

Fronde Systems Group Limited

Annual Report

For the year ended 31 March 2010

Group Directory

■ **Company Number**

528567

■ **Registered Office/Principal Place of Business**

3 Queens Wharf

Wellington

Telephone +64 4 499 3000

Facsimile +64 4 460 5703

Website www.fronde.com

■ **Directors**

W Norrie *(Chairman)*

G Cross

DW Irving

SL Maier Jr

■ **Auditor**

Deloitte

10 Brandon St

Wellington

■ **Solicitor**

Quigg Partners

The Bayleys Building

28 Brandon St

Wellington

■ **Banker**

ANZ National Bank Limited

215 - 229 Lambton Quay

Wellington

■ **Share Registry**

Link Market Services

138 Tancred Street

Ashburton

■ **Unlisted Market Stock Code**

FSG

www.unlisted.co.nz

Directors' Report

The Directors present the Financial Statements of Fronde Systems Group Limited for the year ended 31 March 2010.

For and on behalf of the Board on 21 June 2010.



W Norrie
Chairman



D Irving
Director

Chairman's Report

Overview

This has been a particularly challenging year for business. Global economic conditions negatively impacted revenue performance by extending sales cycles, particularly in the second half of the year, as well as substantially increasing provisions for doubtful debts.

Subsequent to the half year position, the second half of the year saw sales in Fronde Anywhere failing to materialise, a substantial provision for doubtful debt and a slow down in customer spending impacting our core business, particularly in Auckland. Our ability to react quickly enabled us to achieve some reduction in delivery and overhead costs which mitigated the revenue shortfall to some extent.

Against a backdrop of uncertain economic times, the business has undergone some significant re-shaping to put Fronde in a better position to deliver its financial goals in the future. Highlights are a strategy positioning Fronde in an industry leadership role, a reduction in debt, a strengthening in our core business with several significant tender wins in April/May 2010 and new annuity revenue streams emerging with Google in NZ and Australia.

Financial Results

The Group produced a substantial loss for the year of \$1,784k as a result of the difficult trading environment impacting revenue and a decision to impair assets. Underneath this result the Group operating profit before tax and impairment was \$168k, which is a very disappointing result.

The Group cash position improved substantially in the first half of the year, finishing the year with a cash balance of \$799k. This is an improvement in cash of \$1,128k for the full year as a result of attention to debtors, raising \$628k from a management buy-in, retained earnings and tight management of capital investment.

The Board has decided to fully impair the assets of Fronde Anywhere as this company has not yet produced cash flows adequate to support the book value of the assets. The asset value increased last year as work on the product roadmap was carried out. That investment was based on a sales pipeline and commitments from clients that failed to become firm orders in the second half of the year. The impairment of \$1,987k is a conservative assessment and reflects that the asset is viable as opposed to a write off which would imply no viability in the asset.

Fronde Anywhere

Fronde Anywhere has failed to meet expectations. Important sales opportunities were deferred or lost during the second half of the year. At the same time there has been a substantial provision for doubtful debts taken at year-end in light of a severely overdue debtor. The operational focus for Fronde Anywhere is now on supporting clients, closing existing deals and mitigating costs. Your Directors have determined that the business must be self-funded from Fronde Anywhere cash flows and to seek any additional funding requirements from new investors.

Chairman's Report (continued)

Corporate Governance

The Board members remain unchanged with David Irving, Sandy Maier, Wayne Norrie (Chairman) and Greg Cross. The Board would like to acknowledge Greg Cross as the recipient of the TechNZ Hi-Tech Inspiring Individual of the Year Award in 2010. The Directors bring to the Board a significant track record in the ICT sector in New Zealand.

Dividends

Your Directors have recommended that no dividend be paid. In recognition of shareholders expectations, the Directors will review the potential for an interim dividend once the half yearly accounts have been completed, for the six months ending September 2010.

The Board would like to thank management and staff for their hard work during what has been a tough year and continuing to be committed to developing the company into the future.



Wayne Norrie
Chairman

Chief Executive's Report

Operational Focus

Our focus has been on a return to profitability through revenue growth and cost control, and improving our working capital position. Against a backdrop of uncertain economic times, the business has undergone some significant re-shaping to progress towards these goals.

The changes include raising capital in the form of a management buy-in to improve working capital, building an annuity revenue stream with Google's Enterprise solutions in NZ and Australia, winning significant new recurring business, and improving utilisation in the Auckland branch to return it to profitability. The operational focus for Fronde Anywhere is now on closing existing deals, supporting current clients and mitigating costs, which will remove reliance on the wider business for cashflow.

Operational Performance

The business was hit hard in the second half year with declining spend from clients, particularly in Auckland. As a result of the fall in revenue the second half year produced a significant loss of \$408k before impairment. In addition a large amount of our business last year was invoiced in UK Pounds. We were not able to secure affordable foreign exchange cover through our bank for this exposure and suffered substantial foreign exchange losses as the Pound weakened. This situation improved by year end as facilities with our new financier provided for some foreign exchange hedging, however the Pound has remained weak and heavily impacted on margins.

During the year we created substantial strength and depth in our sales teams in Auckland and Wellington and established a new team in Sydney. As a result, new business is being built in the finance, public and telecommunications sectors plus new revenue streams with annuity licensing and services from reselling Cloud products. Annuity revenues from the MessageDirect platform continue to grow with the increasing success of services like TXT-a-Park. In April and May 2010 we have won four new and significant Government clients. This result has been instrumental in lifting consulting revenue to levels last seen 2 years ago.

The operating model for Fronde Anywhere has significantly changed, with all operational activity to be funded from cash flow and an external investor is being sought.

Long-term Direction

Delivering large scale software applications and integration projects will continue as core offerings of Fronde. Increasingly we see the large Cloud engagements we undertake are an extension of our core integration business while providing the added benefit of annuity licence revenue. Our focus on Cloud and Mobility is already securing new customers, building annuity revenue streams and helping identify new opportunities in emerging technologies and trends.

Chief Executive's Report (continued)

Goals for 2010/2011

This year we want to improve profitability and working capital so that shareholders are able to realise some of the value created and we can continue to invest in our strategy. To achieve this we will continue securing new and substantial customers, increase client and staff satisfaction and improve our brand recognition in the market. Cost control will remain very important as pressure on margins is likely to continue.

Our strategic intent for 2010/11 is to generate more annuity revenue as a proportion of total revenue and focus on Fronde's differentiators in cloud computing, mobility solutions and CRM in line with the emerging market demand. We will do this by leveraging our trusted position among our clients as well as our thought leadership in Cloud and Mobility to secure new clients.

We have weathered the recession due to the commitment from our staff and our strong customer relationships. I particularly want to thank staff and management for their hard work and commitment to re-shaping the business and developing a sound foundation on which to grow.



Ian Clarke
CEO

For the year ended 31 March 2009

TO THE SHAREHOLDERS OF FRONDE SYSTEMS GROUP LIMITED AND GROUP

We have audited the group summary financial statements of Fronde Systems Group Limited and Group for the year ended 31 March 2010 as set out on pages 8 to 12.

This report is made solely to the company's shareholders as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation of group summary financial statements, in accordance with New Zealand law and generally accepted accounting practice.

Auditor's Responsibilities

It is our responsibility to express to you an independent opinion on the summary financial statements.

Basis of Opinion

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed procedures to ensure the summary financial statements are consistent with the full financial statements on which the summary report is based. We also evaluated the overall adequacy of the presentation of information in the summary financial statements against the requirements of FRS-43: *Summary Financial Statements*.

Other than in our capacity as auditor and the provision of taxation and corporate finance services, we have no relationship with or interests in Fronde Systems Group Limited or any of its subsidiaries.

Unqualified Opinion

In our opinion, the information reported in the group summary financial statements complies with FRS-43: *Summary Financial Statements* and is consistent with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report to the shareholders dated 21 June 2010.

For a better understanding of the scope of our audit of Fronde Systems Group Limited group financial statements and of Fronde Systems Group Limited group financial position, financial performance and cash flows for the year ended 31 March 2010, this report should be read in conjunction with Fronde Systems Group Limited group audited financial statements for that period.

Our examination of the group summary financial statements was completed on 21 June 2010 and our unqualified opinion is expressed as at that date.



CHARTERED ACCOUNTANTS, WELLINGTON, NEW ZEALAND

This audit report relates to the summary financial statements of Fronde Systems Group Limited and Group for the year ended 31 March 2010 included on Fronde Systems Group Limited's website. Fronde Systems Group Limited's governing body is responsible for the maintenance and integrity of Fronde Systems Group Limited's website. We have not been engaged to report on the integrity of Fronde Systems Group Limited's website. We accept no responsibility for any changes that may have occurred to the summary financial statements since they were initially presented on the website. The audit report refers only to the summary financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these summary financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited summary financial statements and related audit report dated 21 June 2010 to confirm the information included in the audited summary financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements and summary financial statements may differ from legislation in other jurisdictions.

Compliance Statement

Presented on pages 8 to 12 are the Summary Financial Statements of Fronde Systems Group Limited (“Fronde”), a profit-orientated entity, for the year ending 31 March 2010 which were extracted from the full Financial Statements authorised for issue by the Directors on 21 June 2010. An unqualified audit report was issued on 21 June 2010. The reporting currency is NZ dollars rounded to the nearest thousand (\$000).

As the Summary Financial Statements do not include all the disclosures that are in the full Financial Statements, it cannot be expected to provide as complete an understanding as produced by the full Income Statement, Balance Sheet and Cash Flows of Fronde. These Summary Financial Statements are in compliance with FRS-43: *Summary Financial Statements* and the full financial statements comply with NZ-IFRS.

Summary Statement of Comprehensive Income

For the year ended 31 March 2010

	Group	
	2010	2009
	\$000	\$000
Revenue	24,834	27,376
Cost of sales	<u>(16,376)</u>	<u>(17,631)</u>
Gross profit	8,458	9,745
Other (expense)/income	(214)	232
Expenditure	(7,959)	(9,592)
Impairment (refer Note 1)	(1,987)	-
Finance costs	<u>(117)</u>	<u>(273)</u>
(Loss)/profit before income tax expense	(1,819)	112
Income tax credit	<u>35</u>	<u>261</u>
(Loss)/profit for the period	<u>(1,784)</u>	<u>373</u>

A copy of the full financial statements can be obtained from Fronde's registered office

Summary Statement of Comprehensive Income (continued)

For the year ended 31 March 2010

	Group	
	2010	2009
	\$000	\$000
(Loss)/profit for the period	(1,784)	373
Other comprehensive income		
Gains/(losses) from:		
Translation of foreign operations	97	(133)
Other comprehensive income for the year net of tax	97	(133)
Total comprehensive income for the year net of tax	(1,687)	240
 (Loss)/profit attributable to:		
Minority interest	-	-
Members of the parent entity	(1,784)	373
	(1,784)	373

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Summary Statement of Financial Position

As at 31 March 2010

	Group	
	2010	2009
	\$000	\$000
Assets		
Current assets	4,431	3,794
Non-current assets	1,168	3,005
Total Assets	5,599	6,799
Liabilities		
Current liabilities	4,840	4,847
Non-current liabilities	13	147
Total Liabilities	4,853	4,994
Net Assets	746	1,805
Equity		
Issued share capital	5,536	4,908
Retained earnings	(4,691)	(2,907)
Foreign currency translation reserve	(99)	(196)
Total Equity	746	1,805
Total Equity and Liabilities	5,599	6,799

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Summary Statement of Changes in Equity

For the year ended 31 March 2010

Group	Share Capital \$000	Retained Earnings \$000	Foreign Currency Translation Reserve \$000	Total \$000
At 1 April 2008	4,908	(3,280)	(63)	1,565
Profit on ordinary activities after taxation for year	-	373	-	373
Change in foreign currency translation reserve	-	-	(133)	(133)
Total comprehensive income for the year, net of tax	-	373	(133)	240
Dividend paid	-	-	-	-
At 31 March 2009	4,908	(2,907)	(196)	1,805
At 1 April 2009	4,908	(2,907)	(196)	1,805
Profit on ordinary activities after taxation for year	-	(1,784)	-	(1,784)
Change in foreign currency translation reserve	-	-	97	97
Total comprehensive income for the year, net of tax	-	(1,784)	97	(1,687)
Dividend paid	-	-	-	-
Ordinary shares issued	628	-	-	628
At 31 March 2010	5,536	(4,691)	(99)	746

A copy of the full financial statements can be obtained from Fronde's registered office

Summary Statement of Cashflows

For the year ended 31 March 2010

	Group	
	2010	2009
	\$000	\$000
Net cash provided by operating activities	1,322	4,432
Net cash used in investing activities	(1,060)	(1,030)
Net cash provided by financing activities	866	-
Net increase in cash and cash equivalents	<u>1,128</u>	<u>3,402</u>
Cash and cash equivalents at the beginning of the financial year	(329)	(3,731)
Cash and cash equivalents at the end of the financial year	<u>799</u>	<u>(329)</u>

A copy of the full financial statements can be obtained from Fronde's registered office.

Note to the Financial Statements

1. Impairment

Intangible Assets

The Group reviewed its intangible asset base for indications of impairment as at 31 March 2010. The recoverable amount was calculated using the higher of the value in use or fair value less costs to sell. The Group fully impaired the intangible assets as the recoverable amounts of the assets were determined to be nil as there is no active market and the value in use has assumed negative future cash flows based on a history of losses for Fronde Anywhere.

At 31 March 2010 the internally generated development was fully impaired.