2012

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

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

Report on the financial report

We have audited the accompanying financial report of Prophecy International Holdings Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report 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 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 are 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. The Directors also state, in the notes to the financial report, 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 which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

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

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

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

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. 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.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Prophecy International Holdings Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

S K Edwards
Partner

Adelaide, 20 September 2012

The shareholders information set out below was applicable at 20th September 2012

Distribution of Equity Securities

a) Analysis of numbers of equity securities by size and holding

	Ordinary Shares	Options over Ordinary Shares
1 – 1,000	184	0
1,001 – 5,000	323	0
5,001 – 10,000	161	0
10,001 – 100,000	271	14
100,001 - Max	59	0
Total	**998**	**14**

b) There were 298 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)	8,000,000	15.93%
2.	DUNMOORE PTY LTD	6,854,052	13.65%
3.	MARIA O'CONNOR + ASSOCIATES PTY LTD	2,229,784	4.44%
4.	SMOOTHWARE PTY LTD	1,858,230	3.70%
5.	LEIGH PURDIE	1,500,000	2.99%
6.	MR GEORGE CORA	1,460,000	2.91%
7.	MR T P LEWIS	1,440,825	2.87%
8.	SILVERNINE PTY LTD	1,379,469	2.75%
9.	MR ALLEN JOHN TAPP + MS MARIS POLYMENEAS	1,256,349	2.50%
10.	HOLDEN HOLDEN + ASSOCIATES PTY LTD	1,021,875	2.04%
11.	CHRISTINE HOLDEN SUPER FUND	800,000	1.59%
12.	MRS L R CHALLANS + MR S W CHALLANS	774,880	1.54%
13.	FIVE TALENTS LIMITED – NEW ZEALAND	753,447	1.50%
14.	NUBOUND PTY LTD	692,015	1.38%
15.	ANDAMAX INVESTMENTS PTY LTD C/- TAYLOR COLLISON LTD C/- C P BALL	650,000	1.29%
16.	MR A P WEBER + MRS P A WEBER (THE APPA WEB S/FUND)	605,000	1.20%
17.	PINEHURST NOMINEES PTY LTD	510,201	1.02%
18.	PYC INC	466,203	0.93%
19.	MR A W THYGESEN + MRS A F THYGESEN	455,000	0.91%
20.	MR P J TATHEM + MRS T A TATHEM	415,000	0.83%

Substantial Shareholders

Substantial shareholders in the company are set out below:

Name	Ordinary Shares	% held
REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	8,000,000	15.93%
DUNMOORE PTY LTD	6,854,052	13.65%
MARIA O'CONNOR + ASSOCIATES PTY LTD	2,229,784	4.44%

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

PROPHECY INTERNATIONAL HOLDINGS LIMITED
ACN 079 971 618

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY MEMORANDUM

PROXY FORM

Date of Meeting
23 November 2012

Time of Meeting
11.00 am (Adelaide 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 (Adelaide time) on 23 November 2012.

Ordinary Business

To consider the Financial Statements for the financial year ended 30 June 2012 and accompanying reports of the Directors and Auditor.

Resolution 1: Re-election of Edwin Reynolds as Director

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

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

Resolution 2: Adoption of Remuneration Report

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

'*That the Company adopt the Remuneration Report for the year ended 30 June 2012 as set out in the Company's Annual Report for the year ended 30 June 2012.*'

Resolution 3: Approval of 10% Placement Facility

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

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

DATED 20th September 2012

BY ORDER OF THE BOARD
PROPHECY INTERNATIONAL HOLDINGS LIMITED

ANTHONY P WEBER
COMPANY SECRETARY

NOTES:

1. **Explanatory Memorandum**

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

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

2. **Voting Exclusion Statements**

(a) **Resolution 2**

A vote on Resolution 2 must not be cast (in any capacity) by or on behalf of any of the following persons:

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

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

However, a person described above may cast a vote on Resolution 2 as a proxy if the vote is not cast on behalf of a person described above and either:

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

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

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

(b) **Resolution 3**

The Company will disregard any votes cast on Resolution 3 by a person (and any associates of such a person) who may participate in the 10% Placement Facility and a person (and any associates of such a person) who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, if Resolution 3 is passed.

However, the Company will not disregard a vote if:

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

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

3. **Proxies**

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

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

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

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

(a) by post at the following address:

Computershare Investor Services Pty Limited
GPO Box 242
MELBOURNE VIC 3001

OR

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

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

so that it is received no later than 11.00 am (Adelaide time) on 21 November 2012.

Please note that if the chair of the meeting is your proxy (or becomes your proxy by default), you expressly authorise the chair to exercise your proxy on Resolution 2 even though it is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, which includes the chair. If you appoint the chair as your proxy you can direct the chair to vote for or against or abstain from voting on Resolution 2 by marking the appropriate box on the proxy form.

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

4. 'Snap Shot' Time

The Company may specify a time, not more than 48 hours before the Meeting, at which a 'snap-shot' of shareholders will be taken for the purposes of determining shareholder entitlements to vote at the Meeting. The Directors have determined that all shares of the Company that are quoted on ASX as at 7.00 pm (Adelaide time) on 21 November 2012 shall, for the purposes of determining voting entitlements at the Meeting, be taken to be held by the persons registered as holding the shares at that time.

5. Corporate Representative

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

EXPLANATORY MEMORANDUM

This Explanatory Memorandum forms part of the Notice convening an Annual General Meeting of shareholders of Prophecy International Holdings Limited to be held on 23 November 2012. 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 and 3.

Resolutions 1 and 2 are ordinary resolutions. Resolution 3 is a special resolution. Resolutions 1, 2 and 3 are separate resolutions and in no way dependent on each other.

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

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

The Constitution requires that any Director who, if they did not retire at the Annual General Meeting, would at the next Annual General Meeting have held office for more than three years must automatically retire, but is eligible for re-election at the Annual General Meeting. Mr Reynolds automatically retired as a Director at the Company's Annual General Meeting held on 12 November 2010 and was re-elected at that Annual General Meeting.

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

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

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

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

2. RESOLUTION 2: ADOPTION OF REMUNERATION REPORT

The Annual Report for the year ended 30 June 2012 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 2 is advisory only and, subject to the matters outlined below, will not bind the Company or the Directors. However, the Board will take the outcome of the vote into consideration when reviewing the Company's remuneration policy.

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

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

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

However, under new section 250R(5) of the Corporations Act a person described above may cast a vote on Resolution 2 as a proxy if the vote is not cast on behalf of a person described above and either:

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

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

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

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

<u>Please note that if the chair of the meeting is your proxy (or becomes your proxy by default), you expressly authorise the chair to exercise your proxy on Resolution 2 even though it is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, which includes the chair. If you appoint the chair as your proxy you can direct the chair to vote for or against or abstain from voting on Resolution 2 by marking the appropriate box on the proxy form.</u>

<u>The chair intends to vote undirected proxies in favour of Resolution 2.</u>

Please also note that under sections 250U and 250V of the Corporations Act, if at two consecutive annual general meetings of a listed company at least 25% of votes cast on a resolution that the remuneration report be adopted are against adoption of the report, at the second of these annual general meetings there must be put to the vote a resolution that another meeting be held within 90 days at which all directors (except the managing director) who were directors at the date the remuneration report was approved at the second annual general meeting must stand for re-election. So, in summary, shareholders will be entitled to vote in favour of holding a general meeting to re-elect the Board if the Remuneration Report receives ‘two strikes’. The Remuneration Report did not receive a ‘first strike’ at the Company’s 2011 annual general meeting.

3. RESOLUTION 3: APPROVAL OF 10% PLACEMENT FACILITY

3.1 General

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

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of $300 million or less. The Company is an eligible entity.

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

The exact number of Equity Securities which may be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to section 3.2(c)).

3.2 **Description of Listing Rule 7.1A**

(a) **Shareholder approval**

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

(b) **Equity Securities**

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

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

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

Listing Rule 7.1A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 10% Placement Period (refer to section 3.2(f)), a number of Equity Securities calculated in accordance with the following formula:

(A x D) – E

Where:

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

- plus the number of fully paid ordinary shares issued in the 12 months under an exception in Listing Rule 7.2;
- plus the number of partly paid ordinary shares that became fully paid in the 12 months;
- plus the number of fully paid ordinary shares issued in the 12 months with approval of holders of ordinary shares under Listing Rules 7.1 and 7.4;
- less the number of fully paid ordinary shares cancelled in the 12 months.

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

D is 10%

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

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

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

At the date of this Notice, the Company has on issue 50,209,784 ordinary shares and therefore has a capacity to issue:

(i) 7,531,467 Equity Securities under Listing Rule 7.1; and

(ii) subject to shareholder approval being obtained under Resolution 3, 5,020,978 Equity Securities under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to section 3.2(c)).

(e) **Minimum Issue Price**

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

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

(ii) if the Equity Securities are not issued within five Trading Days of the date referred to in section 3.2(e)(i), the date on which the Equity Securities are issued.

(f) **10% Placement Period**

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

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

(ii) the date of the approval by shareholders of a transaction under Listing Rule 11.1.1 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

or such longer period if allowed by ASX (**10% Placement Period**).

3.3 Listing Rule 7.1A

The effect of Resolution 3 will be to allow the Directors to issue the Equity Securities under Listing Rule 7.1A during the 10% Placement Period in addition to using the Company's 15% placement capacity under Listing Rule 7.1.

Resolution 3 is a special resolution and therefore requires approval of at least 75% of the votes cast by shareholders entitled to vote (in person, by proxy, by attorney or, in the case of a corporate shareholder, by a corporate representative) on the Resolution.

3.4 Specific information required by Listing Rule 7.3A

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

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

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

(ii) if the Equity Securities are not issued within five Trading Days of the date in section 3.4(a)(i), the date on which the Equity Securities are issued.

(b) There is a risk that:

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

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

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

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

The table also shows:

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

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

Variable 'A' in formula in Listing Rule 7.1A.2		Issue Price		
		$0.125 **50% decrease in issue price**	$0.25 **issue price**	$0.50 **100% increase in issue price**
Current Variable 'A' 50,209,784 shares	**10% voting dilution**	5,020,978 shares	5,020,978 shares	5,020,978 shares
	Funds raised	$627,622	$1,255,244	$2,510,489
50% increase in current Variable 'A' 75,314,676 shares	**10% voting dilution**	7,531,467 shares	7,531,467 shares	7,531,467 shares
	Funds raised	$941,433	$1,882,866	$3,765,733
100% increase in current Variable 'A' 100,419,568 shares	**10% voting dilution**	10,041,956 shares	10,041,956 shares	10,041,956 shares
	Funds raised	$1,255,244	$2,510,489	$5,020,978

The table has been prepared on the following assumptions:

- The Company issues the maximum number of Equity Securities available under the 10% Placement Facility.
- No current options are exercised into shares before the date of the issue of the Equity Securities.
- The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
- The table does not show an example of dilution that may be caused to a particular shareholder by reason of placements pursuant to the 10% Placement Facility, based on that shareholder's holding at the date of the Meeting.
- The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A and no other issues of Equity Securities.
- The issue of Equity Securities under the 10% Placement Facility consists only of shares.
- The issue price is $0.25, being the closing price of the shares on ASX on 6 September 2012.

(c) The Company will only issue and allot the Equity Securities during the 10% Placement Period. The approval under Resolution 3 for the issue of the Equity Securities will cease to be valid in the event that shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or Listing Rule 11.2 (disposal of main undertaking).

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

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

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

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

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

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

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

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

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

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

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

(g) The Company has not previously obtained shareholder approval under Listing Rule 7.1A.

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

The Directors recommend that shareholders vote in favour of Resolution 3.

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

4. GLOSSARY

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

10% Placement Facility has the meaning given in section 3.1;

10% Placement Period has the meaning given in section 3.2(f);

ASX means ASX Limited ACN 008 624 691;

Board means the board of directors of the Company;

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

(a) a spouse or child of the member;

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

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

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

(e) a company the member controls; or

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

Company means Prophecy International Holdings Limited ACN 079 971 618;

Constitution means the existing constitution of the Company;

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

Director means a director of the Company;

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

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

Listing Rules means the listing rules of ASX;

Meeting means the meeting of shareholders convened by the Notice;

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

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

VWAP means volume weighted average price.

Prophecy International Holdings Limited

ABN 16 079 971 618

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

Lodge your vote:

Online:
www.investorvote.com.au

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

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

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

For all enquiries call:

(within Australia) 1300 556 161
(outside Australia) +61 3 9415 4000

Proxy Form

Vote online or view the annual report, 24 hours a day, 7 days a week:

www.investorvote.com.au

☑ **Cast your proxy vote**

☑ **Access the annual report**

☑ **Review and update your securityholding**

Your secure access information is:

Control Number: 999999

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

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

For your vote to be effective it must be received by 11:00am (Adelaide time) Wednesday 21 November 2012

How to Vote on Items of Business

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

Appointment of Proxy

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

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

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

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

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

Attending the Meeting

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

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

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

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

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

I 9999999999 I ND

Proxy Form

Please mark X to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

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

the Chairman of the Meeting **OR**

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

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Prophecy International Holdings Limited to be held at The Rendezvous Allegra Hotel, 55 Waymouth Street, Adelaide SA 5000 on Friday, 23 November 2012 at 11:00am and at any adjournment or postponement of that Meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on **Item 2** (except where I/we have indicated a different voting intention below) even though **Item 2** is connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

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

STEP 2 Items of Business

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

ORDINARY BUSINESS

		For	Against	Abstain
Item 1	Re-election of Edwin Reynolds as Director			
Item 2	Adoption of Remuneration Report			
Item 3	Approval of 10% Placement Facility			

The Chairman of the Meeting intends to vote all available proxies in favour of each item of business.

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

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

Contact Name ______________ **Contact Daytime Telephone** ______________ **Date** / /

PRO 999999A

Computershare