

Finzsoft Group

Results Announcement for the first half of FY18

Finzsoft is pleased to provide its half-year report and its performance highlights for the half-year ended 31 December 2017:

- Finzsoft continues to trade well and has invested heavily in new business models to support its leading position as the next generation Connected Core, digital and SaaS banking and financial institution software, and the expansion into Asean markets.
- In December 2017, Finzsoft entered into a market leading strategic relationship with Datacom Systems Limited to create a scalable and flexible model to ensure that the business can continue to grow into new and existing markets.
- Six month operating revenue of \$7.44 million is down on the same period last year (31 December 2016 \$10.39 million). The revenue is derived from annual licence, initial licence fees and professional services from existing and new clients. The timing of these are variable.
- EBITDA result of \$200k is down on the same period last year (31 December 2016 \$3.7 million). Net loss after tax of \$305k is down on the same period last year (31 December 2016 \$2 million net profit after tax). The current six month period includes non-recurring transaction related costs in excess of \$500k.
- Further investments into the sales and marketing function have been made to take advantage of opportunities presented both domestically and in Asean markets.
- Based on current contracted revenue, along with our pipeline opportunities, we will expect to see Finzsoft operate profitably with no debt and positive cash flow.



Andrew Holliday
Managing Director



Brent Impey
Chairman

Finzsoft Solutions Limited
Financial statements
for the period ended 31 December 2017

Statement of comprehensive income

For the period ended 31 December 2017

| | Unaudited 6 months to 31/12/2017 \$'000 | Unaudited 6 months to 31/12/2016 \$'000 | Audited 12 months to 30/06/2017 \$'000 |
|---|--|--|---|
| Revenue | 7,443 | 10,384 | 16,723 |
| Interest income | - | 2 | 33 |
| Other income / (loss) | (1) | 1 | (1) |
| Total operating revenue | <u>7,442</u> | <u>10,387</u> | <u>16,755</u> |
| Development, servicing and other direct costs | (4,839) | (4,847) | (8,152) |
| Occupancy expense | (367) | (441) | (792) |
| Depreciation and amortisation expense | (674) | (554) | (1,099) |
| Marketing and sales | (228) | (304) | (434) |
| Finance expense | (3) | (26) | (26) |
| Corporate expenses | (1,041) | (708) | (1,383) |
| Other expenses | (767) | (780) | (1,429) |
| Total expenses | <u>(7,919)</u> | <u>(7,660)</u> | <u>(13,315)</u> |
| (Loss) / profit before income tax | (477) | 2,727 | 3,440 |
| Income tax benefit / (expense) | 119 | (750) | (944) |
| (Loss) / profit for the period | <u>(358)</u> | <u>1,977</u> | <u>2,496</u> |
| Other comprehensive income: | | | |
| Currency translation differences | 53 | 21 | (43) |
| Other comprehensive income for the period, net of tax | <u>53</u> | <u>21</u> | <u>(43)</u> |
| Total comprehensive income for the period | <u>(305)</u> | <u>1,998</u> | <u>2,453</u> |
| Earnings per share attributable to the ordinary equity holders of the company during the period: | | | |
| Attributable to continuing operations: | | | |
| Basic earnings per share | 4 | (4.06) | 22.44 |
| Diluted earnings per share | 4 | (4.06) | 22.12 |
| | | 28.33 | 28.33 |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the period ended 31 December 2017

| | Share Capital \$'000 | Currency translation reserve \$'000 | Share option reserve \$'000 | Retained earnings \$'000 | Total equity \$'000 |
|---|----------------------------|--|-----------------------------------|--------------------------------|---------------------------|
| Balance as at 1 July 2016 (audited) | <u>4,316</u> | <u>(139)</u> | <u>128</u> | <u>455</u> | <u>4,760</u> |
| Comprehensive income | | | | | |
| Profit for the period | - | - | - | 1,977 | 1,977 |
| Other comprehensive income | | | | | |
| Currency translation differences | - | 21 | - | - | 21 |
| Total comprehensive income | <u>-</u> | <u>21</u> | <u>-</u> | <u>1,977</u> | <u>1,998</u> |
| Balance as at 31 December 2016 (unaudited) | <u>4,316</u> | <u>(118)</u> | <u>128</u> | <u>2,432</u> | <u>6,758</u> |
| Balance as at 1 July 2016 (audited) | <u>4,316</u> | <u>(139)</u> | <u>128</u> | <u>455</u> | <u>4,760</u> |
| Comprehensive income | | | | | |
| Profit for the year | - | - | - | 2,496 | 2,496 |
| Other comprehensive income | | | | | |
| Currency translation differences | - | (43) | - | - | (43) |
| Total comprehensive income | <u>-</u> | <u>(43)</u> | <u>-</u> | <u>2,496</u> | <u>2,452</u> |
| Lapsed options transferred to retained earnings | - | - | (128) | 128 | - |
| Balance as at 30 June 2017 (audited) | <u>4,316</u> | <u>(182)</u> | <u>-</u> | <u>3,078</u> | <u>7,212</u> |
| Balance as at 1 July 2017 (audited) | <u>4,316</u> | <u>(182)</u> | <u>-</u> | <u>3,078</u> | <u>7,212</u> |
| Comprehensive income | | | | | |
| Loss for the period | - | - | - | (358) | (358) |
| Other comprehensive income | | | | | |
| Currency translation differences | - | 53 | - | - | 53 |
| Total comprehensive income | <u>-</u> | <u>53</u> | <u>-</u> | <u>(358)</u> | <u>(306)</u> |
| Balance as at 31 December 2017 (unaudited) | <u>4,316</u> | <u>(129)</u> | <u>-</u> | <u>2,719</u> | <u>6,906</u> |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of financial position

As at 31 December 2017

| | Unaudited 6 months to 31/12/2017 \$'000 | Unaudited 6 months to 31/12/2016 \$'000 | Audited 12 months to 30/06/2017 \$'000 |
|---------------------------------|--|--|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 2,502 | 3,189 | 2,364 |
| Trade and other receivables | <u>1,094</u> | <u>1,571</u> | <u>2,094</u> |
| Total current assets | <u>3,596</u> | <u>4,760</u> | <u>4,458</u> |
| Non-current assets | | | |
| Property, plant and equipment | 554 | 596 | 633 |
| Intangible assets | 5,522 | 4,829 | 5,609 |
| Deferred tax assets | <u>243</u> | <u>164</u> | <u>82</u> |
| Total non-current assets | <u>6,319</u> | <u>5,589</u> | <u>6,324</u> |
| Total assets | <u>9,915</u> | <u>10,349</u> | <u>10,782</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 898 | 1,098 | 926 |
| Unearned revenue | 1,242 | 1,636 | 1,336 |
| Provision for employee benefits | 484 | 573 | 950 |
| Current tax liabilities | <u>385</u> | <u>284</u> | <u>358</u> |
| Total current liabilities | <u>3,009</u> | <u>3,591</u> | <u>3,570</u> |
| Total liabilities | <u>3,009</u> | <u>3,591</u> | <u>3,570</u> |
| Net assets | <u>6,906</u> | <u>6,758</u> | <u>7,212</u> |
| EQUITY | | | |
| Contributed equity | 4,316 | 4,316 | 4,316 |
| Reserves | (129) | 10 | (182) |
| Retained earnings | <u>2,719</u> | <u>2,432</u> | <u>3,078</u> |
| | <u>6,906</u> | <u>6,758</u> | <u>7,212</u> |

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of cash flows

For the period ended 31 December 2017

| | Unaudited 6 months to 31/12/2017 \$'000 | Unaudited 6 months to 31/12/2016 \$'000 | Audited 12 months to 30/06/2017 \$'000 |
|---|--|--|---|
| Cash flows from operating activities | | | |
| Receipts from customers | 8,486 | 12,032 | 17,278 |
| Dividends received | - | 1 | 1 |
| Interest received | - | - | 33 |
| | <u>8,486</u> | <u>12,033</u> | <u>17,312</u> |
| Payments to suppliers and employees | (7,867) | (7,397) | (12,044) |
| Interest paid | (3) | (26) | (26) |
| Income tax paid | (17) | (524) | (633) |
| Goods and services tax net paid | (8) | (241) | (216) |
| | <u>(7,895)</u> | <u>(8,188)</u> | <u>(12,919)</u> |
| Net cash inflow from operating activities | <u>591</u> | <u>3,845</u> | <u>4,393</u> |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | (8) | (296) | (455) |
| Payments for intangible assets | (498) | (30) | (1,248) |
| Net cash (outflow) from investing activities | <u>(506)</u> | <u>(326)</u> | <u>(1,703)</u> |
| Cash flows from financing activities | | | |
| Repayment of borrowings | - | (750) | (750) |
| Net cash (outflow) from financing activities | <u>-</u> | <u>(750)</u> | <u>(750)</u> |
| Net increase in cash and cash equivalents | 85 | 2,769 | 1,940 |
| Cash and cash equivalents at the beginning of the period | 2,364 | 420 | 420 |
| Effects of exchange rate changes on cash and cash equivalents | 53 | - | 4 |
| Cash and cash equivalents at end of the period | <u>2,502</u> | <u>3,189</u> | <u>2,364</u> |

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the period ended 31 December 2017

1 Summary of significant accounting policies

Reporting Entity

Finzsoft Solutions Limited is a limited liability company, incorporated and domiciled in New Zealand, registered under the Companies Act 1993, and listed on the New Zealand Stock Exchange (NZX).

Finzsoft Solutions Limited and its subsidiaries (together "the Group") is a FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the Financial Markets Conduct Act 2013 and the Companies Act 1993.

The Group's principal activity is that of computer software development, sale and support which is undertaken in New Zealand and Australia.

There have been no changes to the Group's principal activities during the period.

Measurement Base

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities.

Basis of Preparation

The unaudited interim financial statements comply with the New Zealand equivalent to International Standard IAS 34 Interim Financial Reporting.

The unaudited interim financial statements are not required to and do not include all of the information required for full annual statements and should be read in conjunction with the Finzsoft Solutions Limited 2017 Annual Report. For this purpose the Group is designated as a for-profit entity.

The functional and presentation currency of the Group is New Zealand dollars and the financial statements are rounded to the nearest thousand dollar.

The same significant judgements, estimates and assumptions included in the notes to the financial statements in the Group's Annual Report for the year ended 30 June 2017 have been applied to these interim financial statements.

The accounting policies applied in these unaudited interim financial statements are the same as those applied in the general purpose financial statements for the year ended 30 June 2017.

Notes to the financial statements (continued)

For the period ended 31 December 2017

2 Reconciliation of profit after income tax to net cash inflow from operating activities

| | Unaudited 6 months to 31/12/2017 \$'000 | Unaudited 6 months to 31/12/2016 \$'000 | Audited 12 months to 30/06/2017 \$'000 |
|---|--|--|---|
| (Loss) / profit for the period | (358) | 1,977 | 2,496 |
| Adjustments for non-cash items | | | |
| Depreciation | 87 | 118 | 225 |
| Amortisation of finite life intangible assets | 587 | 436 | 874 |
| Foreign currency exchange gain | 1 | 19 | 5 |
| Deferred tax recognised | (161) | (11) | 70 |
| Changes in assets and liabilities | | | |
| <i>(Increase) / decrease in assets</i> | | | |
| Trade receivable | 974 | 1,673 | 1,375 |
| Prepayments | (132) | 4 | (10) |
| Other receivables | 154 | - | (128) |
| Current income tax assets | - | - | (477) |
| <i>(Decrease) / increase in liabilities</i> | | | |
| Trade payable | (28) | 92 | 96 |
| Unearned revenue | (94) | (268) | (569) |
| Current income tax liabilities | 27 | 237 | - |
| Provisions for employee benefits | (466) | (432) | 436 |
| Net operating cash flow | <u>591</u> | <u>3,845</u> | <u>4,393</u> |

3 Segment information

Management has determined the operating segments based on the reports reviewed by the Board.

The Board considers the business from both a geographic and product perspective. Geographically, management considers the performance of sales and services in New Zealand, Australia and the rest of the world.

The reportable operating segments derive their revenue primarily from software delivery and support with the exception of New Zealand which is further segregated into revenue from transactional banking.

The Board assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA). This measurement basis excludes the effects of non-recurring expenditure from operating segments. Interest income and expenditure are not allocated to segments, as this type of activity is considered to be a central treasury function.

There are no sales between segments. The revenue from external parties reported to the Board is measured in a manner consistent with that in the statement of comprehensive income.

The amounts provided to the Board with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The amounts provided to the Board with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

Notes to the financial statements (continued)

For the period ended 31 December 2017

3 Segment information (continued)

| | New Zealand Software Delivery & Support \$'000 | Australia Software Delivery & Support \$'000 | Rest of the World Software Delivery & Support \$'000 | Total \$'000 |
|--|--|--|---|-----------------|
|--|--|--|---|-----------------|

The unaudited segment information for the period ended 31 December 2017 is as follows:

| | | | | |
|--|--------------|--------------|----------|--------------|
| Segment revenue from external customers | <u>4,560</u> | <u>2,883</u> | <u>-</u> | <u>7,443</u> |
| Adjusted EBITDA | 911 | 330 | (1) | 1,240 |
| Depreciation and amortisation | 674 | - | - | 674 |
| Income tax (benefit) / expense | <u>(159)</u> | <u>40</u> | <u>-</u> | <u>(119)</u> |
| Total Assets | <u>7,995</u> | <u>1,912</u> | <u>8</u> | <u>9,915</u> |
| Additions to non-current assets (other than Financial instruments and deferred tax assets) | 506 | - | - | 506 |
| Total Liabilities | <u>2,563</u> | <u>444</u> | <u>2</u> | <u>3,009</u> |

The unaudited segment information for the period ended 31 December 2016 is as follows:

| | | | | |
|--|----------------|--------------|------------|----------------|
| Segment revenue from external customers | <u>7,703</u> | <u>2,681</u> | <u>-</u> | <u>10,384</u> |
| Adjusted EBITDA | 3,925 | 88 | - | 4,013 |
| Depreciation and amortisation | 551 | 3 | - | 554 |
| Income tax expense | <u>749</u> | <u>1</u> | <u>-</u> | <u>750</u> |
| Total Assets | <u>9,088</u> | <u>1,249</u> | <u>12</u> | <u>10,349</u> |
| Additions to non-current assets (other than Financial instruments and deferred tax assets) | 326 | - | - | 326 |
| Total Liabilities | <u>(3,176)</u> | <u>(413)</u> | <u>(2)</u> | <u>(3,591)</u> |

The audited segment information for the year ended 30 June 2017 is as follows:

| | | | | |
|--|----------------|--------------|------------|----------------|
| Segment revenue from external customers | <u>11,226</u> | <u>5,497</u> | <u>-</u> | <u>16,723</u> |
| Adjusted EBITDA | 5,804 | 132 | (21) | 5,915 |
| Depreciation and amortisation | 1,095 | 3 | - | 1,098 |
| Income tax expense | <u>923</u> | <u>23</u> | <u>(2)</u> | <u>944</u> |
| Total Assets | <u>7,569</u> | <u>3,206</u> | <u>7</u> | <u>10,782</u> |
| Additions to non-current assets (other than Financial instruments and deferred tax assets) | 1,703 | - | - | 1,703 |
| Total Liabilities | <u>(2,845)</u> | <u>(725)</u> | <u>-</u> | <u>(3,570)</u> |

Notes to the financial statements (continued)

For the period ended 31 December 2017

3 Segment information (continued)

A reconciliation of adjusted EBITDA to profit before tax is provided as follows:

| | Unaudited 6 months to 31/12/2017 \$'000 | Unaudited 6 months to 31/12/2016 \$'000 | Audited 12 months to 30/06/2017 \$'000 |
|--|--|--|---|
| Adjusted EBITDA from reportable segments | <u>1,240</u> | <u>4,013</u> | <u>5,915</u> |
| Depreciation | (87) | (118) | (225) |
| Amortisation | (587) | (436) | (874) |
| Interest received | - | 2 | 33 |
| Interest paid | (3) | (26) | (26) |
| Legal expenses | (457) | (250) | (417) |
| Directors fees | (94) | (88) | (211) |
| Professional and consultancy costs (not attributable to a segment) | (418) | (272) | (637) |
| Other | (71) | (98) | (118) |
| (Loss) / profit before income tax | <u>(477)</u> | <u>2,727</u> | <u>3,440</u> |

4 Earnings per share

The basic earnings per share is calculated by dividing the profit attributed to owners of the company by the weighted average number of ordinary shares in issue during the period.

| | Unaudited 6 months to 31/12/2017 \$'000 | Unaudited 6 months to 31/12/2016 \$'000 | Audited 12 months to 30/06/2017 \$'000 |
|---|--|--|---|
| (Loss) / profit attributable to owners of the company | (358) | 1,977 | 2,496 |
| Weighted average number of ordinary shares in issue | 8,809 | 8,809 | 8,809 |
| Adjusted for share options | - | 129 | - |
| Weighted average number of ordinary shares for diluted earnings per share | 8,809 | 8,938 | 8,809 |
| Basic earnings per share (cents per share) | (4.06) | 22.44 | 28.33 |
| Diluted earnings per share (cents per share) | (4.06) | 22.12 | 28.33 |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Notes to the financial statements (continued)

For the period ended 31 December 2017

5 Contingent Liabilities

The Group is contingently liable in respect of an all obligations guarantee and indemnity provided over all monies due to the ANZ National Bank Limited.

A deed of security dated 16 November 2000 is held by ANZ National Bank Ltd on behalf of New Zealand Stock Exchange.

Finzsoft Solution Limited, the parent, and Finzsoft Settlements Limited, a subsidiary, granted a General Security Agreement dated 27 March 2009 in favour of ANZ National Bank Ltd to cover the existing overdraft facility, flexible credit facility and the flexible rate term loan.

A Cross Guarantee and Indemnity for the benefit of ANZ National Bank Ltd was signed, in March 2009, between Finzsoft Solutions (Australia) Pty Ltd and Finzsoft Solutions Ltd, Finzsoft Solutions (New Zealand) Ltd and Finzsoft Settlements Ltd.

The Group has an overdraft facility of \$40,000 with ANZ National Bank Ltd. Interest on the overdraft facility is charged on a daily basis and payable monthly in arrears. Interest is charged at the applicable rate as determined by the bank from time to time. At the date of the agreement the overdraft interest rate was 11.7%. At balance date none of the facility (31 December 2016: Nil; 30 June 2017: Nil) had been drawn down.

The Group has a flexible credit facility of \$2,000,000 with ANZ National Bank Ltd. The facility may be drawn down in tranches up to the agreed limit for a monthly period as determined. Interest is charged on the daily balance of each tranche drawn at a fixed rate quoted and advised by the Bank on the interest determination date as being the Bank's cost of funding that tranche plus a margin of 2% (31 December 2016: 2% above the Bank's cost of funding; 30 June 2017: 2% above the Bank's cost of funding). Interest is payable monthly in arrears on the last day of each month. The facility is repaid at the end of each determined funding period. At balance date none of the facility (31 December 2016: Nil; 30 June 2017 : Nil) had been drawn down.

6 Commitments

The Group is not committed to incur any capital expenditure as at reporting date (31 December 2016: Nil; 30 June 2017: Nil).

7 Events after the balance date

There were no significant events occurring after balance date (31 December 2016: Nil; 30 June 2017: Nil).

Notes to the financial statements (continued)

For the period ended 31 December 2017

8 Key indicators

Management measures the performance of the Group on EBITDA. The International Financial Reporting Standards do not provide a definition for EBITDA. Consequently, this information should be viewed as a supplemental disclosure provided for the purpose of measuring more effectively the actual result from regular operations.

EBITDA (earnings before interest, taxes, depreciation and amortisation) are indicators of operating performance. They are computed as follows:

Profit(Loss) before tax

| | |
|---|-------------------------------|
| + | Financial expenses |
| - | Financial income |
| - | Depreciation and amortisation |
| = | EBITDA |

| | Unaudited 6 months to 31/12/2017 \$'000 | Unaudited 6 months to 31/12/2016 \$'000 | Audited 12 months to 30/06/2017 \$'000 |
|--------------------------------|--|--|---|
| Net (loss) / profit before tax | <u>(477)</u> | <u>2,727</u> | <u>3,440</u> |
| EBITDA | 200 | 3,305 | 4,532 |

A reconciliation of EBITDA to profit before tax is provided as follows :

| | | | |
|--------------------------------|---------------------|--------------|--------------|
| EBITDA | 200 | 3,305 | 4,532 |
| Depreciation and amortisation | (674) | (554) | (1,099) |
| Interest received | - | 2 | 33 |
| Interest paid | <u>(3)</u> | <u>(26)</u> | <u>(26)</u> |
| Net (loss) / profit before tax | <u>(477)</u> | <u>2,727</u> | <u>3,440</u> |