

FRONDE

Half Year Financial Report 2010

Contents

Chairman’s Report 2

Chief Executive’s Report 3

Statement of Comprehensive Income 5

Statement of Financial Position..... 6

Statement of Changes in Equity..... 7

Cash Flow Statement 8

Notes to the Financial Statements 9

Chairman's Report

I am pleased to report a substantially improved profit result for first half of the 2011 financial year. This improvement is a result of revenue levels 40% higher than for the comparable 6 months last year. Profit after tax is \$0.7m (Full year 2009: Loss of \$1.8m), a result of significant business re-shaping that was undertaken throughout the last financial year.

The Group's operating liquidity improved significantly during the six months, with net working capital increasing to \$0.6 million. The Group's cash position continued to improve, closing the half year at \$1.2 million, \$0.4 million ahead of the position at 31 March 2010.

Overall the Company's performance and financial position have substantially improved in the last six months and projections for the balance of year are looking strong. Our entry into the Australian market to resell Google products is progressing satisfactorily and according to expectations.

Earlier this year we advised Shareholders that the operational focus for Fronde Anywhere had shifted to supporting existing clients and mitigating costs. This strategy has continued and the new model allows the business to be self-funded. The Board remains determined that additional funding requirements must be met from new investors.

The Board has confidence that the new strategy, operational structure and focused execution will assist in achieving the potential that exists within Fronde, and we are starting to see some of those results now. There is still much to do, but the early signs are all very positive.

The Board would like to thank management and staff for their continued commitment to developing the company into the future.



Wayne Norrie
Chairman

Chief Executive's Report

Operational Focus

Our focus for the first half of this financial year has been on a return to profitability through revenue growth and cost control, and improving our working capital position. The significant re-shaping of the business undertaken last financial year is now returning significant value to the bottom line. Highlights of the re-shaping were a strategy positioning Fronde in an industry leadership role, a reduction in debt, a strengthening in our core business with several significant tender wins in April/May 2010 and new annuity revenue streams emerging in New Zealand and Australia.

Operational Performance

There have been a number of positive highlights in our operations for the first half of this year.

The Auckland branch has re-focused their strategy to becoming a specialist in cloud initiatives that is delivering higher margin work into the branch and we are seeing the branch returning to sustainable profitability.

The Wellington branch continues to win significant new customer business as a result of our trusted relationships and focus on delivering business outcomes. We are also enjoying interest from our Government clients in improved business process and reduced cost from cloud services and cloud integration.

Annuity revenue growth, particularly from the sale of Google products, is in line with expectations. Fronde was instrumental in closing the biggest Google Apps deal in the Asia Pacific region in the first half of this year. The projections in Google growth look strong for the balance of the year, underpinned by a strong partner relationship and marketing activity.

Fronde's Strategic Intent

In the last few months we have engaged in strategy discussions with some of our key clients and the feedback has been positive around Fronde's strategic intent for the future. Our customers have agreed that our strategic intent aligns with their thinking and will ensure that Fronde remains relevant to their business. In summary our intent is as follows:

- Grow annuity, project and consulting Professional Services through customer intimacy and thought leadership
- Establish and grow an annuity and services business based on Google products in Australia and New Zealand
- Leverage our market leadership in cloud integration to open new client engagements
- Leverage our market leadership in mobile applications to open new client engagements

- Leverage our partner relationships to drive new revenue streams (Google, Salesforce, Microsoft, Curam, Oracle, Revera)

The Fronde team has done a very good job over last six months to secure the financial returns we have recorded. Specifically, the significant improvement in our net working capital position is a reflection of the improved financial health of the business. We now want to push on to develop our Company to have a much stronger reputation with a broader number of customers,

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 2010

	Note	Group Unaudited half year ended 30-Sep-10 \$000	Group Unaudited half year ended 30-Sep-09 \$000	Group Audited year ended 31-Mar-10 \$000
Revenue	3	18,058	12,609	24,834
Cost of sales		(12,090)	(7,756)	(16,376)
Gross profit		5,968	4,853	8,458
Expenditure		(4,978)	(4,148)	(10,160)
Finance costs	3	(32)	(82)	(117)
Profit before income tax expense		958	623	(1,819)
Income tax expense		(261)	(12)	35
Profit for the period		697	611	(1,784)
Other Comprehensive Income				
Gains/(losses) from:				
Translation of foreign operations		(19)	-	97
Other comprehensive income for the year net of tax		(19)	-	97
Total comprehensive income for the year net of tax		678	611	(1,687)
Earnings per share:				
Basic and diluted (cents per share, based on profit after tax)		8.77	8.72	(22.45)

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

Statement of Financial Position

As at 30 September 2010

	Group Unaudited half year ended 30-Sep-10 \$000	Group Unaudited half year ended 30-Sep-09 \$000	Group Audited year ended 31-Mar-10 \$000
Assets			
Current assets	6,103	3,511	4,431
Non-current assets	1,163	3,112	1,168
Total assets	7,266	6,623	5,599
Liabilities			
Current liabilities	5,753	4,155	4,840
Non-current liabilities	89	52	13
Total liabilities	5,842	4,207	4,853
Net assets	1,424	2,416	746
Equity			
Issued share capital	5,536	4,908	5,536
Retained earnings	(3,994)	(2,296)	(4,691)
Reserves	(118)	(196)	(99)
Total equity	1,424	2,416	746
Total equity and liabilities	7,266	6,623	5,599

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 2010

	Group Unaudited half year ended 30-Sep-10 \$000	Group Unaudited half year ended 30-Sep-09 \$000	Group Audited year ended 31-Mar-10 \$000
Equity at the beginning of the period	746	1,805	1,805
Profit on ordinary activities after taxation	697	611	(1,784)
Movement in foreign currency translation reserve	(19)	-	97
Total comprehensive income for the year, net of tax	678	611	(1,687)
Dividend on ordinary shares	-	-	-
Ordinary shares issued	-	-	628
Equity at the end of the period	1,424	2,416	746

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

Cash Flow Statement

For the period ended 30 September 2010

	Note	Group Unaudited half year ended 30-Sep-10 \$000	Group Unaudited half year ended 30-Sep-09 \$000	Group Audited year ended 31-Mar-10 \$000
Cash flows from operating activities				
Operating cash inflows		18,468	13,642	26,620
Operating cash outflows		(17,606)	(12,634)	(25,298)
Net cash inflows from operating activities	2	862	1,008	1,322
Cash flows from investing activities				
Investing cash inflows		-	4	-
Investing cash outflows		(164)	(597)	(1,060)
Net cash outflows from investing activities		(164)	(593)	(1,060)
Cash flows from financing activities				
Financing cash inflows		-	-	866
Financing cash outflows		(264)	-	-
Net cash outflows from financing activities		(264)	-	866
Net increase in cash and cash equivalents		434	415	1,128
Cash and cash equivalents at the beginning of the period		799	(329)	(329)
Cash and cash equivalents at the end of the period	4	1,233	86	799

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 2010.

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

	Group Unaudited half year ended 30-Sep-10 \$000	Group Unaudited half year ended 30-Sep-09 \$000	Group Audited year ended 31-Mar-10 \$000
Profit/(loss) after tax for the period	697	611	(1,784)
<i>Add/(less) non-cash items and non-operating items</i>			
Loss on disposal of non-current assets	22	9	2
Depreciation and amortisation of non-current assets	191	495	999
Impairment of goodwill and investments	-		1,987
Foreign exchange gain/(loss)	(18)	-	101
Movement in provisions	6	(17)	269
	<hr/> 201	<hr/> 487	<hr/> 3,358
Impact of changes in working capital items			
Decrease/(increase) in accounts receivable	(1,615)	151	(353)
(Decrease)/increase in accounts payable	1,045	(311)	(65)
Decrease/(increase) in taxation receivable	364	171	122
Decrease/(increase) in GST payable	170	(101)	44
	<hr/> (36)	<hr/> (90)	<hr/> (252)
Net cash inflow from operating activities	<hr/> 862	<hr/> 1,008	<hr/> 1,322

3. Interest

	Group Unaudited half year ended 30-Sep-10 \$000	Group Unaudited half year ended 30-Sep-09 \$000	Group Audited year ended 31-Mar-10 \$000
Included in revenue:			
Interest received	-	1	1
Included in finance costs:			
Interest paid	32	82	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-10	IT Consulting \$000	Mobile banking and two-factor authentication \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue					
External customers	17,674	156	228	-	18,058
Internal customers	124	68	29	(221)	-
Total Revenue	17,798	224	257	(221)	18,058
Profit/(loss) before taxation	2,905	(135)	(1,874)	62	958
Interest income	-	-	-	-	-
Interest expense	3	-	29	-	32
Depreciation and amortisation	187	2	1	-	190
Income tax	-	3	258	-	261

Unaudited as at and for the period ended 30-Sep-09	IT Consulting \$000	Managed Services \$000	Mobile banking and two-factor authentication \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue						
External customers	11,357	763	489	-	-	12,609
Internal customers	-	39	8	54	(101)	-
Total Revenue	11,357	802	497	54	(101)	12,609
Loss before taxation	2,079	(289)	(248)	(919)	-	623
Interest income	-	-	-	1	-	1
Interest expense	-	7	-	75	-	82
Depreciation and amortisation	(613)	106	284	718	-	495
Audited as at and for the period ended 31-Mar-10	IT Consulting \$000	Managed Services \$000	Mobile banking and two-factor authentication \$000	Corporate and other \$000	Eliminations \$000	Total \$000
Operating revenue and other income						
External customers	22,051	1,789	994	-	-	24,834
Internal customers	-	88	10	85	(183)	-
Total Revenue	22,051	1,877	1,004	85	(183)	24,834
Profit/(loss) before taxation	984	(516)	(3,658)	(2,965)	4,336	(1,819)
Interest expense	-	-	2	96	-	98
Depreciation and amortisation	202	184	603	10	-	999
Impairment loss	-	-	3,059	2,901	(3,973)	1,987
Income tax	-	-	-	(35)	-	(35)

The Group's primary segments are as follows:

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

Managed Services – Managed IT services to operate and host business applications

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 2010 (30 September 2009: nil; 31 March 2010: nil)

6. Significant events after reporting date

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