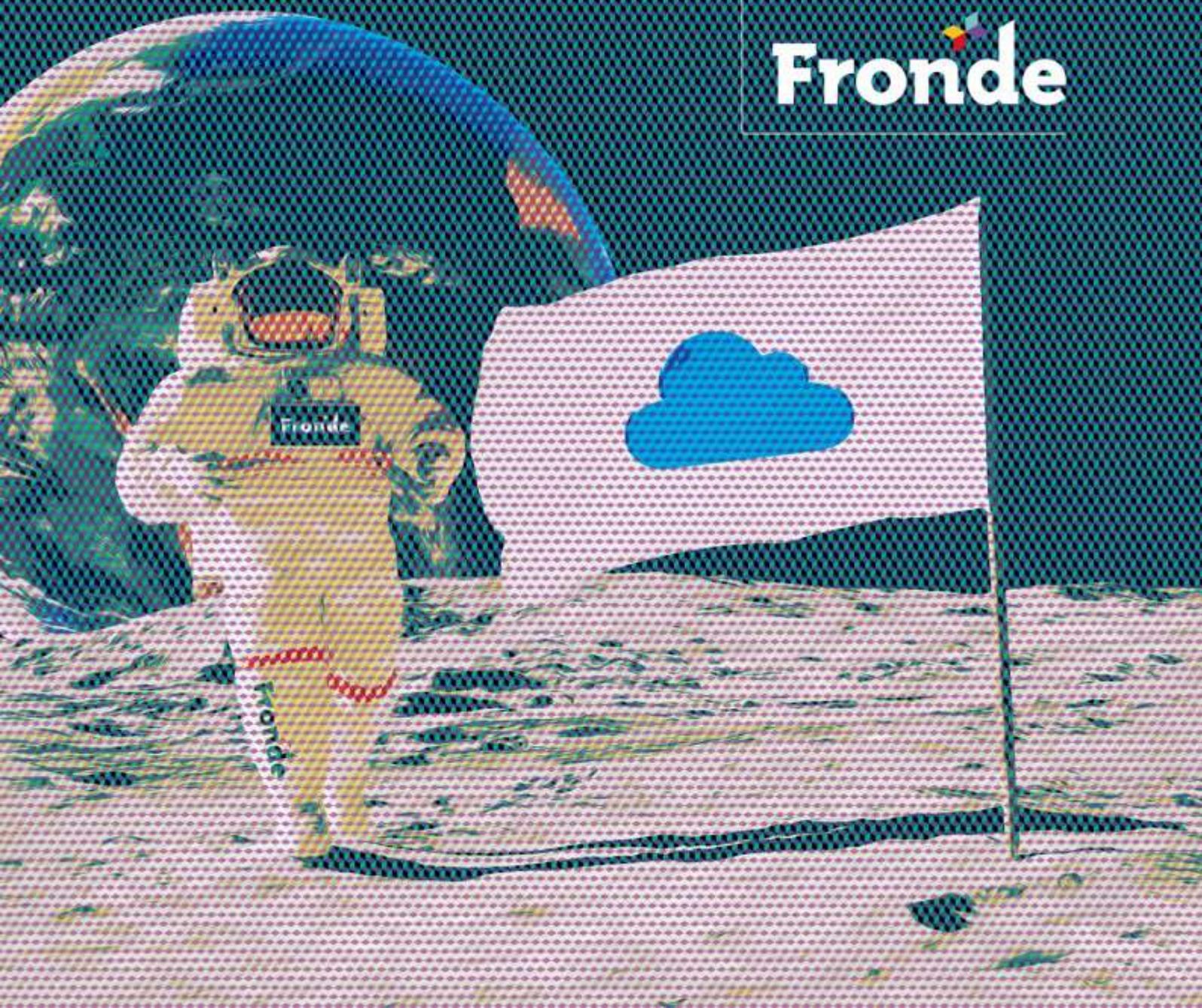


2014

Half-Year Report

Fronde Systems Group Limited
Half-Year Report
For the period ended
30 September 2014


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

A Lark (appointed 14 July 2014)

C Burton

G Cross

DW Irving

SL Maier Jr

W Norrie

Jl Mayson (Chairman)

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

Contents

Group Directory	1
Chairman’s Report	3
Chief Executive’s Report	4
Statement of Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cashflows.....	9
Notes to the Financial Statements	10

Chairman's Report

The financial result for the six months ended 30 September 2014 is a very disappointing loss of \$1.3 million compared to a profit of \$0.7 million in the same period last year. Cash on hand is \$2.7 million, a \$1.0 million increase on the balance at the end of last financial year. This was generated by a small operating cash surplus and payment received for the Message Direct business sold last year.

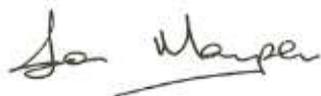
The first six months of 2014 was a period of investment, funded by the sale of Message Direct. Funds received from this sale have been invested into growing the Fronde business. This includes developing the Liberate market messaging and supporting collateral, into increased marketing capacity, into a digital marketing capability, into Fronde products and into sales capacity. Most of that investment occurred in the first six months of the year and was expensed, so increasing the costs in the business.

This increased cost was expected to be matched by higher revenue from July as a result of improved sales and marketing spend. While there was increased revenue in some areas of the business this was negated by a much larger reduction in revenue in the Consulting Services operation of the Wellington business. Management have since reduced capacity and cost in the business to better match revenue while the company regains its growth trajectory.

Fronde's major Australian investment in 2013, the purchase of NetSuite reseller OnlineOne, is fulfilling its early stage objectives and is now on a very strong growth trajectory. Fronde is successfully leveraging those skills into the New Zealand market with some strong reference sales and a fast growing pipeline of new business opportunities.

Your board has been strengthened by the appointment of Andy Lark as a director in July this year. Andy brings internationally recognised marketing skills as well as extensive networks and in-depth knowledge of the Australian market, where he is resident. The board also appointed Emma Watson as Apprentice Director for a year.

The board would like to thank management for their effort in the six months and look forward to improvement in the financial performance of the company.



J Mayson
Chairman

Chief Executive's Report

The loss for the half year of \$1.3 million included a unrealised, non cash loss of \$187,000 in foreign currency which relates to the value of Fronde's Australian subsidiary. The Group loss was a substantially poorer result than expected and has resulted in some overhead and operational costs being cut. Reductions in costs include headcount where there is excess capacity beyond client engagement needs or where investment programmes have ceased. This cost cutting is designed to return the company to profitability in the New Year.

High levels of investment compounded by weak trading in Wellington are the key reasons for the loss. Wellington revenue fell 20% compared to the same period last year, due to three main factors.

1. Sales effectiveness has been impacted by turnover in the sales team and sales leadership, resulting in less effective opportunity generation.
2. Some of Fronde's larger clients had come to the end of their investment cycles and had declining levels of required work in areas Fronde has expertise.
3. Unlike the 2011 election where revenue growth did not slow at all, Fronde has been impacted by a slowdown in investment decisions among government agencies.

This revenue decline was not evenly spread across the Wellington business lines. Revenue from sale of third party licences was 186% of the prior year while managed services was 115% of the prior year. Both of these revenue areas benefitted from increased marketing effort that focused on Fronde's Liberation purpose and territories in campaigns. In contrast, revenue from consulting services was only 70% of the prior year.

In response to the poor performance and to remedy the much reduced consulting services revenue the sales team and sales leadership has been reestablished. Overheads have been reduced and initiatives reduced to the minimum until the trading situation in Wellington becomes more stable. The company is still dominated by services supplied to government so the impact of a downturn in Fronde's Wellington consulting services is felt heavily on the bottom line.

Within the rest of the business there was solid or strong performance. The Fronde Australian business has performed very strongly, delivering 97% revenue growth as compared to the same period last year. This growth is a result of the acquisition last year of OnlineOne and the subsequent investment in sales and marketing. Tougher economic conditions in Australia are having little effect in slowing Fronde's growth. Fronde's Australian business made a small profit of \$238,000 for the first six months of the year.

NetSuite technical support and delivery capacity to support New Zealand and Australia has increased in scale in the Philippines to nine technical staff. The Fronde NetSuite business is growing strongly, which will require the Manila office to also increase in size as there is relative availability of cloud integration skills in that market. Fronde achieved Five Star partner status with NetSuite during the period, the highest partner level that NetSuite offer.

Within New Zealand the South Island market is steadily growing with a number of significant companies joining Fronde's client list. The Auckland business has shown strong growth with a 41% revenue increase compared to the same period last year due to increased sales capacity and effectiveness combined with marketing activity.

Fronde's investment in products is beginning to show benefits, particularly Fronde Cloud Workspace. This is an example of the integration across Fronde's partner cloud platforms, in this case Citrix, AWS and Google, that is a market differentiator for Fronde.

Fronde partners continue to be a very important part of the business. New partner Citrix has been heavily engaged with Fronde in Australia around our new product, Fronde Cloud Workspace. Fronde is at a late stage of bidding for two large opportunities in Australia that will close this financial year and, if won, will influence the future direction of the company.

The Liberate strategy and story has proven effective and has helped lift Fronde into the top ten for mindshare among IT service providers in the New Zealand market (to 14% in September this year compared to 2% last year). This change, along with the digital marketing capability invested in during the first six months of the year, is supporting more effective lead generation.

A handwritten signature in black ink that reads "Ian Clarke". The signature is written in a cursive, slightly slanted style.

Ian Clarke

CEO

Statement of Comprehensive Income

For the period ended 30 September 2014

	Note	Group Unaudited half year ended 30-Sep-14 \$000	Group Unaudited half year ended 30-Sep-13 \$000	Group Audited year ended 31-Mar-14 \$000
Revenue	3	31,589	32,778	62,653
Cost of sales		(24,118)	(23,980)	(47,136)
Gross profit		7,471	8,798	15,517
Profit from disposal of property		-	-	1,692
Profit from disposal of property		-	-	1,692
Expenditure	4	(8,559)	(7,740)	(15,676)
Finance costs	3	(37)	(120)	(188)
Profit before income tax expense		(1,125)	938	1,345
Income tax expense		-	(453)	(488)
Profit for the period		(1,125)	485	857
Other Comprehensive Income				
Gains/(losses) from:				
Translation of foreign operations		(187)	222	389
Other comprehensive income for the year net of tax		(187)	222	389
Total comprehensive income for the year net of tax		(1,312)	707	1,246
Earnings per share:				
Basic and diluted (cents per share, based on profit after tax)		(15.74)	6.79	11.67

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

Statement of Financial Position

As at 30 September 2014

	Note	Group Unaudited half year ended 30-Sep-14 \$000	Group Unaudited half year ended 30-Sep-13 \$000	Group Audited year ended 31-Mar-14 \$000
Assets				
Current assets		11,858	12,480	12,504
Non-current assets	5	2,807	5,347	2,747
Total assets		14,665	17,827	15,251
Liabilities				
Current liabilities	6	10,840	10,793	10,071
Non-current liabilities	5,6	-	2,441	42
Total liabilities		10,840	13,234	10,114
Net assets		3,825	4,593	5,137
Equity				
Issued share capital		5,036	5,036	5,036
Retained earnings		(1,250)	(502)	(125)
Reserves		39	59	226
Total equity		3,825	4,593	5,137
Total equity and liabilities		14,665	17,827	15,251

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 2014

Note	Group Unaudited half year ended 30-Sep-14 \$000	Group Unaudited half year ended 30-Sep-13 \$000	Group Audited year ended 31-Mar-14 \$000
Equity at the beginning of the period	5,137	4,154	4,154
Profit on ordinary activities after taxation	(1,125)	485	857
Movement in foreign currency translation reserve	(187)	222	389
Total comprehensive income for the year, net of tax	(1,312)	707	1,246
Dividend on ordinary shares	-	(268)	(263)
Equity at the end of the period	3,825	4,593	5,137

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

Statement of Cashflows

For the period ended 30 September 2014

	Group Unaudited half year ended 30-Sep-14 \$000	Group Unaudited half year ended 30-Sep-13 \$000	Group Audited year ended 31-Mar-14 \$000
Cash flows from operating activities			
Operating cash inflows	31,679	32,995	63,029
Operating cash outflows	(31,347)	(31,131)	(63,351)
Net cash (used in)/provided by operating activities	332	1,864	(322)
	2		
Cash flows from investing activities			
Investing cash inflows	1,710	-	-
Investing cash outflows	(352)	(1,707)	(1,732)
Net cash (used in)/provided by investing activities	1,358	(1,707)	(1,732)
Cash flows from financing activities			
Financing cash inflows	-	-	-
Financing cash outflows	(451)	(819)	(917)
Net cash outflows from financing activities	(451)	(819)	(917)
Net increase in cash and cash equivalents	1,239	(662)	(2,971)
Cash and cash equivalents at the beginning of the period	1,653	4,235	4,235
Foreign exchange effects	(187)	222	389
Cash and cash equivalents at the end of the period	2,705	3,795	1,653

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 2014.

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

	Group Unaudited half year ended 30-Sep-14 \$000	Group Unaudited half year ended 30-Sep-13 \$000	Group Audited year ended 31-Mar-14 \$000
Profit/(loss) after tax for the period	(1,125)	485	857
<i>Add/(less) non-cash items and non-operating items</i>			
(Gain)/Loss on disposal of non-current assets	-	-	(1,738)
Depreciation and amortisation of non-current assets	292	344	699
Increase / (decrease) in current tax balances	(1,008)	(432)	(273)
(Increase) / decrease in deferred tax balances	-	-	(108)
Changes in net assets and liabilities:			
Decrease/(increase) in current receivables	(436)	(418)	(300)
Decrease/(increase) in other current assets	423	492	279
(Decrease)/increase in current payables	700	739	(24)
(Decrease)/increase in other liabilities	1,486	654	286
Net cash inflow from operating activities	332	1,864	(322)

3. Interest

	Group Unaudited half year ended 30-Sep-14 \$000	Group Unaudited half year ended 30-Sep-13 \$000	Group Audited year ended 31-Mar-14 \$000
Included in revenue:			
Interest received	6	5	60
Included in finance costs:			
Interest paid	37	120	188

4. Unrealised foreign exchange loss

Expenditure includes \$323k of unrealised foreign exchange gains. At 30 September 2013 \$398k of unrealised foreign exchange losses and \$657k at 31 March 2014.

5. Business Combinations

On 29 April 2013 Fronde Australia Pty Limited entered in to an unconditional agreement for the purchase of the net assets of Online One, for a total consideration of NZ\$1,311k cash.

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 key milestones will be based on the achievement of agreed earnings targets for the combined Australian Business. The contingent consideration has not been recognised in the financials as there are too many possible ranges of outcomes to allow a reasonable estimate valuation. Management's initial valuation of contingent consideration of NZ\$2.3m had been recorded at 30 September 2013.

Online One was a specialist NetSuite reseller and implementer in Australia. The goodwill recognised as a result of the acquisition was NZ\$1,285k. The goodwill is attributable mainly to the skills and technical talent of Online One's workforce, 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.

The following values are recognised in the financial statements in respect of this acquisition:

Identifiable assets acquired and liabilities assumed

In thousands of New Zealand Dollars	2014
Current assets	253
Current liabilities	(151)
Property, plant and equipment	12
Loans and borrowings	(89)
Total identifiable net assets	25

The trade receivables comprise gross contractual amounts due of NZ\$188k, of which \$nil was uncollectible.

During the six months ended 30 September 2014 Online One contributed revenue of NZ\$1,701k.

6. Bank Loans

	Group Unaudited half year ended 30-Sep-14 \$000	Group Unaudited half year ended 30-Sep-13 \$000	Group Audited year ended 31-Mar-14 \$000
Secured			
Current portion of term loans	123	552	532
Non-current portion of term loans	-	125	42
	123	677	574

7. 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. 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.

Group (Unaudited) For the half year ended 30 September 2014	NZ North \$000	NZ South \$000	Australia \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue from external customers:						
Revenue from consulting services	3,428	15,713	1,602	-	-	20,743
Revenue from sale of third party licences	822	2,009	4,283	-	-	7,114
Software and network managed services	-	3,734	-	-	-	3,734
External customers	4,250	21,456	5,885	-	-	31,591
Internal customers	49	132	69	-	(250)	0
Total segment revenue	4,299	21,588	5,954	-	(250)	31,591
Segment result	382	2,736	238	(4,481)	-	(1,125)

Group (Unaudited)**For the half year ended 30
September 2013**

	NZ North \$000	NZ South \$000	Australia \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue from external customers:						
Revenue from consulting services	2,684	22,379	858	-	-	25,922
Revenue from sale of third party licences	353	1,081	2,158	-	-	3,592
Software and network managed services	-	3,260	-	-	-	3,260
External customers	3,037	26,721	3,015	-	-	32,773
Internal customers	5	335	5	13	(358)	-
Total segment revenue	3,042	27,056	3,020	-	(358)	32,773
Segment result	99	4,426	(795)	(2,792)	-	938

Group**For the year ended 31
March 2014**

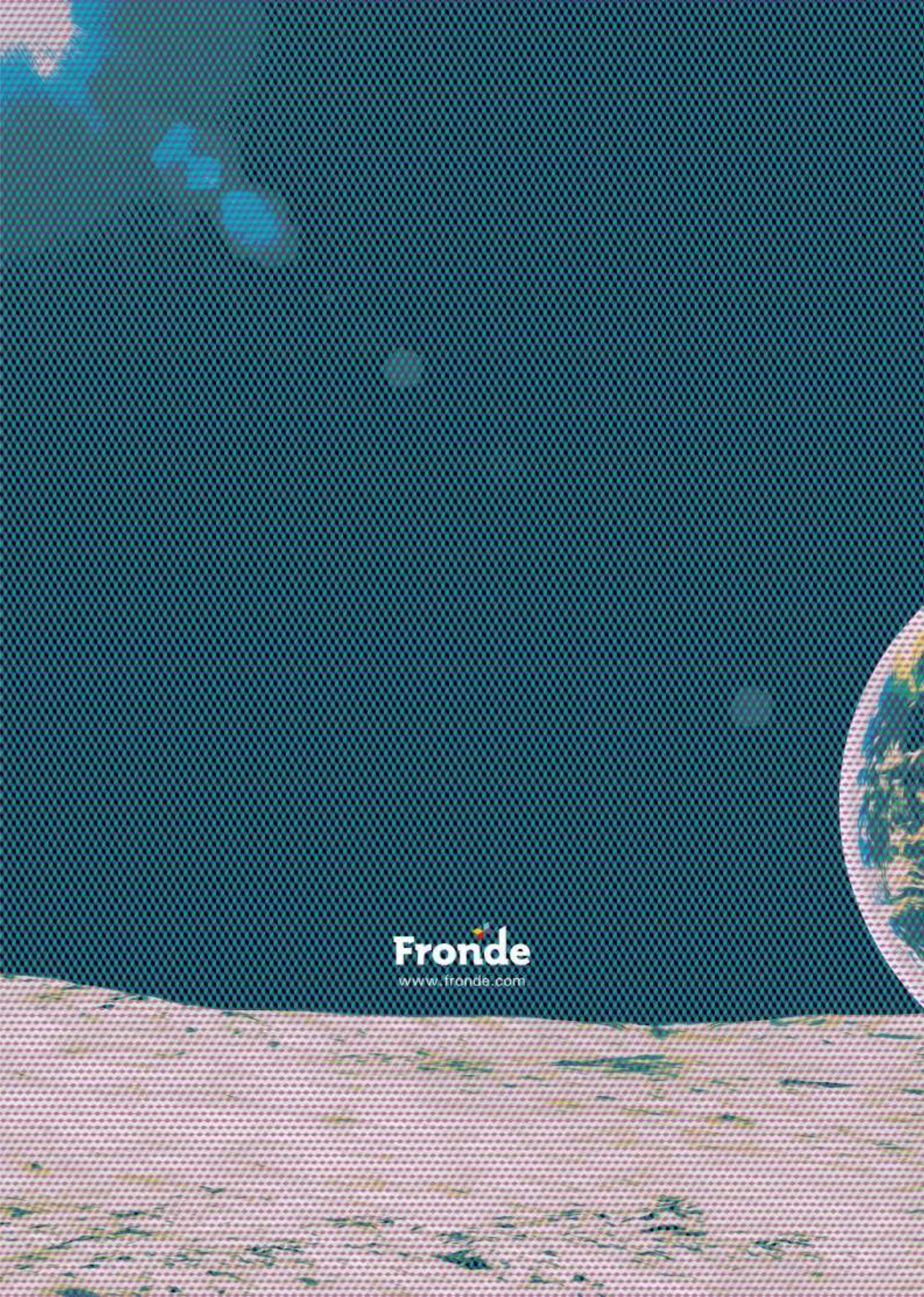
	NZ North \$000	NZ South \$000	Australia \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue from external customers:						
Revenue from consulting services	5,916	39,701	1,664	-	-	47,281
Revenue from sale of third party licences	1,241	3,099	3,466	-	-	7,806
Software and network managed services	-	7,502	-	-	-	7,502
External customers	7,157	50,302	5,130	-	-	62,589
Internal customers	38	470	8	-	(516)	-
Total segment revenue	7,195	50,772	5,138	-	(516)	62,589
Segment result	1,627	6,947	(1,771)	(5,458)	-	1,345

Reconciliation from segment revenue to consolidated revenue

	Sep-14 \$000	Sep-13 \$000	Mar-14 \$000
Segment revenue	31,591	32,773	62,589
Interest revenue	6	5	60
Other gains / revenue not allocated for segmental reporting	(9)	-	4
Consolidated revenue	31,589	32,778	62,653

8. Significant events after reporting date

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



Fronde
www.fronde.com