

**ASX Appendix 4D**  
**Entellect Solutions Limited**  
**Half-Year Ended 31 December 2009**  
**Results for announcement to market**

Revenue from ordinary activities	down 48% to	\$1,561,603
Net loss from ordinary activities after tax attributable to members	up 232% to	\$2,399,375
Net loss from ordinary activities attributable to members	up 232% to	\$2,399,375
No interim dividend proposed		

Entellect Solutions' total revenue for the half-year ended 31 December 2009 of \$1,562k is 48% lower than the December 2008 half-year (\$2,911k) due to no new Enterprise license sales being closed and the delay in the roll out of the international strategy detailed in previous releases to the market. The reasons for this delay are noted in the Directors' Report and on page 9 of the attached Interim Financial Report.

Costs for the period increased by 5% due to increase in corporate costs of \$430k relating primarily to option costs; \$64k increase in amortisation costs and net \$59k increase in occupancy costs due to relocation. Stringent operating cost controls resulted in other costs reducing by 11% for the period.

Overall, Entellect Solution's net loss from ordinary activities of \$2,399k for the half-year ended 31 December 2009 is 232% higher than the prior half-year loss of \$722k.

For further information relating to the activities of Entellect Solution over the past six months, please refer to the attached Interim Financial Report.

**Net Tangible asset per security**

	<b>2009</b>	<b>2008</b>
Net tangible asset backing per security	<u>(0.01) cents</u>	<u>(0.07) cents</u>

The attached interim financial report for the half-year ended 31 December 2009 has been subject to review by the company's independent auditor and an unqualified review report has been issued.

Please refer to the 31 December 2009 Interim Financial Report signed on 26<sup>th</sup> February 2010.

# **ENTELLECT SOLUTIONS LTD and Controlled Entities**

ABN 41 009 221 783

## **Interim Financial Report for the half-year ended 31 December 2009**

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## **DIRECTORS' REPORT**

Your directors submit the financial report of the Consolidated Entity for the half-year ended 31 December 2009.

### **DIRECTORS**

The names of directors who held office during or since the end of the half-year:

<b>Jeffrey Bennett</b>	Non-Executive Chairman
<b>Conrad Crisafulli</b>	Non-Executive Director
<b>Paul Devine</b>	Non-Executive Director
<b>Paul Lowry</b>	Non-Executive Director

Directors were in office from the start of the period to the date of this report unless otherwise stated.

### **REVIEW OF OPERATIONS**

The six months to 31 December 2009 have represented a challenging start to the 2009/10 financial year. Nevertheless, Entellect Solutions' CEO Joe Younane and his management team have made good progress in the implementation of the company's new four-pronged strategy.

This strategy, announced to the market on 23 July 2009, is designed to achieve the transition of Entellect Solutions' focus away from Research and Development and towards a strong commitment to realising commercial value from its existing products vPublisher™ and eMinerva™ and developing new opportunities in all relevant market sectors. The four elements of the strategy are:

- Ramping up sales and marketing activities to take advantage of opportunities arising out of the early successes with the company's eMinerva™ Enterprise Student Management System and the new vSTARS™ curriculum, reporting and assessment product.
- Exploring licensing and partnership opportunities outside of Australia particularly in markets with similar legislative and language requirements. The objective was to identify companies with a significant and established presence in such markets and where the ESN product range could quickly and visibly add value to a partner's existing product set and market capabilities.
- Transitioning the enterprise revenue model from large one-off license fees to a more sustainable Software as a Service model. Such a model yields lower upfront license fees, but a more attractive recurring revenue stream over the period of use.
- Bringing forward some of the planned product enhancements and developments to support the planned increase in market penetration.

While work started on all aspects of the strategy, early in the second quarter an opportunity was identified to significantly increase shareholder value through rapid acceleration of the global expansion of the company, particularly in the enterprise education market. This has been pursued aggressively, leading to the announcement to the market dated 5 February 2010 which foreshadowed a series of related transactions, as follows:

- Raising capital via a placement through a sponsoring broker;
- Acquiring a global (excluding Australia and New Zealand) license to the intellectual property rights associated with software relevant to the company's business from one of Australia's leading IT services companies in return for the issue of shares in the company; and
- The acquisition of a privately held education software company based outside of Australia.

## **DIRECTORS' REPORT [cont'd]**

All of these would be subject to shareholder approval at an extraordinary general meeting to be convened for the purpose.

Whilst the Board is in an advanced stage of negotiations with the relevant counterparties regarding these transactions, the Board cannot yet give an absolute assurance that the transactions will be concluded.

The enormous potential benefits to shareholders of this accelerated global expansion, achievable through leveraging off the target partners' complementary products and established and successful track record in a number of overseas markets, led to a redirection of effort and this has been reflected in a temporary deterioration in the group results for the period, as shown below.

	<b>Half year to December 2009</b>	<b>Half year to December 2008</b>	<b>% Change</b>
Revenue from ordinary activities	\$1,561,603	\$2,991,142	Down 48%
Net loss attributable to members	\$2,399,375	\$722,165	Up 232%

Your Board, the management team and staff remain absolutely committed to delivering on the opportunities that the education and printing markets provides and leveraging off the excellent positioning of eMinerva™, vSTARS™ and vPublisher™ to take advantage of and capitalise on these opportunities. We believe that the effort that has been expended over the past 6 months and the continued advances that have been achieved will be transformed into further successes in the coming periods.

### **AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 3 for the half-year ended 31 December 2009, which forms part of this report.

This report is signed in accordance with a resolution of the Board of Directors.



Jeffrey Bennett - Chairman  
Dated this 26<sup>th</sup> day of February 2010

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**Auditor's Independence Declaration  
To the Directors of Entellect Solutions Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Entellect Solutions Limited for the half-year ended 31 December 2009, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



C F Farley  
Director - Audit & Assurance Services

Sydney, 26 February 2010

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Consolidated Entity	
	31.12.2009	31.12.2008
	\$	\$
Revenue	<u>1,561,603</u>	2,991,142
Employee benefits expense	(2,419,033)	(2,777,862)
Office expenses	(266,216)	(207,357)
Communication expenses	(31,225)	(43,079)
Information technology expenses	(212,884)	(120,875)
Marketing and travel expenses	(89,560)	(77,063)
Professional expenses	(161,868)	(232,009)
Corporate expenses	(544,465)	(114,452)
Depreciation and amortisation expenses	(184,054)	(120,838)
Borrowing costs expense	(7,689)	(15,881)
Other expenses from ordinary activities	(43,984)	(3,891)
Loss before income tax	(2,399,375)	(722,165)
Income tax expense	-	-
Loss for the period	<u>(2,399,375)</u>	(722,165)
Other comprehensive income		
Exchange differences on translation of foreign operations	(584)	(2,130)
Total comprehensive income for the period	<u>(2,399,959)</u>	(724,295)
Loss attributable to:		
Members of the parent entity	(2,399,344)	(710,309)
Non-controlling interest	(31)	(11,856)
	<u>(2,399,375)</u>	(722,165)
Total comprehensive income attributable to:		
Members of the parent entity	(2,399,928)	(712,439)
Non-controlling interest	(31)	(11,856)
	<u>(2,399,959)</u>	(724,295)
<b>Overall Operations:</b>		
Basic loss per share (cents per share)	<u>(0.13)</u>	(0.06)
Diluted loss per share (cents per share)	<u>(0.13)</u>	(0.06)

The interim financial statements should be read in conjunction with the accompanying notes

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	Consolidated Entity	
	31.12.2009	30.06.2009
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	712,539	917,830
Trade and other receivables	196,999	496,594
<b>Total Current Assets</b>	<b>909,538</b>	1,414,424
<b>Non-current Assets</b>		
Property, plant and equipment	21,014	31,326
Intangible assets	1,805,599	1,896,721
<b>Total Non-current Assets</b>	<b>1,826,613</b>	1,928,047
<b>TOTAL ASSETS</b>	<b>2,736,151</b>	3,342,471
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	876,819	734,345
Short-term borrowings	11,774	18,196
Short-term provisions	149,770	171,878
Other deferred revenue	103,385	102,984
<b>Total Current Liabilities</b>	<b>1,141,748</b>	1,027,403
<b>Non-current Liabilities</b>		
Long-term provisions	21,239	17,274
<b>Total Non-current Liabilities</b>	<b>21,239</b>	17,274
<b>TOTAL LIABILITIES</b>	<b>1,162,987</b>	1,044,677
<b>NET ASSETS</b>	<b>1,573,165</b>	2,297,794
<b>EQUITY</b>		
Issued capital	61,860,014	60,573,447
Reserves	1,062,753	674,574
Accumulated losses	(61,165,311)	(58,765,967)
<b>Parent entity interest</b>	<b>1,757,456</b>	2,482,054
<b>Non-controlling interest</b>	<b>(184,291)</b>	(184,260)
<b>TOTAL EQUITY</b>	<b>1,573,165</b>	2,297,794

The interim financial statements should be read in conjunction with the accompanying notes

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Issued Capital	Accumulated losses	Foreign Currency Translation Reserve	Options Reserve	Non- controlling Interests	Total
<b>Balance at 1.7.2008</b>	59,402,151	(58,863,489)	(20,408)	574,691	(207,432)	885,513
Total comprehensive income	-	(710,309)	(2,130)	-	(11,856)	(724,295)
Transactions with owners in their capacity as owners:						
Shares issued	927,397	-	-	-	-	927,397
Transaction costs on shares issued	(16,800)	-	-	-	-	(16,800)
Recognition of option expense	-	-	-	16,779	-	16,779
<b>Balance at 31.12.2008</b>	<b>60,312,748</b>	<b>(59,573,798)</b>	<b>(22,538)</b>	<b>591,470</b>	<b>(219,288)</b>	<b>1,088,594</b>
<b>Balance at 1.7.2009</b>	60,573,447	(58,765,967)	(14,294)	688,868	(184,260)	2,297,794
Total comprehensive income	-	(2,399,344)	(584)	-	(31)	(2,399,959)
Transactions with owners in their capacity as owners:						
Shares issued	1,366,607	-	-	-	-	1,366,607
Transaction costs on shares issued	(80,040)	-	-	-	-	(80,040)
Recognition of options expense	-	-	-	388,763	-	388,763
<b>Balance at 31.12.2009</b>	<b>61,860,014</b>	<b>(61,165,311)</b>	<b>(14,878)</b>	<b>1,077,631</b>	<b>(184,291)</b>	<b>1,573,165</b>

The interim financial statements should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Consolidated Entity	
	31.12.2009	31.12.2008
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from customers	2,009,290	3,187,323
Payments to suppliers and employees	(3,413,604)	(4,068,190)
Interest received	9,188	17,712
Finance costs	(7,689)	(15,881)
Grant income received	-	40,000
<b>Net cash used in operating activities</b>	<b>(1,402,815)</b>	<b>(839,036)</b>
<b>Cash flows from investing activities</b>		
Payment for plant and equipment	(4,397)	-
Payment for acquired software	(78,223)	(8,150)
<b>Net cash used in investing activities</b>	<b>(82,620)</b>	<b>(8,150)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	1,366,606	927,397
Payment for share issue costs	(80,040)	(16,800)
Repayment of borrowings	(6,422)	(124,162)
<b>Net cash provided by financing activities</b>	<b>1,280,144</b>	<b>786,435</b>
<b>Net decrease in cash held</b>	<b>(205,291)</b>	<b>(60,751)</b>
Cash at the beginning of the period	917,830	902,753
Cash at the end of the period	712,539	842,002

The interim financial statements should be read in conjunction with the accompanying notes.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**

### **NOTE 1: Basis of Preparation**

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2009 and any public announcements made by Entellect Solutions Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the Consolidated Entity and are consistent with those applied in the 30 June 2009 Annual Report.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

### **Going Concern**

Notwithstanding the loss for the period of \$2,399,375, net cash outflows from operations of \$1,402,815 and current deficiency of \$232,210 the financial report has been prepared on a going concern basis due to the fact the board is confident of raising sufficient funds through a capital raising or otherwise, should the need arise, in order to meet the working capital needs of the business.

Whilst there is inherent uncertainty the directors consider it appropriate to prepare the accounts on a going concern basis as they are satisfied that, based on its cash flow forecasts and projected receipts from future fund raisings, including those arising out of the transaction foreshadowed for the market in the company's announcement of 5<sup>th</sup> February 2010, the consolidated entity will be able to meet their debts as and when they become due and payable for a period of at least 12 months from the date of this report.

### **Accounting Standards not Previously Applied**

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

### **Presentation of Financial Statements**

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the single statement approach to the presentation of the Statement of Comprehensive Income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third Statement of Financial Position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

### **Operating Segments**

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the Group, is the board of directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the interim financial report have been included.

As a result of the adoption of the revised AASB 8, certain cash generating units have been redefined having regard to the requirements in AASB 136: Impairment of Assets.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**

### **Business Combinations and Consolidation Procedures**

Revised AASB 3 is applicable prospectively from 1 July 2008. Changes introduced by this Standard, or as a consequence of amendments to other Standards relating to business combinations which are expected to affect the Group, include the following:

- All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method which prohibits the recognition of contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability. Costs incurred that relate to the business combination are expensed instead of comprising part of the goodwill acquired on consolidation. Changes in the fair value of contingent consideration payable are not regarded as measurement period adjustments and are recognised through profit or loss unless the change relates to circumstances which existed at acquisition date.
- Unrecognised deferred tax assets of the acquiree may be subsequently realised within 12 months of acquisition date on the basis of facts and circumstances existing at acquisition date with a consequential reduction in goodwill. All other deferred tax assets subsequently recognised are accounted for through profit or loss.
- The proportionate interest in losses attributable to non-controlling interests is assigned to non-controlling interests irrespective of whether this results in a deficit balance. Previously, losses causing a deficit to non-controlling interests were allocated to the parent entity.
- Where control of a subsidiary is lost, the balance of the remaining investment account shall be remeasured to fair value at the date that control is lost.

### **Revenue Recognition**

Dividends received from a subsidiary, joint venture or associate shall be recognised as dividend revenue in the profit or loss irrespective of whether such dividends may have been paid out of pre-acquisition profits. Previously, such dividends were treated as a return of capital invested. Such dividends may be an indicator of impairment where the carrying amount of the investment exceeds the consolidated net assets relating to that investment or where the dividend exceeds the total comprehensive income of the respective investee in the period the dividend is declared.

### **NOTE 2: Contingent Liabilities**

Other than the matter noted below there has been no change in contingent liabilities since the last annual reporting date –

- on 22<sup>nd</sup> December 2009 a claim was lodged against Entellect Solutions Limited and MXL Consolidated Pty Limited by a former employee for approximately \$115,000. The Company believes that this claim is without foundation and is vigorously opposing this, no provision has been recognised.

### **NOTE 3: Events Subsequent to Balance Date**

Since the end of the period, except for the matters noted below, there have been no events which would have a material impact on the interim financial report –

- As noted in the Directors' report, the Company is currently conducting negotiations in respect of a capital raising, the acquisition of a global software licence (excluding Australia and New Zealand) and the acquisition of a privately held education software company based outside of Australia. Although there is no certainty that these negotiations will be successfully concluded, if they are successful the scale of the Company's operations will increase significantly.

### **NOTE 4: Segment Reporting**

#### **Primary Reporting – Business Segments**

#### **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.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the type or class of customer for the products or service.

### **Types of products and services by segment**

#### **eMinerva and vSTARS**

eMinerva is a world class Enterprise Student Management System that enables K-12 educators to manage and report against their students' activities. eMinerva single site version enables educators to have a single point of information for student activity in colleges, higher education providers, corporate entities and vocational training organizations. The single site solution is compliant with Australian reporting requirements for local and international students. vSTARS is a leading edge system which allows all stakeholders to participate in planning, recording and reporting on student academic achievements. It has been designed by Australian educators to encourage best practice in the classroom and foster quality communication between parents, students and educators.

vPublisher is an e-book solution for educators, printers and publishers that allow all groups to quickly and cost effectively deliver solutions to their clients. vPublisher holds unique IP that enables rich content to be embedded into an interactive e-Book.

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

#### *Accounting policies adopted*

Unless stated otherwise, all amounts reported to the Board of Directors as the chief 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.

#### *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.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

#### *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.

#### *Comparative information*

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the Standard.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

### (i) Segment performance

	eMinerva and vSTARS \$	vPublisher \$	Total \$
<b>Six months ended 31.12.2009</b>			
<b>Revenue</b>			
External sales	1,493,540	58,875	1,552,415
Interest revenue	9,080	108	9,188
Total segment revenue	1,502,620	58,983	1,561,603
<i>Reconciliation of segment revenue to group revenue</i>			
Inter-segment elimination	-	-	-
Total group revenue			1,561,603
Segment net loss before tax	(2,275,419)	(123,956)	(2,399,375)
<i>There are no reconciling items from segment result to group net loss before tax.</i>			
Amount included in segment loss reviewed by the Board			
Depreciation and amortisation	177,660	6,394	184,054
<b>Six months ended 31.12.2008</b>			
<b>Revenue</b>			
External sales	2,955,280	18,150	2,973,430
Interest revenue	17,712	-	17,712
Total segment revenue	2,972,992	18,150	2,991,142
<i>Reconciliation of segment revenue to group revenue</i>			
Inter-segment elimination	-	-	-
Total group revenue			2,991,142
Segment net loss before tax	(349,052)	(373,113)	(722,165)
<i>There are no reconciling items from segment result to group net loss before tax.</i>			
Amount included in segment loss reviewed by the Board			
Depreciation and amortisation	120,838	-	120,838

### (ii) Segment assets

	eMinerva and vSTARS \$	vPublisher \$	Total \$
<b>31.12.2009</b>			
Segment assets	2,691,602	44,549	2,736,151
Segment asset increases for the period :			
• capital expenditure	4,397	-	4,397
• acquisitions	-	-	-
	4,397	-	4,397

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**

**30.6.2009**

Segment assets	3,278,093	64,378	3,342,471
Segment asset increases for the period :			
• capital expenditure	48,432	-	48,432
• acquisitions	-	-	-
	48,432	-	48,432

**(iii) Segment liabilities**

**31.12.2009**

Segment liabilities	1,122,852	40,405	1,162,987
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**30.6.2009**

Segment liabilities	965,654	79,023	1,044,677
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**(iv) Revenue and assets by geographical region**

All revenues are generated and assets utilised in the Asia-Pacific region.

**(v) Major contracts and customers**

The Group has a number of customers to which it provides services. The Group supplies one single external customer in the eMinerva / vSTARS segment which accounts for 78% of external revenue (2008: 61%). The next most significant client accounts for 3% (2008: 21%) of external revenue. There are 2 key eMinerva Enterprise and vSTARS customers and no key vPublisher customers.

**NOTE 5: Impairment Losses**

There was no impairment recognised for the half-year ended 31 December 2009 (2008: \$ Nil).

The recoverable amount of each cash-generating unit is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5 year period. The cash flows are discounted using the yield of 10 year government bonds at the beginning of the budget period.

Management has based the value-in-use calculations on budgets for the Consolidated Entity. These budgets use estimates of future revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-taxed and are adjusted to incorporate risks associated with a particular segment. The discount rate used by management was 17.74% (2008: 14.7%).

In connection with the Intellectual Property value-in-use calculation, the directors have assessed that the recoverable amount of the Intellectual Property is approximately \$3 million. This is based on the following key assumptions:

- Sales of approximately \$1 million over the next 12 months;
- Annual increases of about 25% over the subsequent four years;
- Net cash inflow at about 54% of sales, increasing to about 61% by the last year.

The development of vPublisher technology was only completed during the period, and therefore there is limited sales history. At the date of this report the company does not have a well established or contracted level of sales orders. Accordingly, there is an inherent uncertainty over the achievement of these sales forecasts. If the technology does not generate the projected sales, this will impact upon the calculated recoverable amount.

## **DIRECTORS' DECLARATION**

The directors of the Company declare that:

1. The interim financial report for the half-year ended 31 December 2009, as set out on pages 4 to 12 are in accordance with the Corporations Act 2001, including :
  - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
  - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date.
  
2. In the director's 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 or Directors.



Jeffrey Bennett - Chairman  
Dated this 26<sup>th</sup> day of February 2010

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### **Independent Auditor's Review Report To the Members of Entellect Solutions Limited**

We have reviewed the accompanying half-year financial report of Entellect Solutions Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### **Directors' responsibility for the half-year financial report**

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's responsibility**

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Entellect Solutions Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Independence**

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

### **Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Entellect Solutions Limited is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

### **Significant uncertainty regarding continuation as a going concern**

Without qualification to the conclusion expressed above, we draw attention to Note 1 to the financial statements. The consolidated entity has generated a loss for the period of \$2,399,375 (year to 30 June 2009: profit of \$97,522), negative cashflows from operations of \$1,402,815 (year to 30 June 2009: \$932,777) and at 31 December 2009 has a net deficiency in current assets of \$232,210. As described in Note 1, the consolidated entity is reliant on raising additional funds through capital raisings, should the need arise, in order to meet ongoing working capital needs. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise their assets and discharge their liabilities in the normal course of business.

### **Significant uncertainty regarding achievement of sales forecasts**

Without qualification to the conclusion expressed above, we draw attention to the intangible assets disclosed in the Statement of Financial Position. The directors have performed an impairment test in accordance with the requirements of AASB 136: Impairment of Assets. As at 31 December 2009, the directors have assessed that the vPublisher software held within Virtual Communications International Pty Limited is a cash generating unit and the recoverable amount is \$2,957,000. The carrying value of this cash generating unit's asset is \$1,674,421.

The operations of the Virtual Communications International Pty Limited cash generating unit have emerged from their development phase and to date the company has not generated significant sales from this cash generating unit. The impairment test and the resultant recoverable amount, has been based upon the company's budgets and forecasts, which includes significant sales growth. The recoverable amount is therefore dependent upon the cash generating unit successfully achieving its business plan, including its budgeted sales levels. The success or otherwise of the cash generating unit achieving its sales budget is contingent upon future events, which at the date of this report are not capable of reasonable measurement. Accordingly there is significant uncertainty over the entity's ability to achieve its sales forecast. If the sales forecasts are not achieved, this will result in a reduction to the recoverable amount of the cash generating unit's asset and could give rise to an impairment write down.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



C F Farley  
Director - Audit & Assurance Services

Sydney, 26 February 2010