

# FRONDE

# 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

W Norrie *(Chairman, appointed 23/02/2009)*  
G Cross *(appointed 03/04/2009)*  
DW Irving  
SL Maier Jr  
RG Bettle *(resigned 23/02/2009)*  
PJ Mudford *(resigned 23/02/2009)*  
PM Shewell *(resigned 23/02/2009)*

## ■ 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

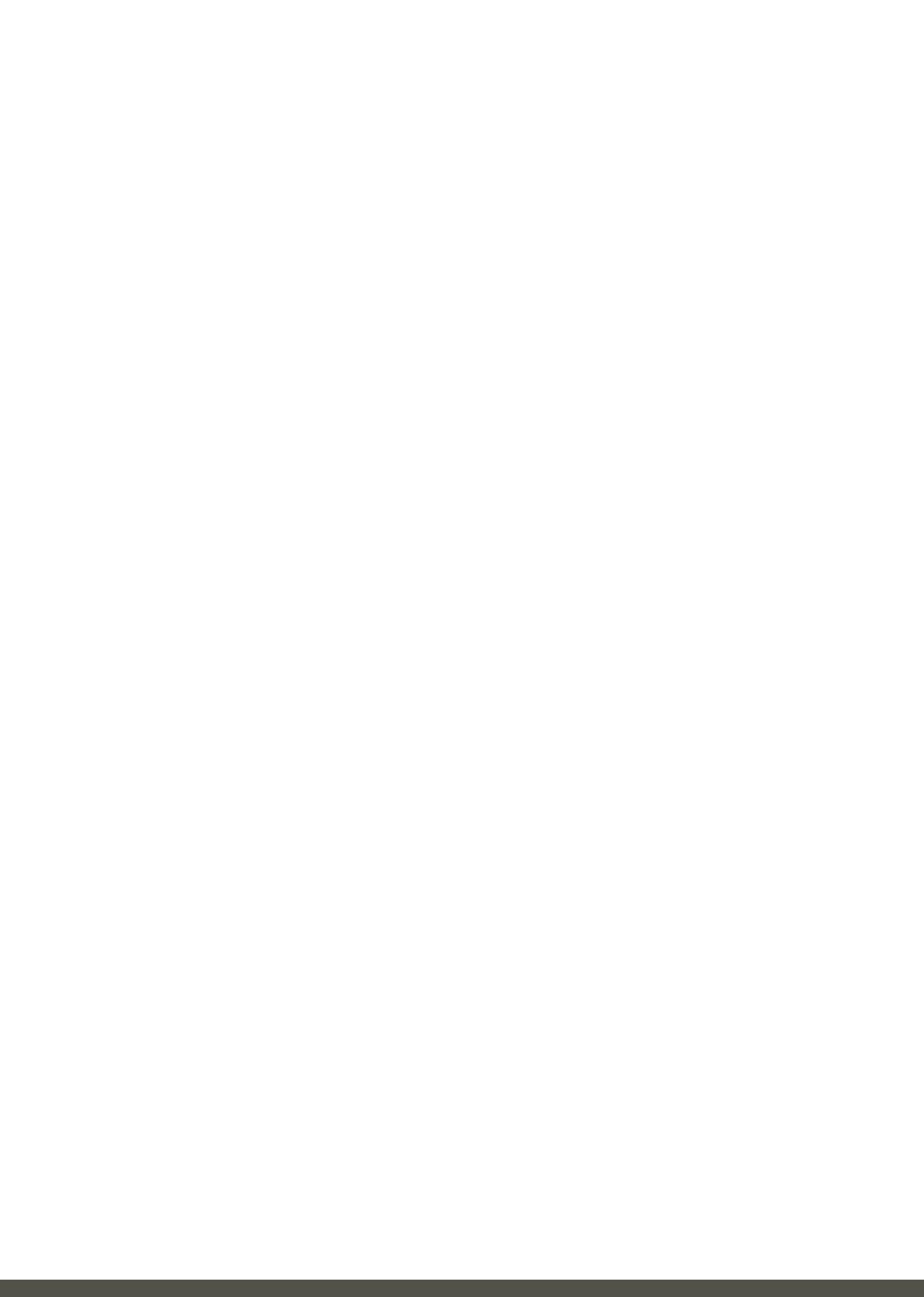
Link Market Services  
138 Tancred Street  
Ashburton

## ■ Unlisted Market Stock Code

FSG  
[www.unlisted.co.nz](http://www.unlisted.co.nz)

# Contents

Directors' Report	1
Chairman's Report	2
Chief Executive's Report	4
Audit Report	6
Compliance Statement	7
Summary Income Statement	8
Summary Balance Sheet	9
Summary Statement of Changes in Equity	10
Summary Cash Flow Statement	11



# Directors' Report

The Directors are pleased to present the Annual Report of Fronde Systems Group Limited for the year ended 31 March 2009.

For and on behalf of the Board on 12 June 2009.



**W Norrie**  
Chairman



**D Irving**  
Director

# Chairman's Report

## Key Achievements

The business achieved a \$3,402,000 turnaround in its cash position on the back of tight focus on growth in the public sector in the Wellington branch and on new business generation in the financial and utilities sectors in the Auckland branch. Revenue from public sector clients in Wellington increased 32% from the previous year and Auckland gained deals in the last quarter with promising new clients in the insurance and utilities sectors.

## Financial Results

The year end profit after tax of \$373,000 is a significant turnaround and compares very favourably with the prior year loss of \$2,083,000. This turnaround has been achieved as a result of a sharp focus on sales, reduction of overheads and restructuring loss making divisions. In particular the impact of these tactics was recorded in the first 6 months when a profit of \$1,008,000 after tax was achieved.

The second six months was substantially impacted by difficult trading conditions, particularly in Auckland. The investment in business development in the financial and utilities sectors in Auckland and the success in securing major new clients in the last quarter shows promise of improving the profitability of the Auckland branch and providing a foundation for sustainable growth for the region.

Also in the second part of the year a review of the subsidiaries was carried out as part of the plan to simplify the business and focus on New Zealand. This has led to the decision to wind up the non-trading subsidiaries in Australia and Great Britain immediately and the Singapore subsidiary once a current software support agreement is completed in April 2010. The result of these decisions has been the impairment of the carrying value of our subsidiaries and a write-off in the accounts of the Parent. The effect of these impairments at the Group level is nil.

The Group cash position improved dramatically in the first half of the year, finishing the year with an overdraft of \$329,000. This is an improvement in cash of \$3,402,000 as a result of attention to debtors and retained earnings and tight management of capital investment.

Fronde has continued to work closely with our bankers with the focus being on achievement of agreed business goals. We have resumed a normal banking relationship with ANZ including an overdraft facility to meet our working capital requirements.

## Fronde Anywhere

As reported previously we have actively sought increased investment in Fronde Anywhere from new shareholders so that it can realise its potential as a global mobile payments company. In September 2008 we advised Shareholders that Fronde had entered into a significant transaction involving Fronde Anywhere, however we were unable to close that transaction. Negotiations continue with an interested party and we expect to reach a conclusion to those negotiations by September 2009.

Fronde Anywhere is an important asset of the Group. The management of Fronde Anywhere are leveraging their international reference deployments and sales channels. They remain focused on increasing sales but with a narrower geographic market, lower overheads and funding any investment and operations with earnings.

### Corporate Governance

The renewal of the Board completes the process of refocusing the Company to provide excellent IT services for the New Zealand market. In keeping with the goal of simplifying the Group, the total number of Board members was reduced from five to four. The new Board is made up of two re-elected members, David Irving and Sandy Maier, and two new members, Wayne Norrie (Chairman) and Greg Cross. The new Directors bring to the Board a significant track record in the ICT sector in New Zealand.

On behalf of the shareholders I extend thanks to the retiring Directors (Philip Shewell, Rick Bettle and Penny Mudford) for their effort during their tenure and their actions to reposition the Company.

### Dividends

Your Directors have recommended that no dividend be paid.

The Board would like to thank management and staff for their work in delivering this result and developing the Company in a difficult economic environment.

A handwritten signature in black ink, appearing to read 'Wayne Norrie', written in a cursive style.

**Wayne Norrie**  
Chairman

# Chief Executive's Report

## Operational Focus

Last year our goals were to achieve a return to profitability and a dramatic reduction in debt by leveraging three key themes – **Simplicity**, **Focus** and **Teamwork**.

Our quest for **Simplicity** has led us to wind up offshore subsidiaries, close offshore offices, remove the Fronde Always brand and many other small but cumulatively significant steps. As a result our business is much more readily managed with less drag.

The **Focus** theme is about attention to our focus on the New Zealand market where we have secured nine new large clients in the last year. It has also enabled us to gain clarity about our value proposition, to hone in on core activities and to make progress on business improvement. Our offshore activities are almost exclusively under the Fronde Anywhere brand.

The primary gain from our **Teamwork** theme has been development of a common purpose. This has been an essential achievement to support our strategy of customer intimacy and thought leadership. This process has not concluded and more effort will go into developing our common purpose as our strategy is further evolved.

## Operational Performance

The Wellington operations of the Group have continued their strong and profitable performance. This region has achieved substantial growth in revenues in the public and utilities sectors including growth in the average revenues per client while developing new client relationships. We are cautiously optimistic about prospects for the coming year in this market due to the depth of relationship we have with our clients here. This is tempered with a realistic view of the budget constraints of the new Government, the time lag for implementation of new policies and the extent to which Fronde has relationships with government agencies, SOEs and enterprises that have programmes of work.

The combined influence of the recession and staff turnover on our Auckland business resulted in some lost client relationships, reduced sales and lower workloads. We repositioned a more streamlined business unit to focus on securing greater continuity of work for a target list of key clients and gaining long-term trusted relationships. The benefits of this approach are expected to be realised this year. Auckland is core to our goals around market leadership in New Zealand and we expect our Auckland operation to be profitable this year.

We decided to withdraw from our UK business at the end of last year when it became clear the recession there was biting hard. This is in line with our strategy to simplify the business and focus on the New Zealand market. Fronde continues to engage remotely with a key client in the UK who has outsourced a specialist consulting engagement to New Zealand.

Our Technology Solutions business has focussed successfully on improving service delivery quality and client satisfaction. Annuity revenues from the MessageDirect platform continue to grow with the increasing success of services like TXT-a-Park and the addition of new clients. The business unit has proven integral in supporting Fronde's increasing strategic focus on cloud computing.

Fronde Anywhere has rebuilt its sales pipeline around redefined markets and a base of reference clients and is executing a strategy to build sales revenue. The global applicability of Anywhere's product portfolio has enabled the business to adjust its focus onto regions that are proving less impacted by the recession.

Our Corporate Services team continues to simplify our business with resultant overhead reduction. A significant part of this is work to wind up subsidiaries and to streamline reporting processes.

### Long-term Direction

With the business on track and renewal of our Board completed we are in a strong position to work on the long term direction for the Company. That work is underway and results will be reported to shareholders in due course.

The thought leadership component to our strategy is developing strongly with management attention and the focus of our Strategy Services team. Mobility solutions and Agile practices are areas of excellence.

Delivering large scale software applications and integration projects will continue as core offerings of Fronde. However we see increasing demand in the market for services to enable cloud computing and are positioning ourselves for this space. Cloud computing is a style of computing in which dynamically scalable and often virtualised applications and resources are provided as a shared service over the Internet. Fronde has been an early adopter of these services ourselves and a leader in this market for three years. We continue to develop that leadership with a range of service vendors.

Significant encouragement is going to innovation throughout the Company in order to bring new services to market, improve processes and identify areas for product development.

### Goals for 2009/2010

This year we want to continue securing new and substantial customers, to increase client and staff satisfaction and to improve our brand recognition, particularly in Auckland.

Our strategy for meeting these goals is centred on our trusted positioning among our clients. From that position we are best able to recommend solutions and proactively add value. We can also bring to bear our thought leadership, particularly in areas like software as a service and other elements of cloud computing. These skills combined with our strengths as collaborators and innovators leave us well placed to achieve despite the economic climate.

I particularly want to thank staff and management for their commitment and professionalism during what was a very challenging year.



**Ian Clarke**  
CEO

# Audit Report

For the year ended 31 March 2009

**Deloitte.**

## AUDIT REPORT TO THE SHAREHOLDERS OF FRONDE SYSTEMS GROUP LIMITED

We have audited the group summary financial statements of Fronde Systems Group Limited for the year ended 31 March 2009 as set out on pages 8 to 11.

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 or its associate.

### 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 12 June 2009.

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 2009, 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 12 June 2009 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 for the year ended 31 March 2009 included on Fronde System Group Limited's website. Fronde System Group Limited's governing body is responsible for the maintenance and integrity of Fronde System Group Limited's website. We have not been engaged to report on the integrity of Fronde System 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 12 June 2009 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 11 are the Summary Financial Statements of Fronde Systems Group Limited ("Fronde"), a profit-oriented entity, for the year ending 31 March 2009 which were extracted from the full Financial Statements authorised for issue by the Directors on 12 June 2009. An unqualified audit report was issued on 12 June 2009. 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 Income Statement

For the year ended 31 March 2009

	Group 2009 \$000	Group 2008 \$000
Revenue	27,376	31,775
Cost of sales	(17,631)	(21,079)
<b>Gross profit</b>	<b>9,745</b>	<b>10,696</b>
Other income	232	566
Expenditure	(9,592)	(12,846)
Finance costs	(273)	(465)
<b>Profit/(loss) before income tax expense</b>	<b>112</b>	<b>(2,049)</b>
Income tax expense	261	(34)
<b>Profit/(loss) for the year</b>	<b>373</b>	<b>(2,083)</b>
Profit/(loss) attributable to:		
Minority interest	-	-
Members of the parent entity	373	(2,083)
	<b>373</b>	<b>(2,083)</b>

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

# Summary Balance Sheet

As at 31 March 2009

	Group 2009 \$000	Group 2008 \$000
Current assets	3,794	6,980
Non-current assets	3,005	2,703
<b>Total assets</b>	<b>6,799</b>	<b>9,683</b>
Current liabilities	4,847	7,518
Non-current liabilities	147	600
<b>Total liabilities</b>	<b>4,994</b>	<b>8,118</b>
<b>Net assets</b>	<b>1,805</b>	<b>1,565</b>
<b>Equity</b>		
Issued share capital	4,908	4,908
Retained earnings	(2,907)	(3,280)
Foreign currency translation reserve	(196)	(63)
<b>Total equity</b>	<b>1,805</b>	<b>1,565</b>
<b>Total equity and liabilities</b>	<b>6,799</b>	<b>9,683</b>

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

# Summary Statement of Changes in Equity

For the year ended 31 March 2009

	Share Capital \$000	Retained Earnings \$000	Foreign Currency Translation Reserve \$000	Total \$000
<b>At 1 April 2007</b>	<b>4,908</b>	<b>(917)</b>	<b>(32)</b>	<b>3,959</b>
Change in Foreign Currency Translation Reserve	-	-	(31)	(31)
Profit on ordinary activities after taxation	-	(2,083)	-	(2,083)
<b>Total recognised income and expense for the year</b>	<b>-</b>	<b>(2,083)</b>	<b>(31)</b>	<b>(2,114)</b>
Dividend paid	-	(280)	-	(280)
<b>At 31 March 2008</b>	<b>4,908</b>	<b>(3,280)</b>	<b>(63)</b>	<b>(1,565)</b>
<b>At 1 April 2008</b>	<b>4,908</b>	<b>(3,280)</b>	<b>(63)</b>	<b>1,565</b>
Change in foreign currency translation reserve	-	-	(133)	(133)
Profit on ordinary activities after taxation	-	373	-	373
<b>Total recognised income and expense for the year</b>	<b>-</b>	<b>373</b>	<b>(133)</b>	<b>240</b>
Dividend paid	-	-	-	-
<b>At 31 March 2009</b>	<b>4,908</b>	<b>(2,907)</b>	<b>(196)</b>	<b>1,805</b>

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

# Summary Cash Flow Statement

For the year ended 31 March 2009

	Group 2009 \$000	Group 2008 \$000
Net cash provided by / (used in) operating activities	4,432	(1,183)
Net cash used in investing activities	(1,030)	(805)
Net cash used in financing activities	-	(280)
<b>Net increase in cash and cash equivalents</b>	<b>3,402</b>	<b>(2,268)</b>
Cash and cash equivalents at the beginning of the year	(3,731)	(1,463)
<b>Cash and cash equivalents at the end of the year</b>	<b>(329)</b>	<b>(3,731)</b>

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



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

