PROPHECY INTERNATIONAL HOLDINGS LTD

ACN 079 971 618

Appendix 4E - Preliminary Final Report

For the Year Ended 30 June 2012

PROPHECY INTERNATIONAL HOLDINGS LTD
Results for announcement to the market

For The Year Ended 30 June 2012

Summary of results	$	% change	Direction
Revenue from ordinary activities	6,702,793	37.69%	up
Profit after tax attributable to members	802,282	8986.60%	up
Net profit attributable to members	802,282	8986.60%	up

An unfranked dividend of 1.0 cents will be declared for the full year.

Explanatory information

It is pleasing to be able to report a sizeable turnaround, after the small loss we reported last year. The 2011-2012 year has been completed with a return to profit of $1.229 million before tax compared to the loss last year of ($.0014) million. This has been a very good result, given that world conditions have remained difficult as highlighted by the strong A$ rate throughout the course of the year.

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

Cash on hand at the end of the full year was $1.894 million compared to $3.569 million last year. This is a very pleasing 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.

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 and 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. It is an exciting business with great potential going forward.

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. We are nearing completion of 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.

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, producing a higher profit in the 2012-2013 financial year.

Ed Reynolds
Chairman

PROPHECY INTERNATIONAL HOLDINGS LTD
Other Information

For The Year Ended 30 June 2012

1 **Dividends**

An unfranked interim dividend of 1.25 cents per ordinary share was paid on 2 April 2012 in respect of the financial year ended 30 June 2012.

2 **Retained Profits**

	Consolidated Group	
	2012	2011
	$	$
Opening balance	(10,331,240)	(9,850,113)
Profit/(loss) attributable to members of parent entity	802,282	(9,028)
Interim dividend paid	(627,623)	(472,099)
Closing balance	**(10,156,581)**	**(10,331,240)**

3 **Net Tangible Assets per Security**

	2012	2011
	$	$
Net Tangible Assets	2,841,364	4,982,978
Number of Securities	50,209,784	47,209,784
Net Tangible Assets per Security	0.06	0.11

PROPHECY INTERNATIONAL HOLDINGS LTD
Other Information (continued)

For The Year Ended 30 June 2012

4 Changes in Controlled Entities

On 27 June 2011, the Company incorporated a new subsidiary, Intersect Alliance International Pty Ltd.

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.

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 sinc 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.

5 Audit Statement

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

PROPHECY INTERNATIONAL HOLDINGS LTD AND CONTROLLED ENTITIES

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

	Note	Consolidated group 2012 $	Consolidated group 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 $	Consolidated group 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.

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

	Note	Consolidated group 2012 $	Consolidated group 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.

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

(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 2013)

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 2013. 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

		Consolidated group 2012 $	Consolidated group 2011 $
	Profit/(loss) for the year includes the following specific items:		
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 $	Parent entity 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

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 $	Consolidated group 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 $	Consolidated group 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 $	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 $	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			
Income tax payable		1,203	4,639
NOTE 18 - CURRENT LIABILITIES - OTHER CURRENT LIABILITIES			
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 $	Consolidated group 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

The Group has the following receivable and payable balances that are subject to foreign exchange rate movements at 30 June:

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

NOTE 31 - CASH FLOW INFORMATION

	Consolidated group 2012 $	2011 $
(a) Reconciliation of profit/(loss) after income tax to net cash outflow from operating activities		
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 $	Consolidated group 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 $	Consolidated group 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.