

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**
W Norrie (Chairman)
G Cross
DW Irving
SL Maier Jr

- **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

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Directors' Report

The Directors present the Financial Statements of Fronde Systems Group Limited for the year ended 31 March 2011.

For and on behalf of the Board on 24 June 2011.



W Norrie
Chairman



D Irving
Director

Chairman's Report

Overview

Significant effort into developing a new strategy for Fronde has delivered success through strong revenue growth during the last year in the face of an economic climate which remains challenging. We have established a leadership position in cloud computing in New Zealand through our partnership with Google and, with their encouragement, have invested in establishing a Fronde presence in Australia. Our clients are under continual pressure to innovate or to cut cost and we are well positioned as they evaluate the benefits of cloud computing.

Fronde is well placed to deliver its financial goals in the coming year based on the velocity and trajectory of growth achieved last year. Highlights were a strategy positioning Fronde in an industry leadership role, a reduction in debt, a high performing Auckland business, and a strengthening in the core business evidenced through winning seven panel positions with Government agencies.

We also have enjoyed growing annuity revenue streams with Google products in NZ and Australia.

Financial Results

I am pleased to report that the Group has produced a 37% lift in revenue levels from the previous year and a turnaround in the profit result for the full year 2011. Total revenue is up from \$24.8m to \$34.1m and profit after tax is \$805k from a loss in the previous financial year of \$1.78m.

The Group's cash position has improved, finishing the year with a cash balance of \$1.061m. This improvement in cash is as a result of attention to debtors and tight management of capital investment.

The New Zealand business had a particularly strong performance even though it was held back by lower margins. While it is relatively early days, the Australian business did not perform as expected and we are focused on how we increase performance substantially.

Corporate Governance

The Board members remain unchanged with David Irving, Sandy Maier, Wayne Norrie (Chairman) and Greg Cross. The Directors bring to the Board a significant track record in the ICT sector in New Zealand. As required under our constitution, Sandy Maier and Greg Cross retire by rotation and will offer themselves for reelection at the Annual General Meeting in July.

Dividends

Your Directors have recommended that a dividend be paid of 4 cents per share.

The Board would like to thank management and staff for their hard work during what has been a turning point for the company and for their continuing commitment to developing the company into the future.



Wayne Norrie
Chairman

Chief Executive's Report

Operational Focus

Our focus has been on a return to profitability through revenue growth and cost control, and improving our working capital position.

We have focused on a number of business areas to effect a dramatic turnaround in business performance. These were building an annuity revenue stream with Google's Enterprise solutions in NZ and Australia, winning significant new recurring business, and improving utilisation in the Auckland branch to return it to profitability.

Operational Performance

During the year we created substantial strength and depth in our sales teams in Auckland and Wellington and established a new sales team in Australia. As a result, new business is being built in the finance and public sectors, with Fronde winning seven new vendor positions with Government agencies, plus revenue growth in annuity licensing and services from reselling cloud products.

Auckland's strategy to specialise in cloud integration has delivered consistent higher margins and a return to profit, which can be sustained in the long term. In recognition of our leadership in cloud integration, Localist, a start-up subsidiary of New Zealand Post, chose Fronde as their technology partner.

Our performance in Australia was strong in the first half of the year but deteriorated in the second half. Substantial effort has gone into reinvigorating the business and we now have a strong and well-qualified sales pipeline. An Advisory Board has been appointed to help develop our presence in Australia, and they provide a depth of experience in the Australian ICT sector.

During this year the leadership team has had a strong focus on the principal responsibilities of leadership and we have focused much of our discussion on developing these. They are; creating the vision, setting the necessary performance standards, developing the performance capability to deliver the strategy and building a high performance culture.

Long-term Direction

Delivering large scale software applications and integration projects will continue as core offerings of Fronde. Increasingly we see the large cloud engagements we undertake are an extension of our core integration business while providing the added benefit of annuity license revenue. Our focus on cloud and mobility is already securing new customers, building annuity revenue streams and helping identify new opportunities in emerging technologies and trends.

Goals for 2011/2012

This year we want to continue last year's impressive revenue growth but with improved margins to improve profitability. Other important areas are developing a high performance culture and increasing the performance capability of our people. To achieve this we will continue securing new and substantial customers, leveraging our relationships with existing partners, focus on controlling costs and continue to develop our thinking around the principal responsibilities of leadership.

Our strategic intent for 2011/12 is to achieve sustained growth from annuity, project and consulting revenue, reinforce and expand our company presence to become the market leaders in cloud integration and intensify growth in annuity revenue streams with Google in NZ and Australia.

Achieving the turnaround in results has required a lot of hard work by all members of the team. Whilst the hard work continues, and there is more to be achieved, there has been a tremendous effort across the entire team and it is pleasing to see the results of this emerging into the numbers.

I would like to sincerely thank the entire team at Fronde for delivering such a significant turnaround in the business and look forward to another successful year ahead.



Ian Clarke
CEO

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF FRONDE SYSTEMS GROUP LIMITED

Report on the Summary Financial Statements

The accompanying summary financial statements of Fronde Systems Group Limited and subsidiaries ('the Group') on pages 5 to 10, which comprise the summary consolidated statement of financial position as at 31 March 2011, and the summary consolidated statement of 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 2011. We expressed an unmodified audit opinion on those financial statements in our report dated 24 June 2011.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Group.

This report is made solely to the company's shareholders, as a body, for the purpose of expressing an opinion on the summary financial statements for the year ended 31 March 2011. 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 on summary financial statements 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.

Directors' Responsibility for the Summary Financial Statements

The Directors are responsible for the preparation of a summary of the audited consolidated financial statements, in accordance with FRS-43: *Summary Financial Statements*.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standards on Auditing (New Zealand) (ISA (NZ)) 810: *Engagements to Report on Summary Financial Statements*.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in Fronde Systems Group Limited or any of its subsidiaries.

Opinion

In our opinion, the summary financial statements derived from the audited consolidated financial statements of Fronde Systems Group Limited and subsidiaries for the year ended 31 March 2011 are consistent, in all material respects, with those financial statements, in accordance with FRS-43: *Summary Financial Statements*.



Chartered Accountants

24 June 2011

Wellington, New Zealand

This audit report relates to the summary financial statements of Fronde Systems Group Limited and subsidiaries ('the Group') for the year ended 31 March 2011 included on Fronde Systems Group Limited's website. Fronde Systems Group Limited's Board of Directors is responsible for the maintenance and integrity of Fronde Systems Group Limited's website. We have not been engaged to report on the integrity of Fronde Systems Group Limited's website. We accept no responsibility for any changes that may have occurred to the summary financial statements since they were initially presented on the website. The audit report refers only to the summary financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these summary 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 audited summary financial statements and related audit report dated 24 June 2011 to confirm the information included in the audited summary financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements and summary financial statements may differ from legislation in other jurisdictions.

Summary Statement of Comprehensive Income

For the year ended 31 March 2011

	Group 2011 \$000	Group 2010 \$000
Revenue	34,194	24,834
Cost of sales	(23,274)	(16,376)
Gross profit	10,920	8,458
Other expense	(33)	(214)
Expenditure	(9,562)	(7,959)
Impairment	-	(1,987)
Finance costs	(44)	(117)
Profit/(loss) before income tax expense	1,281	(1,819)
Income tax expense	(476)	35
Profit/(loss) for the period	805	(1,784)

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

Summary Statement of Comprehensive Income (continued)

For the year ended 31 March 2011

Profit/(loss) for the period	805	(1,784)
Other comprehensive income		
Gains/(losses) from:		
Translation of foreign operations	(38)	97
Other comprehensive income for the year net of tax	(38)	97
Total comprehensive income/(loss) for the year net of tax	767	(1,687)
Profit/(loss) attributable to:		
Non-controlling interest	-	-
Members of the parent entity	805	(1,784)
	805	(1,784)

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Summary Statement of Financial Position

As at 31 March 2011

	Group 2011 \$000	Group 2010 \$000
Assets		
Current assets	6,144	4,431
Non-current assets	1,056	1,168
Total Assets	7,200	5,599
Liabilities		
Current liabilities	5,908	4,840
Non-current liabilities	97	13
Total Liabilities	6,005	4,853
Net Assets	1,195	746
Equity		
Issued share capital	5,536	5,536
Retained earnings	(4,204)	(4,691)
Foreign currency translation reserve	(137)	(99)
Total Equity	1,195	746
Total Equity and Liabilities	7,200	5,599

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

Summary Statement of Changes in Equity

For the year ended 31 March 2011

	Share Capital \$000	Retained Earnings \$000	Foreign Currency Translation Reserve \$000	Total \$000
At 1 April 2009	4,908	(2,907)	(196)	1,805
Loss on ordinary activities after taxation for year	-	(1,784)	-	(1,784)
Change in foreign currency translation reserve	-	-	97	97
Total comprehensive income/ (loss) for the year, net of tax	-	(1,784)	97	(1,687)
Ordinary shares issued	628	-	-	628
At 31 March 2010	5,536	(4,691)	(99)	746
At 1 April 2010	5,536	(4,691)	(99)	746
Profit on ordinary activities after taxation for year	-	805	-	805
Change in foreign currency translation reserve	-	-	(38)	(38)
Total comprehensive income for the year, net of tax	-	805	(38)	767
Dividend paid	-	(318)	-	(318)
At 31 March 2011	5,536	(4,204)	(137)	1,195

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

Summary Statement of Cashflows

For the year ended 31 March 2011

	Group 2011 \$000	Group 2010 \$000
Net cash provided by operating activities	826	1,322
Net cash used in investing activities	(311)	(1,060)
Net cash (used in)/provided by financing activities	(252)	866
Net increase in cash and cash equivalents	262	1,128
Cash and cash equivalents at the beginning of the financial year	799	(329)
Cash and cash equivalents at the end of the financial year	1,061	799

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

Notes to the Summary Financial Statements

The Summary Financial Statements of Fronde Systems Group Limited (“Fronde”), a profit-oriented entity, for the year ending 31 March 2011 which were extracted from the full Financial Statements authorised for issue by the Directors when the full financial statements were authorised on 24 June 2011. An unmodified audit report on the full Financial Statements was issued on 24 June 2011. 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 generally accepted accounting practice in New Zealand and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and IFRS.

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

Subsequent events

The Directors declared a dividend of 4c per share to be paid to shareholders on the register at 1 June 2011.

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



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