

2015

2016

annual report



Prophecy **International Holdings Limited**

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Corporate Directory

For the Year Ended 30 June 2016

#### Prophecy International Holdings Ltd

ACN 079 971 618

ABN 16 079 971 618

#### Directors

Edwin Reynolds

Leanne R Challans

Matthew T Michalewicz

Grant R Miles

Anthony P Weber (Retired 20 November 2015)

#### Company Secretary

Grant R Miles

#### Registered Office

Level 1, 76 Waymouth Street

Adelaide, South Australia 5000

Telephone + 61 8 8213 1200

#### Subsidiaries

##### Prophecy Americas Inc

8480 East Orchard Road, Suite 4350

Greenwood Village, CO 80111 USA

Telephone: +1 800 834 1060

Facsimile: +1 303 771 2666

##### Prophecy Europe Ltd

Holland House

1-5 Oakfield

Sale, Cheshire M33 6TT

United Kingdom

##### Promadis Pty Ltd

Level 1, 76 Waymouth Street

Adelaide, South Australia 5000

Telephone + 61 8 8213 1200

##### Intersect Alliance International Pty Ltd

Level 1, 76 Waymouth Street

Adelaide, South Australia 5000

Telephone + 61 8 8213 1200

##### eMite Pty Ltd

Level 5, 220 George Street

Sydney, NSW 2000

Australia

Telephone + 61 2 9252 9252

#### Email

info@prophecyinternational.com

#### Internet

prophecyinternational.com

basis2.com

promadis.com

intersectalliance.com

eMite.com

#### Share Registry

Computershare Investor Services Pty Ltd

Level 5, 115 Grenfell Street

Adelaide, South Australia 5000

GPO Box 1903

Adelaide, South Australia 5001

Phone (from within Australia): 1300 556 161

Phone (from overseas) : + 61 3 9415 4000

Email: web.queries@computershare.com.au

www.computershare.com

#### Auditors

Grant Thornton Audit Pty Ltd

Level 1

67 Greenhill Road

Wayville, South Australia 5034

#### Solicitors

O'Loughlins, Barristers & Solicitors

99 Frome Street

Adelaide, South Australia 5000

#### Bankers

Commonwealth Bank of Australia

96 King William Street

Adelaide, South Australia 5000

National Australia Bank

Business Banking Centre

Level 9, 22 King William Street

Adelaide, South Australia 5000

#### Corporate Governance Statement

[http://www.prophecyinternational.com/attachments/Corporate\\_Governance\\_2016.pdf](http://www.prophecyinternational.com/attachments/Corporate_Governance_2016.pdf)

basis2, ProphecyOpen, Prophecy, Prophecy Object Framework, Promadis BDM, Promadis Forensic Science, Promadis Cardiology, Promadis BMS, Snare and eMite are trademarks of Prophecy International Holdings Ltd. and its subsidiaries. All other company and product names may be trademarks of their respective owner

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Company Profile

### For the Year Ended 30 June 2016

Prophecy has built a strong reputation for its innovative technical and business software solutions and has established offices in Australia and the United States. These offices are also the support hubs for our network of business partners. Prophecy software has been deployed at over 1000 sites in areas such as Australia, New Zealand, Asia, USA, the Caribbean, Britain, Europe and South Africa.

#### PRODUCT SET

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

#### SNARE

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

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

The SNARE Server collects events and logs from operating systems, applications, devices and from any other type of event-generating system. It provides a platform for powerful drill-down analysis and centralised log management in a format that is easy to use and navigate. Snare's growing and dynamic set of event analysis reports, coupled with effective query capabilities, provide regulatory compliance options, while managing network and environment defences.

The SNARE Enterprise Agents define the security relevant events for collection. SNARE agents are the industry standard for logging and can forward events to a SNARE Server, Syslog server or another proprietary SIEM server.

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

#### eMITE

eMite provides 'Business Intelligence Analytics software' to enterprise customers. Its products enable all businesses to make the right real time decisions by providing intuitive representation of real time data from any system in their company based on an easy to deploy, simply scalable BI system with top class analytics in a user adjustable interface.

The eMite product set provides a service intelligence platform which combines analytics, correlations, capacity, performance, availability and SLA management in a single out of the box solution. The eMite software can aggregate from any data source, provide multiple service modules for both business and IT and deliver it all via a flexible end user driven presentation layer. Service Intelligence is an evolutionary step forward from Business Service Management and leverages the investments in existing platforms such as Microsoft SCOM, IBM Tivoli, HP SM7, HP BAC and BMC Remedy. It also offers a wide range of eMite agents that onboard metrics directly from applications, infrastructure, log files, spreadsheets in addition to many other mature monitoring solutions. eMite's analytics capabilities are implemented using a metric correlation engine and the standard eMite cube, and are designed to answer common operational, performance and planning questions.

The acquisition of eMite provides Prophecy with a coherent bolt-on opportunity that will immediately deepen our data management and analytics domain presence. There are exciting revenue and marketing synergies by leveraging SNARE's existing relationships with enterprise and mid-market clients to cross sell the eMite solution.

Enterprise Management Associates (EMA) views eMite as being among the leading providers in Advanced Operational Analytics. EMA believes that within one to three years eMite will emerge from being a relative unknown within the USA and European markets to a highly visible catalyst in the evolution of BSM impact technologies. eMite was ranked by Gartner among the TOP 2 PRODUCTS in its evaluation of tools covering Critical Capabilities for Infrastructure & Operations Business Value Dashboards (IOBVD). In late 2014, the CIO Review Magazine selected eMite among the most promising technology companies in the USA for 2014. That followed the selection of eMite as the "Company of the Month" in July 2014.

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Company Profile

#### For the Year Ended 30 June 2016

Current eMite customers include Allianz, HP, BOQ Finance, Cuscal, CSC, ASB, CBA, Cognizant, gen-i, QBE, ANZ, Toyota Financial Services, Onepath, NSW Office of State Revenue, NSW Transport Roads and Traffic Authority, Alphawest, Government of South Australia, CUA, SAI Global, and Westernpower.

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

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

The flexibility of basis2 enables it to be used for any metered, value or time measured product or service, therefore it is not limited to use only within the utilities industry. It can also be used by organisations such as councils and universities, needing to bill customers for a range of products and services. Prophecy has over 15 years experience in the utilities industry and a comprehensive understanding of the way utility companies work. basis2 has been developed in and for the Oracle RDBMS (Relational Database Management System) and Application Server technology, the single most commonly-used database and enterprise platform. The Oracle environment was used specifically to capitalise on the power and 'future-proofing' capabilities offered by this world leading technology. In addition to being developed in Oracle, basis2 also integrates with the Oracle E-Business Suite. The integration allows Oracle E-Business Suite and basis2 to seamlessly provide information critical to utility customers.

#### **e-Foundation Prophecy enterprise software solutions**

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

#### **e-Foundation includes:**

- **Prophecy Framework**  
A rapid application assembly tool that offers fast to market solutions.
- **Prophecy Business Applications**  
Financials, Procurement, Distribution and Asset Management modules for medium to large organisations that require enterprise-wide solutions.

#### **Promadis BDM for Civil Registries**

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

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

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Contents

For the Year Ended 30 June 2016

	<b>Page</b>
<b>Consolidated Financial Statements</b>	
Message from the Chairman	5
Directors' Report	7
Auditors Independence Declaration under Section 307C of the Corporations Act 2001	19
Consolidated Statement of Profit or Loss and Other Comprehensive Income	20
Consolidated Statement of Financial Position	21
Consolidated Statement of Changes in Equity	22
Consolidated Statement of Cash Flows	23
Notes to the Financial Statements	24
Directors' Declaration	67
Independent Auditor's Review Report	68
Additional Information for Listed Public Companies	71

## **Message from the Chairman**

### **For the Year Ended 30 June 2016**

Dear Fellow Shareholder

The 2015-2016 year has been completed with an EBITDA of \$5.1 million, an increase of 13% from last year, and a new record for the group. Depreciation, amortisation and acquisition costs in the year amounted to \$1.3 million, bringing the profit from ordinary activities before tax to \$3.8 million.

Revenues for the full year showed strong growth, increasing by 47% to \$14.7 million compared with \$10.0 million last year. This revenue result is also a new record for the group. As previously reported, overall FY16 Q4 new sales invoicing was very strong compared to the previous two quarters. Q4 new sales were up 80% from the Q3 total and 55% from the Q2 total.

Cash on hand at the end of the full year was \$1.87 million compared to \$5.60 million last year. Net cash-flow from operating activities during the year was \$4.90 million compared to \$2.87 million in the previous year, showing good growth and a continued strong cash-flow from the business.

Dividends paid out in the year amounted to \$2.69 million, up from \$1.52 million in the previous year. A final dividend of 2.0c per share has been declared to complete the year, bringing the full year dividend to 4.0 cents per share, unfranked. The last 10 years have seen dividends totalling 31.45 cents per share. With the expected profit increase in this year, dividends are expected to grow.

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

Prophecy runs the following key business units:

- **Intersect Alliance (SNARE)**

The Intersect Alliance business revolves around the SNARE product set, which provides software solutions in the IT security market. The SNARE solution has a very strong reputation with worldwide recognition through many well known government and large corporate users. Its sales model incorporates a larger number of smaller sales leading to smoother revenue and profit flows. Prophecy has continued to invest in additional sales, marketing and development resources to allow this business to grow revenues by 27% in the year, providing another record year for SNARE in terms of revenue and profit.

In our view, the SNARE product set still has tremendous growth opportunities which we plan to exploit during the 2016-17 year. It continues to be a very exciting business with tremendous potential going forward. Partnerships will continue to be a big part of our growth for the coming year. Additional initiatives are in focus to expand our partner base for FY17 and grow partner sales from 25% of the total new sales to 50%, to supplement the growth that continues to be made from direct sales activities.

- **eMite**

In July 2015, Prophecy acquired 100% of eMite Pty Ltd. The eMite product set provides a service intelligence platform which combines analytics, correlations, capacity, performance, availability and SLA management in a single out of the box solution. The eMite software can aggregate from any data source, provide multiple service modules for both business and IT and deliver it all via a flexible end user driven presentation layer. The acquisition of eMite provides Prophecy with a coherent bolt-on opportunity that will immediately deepen our data management and analytics domain presence. There are exciting revenue and marketing synergies by leveraging SNARE's existing relationships with enterprise and mid-market clients to cross sell the eMite solution.

The eMite acquisition adds a very exciting new product set that has a similar growth potential to the SNARE products. Our new focus is to continue to expand the market into the mid range to achieve a larger number of smaller sales to smooth revenue flow. During FY17 Prophecy will invest in the growth of the eMite sales team to emulate the success of SNARE and provide return for the recent investment in eMite product development.

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Message from the Chairman

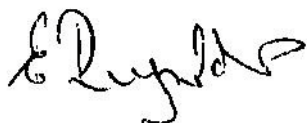
For the Year Ended 30 June 2016

- **Legacy offerings: basis2, Promadis, Prophecy Classic, ProphecyOpen and e-Foundation**

Prophecy continues to support its traditional customers utilising one or more of its Legacy products, providing stable and secure solutions that continue to endure. Maintenance of each of these systems will continue as long as there is customer demand, but revenues are expected to decline in this area over time.

The Board focus in this new year is to continue the very strong growth of SNARE product sales, along with similar strong growth for eMite software sales. Resources continue to be invested in a major marketing push together with additional sales resources and an emphasis on new partnerships for sales growth.

Thank you to all the staff that have worked together to achieve an excellent result for FY16 and we all look forward to an even brighter current year result.

A handwritten signature in black ink, appearing to read 'Ed Reynolds', with a stylized flourish at the end.

**Ed Reynolds**

Chairman

## **Directors' Report**

### **For the Year Ended 30 June 2016**

The directors present their report, together with the financial statements of the Group, being Prophecy International Holdings Limited and Controlled Entities (the Company) and its controlled entities, for the financial year ended 30 June 2016.

#### **1. General information**

##### **Information on directors**

The names, qualifications, experience and special responsibilities of each person who has been a director during the year and to the date of this report are:

Ed Reynolds

Qualifications

Bachelor of Science

Experience

Ed was appointed Non-executive Chairman on 8th December 2006. He has held various positions within the IT industry, which has given him wide-ranging and extensive experience. Ed joined Prophecy as general manager in 1987 and contributed to the company in various roles, including CEO. In his current Non-executive role, Ed is passionate about ensuring the company achieves its targets and is on track to deliver future success.

Interest in shares and options

7,570,000 ordinary shares in Prophecy International Holdings Limited and no options

Special responsibilities

Chairman of the Board of Directors  
Chair of the Strategy Committee  
Member of the Remuneration Committee  
Member of the Audit Committee

Other current directorships in listed entities

None

Other directorships in listed entities held in the previous three years

None

Anthony P (Tony) Weber

Qualifications

Retired - 20 November 2015

Experience

FCPA, FCIS

Tony was an active member of the Prophecy Board throughout the past 17 years. He had extensive experience in the IT industry, with a strong focus on finance and general management. Tony's experience with multi-national and public companies provided valuable input and direction to the Prophecy Board. Tony took on the role of Chief Financial Officer and Company Secretary on 19th October 2005. He has since resigned from the Company Secretary role on 21 March 2013 and the Chief Financial Officer on 1 May 2015, and as a Director on 20 November 2015.

Interest in shares and options

230,000 ordinary shares in Prophecy International Holdings Limited and no options

Special responsibilities

Chair of the Audit Committee – Retired 20 November 2015  
Chair of the Remuneration Committee – Retired 20 November 2015  
Member of the Strategy Committee – Retired 20 November 2015

Other current directorships in listed entities

None

Other directorships in listed entities held in the previous three years

None

## **Directors' Report**

**For the Year Ended 30 June 2016**

### **1. General information**

#### **Information on directors continued**

Leanne Challans

Qualifications

Bachelor of Science

Experience

Leanne joined Prophecy in 1990, with a strong background in software design and development. Her initial role was Product Development Manager for the flagship Prophecy Classic product. The growing partner network for classic opened up new opportunities, so Leanne took on responsibility for Partner Support and Marketing through the mid 1990's.

Leanne returned to her strengths in software development in 2000, heading up the successful Emergency Services Levy project, and then managing the development and support of the e-Foundation product suite.

She then moved into the role of General Manager, Software & Services, with responsibility for the ongoing development, support and consulting services relating to all of Prophecy International's product lines. Leanne joined the Board of Directors in December 2006, and was appointed Managing Director in July 2007.

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

Interest in shares and options

774,880 ordinary shares in Prophecy International Limited and no options

Special responsibilities

Managing Director  
Member of the Audit Committee

Other current directorships in listed entities

None

Other directorships in listed entities held in the previous three years

None

Matthew Michalewicz

Qualifications

Bachelor of Science

Experience

Matthew is an international expert in entrepreneurship, innovation, and success psychology. He has a 20-year track record of starting, growing, and exiting high growth businesses in the United States and Australia. His last venture, SolveIT Software, grew to become Australia's 3rd fastest growing company before being acquired by Schneider Electric in 2012. In addition to being the author of several books – including Life in Half a Second, Winning Credibility, Adaptive Business Intelligence, and Puzzle-based Learning – Matthew is also a Visiting Fellow at the University of Adelaide where he lectures on the subject of technology commercialisation, and a Limited Partner in Blackbird Ventures, an Australian early-stage venture capital fund.

Interest in shares and options

None

Special responsibilities

Member of the Strategy Committee

Other current directorships in listed entities

COMOPS Limited

Other directorships in listed entities held in the previous three years

## **Directors' Report**

### **For the Year Ended 30 June 2016**

#### **1. General information**

##### **Information on directors continued**

Grant R Miles

Qualifications

Bachelor of Arts in Accountancy  
Chartered Accountant – Fellow (FCA)

Experience

Grant is the Managing Partner of Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd.  
Grant was appointed Company Secretary of Prophecy in May 2013 and a Director in May 2015. Grant has over 25 years experience in Finance and Accounting matters and provides the Prophecy Board with strong skills in this area.

Interest in shares and options

150,000 ordinary shares in Prophecy International Holdings Limited and no options.

Special responsibilities

Chief Financial Officer  
Chair of the Audit Committee –Appointed 20 November 2015  
Chair of the Remuneration Committee –Appointed 20 November 2015

Other current directorships in listed entities

None

Other directorships in listed entities held in the previous three years

None

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

## **Directors' Report**

### **For the Year Ended 30 June 2016**

#### **1. General information continued**

##### **Principal activities and significant changes in nature of activities**

The principal activities of the Group during the financial year were the design, development and marketing of computer software applications and services aimed at the worldwide corporate marketplace.

There were no significant changes in the nature of the Group's principal activities during the financial year.

#### **2. Operating results and review of operations for the year**

##### **Operating results**

The consolidated profit of the Group amounted to \$2,416,038, after providing for income tax. This represented a 2% increase on the results reported for the year ended 30 June 2015.

##### **Review of operations**

A review of the operations of the Group during the financial year and the results of those operations is set out in the section headed "Message from the Chairman" in this report.

#### **3. Other items**

##### **Significant changes in state of affairs**

On 1 July 2015, the group acquired 100% of the shares in eMite Pty Ltd, details can be found in Note 5 Business Combinations of the Financial Statements.

##### **Dividends paid or recommended**

Interim unfranked ordinary dividend of 2.0 cents per share paid on 31 March 2016	\$ 1,280,196
Final unfranked ordinary dividend of 2.0 cents per share declared on 21 September 2016 to be paid on 8 November 2016	\$ 1,280,196
2015 final fully franked dividend declared in the prior year, paid on 8 October 2015	\$ 1,408,215

##### **Events after the end of the reporting period**

Other than matters disclosed in this report, no matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations the state of affairs of the Group in future financial years.

## Directors' Report

### For the Year Ended 30 June 2016

#### 3. Other items continued

##### Future developments and results

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

##### Environmental issues

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia

##### Company secretary

The following person held the position of Company secretary at the end of the financial year:

Grant R Miles has been the company secretary since 21 March 2013. Grant R Miles is the Managing Partner of Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd.

##### Meetings of directors

During the financial year, 26 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee		Remuneration Committee		Strategy Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Ed Reynolds	12	12	2	2	11	11	1	1
Anthony P (Tony) Weber	5	4	1	1	5	5	1	1
Leanne R Challans	12	12	2	2	-	-	-	-
Matthew T Michalewicz	12	12	-	-	-	-	-	-
Grant R Miles	12	12	2	2	6	6	-	-

##### Unissued shares under option

There are no unissued ordinary shares of Prophecy International Holdings Limited under option at the date of this report.

##### Shares issued during or since the end of the year as a result of exercise

There were no shares issued during or since the end of the year as a result of exercise.

##### Indemnification and insurance of officers and auditors

In the financial year, the company has paid premiums of \$61,670 in respect of a contract of insurance for all the Directors and Officers of Prophecy International Holdings Limited and its controlled entities against any liability incurred in their roles as Directors or Officers of the company or its controlled entities, except where:

- the liability arises out of conduct involving a wilful breach of duty; or
- there has been a contravention of Section 199(C) of the Corporations Act 2001.

## **Directors' Report**

### **For the Year Ended 30 June 2016**

#### **3. Other items continued**

##### **Non-audit services**

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 30 June 2016:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Taxation services	<b>24,325</b>	25,044

##### **Remuneration report (audited)**

##### **Remuneration policy**

The remuneration policy of Prophecy International Holdings Limited and Controlled Entities has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Prophecy International Holdings Limited and Controlled Entities believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- The remuneration policy, setting the terms and conditions for the directors and other senior executives, was developed by the Remuneration Committee and approved by the Board.
- All executives receive a base salary (which is based on factors such as responsibilities and experience), superannuation, fringe benefits, options and performance incentives. The Remuneration Committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.
- The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value.
- All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

## **Directors' Report**

### **For the Year Ended 30 June 2016**

#### **3. Other items continued**

##### **Remuneration report (audited) continued**

- Executives are also entitled to participate in the employee share and option arrangements.
- The non-executive directors receive superannuation contributions but do not receive any other retirement benefits. Australian based executives receive both superannuation contributions and long service leave benefits.
- All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares issued to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using a Black-Scholes methodology.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the company option plans.

As approved by the shareholders at the 2015 Annual General Meeting, the maximum amounts payable to directors is \$400,000. This compares with an actual charge of \$269,166 in the 2015/16 year.

Key management personnel receive a superannuation guarantee contribution required by the law, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

##### **Key Management Personnel**

Key management personnel are as follows:

###### **Directors**

Edwin Reynolds (Appointed 4 September 1997)	Non-executive Chairman
Anthony P Weber (Retired 20 November 2015)	Non-executive Director
Leanne R Challans (Appointed 8 December 2006)	Managing Director
Matthew T Michalewicz (Appointed 15 May 2014)	Non-executive Director
Grant R Miles (Appointed 1 May 2015)	Non-executive Director

###### **Executives**

Peter Barzen (Appointed 1 September 1999)	EVP Sales and Alliances
Stuart Geros (Appointed 1 July 2015)	CEO - eMite

There have been no changes to Key Management Personnel after the reporting date and before the date the financial accounts were authorised for issue.

## Directors' Report

### For the Year Ended 30 June 2016

#### 3. Other items continued

##### Remuneration report (audited) continued

##### Relationship between remuneration policy and company performance

As part of each executive's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over, and are mainly related to increases in profit and revenue. The KPIs target areas the Board believes hold greater potential for Group expansion and profit, covering financial short-term goals. The level set for each KPI is based on budgeted figures for the Group.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the level of achievement against KPIs. Following the assessment, the KPIs are reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility.

The following table shows the gross revenue, profits and dividends for the last five years for the Company, as well as the share prices at the end of the respective financial years.

	2016	2015	2014	2013	2012
	\$	\$	\$	\$	\$
Revenue	14,672,565	9,956,360	7,078,458	6,888,043	6,702,793
Net Profit	2,416,038	2,378,480	906,848	1,268,506	802,282
Share Price at Year-end	1.15	1.25	0.43	0.33	0.21
Dividends Paid (cents)	4.20	2.75	3.50	3.00	1.25

##### Performance conditions linked to remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to directors and executives to encourage the alignment of personal and shareholder interests.

The company believes that the factors affecting shareholder wealth are linked to the company's trading conditions. The company experienced difficult trading conditions last year due to the global economic crisis.

The board feels that the company has consolidated the move towards increasing shareholder wealth, and that the executive and director remuneration policies in place will help facilitate achievement of this goal.

##### Employment details of members of key management personnel

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the Group. The table also illustrates the proportion of remuneration that was performance based and the proportion of remuneration received in the form of options.

		Performance based remuneration		
		Bonus	Shares	Options / rights
		%	%	%
<b>Director</b>				
Leanne Challans	Managing Director	21	-	-
<b>KMP</b>				
Peter Barzen	EVP Sales and Alliances	55	-	-
Stuart Geros	CEO - eMite	-	-	-

## Directors' Report

### For the Year Ended 30 June 2016

#### 3. Other items continued

##### Remuneration report (audited) continued

##### Service Agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

The remuneration and other terms of employment for the Managing Director and senior executives are set out in formal service agreements as summarised below.

All service agreements are for an unlimited duration. The agreements for executives may be terminated by giving four weeks notice (except in cases of termination for cause where termination is immediate).

In cases of resignation, no separation payment is made to the executive, except for amounts due and payable up to the date of ceasing employment, including accrued leave entitlements.

##### Remuneration Consultants

There have been no remuneration consultants used in the period.

##### Changes in KMP (other than directors)

Stuart Geros the CEO of eMite has been added to the KMP from 1 July 2015.

##### Remuneration details for the year ended 30 June 2016

The following table of benefits and payment details, in respect to the financial year, the components of remuneration for each member of the key management personnel of the Group.

##### Table of benefits and payments

	<u>Short Term</u>				<u>Post Employment</u>	<u>Total</u>
	cash salary fees	bonus	consulting fees	health care & allowances	pension and superannuation	
2016	\$	\$	\$	\$	\$	\$
<b>Directors</b>						
Ed Reynolds	39,000	-	149,886	-	3,705	192,591
Anthony P (Tony) Weber	29,166	-	15,170	-	4,212	48,548
Leanne Challans	178,500	52,117	-	-	21,909	252,526
Matthew Michalewicz	70,000	-	1,100	-	-	71,100
Grant R Miles	70,000	-	-	-	-	70,000
<b>KMP</b>						
Peter Barzen	187,263	330,245	-	34,574	47,323	599,405
Stuart Geros	250,000	-	-	-	23,750	273,750
	<b>823,929</b>	<b>382,362</b>	<b>166,156</b>	<b>34,574</b>	<b>100,899</b>	<b>1,507,920</b>

The remuneration detailed above for Ed Reynolds includes director's fees of \$100,000 and consulting fees of \$88,886 (2015 – director's fees \$75,000 and consulting fees \$67,990) of which \$149,886 was paid to Reyer Investments Pty Limited, a company in which Ed Reynolds is a director and shareholder.

The remuneration detailed above for Anthony P (Tony) Weber includes director's fees of \$29,166 and consulting fees of \$15,170 which were paid as salary (2015 – director's fees \$55,000 and consulting fees \$49,064).

Grant R Miles director's fees are paid to Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd, a company directed by Grant R Miles.

## Directors' Report

### For the Year Ended 30 June 2016

#### 3. Other items continued

##### Remuneration report (audited) continued

##### Remuneration details for the year ended 30 June 2016 continued

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

Short term bonus for P Barzen relates to commission payments on licence fee revenue from sales of products to customers, in accordance with an incentive plan approved on 18th April 2013. The purpose of the incentive is to increase licence fee revenues and so improve shareholder wealth.

	<u>Short Term</u>			<u>Post Employment</u>	<u>Total</u>	
	cash salary fees	bonus	consulting fees	health care & allowances	pension and superannuation	
2015	\$	\$	\$	\$	\$	\$
<b>Directors</b>						
Ed Reynolds	39,000	-	103,990	-	3,705	146,695
Anthony P (Tony) Weber	55,000	-	49,064	-	9,886	113,950
Leanne Challans	175,050	15,676	-	-	18,119	208,845
Matthew Michalewicz	55,000	-	16,000	-	-	71,000
Grant R Miles (Appointed - 1 May 2015)	9,167	-	-	-	-	9,167
<b>KMP</b>						
Peter Barzen	176,097	157,764	-	30,402	44,348	408,611
	509,314	173,440	169,054	30,402	76,058	958,268

##### Securities received that are not performance related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

##### Voting and comments made at the Company's last Annual General Meeting

Prophecy International Holdings Limited received more than 82% of 'yes' votes on its Remuneration Report for the financial year ending 30 June 2015. The company received no specific feedback on its Remuneration Report at the Annual General Meeting.

##### Key management personnel options and rights holdings

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

## **Directors' Report**

**For the Year Ended 30 June 2016**

### **3. Other items continued**

#### **Remuneration report (audited) continued**

#### **Key management personnel shareholdings**

The number of ordinary shares in Prophecy International Holdings Limited and Controlled Entities held by each key management person of the Group during the financial year is as follows:

	<b>Balance at beginning of year</b>	<b>On exercise of options</b>	<b>Acquisitions</b>	<b>Disposals</b>	<b>Other Changes</b>	<b>Balance at end of year</b>
<b>30 June 2016</b>						
Ed Reynolds	<b>7,500,000</b>	-	40,000	-	-	<b>7,540,000</b>
Anthony P (Tony) Weber	<b>300,000</b>	-	-	(70,000)	(230,000)	-
Leanne R Challans	<b>774,880</b>	-	-	-	-	<b>774,880</b>
Matthew T Michalewicz	-	-	-	-	-	-
Grant R Miles	<b>150,000</b>	-	-	-	-	<b>150,000</b>
<b>Other KMP</b>						
Peter Barzen	<b>10,000</b>	-	-	-	-	<b>10,000</b>
Stuart Geros	<b>1,814,989</b>	-	9,879	(4,191)	-	<b>1,820,677</b>
	<b>10,549,869</b>	-	49,879	(74,191)	(230,000)	<b>10,295,557</b>

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd, a company directed by Grant Miles, provided Accounting services to the Group of \$30,946 (2015: \$47,261)

#### ***End of Remuneration Report***

#### **Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

## **Directors' Report**

**For the Year Ended 30 June 2016**

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2016 has been received and can be found on page 19 of the financial report.

This director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



Ed Reynolds  
**Chairman**



Leanne Challans  
**Director**

Dated this 21<sup>st</sup> day of September, 2016



Level 1,  
67 Greenhill Rd  
Wayville SA 5034

Correspondence to:  
GPO Box 1270  
Adelaide SA 5001

**T** 61 8 8372 6666  
**F** 61 8 8372 6677  
**E** info.sa@au.gt.com  
**W** www.grantthornton.com.au

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Prophecy International Holdings Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

*Grant Thornton*

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

A handwritten signature in blue ink, appearing to read "S Edwards".

S Edwards  
Partner - Audit & Assurance

Adelaide, 21 September 2016

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2016

		2016	2015
	Note	\$	\$
Revenue	2	14,672,565	9,956,360
Other income		316,271	408,148
Employee benefits expense		(7,000,907)	(4,787,575)
Depreciation and amortisation	3	(1,123,986)	(225,791)
Impairment of Goodwill	15	-	(650,000)
Other expenses	3	(3,110,525)	(1,253,331)
Finance costs		(603)	-
<b>Profit before income tax</b>		<b>3,752,815</b>	<b>3,447,811</b>
Income tax expense	4	(1,336,777)	(1,069,331)
<b>Profit for the year</b>		<b>2,416,038</b>	<b>2,378,480</b>
<b>Other comprehensive income, net of income tax</b>			
<b>Items that will be reclassified to profit or loss when specific conditions are met</b>			
Exchange differences on translating foreign controlled entities		(104,870)	(111,082)
<b>Other comprehensive income for the year, net of tax</b>		<b>(104,870)</b>	<b>(111,082)</b>
<b>Total comprehensive income for the year</b>		<b>2,311,168</b>	<b>2,267,398</b>
Profit attributable to:			
Members of the parent entity		2,402,233	2,334,088
Non-controlling interest		13,805	44,392
		<b>2,416,038</b>	<b>2,378,480</b>
Total comprehensive income attributable to:			
Members of the parent entity		2,297,363	2,223,006
Non-controlling interest		13,805	44,392
		<b>2,311,168</b>	<b>2,267,398</b>
<b>Earnings per share</b>			
From continuing operations:			
Basic earnings per share (cents)	9	3.80	4.21
Diluted earnings per share (cents)	9	3.80	4.21

The accompanying notes form part of these financial statements.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Consolidated Statement of Financial Position

As At 30 June 2016

	Note	2016 \$	2015 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	10	1,869,140	5,602,812
Trade and other receivables	11	3,281,692	3,219,258
Work in progress	12	30,959	85,524
Other assets	16	126,628	158,965
<b>TOTAL CURRENT ASSETS</b>		<b>5,308,419</b>	<b>9,066,559</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	11	7,581	3,521
Property, plant and equipment	14	334,949	178,763
Deferred tax assets	26	373,921	375,258
Intangible assets	15	17,662,487	2,982,871
<b>TOTAL NON-CURRENT ASSETS</b>		<b>18,378,938</b>	<b>3,540,413</b>
<b>TOTAL ASSETS</b>		<b>23,687,357</b>	<b>12,606,972</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	17	836,740	724,462
Current tax liabilities	26	614,723	637,434
Employee benefits	19	880,390	795,904
Other financial liabilities	18	3,387,079	1,800,139
<b>TOTAL CURRENT LIABILITIES</b>		<b>5,718,932</b>	<b>3,957,939</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	26	429,898	272,809
Employee benefits	19	60,094	30,648
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>489,992</b>	<b>303,457</b>
<b>TOTAL LIABILITIES</b>		<b>6,208,924</b>	<b>4,261,396</b>
<b>NET ASSETS</b>		<b>17,478,433</b>	<b>8,345,576</b>
<b>EQUITY</b>			
Issued capital	20	28,469,564	18,959,464
Reserves		(224,726)	(119,856)
Retained earnings		(10,561,166)	(10,274,988)
<b>Total equity attributable to equity holders of the Company</b>		<b>17,683,672</b>	<b>8,564,620</b>
Non-controlling interest		(205,239)	(219,044)
<b>TOTAL EQUITY</b>		<b>17,478,433</b>	<b>8,345,576</b>

The accompanying notes form part of these financial statements.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2016

2016

		Issued Capital	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Non- controlling Interests	Total
Note		\$	\$	\$	\$	\$	\$
	<b>Balance at 1 July 2015</b>	<b>18,959,464</b>	<b>(10,274,988)</b>	<b>(244,681)</b>	<b>124,825</b>	<b>(219,044)</b>	<b>8,345,576</b>
	Profit attributable to members of the parent entity	-	2,402,233	-	-	-	2,402,233
	Profit attributable to non-controlling interests	-	-	-	-	13,805	13,805
	Total other comprehensive income for the year	-	-	(104,870)	-	-	(104,870)
8	Dividends provided for or paid	-	(2,688,411)	-	-	-	(2,688,411)
	Shares issued during the year	2,454,100	-	-	-	-	2,454,100
	Shares issued in consideration of business combinations	7,056,000	-	-	-	-	7,056,000
	<b>Balance at 30 June 2016</b>	<b>28,469,564</b>	<b>(10,561,166)</b>	<b>(349,551)</b>	<b>124,825</b>	<b>(205,239)</b>	<b>17,478,433</b>

2015

		Issued Capital	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Non- controlling Interests	Total
Note		\$	\$	\$	\$	\$	\$
	<b>Balance at 1 July 2014</b>	<b>18,959,464</b>	<b>(11,085,306)</b>	<b>(133,599)</b>	<b>124,825</b>	<b>(263,436)</b>	<b>7,601,948</b>
	Profit attributable to members of the parent entity	-	2,334,088	-	-	-	2,334,088
	Profit attributable to non-controlling interests	-	-	-	-	44,392	44,392
	Total other comprehensive income for the year	-	-	(111,082)	-	-	(111,082)
8	Dividends provided for or paid	-	(1,523,770)	-	-	-	(1,523,770)
	<b>Balance at 30 June 2015</b>	<b>18,959,464</b>	<b>(10,274,988)</b>	<b>(244,681)</b>	<b>124,825</b>	<b>(219,044)</b>	<b>8,345,576</b>

The accompanying notes form part of these financial statements.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Consolidated Statement of Cash Flows

For the Year Ended 30 June 2016

	Note	2016 \$	2015 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers		16,323,586	8,143,997
Payments to suppliers and employees		(10,516,307)	(4,802,533)
Interest received		41,488	75,739
Income taxes (paid)/refunded		(949,725)	(549,164)
Net cash provided by operating activities	23	<u>4,899,042</u>	<u>2,868,039</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(208,212)	(128,962)
Payment in respect of business combinations, net of cash acquired		(7,526,230)	-
Development expenditure		(693,518)	(335,468)
Net cash used by investing activities		<u>(8,427,960)</u>	<u>(464,430)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issue of shares		2,530,000	-
Payments for capital raise		(75,900)	-
Dividends paid by parent entity		(2,688,411)	(1,523,770)
Net cash used by financing activities		<u>(234,311)</u>	<u>(1,523,770)</u>
Effects of foreign exchange rates on overseas cash holdings		29,557	53,469
Net (decrease)/increase in cash and cash equivalents held		<u>(3,733,672)</u>	<u>933,308</u>
Cash and cash equivalents at beginning of year		5,602,812	4,669,504
Cash and cash equivalents at end of financial year	10	<u><u>1,869,140</u></u>	<u><u>5,602,812</u></u>

The accompanying notes form part of these financial statements.

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2016**

This financial report covers the consolidated financial statements and notes of Prophecy International Holdings Limited and Controlled Entities (the 'group'). Prophecy International Holdings Limited and Controlled Entities is a for profit Company domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The financial report was approved for issue by the Board on the 21<sup>st</sup> of September, 2016.

#### **1 Summary of Significant Accounting Policies**

##### **(a) Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are based on historical costs, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

##### **(b) Principles of Consolidation**

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a June financial year end.

A list of controlled entities is contained in Note 13 to the financial statements.

##### *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(c) Business Combinations**

Business combinations are accounted for by applying the acquisition method which requires an acquiring entity to be identified in all cases. The acquisition date under this method is the date that the acquiring entity obtains control over the acquired entity.

The fair value of identifiable assets and liabilities acquired are recognised in the consolidated financial statements at the acquisition date.

Goodwill or a gain on bargain purchase may arise on the acquisition date, this is calculated by comparing the consideration transferred and the amount of non-controlling interest in the acquiree with the fair value of the net identifiable assets acquired. Where consideration is greater than the net assets acquired, the excess is recorded as goodwill. Where the net assets acquired are greater than the consideration, the measurement basis of the net assets are reassessed and then a gain from bargain purchase recognised in profit or loss.

All acquisition-related costs are recognised as expenses in the periods in which the costs are incurred except for costs to issue debt or equity securities.

Any contingent consideration which forms part of the combination is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not remeasured and the settlement is accounted for within equity. Otherwise subsequent changes in the value of the contingent consideration liability are measured through profit or loss.

#### **(d) Income Tax**

The tax expense recognised in the consolidated statement of profit or loss and other comprehensive income comprises of current income tax expense plus deferred tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(d) Income Tax continued**

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

The Company and its wholly-owned Australian controlled entities have formed a tax-consolidated group under the legislation and as a consequence these entities are taxed as a single entity.

#### **(e) Property, Plant and Equipment**

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

Where the cost model is used, the asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

##### **Depreciation**

Property, plant and equipment, is depreciated on a reducing balance basis over the assets useful life to the Company, commencing when the asset is ready for use.

Leased assets and leasehold improvements are amortised over the shorter of either the unexpired period of the lease or their estimated useful life.

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

<b>Fixed asset class</b>	<b>Depreciation rate</b>
Plant and Equipment	10% - 40%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

#### **(f) Leases**

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 1 Summary of Significant Accounting Policies continued

#### (g) Financial Instruments

##### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is the equivalent to the date that the Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

##### Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- (d) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The classification of financial instruments depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and at the end of each reporting period for held-to-maturity assets.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

#### (i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(g) Financial Instruments continued**

##### **(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting year.

##### **(iii) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to be realised within 12 months after the end of the reporting period, which will be classified as current assets.

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

##### **(iv) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to be sold within 12 months after the end of the reporting period.

##### **(v) Financial liabilities**

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Fees payable on the establishment of loan facilities are recognised as transaction costs of the loan.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

All of the Group's derivative financial instruments that are not designated as hedging instruments in accordance with the strict conditions explained in AASB 139 are accounted for at fair value through profit or loss.

##### **Hedging**

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(g) Financial Instruments continued**

##### *Cash flow hedges*

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

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

##### *Fair value hedges*

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

#### **Impairment**

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(g) Financial Instruments continued**

##### **Financial guarantees**

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised in accordance with AASB 118.

#### **(h) Impairment of Non-financial Assets**

At the end of each reporting period the Group determines whether there is an evidence of an impairment indicator for non-financial assets.

Where this indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(i) Intangible Assets**

##### **Goodwill**

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

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

over the acquisition date fair value of net identifiable assets acquired in a business combination.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value ('full goodwill method') or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ('proportionate interest method'). The Group determines which method to adopt for each acquisition.

Under the 'full goodwill method', the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available.

##### **Patents and trademarks**

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life which is estimated to be 7 year or 15 years, depending on the product.

##### **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.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the projects which are between 5 years.

##### **Impairment**

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(i) Intangible Assets continued**

##### **Impairment continued**

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. to determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

#### **(j) Foreign Currency Transactions and Balances**

##### **Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

##### **Transaction and balances**

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(j) Foreign Currency Transactions and Balances continued**

##### **Group companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period where the average rate approximates the rate at the date of the transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the consolidated statement of financial position. These differences are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which the operation is disposed.

#### **(k) Employee Benefits**

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

Employee benefits expected to be settled more than one year after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Cashflows are discounted using market yields on high quality corporate bond rates incorporating bonds rated AAA or AA by credit agencies, with terms to maturity that match the expected timing of cashflows. Changes in the measurement of the liability are recognised in profit or loss.

##### **Defined contribution schemes**

All employees of the Group other than those that receive defined benefit entitlements receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution (currently 9.5% of the employee's average ordinary salary) to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's statement of financial position.

##### **Termination benefits**

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of: (a) the date when the Group can no longer withdraw the offer for termination benefits; and (b) when the Group recognises costs for restructuring pursuant to AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(l) Provisions**

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

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period.

#### **(m) Cash and Cash Equivalents**

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### **(n) Revenue and Other Income**

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the Group and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

##### **Sale of Goods**

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

##### **Rendering of Services**

Revenue in relation to rendering of services is recognised depending on whether the outcome of the services can be estimated reliably. If the outcome can be estimated reliably then the stage of completion of the services is used to determine the appropriate level of revenue to be recognised in the period.

If the outcome cannot be reliably estimated then revenue is recognised to the extent of expenses recognised that are recoverable.

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

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

##### **Interest Revenue**

Interest is recognised using the effective interest method.

All revenue is stated net of the amount of goods and services tax (GST).

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(o) Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(g) for further discussion on the determination of impairment losses.

#### **(p) Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

#### **(q) Borrowing Costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### **(r) Goods and Services Tax (GST)**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows in the consolidated statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

#### **(s) Comparative Amounts**

Comparatives are consistent with prior years, unless otherwise stated.

Where a change in comparatives has also affected the opening retained earnings previously presented in a comparative period, an opening consolidated statement of financial position at the earliest date of the comparative period has been presented.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 1 Summary of Significant Accounting Policies continued

#### (t) Critical Accounting Estimates and Judgments

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

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

##### **Key estimates - impairment of tax losses**

Deferred tax assets include amounts related to unused tax losses. At each balance date the directors review the likelihood that the Group be able to generate sufficient future taxable profits to utilise these tax losses, and adjusts deferred tax assets accordingly. Further information regarding the conditions under which these tax losses may be utilised can be found in Note 26.

##### **Key estimates - impairment of goodwill**

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

##### **Key judgments - provision for impairment of receivables**

The value of the provision for impairment of receivables is estimated by considering the ageing of receivables, communication with the debtors and prior history.

#### (u) New Accounting Standards and Interpretations

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

##### **AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).**

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(u) New Accounting Standards and Interpretations continued**

##### **AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods commencing on or after 1 January 2017).**

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

##### **AASB 16 Leases (1 January 2019)**

AASB 16:

- replaces AASB 117 Leases and some lease-related Interpretations
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- requires new and different disclosures about leases

The Group is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the Group's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2020 includes:

- there will be a significant increase in lease assets and financial liabilities recognised on the balance sheet
- the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses
- operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(u) New Accounting Standards and Interpretations continued**

##### **AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016)**

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

- 1 The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- 2 When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

##### **AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle (1 January 2016)**

These amendments arise from the issuance of Annual Improvements to IFRSs 2012-2014 Cycle in September 2014 by the IASB. Among other improvements, the amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of AASB 5 Non-current Assets Held for Sale and Discontinued Operations does not apply. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of AASB 5.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **1 Summary of Significant Accounting Policies continued**

#### **(u) New Accounting Standards and Interpretations continued**

##### **AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 (1 January 2016)**

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project.

The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

##### **AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 (1 January 2017)**

AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

	2016 \$	2015 \$
<b>2 Revenue and Other Income</b>		
Sales revenue		
- sale of goods	12,320,969	8,983,064
- provision of services	2,310,108	897,557
	<u>14,631,077</u>	<u>9,880,621</u>
Finance income		
- interest received	41,488	75,739
<b>Total Revenue</b>	<u><u>14,672,565</u></u>	<u><u>9,956,360</u></u>

### Sale of Licences

Revenue generated from the sale of goods represents revenue from the sale of computer software licences. It is not possible to develop a meaningful cost of sales figure attributable to this revenue and accordingly none has been disclosed.

### 3 Result for the Year

The result for the year includes the following specific expenses:

Salaries and wages	4,738,040	2,951,233
Sales commissions	868,401	610,937
Superannuation contributions	364,155	263,174
Depreciation and amortisation expense comprises:		
- Depreciation - plant and equipment	128,629	46,743
- Amortisation - intellectual property	935,001	135,001
- Amortisation - development costs	60,356	44,047
	<u>1,123,986</u>	<u>225,791</u>

### Impairment

Impairment of Goodwill	-	650,000
------------------------	---	---------

### Other Expenses:

Accounting fees	131,172	110,492
Consulting and professional fees	1,109,563	169,120
Electricity and water	38,564	40,131
Filing fees	112,733	65,539
Insurance	126,707	106,745
Marketing	288,507	76,414
Rent expense	324,438	193,739
Licence fees	78,268	47,850
Communications expense	106,529	45,476
Travel and accommodation	108,476	135,586
Other expenses	685,568	262,239
	<u><u>3,110,525</u></u>	<u><u>1,253,331</u></u>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>3 Result for the Year continued</b>		
<b>Research and Development Expenses</b>		
Research and Development costs of \$115,045 are included in the total expenses for the Group and include salaries and wages and on-costs. Research and Development costs for 2015 of \$558,121 are included in the total expenses for the Group and include salaries and wages and on-costs.		
Development costs for Intersect Alliance for 2016 of \$693,518 (2015 of \$335,468) have been capitalised and shown in the statement of financial position as an intangible asset.		
<b>4 Income Tax Expense</b>		
(a) The major components of tax expense (income) comprise:		
Current tax expense	1,245,921	896,542
Foreign income tax withholding	566	-
Deferred tax expense	99,533	172,789
Adjustments for current tax of prior periods	(9,243)	-
<b>Total income tax expense</b>	<b>1,336,777</b>	<b>1,069,331</b>
(b) Reconciliation of income tax to accounting profit:		
Profit	3,752,815	3,447,811
Tax	30%	30%
	<b>1,125,845</b>	<b>1,034,343</b>
Add:		
Tax effect of:		
- non-deductible depreciation and amortisation	40,500	40,422
- goodwill impairment	-	195,000
- non-deductible expenses	34,807	192
- tax losses not recognised	21,847	66,244
	<b>1,222,999</b>	<b>1,336,201</b>
Less:		
Tax effect of:		
- over provision for income tax in prior year	-	-
- previously non-deductible expenses	-	-
- other	(113,778)	266,870
Income tax expense	<b>1,336,777</b>	<b>1,069,331</b>
Weighted average effective tax rate	<b>31%</b>	<b>31%</b>
The increase in the weighted average effective consolidated tax rate for 2016 is a result of the impairment of goodwill.		
(c) Income tax relating to each component of other comprehensive income:		
Timing differences on unrealised foreign exchange gains/(losses)	<b>46,763</b>	<b>252,538</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 5 Business Combinations

On 1 July 2015, the Group acquired 100% interest of the equity instruments of eMite Pty Ltd (eMite), a Sydney based business, thereby obtaining control. This acquisition was made to enhance the Group's position in the global software tools market. The Group aims to build a portfolio of products with specific emphasis on tools used by IT departments to manage the security and operations of IT infrastructure. eMite is a significant business in the Group's targeted market.

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

	Fair value \$
Purchase consideration:	
- Cash	7,900,000
- Equity instruments	7,056,000
<b>Total purchase consideration</b>	<b>14,956,000</b>
Assets or liabilities acquired:	
Cash	373,770
Trade receivables	647,470
Plant and equipment	76,524
Intangible assets	12,000,000
Trade payables	(678,746)
Other liabilities	(308,607)
Provisions	(135,866)
<b>Total net identifiable assets</b>	<b>11,974,545</b>
<b>Identifiable assets acquired and liabilities assumed</b>	<b>11,974,545</b>
Goodwill consideration	14,956,000
Less: Identifiable assets acquired	11,974,545
<b>Goodwill</b>	<b>2,981,455</b>

eMite Pty Ltd did not achieve profits in excess of set targets during the financial year, hence the potential earnout payments due on 1 April 2016 and 1 August 2016 are not payable.

#### eMite Results for the year

eMite Revenue for 2015/2016 was \$3,952,746 with an Operating Loss of \$417,150.

#### Acquisition-related costs

Acquisition-related costs amounting to \$198,425 have been included in other expenses in profit or loss in the reporting period ended 30 June 2016.

### 6 Key Management Personnel Disclosures

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

	2016 \$	2015 \$
Short-term employee benefits	1,407,022	882,210
Post-employment benefits	100,898	76,058
	<b>1,507,920</b>	<b>958,268</b>

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the Group's Key Management Personnel for the year ended June 2016.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

	2016 \$	2015 \$
<b>7 Remuneration of Auditors</b>		
Remuneration of the auditor of the parent entity, Grant Thornton, for:		
- auditing or reviewing the financial statements	77,500	65,500
- taxation services	24,325	25,044
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial statements of subsidiaries	12,233	11,326
<b>Total</b>	<b>114,058</b>	<b>101,870</b>

## 8 Dividends

a. The following dividends were declared and paid:

Interim unfranked 2016 ordinary dividend of 2.0 (2015: 0.0) cents per share paid on 31 March 2016	1,280,196	-
Final fully franked 2015 ordinary dividend of 2.2 (2014: 0.0) cents per share paid on 8 October 2015	1,408,215	-
Interim fully franked 2015 ordinary dividend of 2.0 (2014: 0.0) cents per share paid on 2 April 2015	-	1,108,196
Final unfranked 2014 ordinary dividend of 0.75 cents per share paid on 9 October 2014	-	415,574
<b>Total</b>	<b>2,688,411</b>	<b>1,523,770</b>

Total dividends per share declared and paid	4.20	2.75
---------------------------------------------	------	------

b. Proposed final 2016 unfranked ordinary dividend of 2.0 (2015: 2.2) cents per share to be paid 8 November 2016	1,280,196	1,408,215
------------------------------------------------------------------------------------------------------------------	-----------	-----------

The proposed final dividend for 2016 was declared after the end of the reporting period and therefore has not been provided for in the financial statements. There are no income tax consequences arising from this dividend at 30 June 2016.

### Franking account

The franking credits available for subsequent financial years at a tax rate of 30%	(78,131)	788,949
------------------------------------------------------------------------------------	----------	---------

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

- (a) Franking credits that will arise from the payment of the current tax liabilities;
- (b) Franking debits that will arise from the payment of dividends recognised as a liability at the year end;
- (c) Franking credits that will arise from the receipt of dividends recognised as receivables at the end of the year.

The impact on the franking credit of the dividends proposed after the end of the reporting period is to reduce it by zero (2015: 603,521).

The ability to use the franking credits is dependent upon the Company's future ability to declare dividends.

# Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Notes to the Financial Statements

For the Year Ended 30 June 2016

	2016 \$	2015 \$
<b>9 Earnings per Share</b>		
(a) Reconciliation of earnings to profit or loss from continuing operations		
Profit after income tax	2,416,038	2,378,480
Non-controlling interest	(13,805)	(44,392)
<b>Profit after income tax attributable to the owners of Prophecy International Holdings Limited</b>	<b>2,402,233</b>	<b>2,334,088</b>
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS		
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	63,204,866	55,409,784
<b>Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS</b>	<b>63,204,866</b>	<b>55,409,784</b>
<b>10 Cash and Cash Equivalents</b>		
Cash at bank and in hand	1,704,657	2,065,920
Short-term bank deposits	164,483	3,536,892
	<b>1,869,140</b>	<b>5,602,812</b>
<b>11 Trade and Other Receivables</b>		
CURRENT		
Trade receivables	3,157,018	2,925,332
Accrued revenue	59,964	57,193
Other receivables	64,710	236,733
<b>Total current trade and other receivables</b>	<b>3,281,692</b>	<b>3,219,258</b>
NON-CURRENT		
Deposits	24	24
Other receivables	7,557	3,497
<b>Total non-current trade and other receivables</b>	<b>7,581</b>	<b>3,521</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 11 Trade and Other Receivables continued

The following table details the Group's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount \$	Past due and impaired \$	< 30 \$	31-60 \$	61-90 \$	> 90 \$	Within initial trade terms \$
<b>2016</b>							
Trade and other receivables	3,289,273	-	637,073	160,698	229,995	92,745	2,168,762
<b>2015</b>							
Trade and other receivables	3,222,779	-	327,174	42,580	12,494	131,747	2,708,784

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

<b>2016</b>	<b>2015</b>
\$	\$

#### (a) Collateral held as security

The Group does not hold any collateral over any receivables balances.

#### (b) Financial assets classified as loans and receivables

Trade and other receivables

- total current	3,281,692	3,219,258
- total non-current	7,581	3,521

Financial assets

<b>3,289,273</b>	<b>3,222,779</b>
------------------	------------------

### 12 Inventories

At cost:

Work in progress

<b>30,959</b>	<b>85,524</b>
---------------	---------------

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Notes to the Financial Statements

For the Year Ended 30 June 2016

#### 13 Interests in Subsidiaries

##### Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%) <sup>*</sup> 2016	Percentage Owned (%) <sup>*</sup> 2015
<b>Subsidiaries:</b>			
Promadis Pty Ltd	Australia	100.0	100.0
Intersect Alliance International Pty Ltd	Australia	100.0	100.0
Prophecy International Pty Ltd as trustee for CSP Unit Trust	Australia	100.0	100.0
Prophecy R&D Pty Ltd	Australia	100.0	100.0
Prophecy Americas' Inc	United States	93.1	93.1
Prophecy Europe Limited	United Kingdom	100.0	100.0
eMite Pty Ltd	Australia	100.0	-

\*The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

##### Significant judgements and assumptions

The Group holds 93.1% of the ordinary shares and voting rights in Prophecy Americas Inc. One other investor holds 6.9%.

Management has reassessed its involvement in Prophecy Americas' Inc in accordance with AASB 10's revised control definition and guidance. It has concluded that they have control over Prophecy Americas' Inc. In making its judgement, management considered the Group's voting rights, the relative size and dispersion of the voting rights held by the other shareholder and the extent of recent participation by this shareholder in general meetings.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

	2016	2015
	\$	\$
<b>14 Property, plant and equipment</b>		
Plant and equipment		
At cost	793,577	325,184
Accumulated depreciation	(518,427)	(206,064)
Total plant and equipment	275,150	119,120
Furniture, fixtures and fittings		
At cost	210,359	194,870
Accumulated depreciation	(150,560)	(135,227)
Total furniture, fixtures and fittings	59,799	59,643
<b>Total property, plant and equipment</b>	<b>334,949</b>	<b>178,763</b>

### Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment	Furniture, Fixtures and Fittings	Total
	\$	\$	\$
<b>Consolidated</b>			
<b>Year ended 30 June 2016</b>			
Balance at the beginning of year	119,120	59,643	178,763
Additions	197,362	10,850	208,212
Additions through acquisition of entity	73,988	2,536	76,524
Depreciation expense	(115,400)	(13,229)	(128,629)
Foreign exchange movements	80	(1)	79
<b>Balance at the end of the year</b>	<b>275,150</b>	<b>59,799</b>	<b>334,949</b>

	Plant and Equipment	Furniture, Fixtures and Fittings	Total
	\$	\$	\$
<b>Consolidated</b>			
<b>Year ended 30 June 2015</b>			
Balance at the beginning of year	95,012	35,821	130,833
Additions	70,535	58,427	128,962
Disposals - written down value	(6,532)	(28,522)	(35,054)
Depreciation expense	(40,658)	(6,085)	(46,743)
Foreign exchange movements	763	2	765
<b>Balance at the end of the year</b>	<b>119,120</b>	<b>59,643</b>	<b>178,763</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

	2016	2015
	\$	\$
<b>15 Intangible Assets</b>		
Goodwill		
Cost	6,128,270	3,146,815
Accumulated impairment losses	(1,020,000)	(1,020,000)
<b>Net carrying value</b>	<b>5,108,270</b>	<b>2,126,815</b>
Intellectual property		
Cost	13,364,132	1,364,132
Accumulated amortisation and impairment	(1,936,456)	(1,001,455)
<b>Net carrying value</b>	<b>11,427,676</b>	<b>362,677</b>
Development costs		
Cost	1,242,157	548,639
Accumulated amortisation and impairment	(115,616)	(55,260)
<b>Net carrying value</b>	<b>1,126,541</b>	<b>493,379</b>
<b>Total Intangibles</b>	<b>17,662,487</b>	<b>2,982,871</b>

### Movements in carrying amounts of intangible assets

	Intellectual property	Goodwill - at cost	Development costs	Total
	\$	\$	\$	\$
<b>Year ended 30 June 2016</b>				
Balance at the beginning of the year	362,677	2,126,815	493,379	2,982,871
Additions	12,000,000	2,981,455	693,518	15,674,973
Amortisation	(935,001)	-	(60,356)	(995,357)
Impairment of goodwill	-	-	-	-
<b>Balance at the end of the year</b>	<b>11,427,676</b>	<b>5,108,270</b>	<b>1,126,541</b>	<b>17,662,487</b>

	Intellectual property	Goodwill - at cost	Development costs	Total
	\$	\$	\$	\$
<b>Year ended 30 June 2015</b>				
Balance at the beginning of the year	497,677	2,776,815	201,958	3,476,450
Additions	-	-	335,468	335,468
Amortisation	(135,000)	-	(44,047)	(179,047)
Impairment of goodwill	-	(650,000)	-	(650,000)
<b>Balance at the end of the year</b>	<b>362,677</b>	<b>2,126,815</b>	<b>493,379</b>	<b>2,982,871</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **15 Intangible Assets continued**

Intangible assets, other than goodwill have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the consolidated statement of profit or loss and other comprehensive income. Goodwill has an indefinite life and is not amortised.

Intellectual property with a carrying value of \$13,392 (2015 \$44,110) relates to copyright in Promadis Ltd's Forensic Science LIMS and Cardiology products. These products have a remaining amortisation period of 5 months

Intellectual property with a carrying value of \$214,284 (2015: \$318,567) relates to copyright in Intersect Alliance International Pty Ltd's software products. These products have a remaining amortisation period of approximately 2 years.

Intellectual property with a carrying value of \$11,200,000 (2015: \$Nil) relates to copyright in eMite Pty Ltd's software products. These products have a remaining amortisation period of 14 years.

Goodwill with a carrying value of \$2,126,815 (2015: \$2,126,815), determined on a value in use basis has been allocated to the Intersect Alliance International Pty Ltd segment. Value in use has been determined by reference to the net present value of cash flow projections over the next 5 years, discounted at a rate of 8%. It is assumed that revenue will continue to grow at 10% rates over the five years of the model, and this will result in 5% profit growth over the cycle. Management has based these assumptions on the targets set for the business.

Goodwill with a value of \$2,981,455, determined on a value in use basis has been allocated to the eMite 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 12%. It is assumed that revenue growth of 30% will be achieved in the business in the 2016/17 and 2017/18 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.

	2016 \$	2015 \$
<b>16 Other Non-financial Assets</b>		
Prepayments	<u>126,628</u>	<u>158,965</u>
<b>17 Trade and Other Payables</b>		
Unsecured liabilities		
Trade payables	163,483	98,750
Sundry payables and accrued expenses	670,599	623,053
Other payables	<u>2,658</u>	<u>2,659</u>
	<u>836,740</u>	<u>724,462</u>
<b>Financial liabilities at amortised cost classified as trade and other payables</b>		
Trade and other payables:		
- total current	<u>775,745</u>	<u>724,462</u>
Financial liabilities as trade and other payables	<u>775,745</u>	<u>724,462</u>
<b>18 Other Financial Liabilities</b>		
Deferred income	<u>3,387,079</u>	<u>1,800,139</u>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

	2016 \$	2015 \$
<b>19 Employee Benefits</b>		
Current liabilities		
Long service leave	400,668	488,242
Annual leave	479,722	307,662
	<u>880,390</u>	<u>795,904</u>
Non-current liabilities		
Long service leave	60,094	30,648
	<u>60,094</u>	<u>30,648</u>
<b>20 Issued Capital</b>		
64,009,784 (2015: 55,409,784) Ordinary shares	<u>28,469,564</u>	<u>18,959,464</u>
<b>(a) Ordinary shares</b>		
	No.	No.
At the beginning of the reporting period	55,409,784	55,409,784
Shares issued during the year	8,600,000	-
At the end of the reporting period	<u>64,009,784</u>	<u>55,409,784</u>
	2016 \$	2015 \$
Ordinary shares	18,959,464	18,959,464
2,300,000 shares issued during the year	2,454,100	-
6,300,000 shares issued in consideration of business combinations	7,056,000	-
	<u>28,469,564</u>	<u>18,959,464</u>

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Company does not have authorised capital or par value in respect of its shares.

### (b) Capital Management

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

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

There are no externally imposed capital requirements.

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

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Notes to the Financial Statements

For the Year Ended 30 June 2016

2016	2015
\$	\$

#### 21 Capital and Leasing Commitments

Minimum lease payments under non-cancellable operating leases:

- not later than one year	226,834	200,662
- between one year and five years	628,738	526,234
	<u>855,572</u>	<u>726,896</u>

Operating leases have been have been taken out for premises in Adelaide, Sydney and America.

The Adelaide lease terminates on 30 June 2020.

The Sydney lease terminates on 30 September 2016.

Prophecy Americas' Inc. has entered into a 39 month tenancy, terminating on 28 February 2019.

#### 22 Contingencies

##### Contingent Liabilities

Prophecy International Pty Ltd, a controlled entity, has provided guarantees to third parties in respect of property lease rentals. The maximum amount payable is \$146,473 (2015: \$87,280).

Details of leases can be found in Note 21. The guarantees are secured by a fixed charge over Prophecy International Pty Ltd's bank balances.

No material losses are anticipated in respect to this contingency.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

	2016 \$	2015 \$
<b>23 Cash Flow Information</b>		
<b>(a) Reconciliation of result for the year to cashflows from operating activities</b>		
Profit for the year	2,416,038	2,378,480
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	1,123,986	225,791
- impairment of goodwill	-	650,000
- net gain on disposal of property, plant and equipment	-	35,054
- foreign exchange (gain)/loss	(218,549)	(408,149)
- foreign exchange differences arising on translation of foreign subsidiaries	189,262	242,832
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	414,175	(2,178,082)
- (increase)/decrease in inventories	53,542	(38,763)
- (increase)/decrease in deferred tax receivable	1,337	233,897
- (increase)/decrease in other assets	31,349	(96,661)
- increase/(decrease) in income in advance	1,278,333	772,538
- increase/(decrease) in trade and other payables	(564,975)	434,992
- increase/(decrease) in income taxes payable	(22,711)	347,673
- increase/(decrease) in deferred taxes payable	219,164	179,380
- increase/(decrease) in employee benefits	(21,909)	89,057
Cashflow from operations	<u>4,899,042</u>	<u>2,868,039</u>
<b>(b) Credit standby arrangements with banks</b>		
Credit facility	30,000	20,000
Amount utilised	(4,811)	(3,516)
	<u>25,189</u>	<u>16,484</u>

The major facilities are summarised as follows:

Credit cards:

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **24 Events Occurring After the Reporting Date**

No matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### **25 Reserves and retained surplus**

#### **(a) Foreign currency translation reserve**

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income - foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

#### **(b) Share option reserve**

This reserve records the cumulative value of employee service received for the issue of share options. When the option is exercised the amount in the share option reserve is transferred to share capital.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

	2016	2015		
	\$	\$		
<b>26 Tax</b>				
<b>Current Tax Liability</b>				
Income tax payable	614,723	637,434		
<b>Recognised deferred tax assets and liabilities</b>				
Deferred tax assets	373,921	375,258		
Deferred tax liabilities	429,898	272,809		
	Opening Balance	Charged to Income	Charged Directly to Equity	Closing Balance
	\$	\$	\$	\$
<b>Deferred tax assets</b>				
Property, plant and equipment				
- tax allowance	568	1,393	-	1,961
Provisions - employee benefits	213,986	20,587	-	234,573
Unrealised foreign exchange	191,653	(12,815)	(252,538)	(73,700)
Accruals	103,126	(2,135)	-	100,991
Deferred tax assets attributable to tax losses	98,053	12,053	-	110,106
s40-880 deduction	1,769	(442)	-	1,327
<b>Balance at 30 June 2015</b>	609,155	18,641	(252,538)	375,258
Property, plant and equipment				
- tax allowance	1,961	(821)	-	1,140
Provisions - employee benefits	234,573	43,542	-	278,115
Unrealised foreign exchange	(73,700)	(88,346)	46,763	(115,283)
Accruals	100,991	(2,033)	-	98,958
Deferred tax assets attributable to tax losses	110,106	-	-	110,106
s40-880 deduction	1,327	(442)	-	885
<b>Balance at 30 June 2016</b>	375,258	(48,100)	46,763	373,921
<b>Deferred tax liability</b>				
Work in progress	17,433	11,278	-	28,711
Prepayments	1,009	1,326	-	2,335
Other current assets	74,412	92,990	-	167,402
Unrealised foreign currency gains	575	73,786	-	74,361
<b>Balance at 30 June 2015</b>	93,429	179,380	-	272,809
Work in progress	28,711	(24,826)	-	3,885
Prepayments	2,335	3,186	-	5,521
Other current assets	167,402	184,267	-	351,669
Unrealised foreign currency gains	74,361	(5,538)	-	68,823
<b>Balance at 30 June 2016</b>	272,809	157,089	-	429,898

# Notes to the Financial Statements

For the Year Ended 30 June 2016

	2016	2015
	\$	\$

## 26 Tax continued

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following:

Tax losses	4,225,513	4,173,699
------------	-----------	-----------

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therein.

## 27 Operating Segments

### Segment information

#### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. All segments derive revenue from the sale of computer software and associated consulting and maintenance services.

#### Basis of accounting for purposes of reporting by operating segments

##### (a) Accounting policies adopted

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

##### *Income tax expense*

Income tax expense is calculated based on the segment operating net profit using a notional charge of 30%. The effect of taxable or deductible temporary difference is not included for internal reporting purposes.

An internally determined transfer price is set for all inter-entity sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

##### (b) Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

# Notes to the Financial Statements

For the Year Ended 30 June 2016

## 27 Operating Segments continued

### (c) Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

### (d) Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- deferred tax assets and liabilities
- current tax liabilities
- intangible assets

### (e) Segment performance

	Legacy		SNARE		eMite		Total	
	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$
<b>REVENUE</b>								
External sales	3,068,454	3,903,660	7,617,038	5,976,960	3,945,586	-	14,631,078	9,880,620
Other revenue	29,671	69,734	4,656	6,006	7,160	-	41,487	75,740
<b>Total segment revenue</b>	<b>3,098,125</b>	<b>3,973,394</b>	<b>7,621,694</b>	<b>5,982,966</b>	<b>3,952,746</b>	<b>-</b>	<b>14,672,565</b>	<b>9,956,360</b>
Segment operating profit	394,244	35,995	3,775,721	3,411,816	(417,150)	-	3,752,815	3,447,811
Goodwill impairment	-	650,000					-	650,000

### (f) Segment assets

	Legacy		SNARE		eMite		Total	
	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$
<b>Segment assets</b>	<b>26,543,210</b>	<b>20,099,926</b>	<b>4,316,133</b>	<b>3,838,227</b>	<b>1,290,740</b>	<b>-</b>	<b>32,150,083</b>	<b>23,938,153</b>
- capital expenditure	44,185	98,402	155,007	30,560	9,020	-	208,212	128,962
- intangible assets			693,518	548,639			693,518	548,639
- acquisitions					12,000,000	-	12,000,000	-

### (g) Segment liabilities

	Legacy		SNARE		eMite		Total	
	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$
<b>Segment liabilities</b>	<b>34,136,393</b>	<b>26,968,402</b>	<b>1,064,050</b>	<b>1,012,151</b>	<b>1,002,116</b>	<b>-</b>	<b>36,202,559</b>	<b>27,980,553</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **27 Operating Segments continued**

#### **(h) Reconciliations**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>

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

Total segment revenue	<b>14,672,565</b>	9,956,360
Total revenue	<b>14,672,565</b>	9,956,360

*Reconciliation of segment operating profit to the consolidated statement of profit or loss and other comprehensive income*

The Board meets on a monthly basis to assess the performance of each segment, net operating profit does not include non-operating revenue and expenses such as dividends, fair value gains and losses.

Segment net operating profit	<b>3,752,815</b>	3,447,811
Income tax expense	<b>(1,336,777)</b>	(1,069,331)
Total net profit after tax	<b>2,416,038</b>	2,378,480

*Reconciliation of segment assets to the consolidated statement of financial position*

Segment operating assets	<b>32,150,083</b>	23,938,153
Intersegment eliminations	<b>(26,499,134)</b>	(14,689,310)
Deferred tax assets	<b>373,921</b>	375,258
Intangible assets	<b>17,662,487</b>	2,982,871
Total assets per the consolidated statement of financial position	<b>23,687,357</b>	12,606,972

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

Segment liabilities	<b>36,202,559</b>	27,980,553
Intersegment eliminations	<b>(31,038,256)</b>	(24,629,400)
Current tax liabilities	<b>614,723</b>	637,434
Deferred tax liabilities	<b>429,898</b>	272,809
Total liabilities per the consolidated statement of financial position	<b>6,208,924</b>	4,261,396

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **27 Operating Segments continued**

#### **(i) Geographical information**

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers whereas segment assets are based on the location of the assets.

	<b>2016</b>		<b>2015</b>	
	<b>Revenue</b>	<b>Assets</b>	<b>Revenue</b>	<b>Assets</b>
Australia	<b>4,191,400</b>	<b>19,818,253</b>	3,078,102	8,741,339
United States	<b>8,939,876</b>	<b>3,166,751</b>	5,563,219	3,045,812
Africa	<b>110,454</b>	-	22,520	-
Europe	<b>1,292,087</b>	<b>702,353</b>	1,164,859	819,821
Asia	<b>138,748</b>	-	127,660	-
	<b>14,672,565</b>	<b>23,687,357</b>	9,956,360	12,606,972

#### **(j) Major customers**

Revenues of approximately \$1,055,533 (2015: \$1,126,757) are derived from 2 (2015: 2) customers in Australia.

Revenues of approximately \$1,582,610 (2015: \$1,512,180) are derived from 2 (2015: 3) customers in the United States of America.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **28 Related Parties**

**(a) The Group's main related parties are as follows:**

*(i) Key management personnel:*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity are considered key management personnel.

For details of remuneration disclosures relating to key management personnel, refer to Note 6: Key Management Personnel Disclosures and the remuneration report in the Directors' Report.

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

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

	<b>% ownership interest</b>	<b>% ownership interest</b>
<b>Name of subsidiary</b>	<b>2016</b>	<b>2015</b>
Promadis Pty Ltd	<b>100.0</b>	100.0
Intersect Alliance International Pty Ltd	<b>100.0</b>	100.0
Prophecy International Pty Ltd as trustee for CSP Unit Trust	<b>100.0</b>	100.0
Prophecy R&D Pty Ltd	<b>100.0</b>	100.0
Prophecy Americas' Inc	<b>93.1</b>	93.1
Prophecy Europe Limited	<b>100.0</b>	100.0
eMite Pty Ltd	<b>100.0</b>	-

**(b) Transactions with related parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	<b>2016 \$</b>	<b>2015 \$</b>
The following transactions occurred with related parties: Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd, a company directed by Grant R Miles, the Company Secretary and Director, provided Company Secretarial and accounting services to the Group. Directors Fees of \$70,000 for Grant R Miles were paid to Moore Stephens (SA) Pty Ltd formerly Hayes Knight (SA) Pty Ltd as stated in the Remuneration Report included in the Directors' Report.	<b>30,946</b>	47,261

### **29 Financial Risk Management**

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

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 29 Financial Risk Management continued

	Note	2016 \$	2015 \$
<b>Financial Assets</b>			
Cash and cash equivalents	10	1,869,140	5,602,812
Loans and receivables	11	3,289,273	3,222,779
<b>Total financial assets</b>		<b>5,158,413</b>	<b>8,825,591</b>
<b>Financial Liabilities</b>			
Financial liabilities at amortised cost			
- Trade and other payables	17	836,740	724,462
<b>Total financial liabilities</b>		<b>836,740</b>	<b>724,462</b>

#### Financial risk management policies

The Board of Directors has overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivatives.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Financial Officer has been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place.

Prophecy International Holdings Limited and Controlled Entities does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

Mitigation strategies for specific risks faced are described below:

#### Specific financial risk exposures and management

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

##### (a) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group and arises principally from the Group's receivables.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **29 Financial Risk Management continued**

#### **(a) Credit risk continued**

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

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

There is no provision for impairment of receivables at 30 June 2016 or at 30 June 2015.

Although trade and other receivables are all unrated, no indicators of impairment have been found at 30 June 2016.

The group at present has two types of customers:

The first consists of small to medium organisations that renew their software licences annually. These organisations have been clients for many years and the consolidated group has experienced little bad debt history from these clients.

The second are new licence/service clients who in the main are large government organisations, and it is the consolidated group's policy to subject these organisations to credit verification procedures.

It is the consolidated group's policy to review all outstanding accounts monthly, and any overdue accounts are contacted to ascertain their payment intentions.

#### **(b) Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- holding only creditor debt;
- no bank overdraft facilities;
- maintain a significant cash balance to offset any downturn in a quarter's trade performance;
- cash balances are spread over a mixture of on-call accounts and bank term deposits to maximise operational flexibility and interest receivable;
- foreign currency receipts are remitted to Australia regularly, converted to Australian dollars and banked in the abovementioned accounts to maximise interest receivable;
- cash flow projections are ascertained from the consolidated group's policy of reviewing all its business operations in detail on a quarterly basis, and the board agreeing the revised profit and cash outlooks for the year, and measuring actual performance against these on a monthly basis.

# Notes to the Financial Statements

For the Year Ended 30 June 2016

## 29 Financial Risk Management continued

### (b) Liquidity risk continued

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

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets - cash flows realisable</b>								
Cash and cash equivalents	1,869,140	5,602,812	-	-	-	-	1,869,140	5,602,812
Trade, term and loans receivables	3,281,692	3,219,258	7,581	3,521	-	-	3,289,273	3,222,779
Total anticipated outflows	5,150,832	8,822,070	7,581	3,521	-	-	5,158,413	8,825,591
<b>Financial liabilities</b>								
Trade and other payables	836,740	724,462	-	-	-	-	836,740	724,462
Total contractual outflows	836,740	724,462	-	-	-	-	836,740	724,462

#### *Financial assets pledged as collateral*

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

### (c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

#### *i. Interest rate risk*

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

#### *ii. Foreign exchange risk*

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in UK pounds, US dollars and Euros may impact on the Group's financial results unless those exposures are appropriately hedged.

Currently there are no hedges in place.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of operations.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 29 Financial Risk Management continued

#### Foreign currency risk sensitivity analysis continued

	Net financial assets /(liabilities) in AUD \$			
	USD	EUR	GBP	Total AUD
	\$	\$	\$	\$
<b>2016</b>				
Consolidated				
Cash and cash equivalents	-	-	-	-
Trade and other receivables	2,228,185	91,866	178,484	2,498,535
	2,228,185	91,866	178,484	2,498,535
Trade and other payables	(73,190)	-	(10,813)	(84,003)
<b>2015</b>				
Consolidated				
Cash and cash equivalents	-	-	-	-
Trade and other receivables	2,123,677	219,236	237,941	2,580,854
	2,123,677	219,236	237,941	2,580,854
Trade and other payables	(27,092)	-	(12,282)	(39,374)
Forward exchange contracts				

There were no outstanding forward exchange contracts as at 30 June 2016 or 30 June 2015.

#### Foreign currency risk sensitivity analysis

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

The year end rate is 0.74 US dollars, 0.52 UK pounds and 0.66 Euros.

If the Australian Dollar had strengthened and weakened against the US dollar, UK pound and Euro by 10% (30 June 2015: 10%) and 10% (30 June 2015: 10%) respectively then this would have had the following impact:

	2016		2015	
	+10%	-10%	+10%	-10%
<b>USD</b>				
Net results	(87,574)	107,035	(102,869)	125,729
Equity	(155,700)	190,300	(188,951)	230,941
<b>GBP</b>				
Net results	(4,424)	5,408	(7,656)	9,358
Equity	(18,758)	22,926	(46,428)	56,745
<b>Euro</b>				
Net results	(1,171)	1,431	(29)	36
Equity			-	-

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **29 Financial Risk Management continued**

#### **Foreign currency risk sensitivity analysis continued**

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to foreign currency risk.

#### **Net fair values**

#### **Fair value estimation**

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the consolidated statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

	<b>2016</b>		<b>2015</b>	
	<b>Net Carrying Value</b>	<b>Net Fair value</b>	<b>Net Carrying Value</b>	<b>Net Fair value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>				
Cash and cash equivalents	1,869,140	1,869,140	5,602,812	5,602,812
Trade and other receivables	3,289,273	3,289,273	3,222,779	3,222,779
<b>Total financial assets</b>	<b>5,158,413</b>	<b>5,158,413</b>	<b>8,825,591</b>	<b>8,825,591</b>
<b>Financial liabilities</b>				
Trade and other payables	836,740	836,740	724,462	724,462
<b>Total financial liabilities</b>	<b>836,740</b>	<b>836,740</b>	<b>724,462</b>	<b>724,462</b>

### **30 Parent entity**

The following information has been extracted from the books and records of the parent, Prophecy International Holdings Limited and Controlled Entities and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, Prophecy International Holdings Limited and Controlled Entities has been prepared on the same basis as the consolidated financial statements except as disclosed below.

#### *Investments in subsidiaries, associates and joint ventures*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost less impairment in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

#### *Tax consolidation legislation*

## Notes to the Financial Statements

For the Year Ended 30 June 2016

2016	2015
\$	\$

### 30 Parent entity continued

Prophecy International Holdings Limited and Controlled Entities and its wholly-owned Australian subsidiaries have formed an income tax consolidated group.

Each entity in the tax consolidated group accounts for their own current and deferred tax amounts. These tax amounts are measured using the 'stand-alone taxpayer' approach to allocation.

Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the parent entity.

The tax consolidated group has entered into a tax funding agreement whereby each entity within the group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by, or distribution to the head entity.

#### Consolidated Statement of Financial Position

##### Assets

Current assets	7,476,737	6,196,253
Non-current assets	19,105,147	4,149,590
<b>Total Assets</b>	<b>26,581,884</b>	<b>10,345,843</b>

##### Liabilities

Current liabilities	16,488,654	6,861,063
Non-current liabilities	613,072	635,838
<b>Total Liabilities</b>	<b>17,101,726</b>	<b>7,496,901</b>

##### Equity

Issued capital	28,469,564	18,959,464
Retained earnings	(19,114,232)	(16,235,347)
Share option reserve	124,825	124,825
<b>Total Equity</b>	<b>9,480,157</b>	<b>2,848,942</b>

#### Consolidated Statement of Profit or Loss and Other Comprehensive Income

Total profit or loss for the year	(190,474)	(46,237)
<b>Total comprehensive income</b>	<b>(190,474)</b>	<b>(46,237)</b>

#### Guarantees

The parent entity has not entered into any guarantees as at 30 June 2016 or 30 June 2015.

#### Contingent liabilities

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

#### Contractual commitments

The parent entity did not have any commitments as at 30 June 2016 or 30 June 2015.

## **Prophecy International Holdings Limited and Controlled Entities**

ABN: 16 079 971 618

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **31 Company Details**

The registered office of and principal place of business of the company is:

Prophecy International Holdings Limited and Controlled Entities

Level 1

76 Waymouth Street

Adelaide SA 5000

## Prophecy International Holdings Limited and Controlled Entities

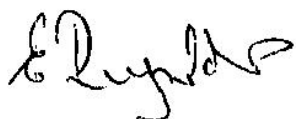
ABN: 16 079 971 618

### Directors' Declaration For the Year Ended 30 June 2016

The directors of the Company declare that:

1. the consolidated financial statements and notes for the year ended 30 June 2016 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
  - b. give a true and fair view of the financial position and performance of the consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have given the declarations required by Section 295A that:
  - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Ed Reynolds  
**Chairman**



Leanne Challans  
**Director**

Dated this 21<sup>st</sup> day of September, 2016



Level 1,  
67 Greenhill Rd  
Wayville SA 5034

Correspondence to:  
GPO Box 1270  
Adelaide SA 5001

T 61 8 8372 6666  
F 61 8 8372 6677  
E [info.sa@au.gt.com](mailto:info.sa@au.gt.com)  
W [www.grantthornton.com.au](http://www.grantthornton.com.au)

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

Report on the financial report

We have audited the accompanying financial report of Prophecy International Holdings Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors responsibility for the financial report

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

Auditor's responsibility

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



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

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

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

#### Independence

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

#### Auditor's opinion

In our opinion:

- a. the financial report of Prophecy International Holdings Limited is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.
- b. the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

#### Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2016. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618



### Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Prophecy International Holdings Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

*Grant Thornton*

GRANT THORNTON AUDIT PTY LTD

Chartered Accountants

A handwritten signature in blue ink, appearing to read "S Edwards".

S Edwards

Partner - Audit & Assurance

Adelaide, 21 September 2016

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Additional Information for Listed Public Companies For the Year Ended 30 June 2016

### ASX Additional Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 21<sup>st</sup> September 2016.

### Substantial shareholders

The number of substantial shareholders and their associates are set out below:

### Voting rights

#### *Ordinary Shares*

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

#### *Options*

No voting rights.

### Distribution of equity security holders

Holding	Ordinary shares	
	Shares	Options
1 - 1,000	715	0
1,001 - 5,000	1,102	0
5,001 - 10,000	410	0
10,001 - 100,000	474	0
100,000 and over	66	0
<b>Total</b>	<b>2,767</b>	<b>0</b>

There were 64 holders of less than a marketable parcel of ordinary shares.

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

### Additional Information for Listed Public Companies For the Year Ended 30 June 2016

Rank	Twenty Largest Shareholders	Numbers Held	% of Ordinary
1.	REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,570,000	11.80%
2.	DUNMOORE PTY LTD	5,004,052	7.82%
3.	MICROEQUITIES ASSET MANAGEMENT PTY LTD	3,973,846	6.21%
4.	J P MORGAN NOMINEES AUSTRALIA LIMITED	1,958,248	3.06%
5.	MARIA O'CONNOR + ASSOCIATES PTY LTD	1,937,030	3.02%
6.	MR DARREN MATHEW GEROS + MS BELINDA GEROS (GEROS FAMILY A/C)	1,835,989	2.87 %
7.	MR STUART CRAIG GEROS + MRS MICHELLE DOROTHY GEROS (THE EMERALD POINT FAM A/C)	1,820,677	2.84%
8.	CITICORP NOMINEES PTY LIMITED	1,529,497	2.39%
9.	SMOOTHWARE PTY LTD	1,138,230	1.78%
10.	HOLDEN HOLDEN + ASSOCIATES PTY LTD	1,021,875	1.60%
11.	MR MATTHEW FOSTER	900,311	1.41%
12.	FIVE TALENTS LIMITED – NEW ZEALAND	900,000	1.41%
13.	CUSTODIAL SERVICES LIMITED (BENEFICIARIES HOLDING A/C)	875,204	1.37%
14.	UBS NOMINEES PTY LTD	817,870	1.28%
15.	MS CHRISTINE ANN HOLDEN + MR BRIAN PHILIP TOWLER (CHRISTINE HOLDEN S/F A/C)	800,000	1.25%
16.	MRS L R CHALLANS + MR S W CHALLANS	774,880	1.21%
17.	SILVERNINE PTY LTD	755,469	1.18%
18.	DR DEAN ANDARY	677,201	1.06%
19.	ANDAMAX INVESTMENTS PTY LTD	622,122	0.97%
20.	DAT CLEAR MEASURES LLC	574,667	0.90%

## Prophecy International Holdings Limited and Controlled Entities

ABN: 16 079 971 618

## Additional Information for Listed Public Companies For the Year Ended 30 June 2016

### Substantial Shareholders

Substantial shareholders in the company are set out below:

Name	Ordinary Shares	% held
REYER INVESTMENTS PTY LTD (SUPER FUND A/C)	7,570,000	11.80%
DUNMOORE PTY LTD	5,004,052	7.82%
MICROEQUITIES ASSET MANAGEMENT PTY LTD	3,973,846	6.21%

### Other Information

Enquiries from shareholders should be addressed to Prophecy International Holdings Limited on (08) 8213 1200 or the Company's Share Registry, Computershare Investor Services on 1300 55 61 61 from within Australia or +61 3 9415 4000 from outside Australia

Shareholders who have changed their address should advise the Company's Share Registry in writing. Shareholders who do not wish to receive an Annual Report should advise the Company's Share Registry in writing.

### Voting Rights

Voting rights attaching to ordinary shares are on a show of hands. Every member present in person or by proxy has one vote, and upon a poll each share shall have one

### Unissued equity securities

Options unissued - nil

### Securities exchange

The Company is listed on the Australian Securities Exchange.