



GROUP DIRECTORY

Company Number 528567

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Directors

Jon Mayson (Chairman)

Wayne Norrie

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David Irving

Sandy Maier Jr

Celia Burton

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10 Brandon Street

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Solicitor

Quigg Partners

The Bayleys Building

28 Brandon Street

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Banker

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215 – 229 Lambton Quay

Wellington

Share Registry

Link Market Services

138 Tancred Street

Ashburton

Unlisted Market Stock Code

FSG

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CHAIRMAN'S REPORT

The year commenced with significant investment to support Fronde's strategic intent, primarily in Australia with the May acquisition of OnlineOne, an award winning Australian NetSuite Solution Provider. This deal gives Fronde additional scale in Sydney, a market presence in Melbourne and the Gold Coast, and local leadership in our Australian business. It has significantly improved the tone of the business in Australia, and Fronde's demonstration of commitment to those markets has been warmly received by partners and clients alike.

Additional investments were made into Fronde's sales capacity, marketing efforts and into offering development in key markets of Auckland and Sydney, however challenges with finding the right staff meant that our sales headcount was behind target for all of the first half year, a significant factor in our slowed growth rate. There was also a slowing of operating performance in our Australian business while it was integrated with our new acquisition. The increased investment is reflected in Fronde's first six months earnings before interest and taxation (EBIT) which at \$1.1m was down from \$2.2m in first six months last year.

Total revenue for the first half of the year was \$32.8m, up 2.5% on the equivalent period last year. Operational performance in the company continues to improve with an 8.3% increase in Gross Profit to \$8.8m, reflecting continued increases in scale and improvement in the operations of Fronde. The past six months EBIT has been significantly impacted by the strengthening of the New Zealand dollar against the Australian dollar, resulting in a non cash unrealised foreign exchange loss of \$0.4m.

Fronde's commitment to strategic growth and current level of investments continues to be constrained by scarce working capital. Your Directors continue to be heartened by the large scale of the opportunity for Fronde and are ensuring the company is investing appropriately while continuing to evaluate securing growth capital.

I would like to take this opportunity to extend a warm welcome to Celia Burton who was elected to the board at the annual general meeting in August.



J Mayson
Chairman

CHIEF EXECUTIVE'S REPORT

Each of Fronde's geographic markets has performed differently this year. The Wellington business is still growing but has been subdued compared to last year on the back of constrained spending by our Wellington clients. We still see substantial organic growth opportunities in this market. Our Auckland business is increasingly vibrant this year but was held back until the end of the first half year by a lack of sales capacity. The Australian business has improved performance each month as integration tasks are completed, sales staff are hired and marketing activities are actioned. We are seeing extensive opportunity in the enterprise dominated Auckland and Sydney markets for our cloud offerings.

The acquisition of OnlineOne has created critical mass in Sydney with staffing levels rising from three to twenty-one. This significant investment includes creation of an inside sales capability to support our marketing activities and to drive leads for our sales team. This gives immediate expanded market reach, as well as a comprehensive customer care capability. Our Australian business continues to leverage New Zealand based expertise where appropriate and is reciprocating with high level NetSuite expertise to our New Zealand NetSuite customers. Intentions remain to grow Fronde's Australian business by leading with sales and marketing campaigns featuring our offerings based on our cloud partners.

Further establishment of the Fronde brand and its cloud integration offering remain a firm focus. To support this Fronde has engaged an external consultant to assist with appropriate messaging, marketing and sales processes to support our spend in these areas and to help us achieve our vision. Fronde's cloud partners Amazon, Salesforce, Google and NetSuite continue to resonate with the business needs of our clients as innovative solutions that are open, agile and affordable, providing them with competitive advantage.

Fronde was recently appointed to the ICT all of government security services panel, where Fronde will provide government organisations with access to Fronde's broad range of security based services. This reflects an increasing demand for security services and Fronde's ability to adapt according to market demands. Fronde is operating an integrated company so these skillsets are available to clients wherever they are based.

A key constraint to future growth objectives is the difficulty to hire suitable staff, particularly in the New Zealand market. This is driven by the high growth of other technology companies and their demand for skills, as well as by constrained supply through not enough students seeking tertiary education in technology areas. Intervention is required in secondary schools to ensure students have a better understanding of the jobs and opportunities available in the technology sector, driving demand for more places in tertiary training.

Fronde was once again featured in the Technology Industry Network TIN100 report in the 'Ten Companies to Watch' list, based on the growth achieved last year. This recognition for our high growth, achieved with very limited working capital, encourages management to identify areas we can deploy growth capital to support our vision and increase the rate at which we create shareholder value.



Ian Clarke

CEO

STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2013

	Note	Group Unaudited half year ended 30-Sep-13 \$000	Group Unaudited half year ended 30-Sep-12 \$000	Group Audited year ended 31-Mar-13 \$000
Revenue	3	32,778	32,002	59,906
Cost of sales		(23,980)	(23,875)	(43,782)
Gross profit		8,798	8,127	16,124
Expenditure	4	(7,740)	(5,909)	(12,163)
Finance costs	3	(120)	(47)	(160)
Profit before income tax expense		938	2,171	3,801
Income tax expense		(453)	(521)	(1,064)
Profit for the period		485	1,650	2,737
Other Comprehensive Income				
Gains/(losses) from:				
Translation of foreign operations		222	(9)	2
Other comprehensive income for the year net of tax		222	(9)	2
Total comprehensive income for the year net of tax		707	1,641	2,739
Earnings per share:				
Basic and diluted (cents per share, based on profit after tax)		6.79	23.09	37.27

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

STATEMENT OF FINANCIAL POSITION

As at 30 September 2013

		Group Unaudited half year ended 30-Sep-13 \$000	Group Unaudited half year ended 30-Sep-12 \$000	Group Audited year ended 31-Mar-13 \$000
Assets				
Current assets		12,480	11,703	12,994
Non-current assets	5	5,347	1,862	1,668
Total assets		17,827	13,565	14,662
Liabilities				
Current liabilities	6	10,793	9,794	9,899
Non-current liabilities	5, 6	2,441	719	609
Total liabilities		13,234	10,513	10,508
Net assets		4,593	3,052	4,154
Equity				
Issued share capital		5,036	5,036	5,036
Retained earnings		(502)	(1,810)	(719)
Reserves		59	(174)	(163)
Total equity		4,593	3,052	4,154
Total equity and liabilities		17,827	13,565	14,662

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 2013

	Note	Group Unaudited half year ended 30-Sep-13 \$000	Group Unaudited half year ended 30-Sep-12 \$000	Group Audited year ended 31-Mar-13 \$000
Equity at the beginning of the period		4,154	1,915	1,915
Profit on ordinary activities after taxation		485	1,650	2,737
Movement in foreign currency translation reserve		222	(9)	2
Total comprehensive income for the year, net of tax		707	1,641	2,739
Dividend on ordinary shares		(268)	(4)	-
Share repurchase	7	-	(500)	(500)
Equity at the end of the period		4,593	3,052	4,154

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

CASH FLOW STATEMENT

For the period ended 30 September 2013

	Note	Group Unaudited half year ended 30-Sep-13 \$000	Group Unaudited half year ended 30-Sep-12 \$000	Group Audited year ended 31-Mar-13 \$000
Cash flows from operating activities				
Operating cash inflows		32,995	31,617	58,539
Operating cash outflows		(31,131)	(29,578)	(54,563)
Net cash inflows from operating activities	2	1,864	2,039	3,976
Cash flows from investing activities				
Investing cash inflows		-	-	-
Investing cash outflows		(1,707)	(723)	(887)
Net cash outflows from investing activities		(1,707)	(723)	(887)
Cash flows from financing activities				
Financing cash inflows		-	1,355	1,350
Financing cash outflows		(819)	(872)	(968)
Net cash outflows from financing activities		(819)	483	382
Net increase in cash and cash equivalents		(662)	1,799	3,471
Cash and cash equivalents at the beginning of the period		4,235	762	762
Foreign exchange effects		222	(9)	2
Cash and cash equivalents at the end of the period		3,795	2,552	4,235

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

NOTES TO THE SUMMARY 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.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with the accounting policies and methods of computation used in the preparation of the comparative figures.

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 2013.

2. Reconciliation of profit for the period to net cash flows from operating activities

	Group Unaudited half year ended 30-Sep-13 \$000	Group Unaudited half year ended 30-Sep-12 \$000	Group Audited year ended 31-Mar-13 \$000
Profit/(loss) after tax for the period	485	1,650	2,737
<i>Add/(less) non-cash items and non-operating items</i>			
(Gain)/Loss on disposal of non-current assets	-	-	-
Depreciation and amortisation of non-current assets	344	303	633
Increase / (decrease) in current tax balances	(432)	515	1,017
(Increase) / decrease in deferred tax balances	-	-	29
Impact of changes in working capital items			
Decrease/(increase) in current receivables	(418)	(697)	(431)
Decrease/(increase) in other current assets	492	(982)	(878)
(Decrease)/increase in current payables	739	2,028	807
(Decrease)/increase in other liabilities	654	(778)	62
Net cash inflow from operating activities	1,864	2,039	3,976

3. Interest

	Group Unaudited half year ended 30-Sep-13 \$000	Group Unaudited half year ended 30-Sep-12 \$000	Group Audited year ended 31-Mar-13 \$000
Included in revenue:			
Interest received	5	49	125
Included in finance costs:			
Interest paid	120	47	160

4. Unrealised foreign exchange loss

Expenditure includes \$398k of unrealised foreign exchange losses. At 30 September 2012 \$44k of unrealised foreign exchange losses and \$68k at 31 March 2013.

5. Acquisition of Online One Business

On 1 May 2013 Fronde Australia Pty Limited purchased the net assets of Online One, a specialist NetSuite reseller and implementer in Australia.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration to transfer

NZ (\$000's)	2013
Cash	1,354
Estimated present value of Contingent consideration	2,316

Contingent consideration

At 30 September 2013, contingent consideration of NZ\$2.3m has been recognised as a result of the acquisition of Online One. There were no contingent liabilities at 30 September 2012 and 31 March 2013.

The Group has agreed to issue the Seller of the Online One business an additional consideration of up to 533,372 shares in the parent company Fronde Systems Group by way of a 3 year earn-out.

The contingent shares will be issued as part of a 3 year earn-out period. The key milestones will be based on the achievement of agreed earnings for the combined Australian Business.

	13/14	14/15	15/16
Earnings target	A\$0.7m	A\$1.6m	A\$3.2m
Max accumulated shares	160,012	320,024	533,372
< 50% of EBIT	no shares		
50-75% of EBIT	50% of shares		
> 75% of EBIT	100% of shares		

Identifiable assets acquired and liabilities assumed

NZ (\$000's)	2013
Current assets	256
Current liabilities	(158)
Property, plant and equipment	14
Loans and borrowings	(100)
Total identifiable net assets	12

Goodwill

Goodwill has been recognised as a result of the acquisition at NZ\$3.7m.

The goodwill is attributable mainly to the skills and technical talent of Online One's work force, and the synergies expected to be achieved from integrating the company into the Group's existing business.

None of the goodwill recognised is expected to be deductible for income tax purposes.

6. Bank Loans

	Group Unaudited half year ended 30-Sep-13 \$000	Group Unaudited half year ended 30-Sep-12 \$000	Group Audited year ended 31-Mar-13 \$000
Secured			
Current portion of term loans	552	594	617
Non-current portion of term loans	125	719	609
	<u>677</u>	<u>1,313</u>	<u>1,226</u>

7. Share repurchase

On 30 June 2012 Fronde repurchased and cancelled 800,000 Fronde Systems Group Limited shares from ANZ National Bank Limited for a total consideration of \$500,000 (62.5c per share). To facilitate the repurchase Fronde entered into a term loan agreement for \$500,000 from ANZ National Bank Limited repayable over 3 years.

8. Segment Reporting

Operating segments

Results are reported for four segments, being the Group's main geographical areas of operations and a "Corporate and other" amount containing revenues and expenses that were not allocated to any other operating segment. This change from previous years more accurately reflects the information used by the Chief Operating Decision Maker in managing the allocation of resources to the business. Disclosure of revenues, earnings before taxation and expenses on a segment basis is set out below and is consistent with the format of reporting presented to the Chief Operating Decision Maker. Inter-segment sales are priced on an arms-length basis.

The information presented to the Chief Operating Decision Maker does not include balance sheets separated to the level of segments. Balance sheet information is reported at the level of Parent and Group to the Chief Operating Decision Maker and is therefore not presented below.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

Unaudited as at and for the period ended 30 September 2013	NZ North \$000	NZ South \$000	Australia \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue and other income						
External customers	3,038	26,688	3,008	45	-	32,778
Internal customers	5	335	5	13	(358)	-
Total Revenue	3,043	27,022	3,013	58	(358)	32,778
Profit before taxation	99	4,426	(795)	(2,792)	-	938
Interest revenue	-	-	-	5	-	5
Interest expense	-	-	(21)	(99)	-	(120)
Depreciation and amortisation	(8)	(72)	(6)	(258)	-	(344)
Income tax	-	-	-	(453)	-	(453)

Unaudited as at and for the period ended 30 September 2012	NZ North \$000	NZ South \$000	Australia \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue and other income						
External customers	2,865	24,316	4,797	24	-	32,002
Internal customers	22	543	-	8	(573)	-
Total Revenue	2,887	24,859	4,797	32	(573)	32,002
Profit before taxation	430	3,934	301	(2,494)	-	2,171
Interest revenue	-	-	30	19	-	49
Interest expense	-	-	(15)	(32)	-	(47)
Depreciation and amortisation	(6)	(262)	(1)	(34)	-	(303)
Income tax	-	-	-	(521)	-	(521)
Audited as at and for the period ended 31 March 2013	NZ North \$000	NZ South \$000	Australia \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue and other income						
External customers	5,458	48,627	5,754	67	-	59,906
Internal customers	49	993	-	63	(1,105)	-
Total Revenue	5,507	49,620	5,754	130	(1,105)	59,906
Earnings before taxation	629	8,140	140	(5,108)	-	3,801
Interest revenue	-	-	-	125	-	125
Interest expense	-	-	-	(160)	-	(160)
Depreciation and amortisation	(12)	(551)	(2)	(68)	-	(633)
Income tax	-	-	-	(1,064)	-	(1,064)

9. Significant events after reporting date

There are no other events subsequent to the balance date requiring disclosure in the financial statements.

