

FRONDE

Half Year Report 2008



# Contents

---

Chairman's Report	2
Chief Executive's Report	3
Income Statement	4
Balance Sheet	5
Statement of Changes in Equity	6
Cash Flow Statement	7
Notes to the Financial Statements	8

## Chairman's Report

I am pleased to report a substantially improved profit result for the first half of the 2009 financial year. Profit after tax is \$1.0 million (2007: Loss of \$3.1m), a continuation of the recovery experienced in the second half of the prior financial year.

The Group balance sheet improved significantly during the six months with an overdraft of \$0.5 million at the end of September 2008 compared to a \$3.7 million overdraft at 31 March 2008. This improvement in the Company's debt position has been driven through aggressive working capital management with the collection of debtors and a strict containment of expenses. In the Parent company balance sheet, the current value of the UK subsidiary has been reduced by \$0.7 million to reflect its fair value.

We have continued to concentrate on simplifying structures, supporting teamwork and focusing on our common purpose. This is supported by the vision for the Company - "To be New Zealand's Trusted Thought Leader in Business Technology Services". Our customer intimate strategy is proving very popular with clients and it is a source of competitive advantage.

In September we advised Shareholders that Fronde had entered into a significant transaction involving Fronde Anywhere. Negotiations are progressing with interested parties and a further announcement will be made in due course. As a result, the financial statements for the last 6 months do not recognise the transaction.

At the last AGM I advised Shareholders of the Board proposal to structure the governance of the Company to better support a simple, New Zealand focused business. To that end we met with Shareholders in August to solicit feedback on the options. Directors have considered the feedback and will call a Special General Meeting in the near future to consider the proposed structure and vote on the Director nominations that are received in accordance with the notice of meeting.

The current crisis in global financial markets is certainly spilling over into the broader New Zealand economy. The full impact for Fronde is, as yet, unclear. What is clear is that Fronde is a lean and effective company that is well positioned to not only perform satisfactorily during a downturn, but also to take advantage of opportunities that are likely to arise during a period of turbulence.

The Company's performance, financial position and indebtedness to our bank have substantially improved during the last six months. In addition, we are making good progress towards complying with existing bank covenants in this current financial year.

I would like to thank all of our management and staff for the efforts they have put in over the past six months to get this result.



**Philip Shewell**  
Chairman

# Chief Executive's Report

## Strategy

Early in 2008, we settled on a changed vision for the Company. We want to become New Zealand's trusted thought leader in business technology services. This Vision was validated by recent surveys of our clients and our market, many of whom commented on the value of our customer intimate strategy.

The market survey strongly reinforced the importance of our customer intimate strategy to achieving our vision and a substantial amount of work is now going into refining client account plans and customer contact strategies. The survey data is also a key input into the redevelopment of our market messages, which will be launched internally in November and externally thereafter. Among other things, this will see a refresh of our website to reflect the change in strategy and changes to our public relations tactics.

## Recovery Plan

The Company has completed implementation of the recovery plan with the actions taken guided heavily by our themes of teamwork, simplicity and focus. The most recent step along this path has involved the removal of the position of General Manager NZ North following Steve Graham's decision to resign from this role in October 2008.

The decision to not replace the General Manager in Auckland was made to increase the commonality of approach across the Company, to reduce costs after the downsizing of the Auckland office and to simplify our structure. The Company will now be operated with national roles being responsible for Operations, Sales, Marketing and Commercial. This complements the existing national roles around Finance, Technology Solutions and Human Resources.

## Core Business Operational Performance

Our Wellington-based businesses and support functions have operated very well for the last six months. Staff utilisation has been high and there have been several significant wins. Our Auckland office completed some significant projects however more depth is required in the sales pipeline.

Fronde Synergy Great Britain, our UK business, is feeling the effects of the global downturn to a much greater extent than that experienced in New Zealand. This business is under review at this time.

Despite Fronde Anywhere being involved with a significant transaction, it continues to develop its core products and has completed successful implementations in the Philippines and New Zealand. It has also made significant progress to embed two new distribution partners globally and has a growing sales pipeline despite the global market conditions.

The Group is performing well against its goals with a strong improvement in bottom line profit. We have also strengthened our balance sheet significantly during the six months and have been successful in gaining a number of new clients.

The Fronde team has done a very good job over last the six months to secure the financial returns we have recorded. Specifically, the reduction in bank borrowings from \$3.7m in March 2008 to the September 2008 balance of \$0.5m is a reflection of our commitment to working capital improvements. We now want to push on to develop our Company to have a much stronger reputation with a broader number of customers, with a focus on trusted client intimate relationships.



**Ian Clarke**  
CEO

## Income Statement

For the period ended 30 September 2008

	Note	Group Unaudited half year ended 30-Sep-08 \$000	Group Unaudited half year ended 30-Sep-07 \$000	Group Audited year ended 31-Mar-08 \$000
Revenue	3	15,757	16,729	31,775
Cost of sales		(11,241)	(13,166)	(24,303)
<b>Gross profit</b>		<b>4,516</b>	<b>3,563</b>	<b>7,472</b>
Other income		118	365	566
Expenditure		(3,586)	(6,335)	(9,622)
Finance costs	3	(203)	(139)	(465)
<b>Profit before income tax expense</b>		<b>845</b>	<b>(2,546)</b>	<b>(2,049)</b>
Income tax expense		163	(566)	(34)
<b>Profit for the period</b>		<b>1,008</b>	<b>(3,112)</b>	<b>(2,083)</b>
<b>Earnings per share:</b>				
Basic and diluted (cents per share)		0.14	(0.44)	(0.30)

This Statement is to be read in conjunction with the Notes to the Financial Statements.

## Balance Sheet

As at 30 September 2008

	Group Unaudited half year ended 30-Sep-08 \$000	Group Unaudited half year ended 30-Sep-07 \$000	Group Audited year ended 31-Mar-08 \$000
<b>Current Assets</b>			
Trade and other receivables	4,102	3,945	5,928
Current tax assets	619	567	619
Other current assets	337	2,537	433
<b>Total Current Assets</b>	<b>5,058</b>	<b>7,049</b>	<b>6,980</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	946	1,642	1,273
Deferred tax asset	217	227	176
Other intangible assets	1,526	1,133	1,254
<b>Total Non-Current Assets</b>	<b>2,689</b>	<b>3,002</b>	<b>2,703</b>
<b>Total Assets</b>	<b>7,747</b>	<b>10,051</b>	<b>9,683</b>
<b>Current Liabilities</b>			
Trade and other payables	3,137	3,175	3,117
Current borrowings	557	3,332	3,731
Other current liabilities	1,137	1,618	670
<b>Total Current Liabilities</b>	<b>4,831</b>	<b>8,125</b>	<b>7,518</b>
<b>Non-Current Liabilities</b>			
Deferred tax liability	40	693	65
Non-current borrowings	35	-	-
Other non-current liabilities	288	535	535
<b>Total Non-Current Liabilities</b>	<b>363</b>	<b>1,228</b>	<b>600</b>
<b>Total Liabilities</b>	<b>5,194</b>	<b>9,353</b>	<b>8,118</b>
<b>Net Assets</b>	<b>2,553</b>	<b>698</b>	<b>1,565</b>
<b>Equity</b>			
Issued share capital	4,908	4,908	4,908
Retained earnings	(2,256)	(4,065)	(3,280)
Reserves	(99)	(145)	(63)
<b>Total Equity</b>	<b>2,553</b>	<b>698</b>	<b>1,565</b>
<b>Total Equity and Liabilities</b>	<b>7,747</b>	<b>10,051</b>	<b>9,683</b>

This Statement is to be read in conjunction with the Notes to the Financial Statements.

## Statement of Changes in Equity

For the period ended 30 September 2008

	Group Unaudited half year ended 30-Sep-08 \$000	Group Unaudited half year ended 30-Sep-07 \$000	Group Audited year ended 31-Mar-08 \$000
Equity at the beginning of the period	1,565	4,192	4,203
<b>Restatement</b>			
Correction to prior year equity	-	-	(244)
<b>Restated opening balance</b>	<b>1,565</b>	<b>4,192</b>	<b>3,959</b>
Movement in foreign currency translation reserve	(20)	(102)	(31)
Profit on ordinary activities after taxation	1,008	(3,112)	(2,083)
<b>Total recognised income and expenses for the period</b>	<b>988</b>	<b>(3,214)</b>	<b>(2,114)</b>
<b>Distribution to owners</b>			
Dividend on ordinary shares	-	(280)	(280)
<b>Equity at the end of the period</b>	<b>2,553</b>	<b>698</b>	<b>1,565</b>

This Statement is to be read in conjunction with the Notes to the Financial Statements.

## Cash Flow Statement

For the period ended 30 September 2008

	Group Unaudited half year ended 30-Sep-08 \$000	Group Unaudited half year ended 30-Sep-07 \$000	Group Audited year ended 31-Mar-08 \$000
<b>Cash flows from operating activities</b>			
Operating cash inflows	19,598	20,451	33,250
Operating cash outflows	(16,362)	(21,644)	(34,433)
<b>Net cash inflows/(outflows) from operating activities</b>	<b>2</b>	<b>(1,193)</b>	<b>(1,183)</b>
<b>Cash flows from investing activities</b>			
Investing cash inflows	1	11	22
Investing cash outflows	(54)	(407)	(827)
<b>Net cash outflows from investing activities</b>	<b>(53)</b>	<b>(396)</b>	<b>(805)</b>
<b>Cash flows from financing activities</b>			
Financing cash outflows	-	(280)	(280)
<b>Net cash outflows from financing activities</b>	<b>-</b>	<b>(280)</b>	<b>(280)</b>
Net increase/(decrease) in cash and cash equivalents	3,183	(1,869)	(2,268)
<b>Cash and cash equivalents at the beginning of the period</b>	<b>(3,731)</b>	<b>(1,463)</b>	<b>(1,463)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>4</b>	<b>(3,332)</b>	<b>(3,731)</b>

This Statement is to be read in conjunction with the Notes to the Financial Statements.

# Notes to the Financial Statements

## 1. Basis of Preparation

Fronde Systems Group Limited (the 'Parent') is registered under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993.

The Parent and its subsidiaries comprise the Fronde Group (the 'Group'). The Parent is not an 'exempt company' under the Companies Act 1993.

The Group is a profit-oriented entity and its consolidated financial statements have been prepared in accordance with NZ IAS 34 'Interim Financial Reporting' and other applicable reporting standards.

These interim financial statements should be read in conjunction with the financial statements and related notes contained in the Group's audited Annual Report for the year ended 31 March 2008.

## 2. Reconciliation of Profit for the Period to Net Cash Flows from Operating Activities

	Unaudited half year ended 30-Sep-08 \$000	Unaudited half year ended 30-Sep-07 \$000	Audited year ended 31-Mar-08 \$000
Profit/(loss) after tax for the period	1,008	(3,112)	(2,083)
<b>Add/(less) non-cash items and non-operating items</b>			
Loss/(gain) on disposal of non-current assets	1	-	(1)
Depreciation and amortisation of non-current assets	414	475	958
Impairment of goodwill	-	297	297
Foreign exchange gain	(29)	(1)	(31)
Movement in provisions	152	(16)	33
	<b>538</b>	<b>755</b>	<b>1,256</b>
<b>Impact of changes in working capital items</b>			
Accounts receivable	1,922	770	678
Accounts payable	69	123	(993)
Taxation receivable	(67)	466	(141)
GST payable	(234)	(195)	100
	<b>1,690</b>	<b>1,164</b>	<b>(356)</b>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>3,236</b>	<b>(1,193)</b>	<b>(1,183)</b>

## Notes to the Financial Statements continued

### 3. Interest

	Unaudited half year ended 30-Sep-08 \$000	Unaudited half year ended 30-Sep-07 \$000	Audited year ended 31-Mar-08 \$000
<b>Included in revenue:</b>			
Interest received	4	4	22
<b>Included in finance costs:</b>			
Interest paid	203	139	465

### 4. Current Borrowings

	Unaudited half year ended 30-Sep-08 \$000	Unaudited half year ended 30-Sep-07 \$000	Audited year ended 31-Mar-08 \$000
Bank overdraft	548	3,332	3,731
Finance lease	9	-	-
	557	3,332	3,731

The bank overdraft facility is on demand and secured by a First Registered Mortgagee Debenture over all the assets and undertakings of the Group. The overdraft attracts a market interest rate.

The finance lease is secured over the assets leased.

The Group does not hold any unsecured current borrowings.

At 31 March 2008, the Company was in breach of a number of covenants with its bankers. At 30 September 2008, the Company is not yet fully compliant with its covenants and continues to work closely with ANZ National Bank to achieve this.

## Notes to the Financial Statements continued

### 5. Segment Reporting

#### Business segments

Results are reported for four business segments, being the Group's main areas of operations and a corporate and other amount containing revenues and expenses that were not allocated to any other operating segment. Disclosure of revenues, earnings before taxation, expenses, total assets and total liabilities on a business segment basis is set out below. Inter-segment sales are priced on an arms-length basis.

#### Group

Unaudited as at and for the period ended 30 September 2008							
	Note	IT Consulting \$000	Managed Services \$000	Mobile Banking and Two-factor Authentication \$000	Corporate and Other \$000	Eliminations \$000	Total \$000
<b>Operating revenue and other income</b>							
External customers		14,565	674	582	54	-	15,875
Internal customers		58	88	-	-	(146)	-
<b>Total Revenue</b>		<b>14,623</b>	<b>762</b>	<b>582</b>	<b>54</b>	<b>(146)</b>	<b>15,875</b>
<b>Profit/(loss) before taxation</b>		<b>2,753</b>	<b>(32)</b>	<b>(248)</b>	<b>(919)</b>	<b>(709)</b>	<b>845</b>
Interest income		-	-	-	4	-	4
Interest expense		2	7	-	194	-	203
Depreciation and amortisation		128	219	38	29	-	414
Impairment loss	6	-	-	20	689	(709)	-
<b>Balance sheet</b>							
Total assets		8,897	445	2,609	-	(4,204)	7,747
Total liabilities		4,915	-	1,862	-	(1,583)	5,194

#### Group

Unaudited as at and for the period ended 30 September 2007							
		IT Consulting \$000	Managed Services \$000	Mobile Banking and Two-factor Authentication \$000	Corporate and Other \$000	Eliminations \$000	Total \$000
<b>Operating revenue and other income</b>							
External customers		15,113	1,513	374	94	-	17,094
Internal customers		97	819	-	-	(916)	-
<b>Total Revenue</b>		<b>15,210</b>	<b>2,332</b>	<b>374</b>	<b>94</b>	<b>(916)</b>	<b>17,094</b>
<b>Loss before taxation</b>		<b>(422)</b>	<b>(462)</b>	<b>(1,199)</b>	<b>(463)</b>	<b>-</b>	<b>(2,546)</b>
Interest income		-	-	-	4	-	4
Interest expense		-	7	-	132	-	139
Depreciation and amortisation		135	304	10	26	-	475
Impairment loss		297	-	-	-	-	297
<b>Balance sheet</b>							
Total assets		11,359	979	2,387	-	(4,674)	10,051
Total liabilities		9,928	-	1,086	-	(1,661)	9,353

## Notes to the Financial Statements continued

### Group

Audited as at and for the year ended 31 March 2008	IT Consulting \$000	Managed Services \$000	Mobile Banking and Two-factor Authentication \$000	Corporate and Other \$000	Eliminations \$000	Total \$000
<b>Operating revenue and other income</b>						
External customers	27,738	2,927	1,011	665	-	32,341
Internal customers	132	1,622	-	-	(1,754)	-
<b>Total Revenue</b>	<b>27,870</b>	<b>4,549</b>	<b>1,011</b>	<b>665</b>	<b>(1,754)</b>	<b>32,341</b>
<b>Profit/(loss) before taxation</b>	<b>269</b>	<b>(390)</b>	<b>(1,505)</b>	<b>(423)</b>	<b>-</b>	<b>(2,049)</b>
Interest income	-	-	-	22	-	22
Interest expense	-	14	-	451	-	465
Depreciation and amortisation	274	599	33	52	-	958
Impairment loss	297	-	-	-	-	297
<b>Balance sheet</b>						
Total assets	11,014	664	2,469	-	(4,464)	9,683
Total liabilities	7,859	-	1,475	-	(1,216)	8,118

The Group's primary segments are as follows:

IT Consulting – Professional IT services to design, build and integrate business transaction and payment systems

Managed Services – Managed IT services to operate and host business applications

Mobile Banking and Two-factor Authentication – Mobile banking, payment and two-factor authentication products for retail banks

Corporate and Other – Head office support services for the Group

## Notes to the Financial Statements continued

### Geographical segments

An entity is required to disclose revenue and assets by geographical segments if it can attribute at least 10% of revenue or assets to a particular geographic region. The Group and Parent are exempt from geographical segment reporting as more than 90% of revenue is derived from and assets are held in New Zealand.

### 6. Impairment of Investments

#### **Fronde Synergy Great Britain Limited**

In accordance with our accounting policies, the Board has reviewed for impairment the carrying value of the investment balance in Fronde Synergy Great Britain Limited. The investment of \$422,098 has been fully impaired and the inter-company loan has been impaired by £100,000 (NZD \$267,080).

#### **Fronde Anywhere Inc.**

Fronde Anywhere Inc. is a fully owned subsidiary of Fronde Anywhere Limited. The subsidiary has been dormant since the start of the 2008 financial year. The Group is now in the process of winding up the subsidiary and has therefore impaired the investment of \$19,899.

### 7. Contingent Liabilities

As disclosed in the previously issued financial statements, Fronde also has a rental dispute with its sub-tenants on the rental payable following a rent review for the Mobil on the Park Wellington office. As at 30 September 2008, the contingent liability is \$94,523 (30 September 2007: \$61,162).

### 8. Significant Events after Reporting Date

The Company has entered into a significant transaction involving Fronde Anywhere. Negotiations are continuing with interested parties. As a result, the financial statements for the 6 months ended 30 September 2008 do not recognise the transaction.

### 9. Comparative Figures

The September 2007 comparative figures have been restated to reflect an adjustment to the work in progress of the Singaporean subsidiary.

# 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](http://www.fronde.com)

## Directors

PM Shewell (Chairman)  
R Bettle  
DW Irving  
SL Maier Jr  
P Mudford

## Auditors

Deloitte  
10 Brandon Street  
Wellington

## Solicitors

Quigg Partners  
The Bayleys Building  
28 Brandon Street  
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](http://www.unlisted.co.nz)



[www.fronde.com](http://www.fronde.com)