

FRONDE

Half Year Financial Report 2011

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Chairman's Report

I am pleased to report that the Fronde Group is performing strongly in a fast changing market. Revenue levels are running at 22% higher than for the comparable 6 months last year. Profit after tax at the half year is \$0.3m, which is lower than in the equivalent 6 months last year due to our investment in Australia and in new systems.

The sales pipeline for Australia now has strength and depth and we also anticipate that one of the new systems will be capitalised on completion in November. We anticipate these factors and the continued strong revenue growth will improve bottom line performance in the second half.

The Group's operating cashflow remains healthy and improving, supported by appropriate working capital facilities put in place with ANZ Bank in October this year. The Group's cash position at the half year is \$1.3 million, \$0.3 million ahead of the position at 31 March 2011

The Board has enthusiastically endorsed the new vision for Fronde - Transform Business for a Better Future. The associated brand development work is well advanced and will support Fronde to occupy a leadership position in our chosen markets. This positioning strongly supports the company strategy around Cloud computing and draws together our services business with our emerging product business.

The Board would like to sincerely thank management and staff for creating a positive momentum in the business.



Wayne Norrie
Chairman

Chief Executive's Report

Operational Focus

The operational focus has been on sales growth, particularly creating depth in the Australian sales pipeline, and on developing our brand positioning. The latter has been very effective in our Wellington business where we are seen as increasingly relevant by customers, partners and competitors. Our Auckland business continues to lead with cloud integration services and is developing a Google sales capability. The sustained profitable operation of this business for the last 15 months gives us a solid platform on which to build our business in the northern part of the North Island.

Our Australian business developed with increased sales capacity in Canberra and an increasing market penetration in New South Wales. While sales are still hard won our relationship with Google is very strong and we have a developing relationship with Salesforce. Upselling services to Google customers has been quite successful with those services being delivered from New Zealand.

Operational Performance

The first half of the financial year has shown a continuation of the growth momentum experienced last year but also continued margin pressure from Australasian economic challenges. Our professional services revenue is running 19% ahead of the same period last year. Google sales have shown a continued solid performance with a strong pipeline across Australia and New Zealand. There are some particularly significant opportunities in the pipeline that will show the way for some industry sectors. There have also been an increasing number of cloud engagements opening up with new customers utilising Salesforce or Force.com.

We are experiencing strong growth in our consulting business, increasingly in cloud integration services around Salesforce and Google implementations, and will continue to increase capacity to meet market demand for these services. Consequently, staff utilisation has been high across the whole company for the first six months. Given the very strong market demand and our margin challenge we are increasing prices.

Annuity revenue growth, particularly from the sale of Google products, is in line with expectations. The projections in Google growth look strong for the balance of the year, underpinned by a strong partner relationship and marketing activity.

Earlier this year we began work on a new Vision and Brand framework to push for a more assertive, differentiated brand and culture, informed by market trends and recognised customer needs and desires. The new direction is resonating with staff and we are in the process of embedding the vision and brand across the whole organisation.

We have implemented a number of people initiatives to drive staff engagement and our results from the annual JRA Best Workplaces Survey show significant improvements. We will continue to build on our success by developing and maintaining a high performance culture, and creating a sense of common purpose across the organisation.

The Fronde team has done a very good job over last six months to secure the financial returns we have recorded. We now want to push on to develop our Company to have a more differentiated brand and culture, align and engage our staff around a common purpose and drive for growth across Australia and New Zealand.

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

Ian Clarke
CEO

Statement of Comprehensive Income

For the period ended 30 September 2011

	Note	Group Unaudited half year ended 30-Sep-11 \$000	Group Unaudited half year ended 30-Sep-10 \$000	Group Audited year ended 31-Mar-11 \$000
Revenue	3	22,083	18,058	34,194
Cost of sales		(16,361)	(12,090)	(23,274)
Gross profit		5,722	5,968	10,920
Expenditure		(5,234)	(4,978)	(9,595)
Finance costs	3	(26)	(32)	(44)
Profit before income tax expense		462	958	1,281
Income tax expense		(145)	(261)	(476)
Profit for the period		317	697	805
Other Comprehensive Income				
Gains/(losses) from:				
Translation of foreign operations		(83)	(19)	(38)
Other comprehensive income for the year net of tax		(83)	(19)	(38)
Total comprehensive income for the year net of tax		234	678	767
Earnings per share:				
Basic and diluted (cents per share, based on profit after tax)		3.99	8.77	10.13

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

Statement of Financial Position

As at 30 September 2011

	Group Unaudited half year ended 30-Sep-11 \$000	Group Unaudited half year ended 30-Sep-10 \$000	Group Audited year ended 31-Mar-11 \$000
Assets			
Current assets	8,711	6,103	6,144
Non-current assets	1,355	1,163	1,056
Total assets	10,066	7,266	7,200
Liabilities			
Current liabilities	8,482	5,753	5,908
Non-current liabilities	156	89	97
Total liabilities	8,638	5,842	6,005
Net assets	1,428	1,424	1,195
Equity			
Issued share capital	5,535	5,536	5,536
Retained earnings	(3,887)	(3,994)	(4,204)
Reserves	(220)	(118)	(137)
Total equity	1,428	1,424	1,195
Total equity and liabilities	10,065	7,266	7,200

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 2011

	Group Unaudited half year ended 30-Sep-11 \$000	Group Unaudited half year ended 30-Sep-10 \$000	Group Audited year ended 31-Mar-11 \$000
Equity at the beginning of the period	1,195	746	746
Profit on ordinary activities after taxation	317	697	805
Movement in foreign currency translation reserve	(83)	(19)	(38)
Total comprehensive income for the year, net of tax	234	678	767
Dividend on ordinary shares	-	-	(318)
Equity at the end of the period	1,429	1,424	1,195

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

Cash Flow Statement

For the period ended 30 September 2011

	Note	Group Unaudited half year ended 30-Sep-11 \$000	Group Unaudited half year ended 30-Sep-10 \$000	Group Audited year ended 31-Mar-11 \$000
Cash flows from operating activities				
Operating cash inflows		20,466	18,468	33,172
Operating cash outflows		(19,441)	(17,606)	(32,346)
Net cash inflows from operating activities	2	1,025	862	826
Cash flows from investing activities				
Investing cash inflows		(16)	-	-
Investing cash outflows		(421)	(164)	(311)
Net cash outflows from investing activities		(437)	(164)	(311)
Cash flows from financing activities				
Financing cash inflows		-	-	-
Financing cash outflows		(333)	(264)	(252)
Net cash outflows from financing activities		(333)	(264)	(252)
Net increase in cash and cash equivalents		254	434	263
Cash and cash equivalents at the beginning of the period		1,061	799	799
Cash and cash equivalents at the end of the period	4	1,315	1,233	1,061

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 2011.

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

	Group Unaudited half year ended 30-Sep-11 \$000	Group Unaudited half year ended 30-Sep-10 \$000	Group Audited year ended 31-Mar-11 \$000
Profit/(loss) after tax for the period	317	697	805
<i>Add/(less) non-cash items and non-operating items</i>			
(Gain)/Loss on disposal of non-current assets	(16)	22	21
Depreciation and amortisation of non-current assets	197	191	370
Foreign exchange (gain)/loss	(61)	(18)	101
Movement in provisions	49	6	269
	169	201	761
Impact of changes in working capital items			
Decrease/(increase) in accounts receivable	(1,983)	(1,615)	(353)
(Decrease)/increase in accounts payable	2,251	1,045	(65)
(Decrease)/increase in taxation payable	132	364	122
(Decrease)/increase in GST payable	139	170	44
	539	(36)	(252)
Net cash inflow from operating activities	1,025	862	1,314

3. Interest

	Group Unaudited half year ended 30-Sep-11 \$000	Group Unaudited half year ended 30-Sep-10 \$000	Group Audited year ended 31-Mar-11 \$000
Included in revenue:			
Interest received	4	-	1
Included in finance costs:			
Interest paid	26	32	117

4. Segment Reporting

Business segments

Results are reported for four business segments, being the Group's main 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, earnings before taxation, expenses, total assets and total liabilities on a business segment basis is set out below. Inter-segment sales are priced on an arms-length basis.

From 1 April 2010 Managed Services has been included in reporting with IT Consulting.

Unaudited as at and for the period ended 30-Sep-11	Note	IT Consulting \$000	Licence Sales \$000	Mobile banking and two-factor authentication \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue							
External customers		18,919	3,107	39	18	-	22,083
Internal customers						-	-
Total Revenue		18,919		39	18	-	22,083
Profit/(loss) before taxation		535		(73)		-	462
Interest income		-		-	-	-	-
Interest expense		1		-	29	-	30
Depreciation and amortisation		62		2	1	-	65
Income tax		-		3	258	-	261

Unaudited as at and for the period ended 30-Sep-10	IT Consulting \$000	Licence Sales \$000	Mobile banking and two-factor authentication \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue						
External customers	17,647		156	228	-	18,058
Internal customers	107		68	29	(221)	-
Total Revenue	17,754		224	257	(221)	18,058
Profit/(loss) before taxation	4,007		(135)	(1,874)	62	958
Interest income	-		-	-	-	-
Interest expense	1		-	29	-	32
Depreciation and amortisation	62		2	1	-	190
Impairment loss	-		3	258	-	261
Audited as at and for the period ended 31-Mar-11	IT Consulting \$000	License Sales \$000	Mobile banking and two-factor authentication \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue and other income						
External customers	32,305	1,306	1,306	583	-	34,194
Internal customers	-	-	-	-	-	-
Total Revenue	32,305		1,306	583	-	34,194
Profit/(loss) before taxation	1,240		41			1,281
Interest revenue	-		-	7	-	7
Depreciation and amortisation	367	-	2	1	-	371
Income tax	-		-	476	-	476

The Group's primary segments are as follows:

IT Consulting – Professional IT services to design, build and integrate business transaction and payment systems

Licence sales – Resale of third party software licences

Mobile Banking and Two-factor Authentication – Mobile banking, payment and two-factor authentication products for retail banks

Corporate and Other – Head office support services for the Group

Geographical segments

An entity is required to disclose revenue and assets by geographical segments if it can attribute at least 10% of revenue or assets to a particular geographic region. The Group and is exempt from geographical segment reporting as more than 90% of revenue is derived from and assets are held in New Zealand.

5. Contingent liabilities

There were no contingent liabilities as at 30 September 2011 (30 September 2010: nil; 31 March 2011: nil)

6. Significant events after reporting date

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