



Fronde

2017
Summary

Annual Report

Fronde Systems Group Limited
Summary Annual Report
for the year ended
31 March 2017



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

C Burton		
DW Irving		
SL Maier Jr		
D Bartlett	(Chairman)	Appointed on 01 March 2017
G Cross		Resigned on 28 July 2016
A Lark		Resigned on 28 July 2016
JI Mayson		Resigned on 28 July 2016

Auditor

Deloitte Limited
98 Customhouse Quay
Wellington

Solicitor

Quigg Partners
The Bayleys Building
28 Brandon St
Wellington

Banker

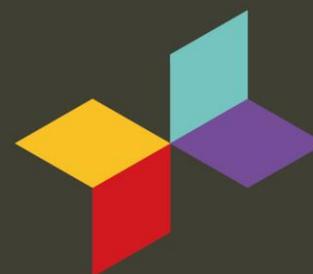
ANZ National Bank Limited
215 – 229 Lambton Quay
Wellington

Share Registry

Link Market Services
138 Tancred Street
Ashburton

Unlisted Market Stock Code

FSG
www.unlisted.co.nz



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Directors' Report

The Directors present the Financial Statements of Fronde Systems Group Limited for the year ended 31 March 2017.

For and on behalf of the Board on 25 May 2017.



David Bartlett
Chairman



David Irving
Director

Chairman's and Chief Executive's Report

On behalf of the Fronde Systems Group Board, we are pleased to present another substantially improved result. Our full year result for the year ended 31 March 2017 reflects the continued and significant improvement in profitability of our business. Especially pleasing is that as well as stabilising and improving our core profitability, we were also able to significantly increase our investment for future growth and profitability.

Highlights

- Profit before tax for the year improved by 66% (\$1.43m compared with \$0.86m for the prior year)
- As a % of income, profit before tax almost doubled from 1.5% in the prior year to 2.9% this year
- Equity increased to \$5.26m, and this full year result represents a 27% Return on Equity
- Gross margin increased from 27% to 31%
- Reduction in general overhead costs of 5%
- Cash was positive from April last year, with no debt at full year
- Significant investment in building a differentiated market position for the future
- Significant investment to accelerate future growth of our business in Australia

As highlighted in previous reporting periods, revenue in some traditional areas of our business remains under pressure. In particular, we continue to see pressure on the volume and profitability of large, bespoke custom software opportunities in the government sector. Despite pleasing growth in recurring revenues from licenses and managed services, overall revenue reduced by 13%. However, our focus on growing higher margin business, managing capacity carefully, and appropriately balancing costs and investment, delivered significantly improved profitability, and we are developing a much stronger base for future growth.

Profitability of our Australian business has increased from \$0.36m to \$0.77m. Investments in our sales capacity have driven growth of NetSuite licenses and services, and increased scale and capacity management has driven improved margins.

Outlook

We expect the pressure of current market dynamics to continue, particularly in the traditional custom software areas of our business. However, our investment in building a differentiated position in both New Zealand and Australia is beginning to gain traction, and we expect increasing opportunities in our growth segments (as we help our customers achieve business outcomes from their digital transformation and integration initiatives). This gives us an exciting and strong base to build on over the next few years.

In the coming year we will continue our focus on improving profitability, balancing this carefully with enabling further investment in our growth segments. Key areas include:

- Continuing to build and refine our differentiated market position, and leveraging this in the Australian and New Zealand markets
- Ongoing increases in recurring revenue from licenses and managed services
- Investing in our sales and marketing capacity and capability
- Optimising our service capacity to match demand, and optimising our internal indirect costs

Dividend

The Directors have considered the position of the company, and in particular balancing the opportunities for reinvestment of profit to drive growth over the next few years, with the opportunity to make a distribution to shareholders. The board have approved a fully imputed final dividend of 4c per share, which will be the first dividend paid since the year ended 31st March 2013.

Governance

In February 2017, the board appointed The Hon. David Bartlett as a Director, and elected him as Chair of the board. David brings a wealth of experience to our board, and was recently named by the Australian as one of Australia's Top 50 most influential people in technology. As part of the appointment process, the board have requested that the Chair re-assesses the skills and makeup of the board. As a first step, Celia Burton has signalled her intent to stand down, and as a result we have instigated a search process to refresh the board.

The board and CEO would like to thank Celia for her contribution over the last 4 years.

A handwritten signature in black ink, appearing to read "David Bartlett".

David Bartlett
Chairman

A handwritten signature in black ink, appearing to read "Anthony Belsham".

Anthony Belsham
CEO



Independent Auditor's Report on the Consolidated Summary Financial Statements

To the Shareholders of Fronde Systems Group Limited

Opinion

The summary consolidated financial statements of Fronde Systems Group Limited and its subsidiaries (the 'Group'), which comprise the summary consolidated statement of financial position as at 31 March 2017, and the summary consolidated statement of profit or loss and other comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of the Group for the year ended 31 March 2017.

In our opinion, the accompanying summary consolidated financial statements, on pages 6 to 10, are consistent, in all material respects, with the audited consolidated financial statements, in accordance with FRS-43: *Summary Financial Statements* issued by the New Zealand Accounting Standards Board.

Summary consolidated financial statements

The summary consolidated financial statements do not contain all the disclosures required by New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report.

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 25 May 2017.

Directors' responsibilities for the summary consolidated financial statements

The directors are responsible on behalf of the Group for the preparation of the summary consolidated financial statements in accordance with FRS-43: *Summary Financial Statements*.

Auditor's responsibilities

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) ('ISA (NZ)') 810 (Revised): *Engagements to Report on Summary Financial Statements*.

Other than in our capacity as auditor, we have no relationship with or interests in the Company or any of its subsidiaries.

Restriction on use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 207B of the Companies Act 1993. 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.



Wellington, New Zealand
25 May 2017

This audit report relates to the summary consolidated financial statements of Fronde Systems Group Limited (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 March 2017 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the summary consolidated financial statements since they were initially presented on the website. The audit report refers only to the summary consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these summary consolidated 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 summary consolidated financial statements and related audit report dated 25 May 2017 to confirm the information included in the summary consolidated financial statements presented on this website.

Summary Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2017

	2017 \$000	2016 \$000 (Restated)
Revenue	49,656	57,433
Cost of sales	(34,182)	(41,804)
Gross profit	15,474	15,629
Profit/(Loss) from disposal of Property, Plant and Equipment	(49)	2
Expenditure	(13,979)	(14,631)
Finance costs	(21)	(139)
Total expenses	(14,049)	(14,768)
Profit before income tax expense	1,425	861
Income tax (expense)	(232)	(256)
Profit for the year	1,193	605
Profit attributable to:		
Shareholders of the Parent entity	1,193	605
	1,193	605
Earnings per share:		
Basic and diluted (cents per share)	15.70	8.42
Other comprehensive income, net of tax		
Gains from translation of foreign operations	128	55
Other comprehensive income for the year, net of tax	128	55
Total comprehensive income for the year, net of tax	1,321	660

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

Summary Statement of Financial Position

As at 31 March 2017

	2017 \$000	2016 \$000 (Restated)
Assets		
Current Assets	9,896	10,744
Non-current Assets	2,435	2,717
Total Assets	12,331	13,461
Liabilities		
Current Liabilities	7,034	9,747
Non-current Liabilities	33	139
Total Liabilities	7,067	9,886
Net assets	5,264	3,575
Equity		
Issued share capital	5,708	5,162
Retained earnings	(420)	(1,613)
Foreign currency translation reserve	(115)	(243)
Share based payment reserve	91	269
Total Equity	5,264	3,575
Total Equity and Liabilities	12,331	13,461

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Summary Statement of Changes in Equity

For the year ended 31 March 2017

	Share Capital \$000	Accumulated deficits \$000 (Restated)	Foreign Currency Translation Reserve \$000 (Restated)	Share based Payment Reserve \$000	Total \$000 (Restated)
At 1 April 2015	5,036	(2,196)	(298)	-	2,542
Profit for the year	-	605	-	-	605
Change in foreign currency translation reserve	-	-	55	-	55
Total comprehensive income for the year, net of tax	-	605	55	-	660
Dividend paid	-	(22)	-	-	(22)
Ordinary shares issued	126	-	-	-	126
Provision for issue of Ordinary shares	-	-	-	269	269
At 31 March 2016	5,162	(1,613)	(243)	269	3,575
At 1 April 2016	5,162	(1,613)	(243)	269	3,575
Profit for the year	-	1,193	-	-	1,193
Change in foreign currency translation reserve	-	-	128	-	128
Total comprehensive income for the year, net of tax	-	1,193	128	-	1,321
Ordinary shares issued	546	-	-	-	546
(Ordinary shares issued)/Provision for issue of Ordinary shares	-	-	-	(178)	(178)
At 31 March 2017	5,708	(420)	(115)	91	5,264

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Summary Statement of Cashflows

For the year ended 31 March 2017

	2017 \$000	2016 \$000 (Restated)
Net cash from operating activities	1,645	705
Net cash used in investing activities	(458)	(98)
Net cash used in financing activities	-	(40)
Net increase in cash and cash equivalents	1,187	567
Cash and cash equivalents at the beginning of the financial year	225	(356)
Foreign exchange effects	113	14
Cash and cash equivalents at the end of the financial year	1,525	225

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

Notes to the Financial Statements

The Summary Financial Statements of Fronde Systems Group Limited ("Fronde"), a profit-oriented entity, for the year ending 31 March 2017 were extracted from the full Financial Statements authorised for issue by the Directors on 25 May 2017. An unmodified audit report was issued on 25 May 2017. 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, they cannot be expected to provide as complete an understanding as produced by the full Financial Statements. These Summary Financial Statements are in compliance with FRS-43: *Summary Financial Statements* and the full financial statements comply with NZ-IFRS.

The comparative figures in these Summary Financial Statements have been restated. 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 profit and loss, to other comprehensive income.

1. Events after reporting date

On 25 May 2017 the directors proposed a final dividend of 4.0 cents per share totalling \$307k to be paid on 30 June 2017.

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



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