

FRONDE

Half Year Financial Report 2009

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Chairman's Report

Highlights

The highlight of the first 6 months of this financial year has been the successful positioning of Fronde as New Zealand's thought leader in Cloud solutions with particular reference to our reseller relationship with Google. This relationship and the subsequent sale of Google Apps to NZ Post's Postal Services Group mark a milestone in the transition of Fronde to becoming a product reseller with higher levels of annuity revenue.

Financial Results

Fronde Group delivered a profit before interest and tax of \$0.71 m on revenues of \$12.6 million, less than the comparable 6 months of the prior year where EBIT was \$1.048 million on revenue of \$15.7 million. This reduced revenue and EBIT reflects the challenging trading conditions that we have experienced since October 2008, due in large part to the credit crunch and consequent reduction in spending by many of our clients.

Equity at the end of the period stands at \$2.4 million and cash on hand totals \$0.09m. The cash position has improved by \$0.42m after funding \$0.17m of fixed assets and investing \$0.43m in the Fronde Anywhere mobile payments platform.

Fronde Anywhere

In the 2009 annual report I flagged to shareholders that we anticipated a transaction involving Fronde Anywhere by September 2009. We were unable to secure a transaction on satisfactory terms and have withdrawn the business from the market. The business is emerging nicely into a healthy state and the emphasis today is on further building the sales pipeline and sustainable profitability. It is likely that we will seek outside investment to further fund development and global reach at some point in the future.

Corporate Governance

Since the process to refresh the Board of Directors concluded earlier this year your Directors have formed a cohesive and effective team. The focus of the Board in the year to date has been on developing the strategy, improving the working capital of the Company and revising the remuneration plan to create a direct linkage between individual performance, Company goals and variable remuneration.



Wayne Norrie
Chairman

Chief Executive's Report

Operational Focus

The operational focus of the Company has shifted to ready ourselves to support growth when the market returns to more normal spending habits. This involved recruiting extra sales capacity in Auckland and in Wellington and decentralising the Company to promote risk taking and entrepreneurial endeavour among Managers. As part of this process we have strengthened our leadership in Auckland with three senior managers now located there.

A further significant change has been developing Google sales and implementation capability in both our offices. Our focus on promoting Google products has seen significant interest from existing and new customers, with a number of sales achieved and a strongly growing sales pipeline. We have also continued to develop relationships with other Cloud product companies including NetSuite.

Operational Performance

The Company closed a very substantial offshore project which is to be delivered from the Wellington office by July next year. This project has ensured a high level of utilisation will exist in Wellington until the middle of next year. We continue to enjoy strong client relationships in this market however spending has been restrained due to the change in Government and the recession.

Our Auckland business has developed a stronger footing and, while it is not yet trading as we would want it to be, it has a number of strong new clients with improving financial performance. Technology Solutions has been heavily involved in developing our Google capability and in continuing delivery quality to a wide range of clients. The volume of text messages through Message Direct, the text gateway, continues to climb as we add new clients and distribution channels.

Fronde Anywhere has focused heavily on sales and sales channels in New Zealand and Asia, resulting in a number of new sales and strong growth in the sales pipeline. Investment has continued to ensure the platform remains competitive and attractive to clients.

Long Term Direction

The long term direction continues to develop with emphasis on delivering large scale software applications, mobility and mobile payments, and cloud solutions. We are finding a number of our clients require assistance with understanding and embracing cloud delivered services and this enables us to build stronger relationships with them.

I want to thank staff for their continued dedication to customer service and achieving our goals. We are well placed for a successful year.



Ian Clarke
CEO

Income Statement

For the period ended 30 September 2009

	Note	Group Unaudited half year ended 30-Sep-09 \$000	Group Unaudited half year ended 30-Sep-08 \$000	Group Audited year ended 31-Mar-09 \$000
Revenue	3	12,609	15,757	27,376
Cost of sales		(7,756)	(9,845)	(17,631)
Gross profit		4,853	5,912	9,745
Other income		-	118	232
Expenditure		(4,148)	(4,982)	(9,592)
Finance costs	3	(82)	(203)	(273)
Profit before income tax expense		623	845	112
Income tax expense		(12)	163	261
Profit for the period		611	1,008	373
Earnings per share:				
Basic and diluted (cents per share)		8.72	14.38	5.32

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

Balance Sheet

As at 30 September 2009

	Group Unaudited half year ended 30-Sep-09 \$000	Group Unaudited half year ended 30-Sep-08 \$000	Group Audited year ended 31-Mar-09 \$000
Assets			
Current assets	3,511	5,058	3,794
Non-current assets	3,112	2,689	3,005
Total assets	6,623	7,747	6,799
Liabilities			
Current liabilities	4,155	4,831	4,847
Non-current liabilities	52	363	147
Total liabilities	4,207	5,194	4,994
Net assets	2,416	2,553	1,805
Equity			
Issued share capital	4,908	4,908	4,908
Retained earnings	(2,296)	(2,256)	(2,907)
Reserves	(196)	(99)	(196)
Total equity	2,416	2,553	1,805
Total equity and liabilities	6,623	7,747	6,799

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 2009

	Group Unaudited half year ended 30-Sep-09 \$000	Group Unaudited half year ended 30-Sep-08 \$000	Group Audited year ended 31-Mar-09 \$000
Equity at the beginning of the period	1,805	1,565	1,565
Movement in foreign currency translation reserve	-	(20)	(133)
Profit on ordinary activities after taxation	611	1,008	373
Total recognised income and expenses for the period	611	988	240
Distribution to owners			
Dividend on ordinary shares	-	-	-
Equity at the end of the period	2,416	2,553	1,805

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

Cash Flow Statement

For the period ended 30 September 2009

Note	Group Unaudited half year ended 30-Sep-09 \$000	Group Unaudited half year ended 30-Sep-08 \$000	Group Audited year ended 31-Mar-09 \$000
Cash flows from operating activities			
	13,642	19,598	30,657
	(12,634)	(16,362)	(26,225)
	<u>1,008</u>	<u>3,236</u>	<u>4,432</u>
2			
Cash flows from investing activities			
	4	1	-
	(597)	(54)	(1,030)
	<u>(593)</u>	<u>(53)</u>	<u>(1,030)</u>
Cash flows from financing activities			
	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents			
	415	3,183	3,402
Cash and cash equivalents at the beginning of the period			
	(329)	(3,731)	(3,731)
Cash and cash equivalents at the end of the period			
4	<u>86</u>	<u>(548)</u>	<u>(329)</u>

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 computations 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 2009.

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

	Group Unaudited half year ended 30-Sep-09 \$000	Group Unaudited half year ended 30-Sep-09 \$000	Group Audited year ended 31-Mar-09 \$000
Profit/(loss) after tax for the period	611	1,008	373
Add/(less) non-cash items and non-operating items			
Loss on disposal of non-current assets	9	1	13
Depreciation and amortisation of non-current assets	495	414	740
Foreign exchange gain	-	(29)	(133)
Movement in provisions	(17)	152	237
	487	538	857
Impact of changes in working capital items			
Decrease in accounts receivable	151	1,922	2,637
(Decrease)/Increase in accounts payable	(311)	69	569
Decrease/(Increase) in taxation receivable	171	(67)	251
Decrease in GST payable	(101)	(234)	(255)
	(90)	1,690	3,202
Net cash inflow from operating activities	1,008	3,236	4,432

3. Interest

	Group Unaudited half year ended 30-Sep-09 \$000	Group Unaudited half year ended 30-Sep-09 \$000	Group Audited year ended 31-Mar-09 \$000
Included in revenue:			
Interest received	1	4	4
Included in finance costs:			
Interest paid	82	203	273

4. Current Borrowings

	Group Unaudited half year ended 30-Sep-09 \$000	Group Unaudited half year ended 30-Sep-09 \$000	Group Audited year ended 31-Mar-09 \$000
Secured			
Bank overdraft	-	548	329
Finance lease liabilities	80	9	74
	80	557	403

The bank overdraft facility is secured by a First Registered Mortgagee Debenture over all the assets and undertakings of the Group. The overdraft attracts a market interest rate.

The finance lease is secured over the assets leased.

The Group does not hold any unsecured current borrowings.

5. 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.

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
Profit/(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
Impairment loss	-	-	-	-	-	-
Balance sheet						
Total assets	6,474	410	3,269	-	(3,530)	6,623
Total liabilities	3,063	-	2,657	-	(1,513)	4,207

Unaudited as at and for the period ended 30-Sep-08	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	14,447	674	582	54	-	15,757
Internal customers	58	88	-	-	(146)	-
Total Revenue	14,505	762	582	54	(146)	15,757
Loss before taxation	2,753	(32)	(248)	(919)	(709)	845
Interest income	-	-	-	4	-	4
Interest expense	2	7	-	194	-	203
Depreciation and amortisation	128	219	38	29	-	414
Impairment loss	-	-	20	689	(709)	-
Balance sheet						
Total assets	8,897	445	2,609	-	(4,204)	7,747
Total liabilities	4,915	-	1,862	-	(1,583)	5,194

Audited as at and for the period ended 31-Mar-09	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	25,258	1,241	877	-	-	27,376
Internal customers	-	226	89	150	(465)	-
Total Revenue	25,258	1,467	966	150	(465)	27,376
Profit/(loss) before taxation	2,047	(343)	(338)	(1,254)	-	112
Interest income	-	-	-	4	-	4
Interest expense	-	19	-	254	-	273
Depreciation and amortisation	222	346	134	38	-	740
Impairment loss	-	-	-	1,831	-	1,831
Balance sheet						
Total assets	7,637	496	3,125	-	(4,459)	6,799
Total liabilities	7,265	-	2,648	-	(4,919)	4,994

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.

6. Contingent liabilities

There were no contingent liabilities as at 30 September 2009 (30 September 2008: \$94,523; 31 March 2009: nil)

7. Significant events after reporting date

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

8. Comparative figures

The income statement for the period ended 30 September 2008 has been restated to enhance the comparability of the information against the income statement for the current period and the year ended 31 March 2009. The restatements were made to reflect the way the business is currently managed.

For the period ended 30-Sep-08	Previously reported \$000	Prior period adjustment \$000	Restated amounts \$000
Revenue	15,757	-	15,757
Cost of sales	(11,241)	1,396	(9,845)
Gross profit	4,516	1,396	5,912
Other income	118	-	118
Expenditure	(3,586)	(1,396)	(4,982)
Finance costs	(203)	-	(203)
Profit before income tax expense	845	-	845
Income tax expense	163	-	163
Profit for the period	1,008	-	1,008