

2016

Half Year Report

Fronde Systems Group Limited
Half Year Report
for the six months ended
30 September 2016.



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

Directors SL Maier Jr (Chairman)
C Burton
DW Irving
G Cross (resigned 28 July 2016)
A Lark (resigned 28 July 2016)
JI Mayson (resigned 28 July 2016)

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



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Chair and CEO Report

Our result at the half year ending 30 September 2016 continued the positive trend of improvement in underlying profitability and equity.

Highlights

- Profit before tax for the period was \$736k, a reduction of \$42k compared to the previous year (see note 1)
- Gross margin increased significantly from 27% to 32%
- Reduction in general overhead costs of 4%
- Significant investment to accelerate future growth of our business in Australia

As previously signalled, we remain focussed on stabilising our business and improving profitability, while establishing a differentiated position and building a solid foundation for future profitable growth.

Financial Result

At an operating level our business results continue to improve. Our focus on profitability (driven by higher margin revenue streams, capacity management, and costs) is yielding results. With this focus on profitability, some parts of our business are growing, and we are choosing to reduce our focus on unprofitable areas. Consequently, revenue reduced by 16% versus the prior period.

Our mix of recurring services, licences and project services is increasingly less reliant on one-off large projects. Despite the reduction in revenue, the company generated an increase in gross profit, and a profit before tax result in line with the prior year.

We continue to invest in our Australian business which delivered a significant improvement in profitability during the period.

Our cash and cash equivalents balances continue to increase, and after adjusting for foreign currency translation reserve and share-based payment reserve, total equity increased by \$980k.

Outlook

Looking forward, the second half of the 2016/17 year will be one of continued focus on stabilisation, improving profitability, and establishing a strong foundation to build on further. Specifically:

- Establishing our differentiated market position
- Increasing our share of profitable business with key customers
- Optimising operations
- Increasing recurring service revenue streams



Sandy Maier
Chairman



Anthony Belsham
CEO

Note 1: Intercompany foreign exchange gains arising from monetary items that form part of the net investment in Fronde Australia Pty Ltd have been reclassified in this half year result. The previous periods have been restated for comparative purposes. See page 10 in this report for more details.

Statement of Comprehensive Income

For the period ended 30 September 2016

	Note	Group Unaudited half year ended 30-Sep-16 \$000	Group Unaudited half year ended 30-Sep-15 \$000	Group Audited year ended 31-Mar-16 \$000
Revenue	3	26,545	31,583	57,433
Cost of sales		(18,122)	(23,215)	(41,804)
Gross profit		8,423	8,368	15,629
Profit/(loss) from disposal of property		-	-	2
Expenditure	4	(7,663)	(7,536)	(14,631)
Finance costs	3	(24)	(54)	(139)
Total Expenses		(7,687)	(7,590)	(14,768)
Profit/(loss) before income tax expense		736	778	861
Income tax expense		(162)	-	(411)
Profit/(loss) for the period		574	778	450
Other Comprehensive Income				
Gains/(losses) from:				
Translation of foreign operations		38	186	210
Other comprehensive income for the year net of tax		38	186	210
Total comprehensive income for the year net of tax		612	964	660
Earnings per share:				
Basic and diluted (cents per share, based on profit after tax)		7.58	10.83	6.26

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

Statement of Financial Position

As at 30 September 2016

	Group Unaudited half year ended 30-Sep-16 \$000	Group Unaudited half year ended 30-Sep-15 \$000	Group Audited year ended 31-Mar-16 \$000
Assets			
Cash on Hand	848	1,102	1,609
Other Current assets	7,780	8,917	9,127
Non-current assets	2,644	3,109	2,717
Total assets	11,272	13,128	13,453
Liabilities			
Bank Overdraft	487	808	1,384
Other Current liabilities	6,091	8,614	8,355
Non-current liabilities	139	-	139
Total liabilities	6,717	9,422	9,878
Net assets	4,555	3,706	3,575
Equity			
Issued share capital	5,708	5,162	5,162
Retained earnings	(1,901)	(2,124)	(2,474)
Reserves	748	668	887
Total equity	4,555	3,706	3,575
Total equity and liabilities	11,272	13,128	13,453

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 2016

	Note	Group Unaudited half year ended 30-Sep-16 \$000	Group Unaudited half year ended 30-Sep-15 \$000	Group Audited year ended 31-Mar-16 \$000
Equity at the beginning of the period		3,575	2,542	2,542
Profit/(loss) on ordinary activities after taxation		574	778	450
Movement in foreign currency translation reserve		38	186	210
Total comprehensive income for the year, net of tax		612	964	660
Dividend paid		-	-	(22)
Ordinary shares issued	6	546	126	126
Provision for issue of Ordinary shares	6	(178)	74	269
Equity at the end of the period		4,555	3,706	3,575

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

Cash Flow Statement

For the period ended 30 September 2016

	Group Unaudited half year ended 30-Sep-16 \$000	Group Unaudited half year ended 30-Sep-15 \$000	Group Audited year ended 31-Mar-16 \$000
Cash flows from operating activities			
Operating cash inflows	26,974	31,223	57,186
Operating cash outflows	(26,787)	(30,708)	(56,573)
Net cash (used in)/provided by operating activities	187	515	613
2			
Cash flows from investing activities			
Sale of assets	1	174	182
Purchase of property plant & equipment	(156)	(225)	(280)
Net cash (used in)/provided by investing activities	(155)	(51)	(98)
Cash flows from financing activities			
Financing cash inflows	-	-	-
Financing cash outflows	-	-	(40)
Net cash outflows from financing activities	-	-	(40)
Net increase in cash and cash equivalents	32	464	475
Cash and cash equivalents at the beginning of the period	225	(356)	(356)
Foreign exchange effects	104	186	106
Cash and cash equivalents at the end of the period	361	294	225

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.

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 2016.

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

	Group Unaudited half year ended 30-Sep-16 \$000	Group Unaudited half year ended 30-Sep-15 \$000	Group Audited year ended 31-Mar-16 \$000
Profit/(loss) after tax for the period	574	778	450
Add/(less) non-cash items and non-operating items			
(Profit)/Loss on disposal of non-current assets	(1)	-	(2)
Depreciation and amortisation of non-current assets	163	206	395
Share based payment expense	369	201	395
Write-off bad debts not recoverable			172
Increase / (decrease) in current tax balances	162	(556)	(557)
(Increase) / decrease in deferred tax balances	-	-	402
Changes in net assets and liabilities:			
Decrease/(increase) in current receivables	1,306	128	(315)
Decrease/(increase) in other current assets	(113)	(443)	(417)
(Decrease)/increase in current payables	(333)	438	42
(Decrease)/increase in other liabilities	(1,940)	(237)	48
Net cash inflow from operating activities	187	515	613

3. Interest

	Group Unaudited half year ended 30-Sep-16 \$000	Group Unaudited half year ended 30-Sep-15 \$000	Group Audited year ended 31-Mar-16 \$000
Included in revenue:			
Interest received	2	6	7
Included in finance costs:			
Interest paid	24	54	139

4. Unrealised foreign exchange gain/(loss)

	Group Unaudited half year ended 30-Sep-16 \$000	Group Unaudited half year ended 30-Sep-15 \$000	Group Audited year ended 31-Mar-16 \$000
Included in expenditure:			
Unrealised Foreign Exchange (losses)/gains	(47)	86	67

5. Restatement of foreign exchange gains/(losses)

Intercompany foreign exchange gains/(losses) arising from monetary items that form part of the net investment in Fronde Australia Pty Ltd have been reclassified from expenditure in the profit and loss, to other comprehensive income. This change is in accordance with NZ IAS 21. The comparative figures in this report have been restated accordingly.

Impact of Restatement

For the Half Year ended 30 September 2016	Before restatement \$000	After restatement \$000	Difference \$000
Expenditure	(7,910)	(7,663)	247
Gains/(losses) from translation of foreign operations	285	38	(247)
Total comprehensive income for the year net of tax	612	612	-
Earnings per share (basic and diluted)	4.32	7.58	3.26

For the Half Year ended 30 September 2015	Before restatement \$000	After restatement \$000	Difference \$000
Expenditure	(7,103)	(7,536)	(433)
Gains/(losses) from translation of foreign operations	(247)	186	433
Total comprehensive income for the year net of tax	964	964	-
Earnings per share (basic and diluted)	16.95	10.83	(6.12)

For the Full Year ended 31 March 2016	Before restatement \$000	After restatement \$000	Difference \$000
Expenditure	(14,076)	(14,631)	(555)
Gains/(losses) from translation of foreign operations	(345)	210	555
Total comprehensive income for the year net of tax	660	660	-
Earnings per share (basic and diluted)	13.99	6.26	(7.73)

6. Share based payments

Under the sale and purchase agreement for the acquisition of Online One by Fronde Australia Pty Ltd in April 2013, the Group 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 three year earn-out, based on the achievement of agreed earnings targets for the combined Australian Business.

On 12 August 2015, the company entered into a Deed of Variation which altered the provisions of the earn-out arrangements, with targets based on generating recurring revenue and also extending the period until 31 March 2017.

In accordance with the Deed of Variation 80,006 shares were issued on 30 September 2015 and 170,012 on 29 July 2016. A further provision has been made for an additional 56,670 shares that are assessed as likely to be issued under this agreement prior to 31 March 2017.

On 1 April 2016, a Group company, Fronde Australia Pty Limited, entered into a sponsorship agreement with Carlton Football Club based in Melbourne, Australia, to accelerate the Group's growth in the Australian market. In partial consideration for the sponsorship benefits from this agreement, the company issued 231,250 shares in Fronde Systems Group Limited on 16 May 2016.

Expenditure for the six months to 30 September 2016 includes a charge of \$369k reflecting the value of these shares. This is made up of \$279k for the shares issued to Carlton Football Club and \$90k as a provision for the shares assessed as likely to be issued to the seller of Online One.

7. Segment Reporting

Operating segments

Results are reported for four segments, being the Group's main business units in New Zealand, Technology Products and Technology Services, the Group's business activities in Australia, and a "Group Corporate and other" amount containing revenues and expenses that were not allocated to any other operating segment. Disclosure of revenues and results on a segment basis is set out below and is consistent with the format of reporting presented to the "chief operating decision maker". The segment result includes depreciation and foreign exchange movements.

Fronde's segments offer different products and services to different customers. These can be described as consulting services, sale of third party licences and software and network managed services. An analysis of the Group's revenue from its major products and services is included in the table below. All internal transactions are eliminated on consolidation.

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 described in note 1.

These segment reports have changed from last year's Half Year Report to reflect more accurately how the business reported its Operating Segments internally during the year. The comparative figures have been restated accordingly.

For the Half Year ended 30 September 2016 (unaudited)

	NZ Business Technology Products \$000	NZ Business Technology Services \$000	Australia Operations \$000	Group Corporate Services \$000	Eliminations \$000	Total \$000
Operating Revenue from external customers:						
Services	5,998	10,954	2,551	13	-	19,516
Licences	3,260	151	3,503	-	-	6,914
Other	20	94	(1)	-	-	113
External Customers	9,278	11,199	6,053	13		26,543
Internal customers	136	445	156	12	(749)	-
Total Segment Revenue	9,414	11,644	6,209	25	(749)	26,543
Segment Result	1,565	1,783	91	(2,702)	-	736

For the Half Year ended 30 September 2015 (unaudited)

	NZ Business Technology Products \$000	NZ Business Technology Services \$000	Australia Operations \$000	Group Corporate Services \$000	Eliminations \$000	Total \$000
Operating Revenue from external customers:						
Services	6,019	14,251	1,940	-	-	22,210
Licences	4,386	191	4,673	(3)	-	9,247
Other	66	45	9	-	-	120
External Customers	10,471	14,487	6,622	(3)	-	31,577
Internal customers	173	125	164	22	(484)	-
Total Segment Revenue	10,644	14,612	6,786	19	(484)	31,577
Segment Result	2,122	2,273	(602)	(3,016)	-	778

For the Full Year ended 31 March 2016 (audited)

	NZ Business Technology Products \$000	NZ Business Technology Services \$000	Australia Operations \$000	Group Corporate Services \$000	Eliminations \$000	Total \$000
Operating Revenue from external customers:						
Services	11,457	25,126	3,737	8	-	40,328
Licences	7,530	713	8,353	(4)	-	16,592
Other	353	117	5	30	-	505
External Customers	19,340	25,956	12,095	34	-	57,425
Internal customers	324	491	385	26	(1,226)	-
Total Segment Revenue	19,664	26,447	12,480	60	(1,226)	57,425
Segment Result	2,467	2,648	362	(4,616)	-	861

Reconciliation from segment revenue to consolidated revenue

	Group Unaudited half year ended 30-Sep-16 \$000	Group Unaudited half year ended 30-Sep-15 \$000	Group Audited year ended 31-Mar-16 \$000
Segment revenue	26,543	31,577	57,425
Interest revenue	2	6	7
Other revenue not allocated for segmental reporting	-	-	1
Consolidated revenue	26,545	31,583	57,433

8. Significant events after reporting date

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





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