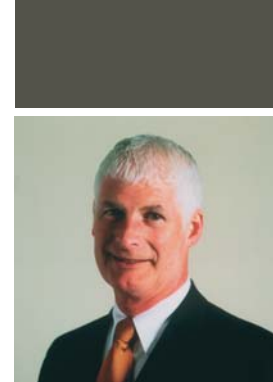


FRONDE

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Chairman's Report



Stronger operating results have enabled major investment in new opportunities.

Overview

The trading result for the year ending 31 March 2007 was strong and enabled the Board to make significant strategic investments. This reduced the year end financial result, but a fully imputed dividend of 4 cents will be paid again this year.

Strategic Initiatives

The Board agreed to a new strategic direction in early 2006. This included the name change to Fronde and the branding of our three lines of business: Fronde Synergy, Fronde Always, and Fronde Anywhere. The pleasing progress in the implementation of this strategy is discussed in more detail in our CEO's Report.

Our New Zealand business produced a much improved trading result in both Auckland and Wellington, which enabled the Board to invest \$2m in Fronde Anywhere, a new mobile software products business. We have set it up as a stand-alone business unit so that we can seek additional development capital for its expansion.

This year, the group's international activities are focused on Fronde Anywhere, operating from our offices in Wellington, London and now New York. We will offer Fronde Synergy's professional services from our New Zealand and UK offices, and Fronde Always remains a New Zealand based managed services operation.

During the year, the group also moved to full ownership of its British subsidiary, by acquiring the 33% stake held by SQS UK (formerly Cresta), following Cresta's acquisition by SQS. This move ensures that we retain 100% of the benefits of Fronde Anywhere's expansion in Europe. Our relationship with SQS remains positive, and its UK CEO is a non-executive director of Fronde Great Britain.

Financial performance

During the financial year ending 31st March 2007, revenue grew to \$33.66 million (previous year \$32.97 million), as well as withdrawing from some unprofitable client relationships. The first half saw strong revenues from overseas, while the second half saw a significant lift in billings to New Zealand clients.

New Zealand operations delivered a major improvement in profitability, as can be seen from the lift in the parent company's operating surplus to \$1.69 million (from \$0.28 million). This, together with increased borrowings, enabled us to invest \$2 million in Fronde Anywhere, implemented by a transfer of independently valued assets just before year-end. Its pre-transfer non-tangible business development expenditure was expensed in the group accounts, but held as goodwill in Fronde Anywhere.

That business development expenditure (largely management and marketing) reduced the group operating surplus to \$0.48 million (\$0.78 million). After taxes and minority interests, the consolidated profit after tax was \$0.20 million (\$0.40 million).

The parent company's net equity at year-end was \$5.46 million (\$4.05 million). Group accounting rules require the elimination of goodwill in subsidiaries, which explains the group equity being lower than the parent at \$4.21 million.

The group moved into overdraft of \$1.46 million (versus \$1.15 million cash at bank). Operating cash flow was -\$0.10 million (-\$0.16 million), and total nett cashflow was -\$2.62 million (-\$1.37 million), following investments in subsidiaries and fixed assets, dividends to subsidiary minority interests, and payment of a fully imputed shareholder dividend of 4.0 cents per share (last year 4.0 cents).

Investor activity

During the first quarter of the year, a committee of independent directors explored the possibility of enabling existing shareholders to liquidate some of their investment in the Company, while encouraging the senior management team to acquire a sizeable stake. This exercise did not reach fruition, and so, to enable some improved liquidity and a degree of price discovery, the Company registered its shares on the Unlisted share trading facility. While not a registered stock exchange, Unlisted has enabled several trades to take place easily. The Board will continue to explore options for maximising shareholder value and liquidity.

Chairman's Report continued

Dividend

I am pleased to report that, despite a heavy investment load, the Company was in a position on 9 July 2007 to declare a fully imputed dividend of 4.0 cents a share for the third year in a row, with payment on 7 August 2007 to all shareholders on the register at the close of business on 31 July 2007.

Governance

The board of 5 non-executive directors has functioned well, and I take this opportunity to acknowledge my co-directors and thank them for their continued commitment and contribution.

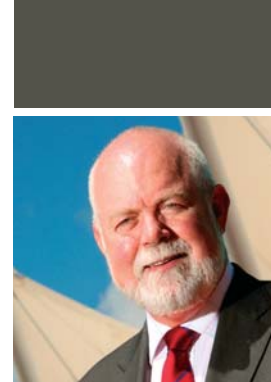
Congratulations

The improvement in the main New Zealand business is pleasing, and the early signs for Fronde Anywhere are very encouraging. On behalf of the board and shareholders, I would like to thank all our staff for working hard to implement such significant change.



Philip Shewell
Chairman

Chief Executive's Report



This was a year of strategic transformation to deliver our market offer - powering businesses to transact with the world.

Implementing the strategy

In early 2006, we announced a new strategic direction, which would drive improved and growing shareholder value through a clearer client value proposition, more distinctive competitive positioning, and a sharper business focus. This would see what was then known as Synergy begin a shift away from generalist IT services, towards industrial-strength business transaction and payment systems and services, delivered through three lines of business: professional IT services, managed IT services, and transaction solutions.

During the last financial year, we began implementing that strategy in earnest. There were many initiatives, of which the most visible was our change of name to Fronde - a name we can use overseas as well as in New Zealand.

Fronde Synergy - professional IT services

The Synergy name lives on in the name of our professional IT services business - the bulk of our revenues, earnings, and people. Fronde Synergy has added new depth to its already strong reputation for technical excellence, reliable delivery and effective people relationships, to meet evolving client needs.

Generic technical expertise and programming is still very important, but on its own is not enough, especially when blending new technologies with new business needs. Our clients increasingly look to IT to enable new market offers, new business channels, and to deal with ever-changing regulatory requirements. These new IT projects call for high-touch teams (i.e. close to the business, and not easily off-shored) - project managers, consultants, analysts, architects, integrators and user interface specialists - with business sector knowledge, local market knowledge, communication skills and facilitation skills.

Fronde is well placed for this new era, with our focus on the way businesses transact with the world and our acknowledged leadership in designing, building and integrating server-based solutions, mobile solutions and software-as-a-service solutions, delivered by agile teams working closely with our enterprise clients in the finance, utility, ICT and government sectors

Fronde Always - managed IT services

Historically, our managed services business has delivered a wide variety of one-off services to whoever we could persuade to pay for them. Under new leadership, we have set Fronde Always the challenge to evolve into a specialist managed services business with repeatable, profitable services and a clear place within our overall group strategy and market offer.

Our mobile transactions gateway is one such service. Another is our monitoring and management service, for mission-critical live operations. We have also introduced industrial-strength applications development and testing environments for both external and internal clients. This year we will explore new significant opportunities, which will complement our leadership position in other areas.

Fronde Anywhere - mobile banking and ID security

Fronde's long experience with mobile transactions has seen us design, build and operate mobile banking and security solutions for several financial institutions. This led to the establishment of Fronde Anywhere, which we have set up as a specialist software product business, with two main product families - a suite of mobile banking applications and an innovative 2-factor security application which eliminates the logistical and physical problems associated with previous offerings.

Fronde Anywhere has attracted global interest, and is pursuing rapid expansion in Australasia, Europe, and North America. Other markets will be served through independent resellers.

The Fronde group is not in the venture capital business. The software product business is a high risk/high reward one, and is very different from Fronde's services business. Establishing Fronde Anywhere as a stand-alone business unit means we can seek separate venture funding to support Fronde Anywhere's development, while continuing to have a stake in its potential.

Our name change marked the point where the wider IT market noticed that something special was happening at Fronde. This positions us well to face the IT industry's biggest challenge - the looming talent shortage.

Chief Executive's Report *continued*

The developed world (especially the English-speaking countries, Nordic countries and Japan) is increasingly worried about the greying and shrinking of its skilled workforce, and is looking to IT to solve the problem. However, the IT sector - both client side and vendor side - faces those same labour-force challenges, made worse by a major falloff in IT undergraduate intake post-Y2k and post-tech-wreck. The IT industry faces a crisis when that undersized cohort is needed to fill its IT leadership and senior technical roles.

Who is in the best position to win from all this? Who can get the best leverage from scarce talent? It is the IT services industry, in all its forms, but especially professional services, managed services, and software-as-a-service. Why? Partly, the economics are better, but importantly, it will attract the best people, drawn by the variety of work with many clients, the pace of the vendor side, the career progression and personal development opportunities.

Our growing reputation is attracting some of New Zealand's brightest IT technical and business talent to join the already impressive team at Fronde. We are the future of business.



Jim Donovan
CEO

Statement of Financial Performance

For the year ended 31 March 2007

	Group 2007 \$	Group 2006 \$	Parent 2007 \$	Parent 2006 \$
Operating Revenue	33,660,884	32,972,453	30,757,172	29,706,745
Operating surplus before taxation	483,520	776,993	1,689,973	278,918
Surplus before taxation	483,520	776,993	1,689,973	278,918
Taxation expense/(credit)	120,423	160,064	-	(17,866)
Net surplus	363,097	616,929	1,689,973	296,784
Net surplus attributable to minority interest	160,837	212,941	-	-
Net surplus attributable to parent shareholders	202,260	403,988	1,689,973	296,784

Note: This Statement is to be read in conjunction with the Notes to the Financial Statements.
A copy of the full annual report can be obtained from Fronde's registered office.

Statement of Movements in Equity

For the year ended 31 March 2007

	Group 2007 \$	Group 2006 \$	Parent 2007 \$	Parent 2006 \$
Equity at start of year, comprising				
Parent shareholders' interest	4,251,919	4,058,799	4,049,046	3,558,996
Prior period adjustment	-	-	-	473,595
Minority interest	124,297	126,041	-	-
	4,376,216	4,184,840	4,049,046	4,032,591
Surplus and Revaluations				
Parent shareholders' interest	202,260	403,988	1,689,973	296,784
Minority interest	160,837	212,941	-	-
Movement in foreign currency translation reserve	40,979	69,461	-	-
Total recognised revenue and expenses	404,076	686,390	1,689,973	296,784
Other Movements				
Distribution to minority interest	(285,133)	(214,685)	-	-
Distribution to owners	(280,329)	(280,329)	(280,329)	(280,329)
Movements in equity	(161,386)	191,376	1,409,644	16,455
Equity at end of year, comprising				
Parent shareholders' interest	4,214,830	4,251,919	5,458,690	4,049,046
Minority interest	-	124,297	-	-
	4,214,830	4,376,216	5,458,690	4,049,046

Note: This Statement is to be read in conjunction with the Notes to the Financial Statements.
A copy of the full annual report can be obtained from Fronde's registered office.

Statement of Financial Position

As at 31 March 2007

	Group 2007 \$	Group 2006 \$	Parent 2007 \$	Parent 2006 \$
Equity				
Share capital	4,907,960	4,907,960	4,907,960	4,907,960
Reserves	(42,847)	(83,826)	-	-
Retained earnings	(650,283)	(572,215)	550,730	(858,914)
Parent shareholders' equity	4,214,830	4,251,919	5,458,690	4,049,046
Minority interests	-	124,297	-	-
Total equity	4,214,830	4,376,216	5,458,690	4,049,046
Represented by :				
Current Assets				
Cash at bank	-	1,153,328	-	1,051,946
Taxation refund	586,098	287,403	697,716	582,999
Receivables and prepayments	7,324,287	8,369,531	7,398,728	6,215,802
Total Current Assets	7,910,385	9,810,262	8,096,444	7,850,747
Non Current Assets				
Property, plant and equipment	1,947,714	2,071,261	1,877,829	2,056,956
Investments in subsidiaries	-	-	2,458,806	29,191
Goodwill	290,828	-	-	-
Software development costs	731,158	-	88,095	-
Total Non Current Assets	2,969,700	2,071,261	4,424,730	2,086,147
Total Assets	10,880,085	11,881,523	12,521,174	9,936,894
Current Liabilities				
Bank overdraft	1,462,510	-	2,040,125	-
Payables and accruals	5,202,745	7,505,307	5,022,359	5,887,848
Total Current Liabilities	6,665,255	7,505,307	7,062,484	5,887,848
Total Liabilities	6,665,255	7,505,307	7,062,484	5,887,848
Net Assets	4,214,830	4,376,216	5,458,690	4,049,046

For and on behalf of the Board


Director
9 July 2007


Director

Note: This Statement is to be read in conjunction with the Notes to the Financial Statements.
A copy of the full annual report can be obtained from Fronde's registered office.

Statement of Cash Flows

For the year ended 31 March 2007

	Note	Group 2007 \$	Group 2006 \$	Parent 2007 \$	Parent 2006 \$
Cash flows from operating activities					
Cash was provided from:					
Receipts from customers		32,551,431	32,440,672	27,659,173	31,118,735
Dividends from subsidiaries		-	-	293,431	435,675
Interest received		39,876	81,079	22,950	62,747
		32,591,307	32,521,751	27,975,554	31,617,157
Cash was applied to:					
Payments to suppliers		(5,117,827)	(4,512,655)	(3,167,663)	(4,280,396)
Payments to employees		(27,123,236)	(27,630,591)	(24,284,769)	(25,482,787)
Interest paid		(42,958)	(3,913)	(42,958)	(3,913)
Taxation paid		(405,229)	(537,373)	(114,717)	(500,586)
		(32,689,250)	(32,684,532)	(27,610,107)	(30,267,682)
Net cash (outflow)/inflow from operating activities	2	(97,943)	(162,781)	365,447	1,349,475
Cash flows from investing activities					
Cash was provided from:					
Sale of property, plant and equipment		2,155	50,289	2,155	50,289
		2,155	50,289	2,155	50,289
Cash was applied to:					
Purchase of property, plant and equipment		(1,669,550)	(760,382)	(1,652,598)	(746,015)
Investment in Subsidiary		(431,693)	-	(1,838,900)	-
		(2,101,243)	(760,382)	(3,491,498)	(746,015)
Net cash outflow from investing activities		(2,099,088)	(710,093)	(3,489,343)	(695,726)
Cash flows from financing activities					
Cash was provided from:					
Inter-company advances		-	-	314,238	-
		-	-	314,238	-
Cash was applied to:					
Inter-company advances		-	-	-	(1,078,606)
Dividends paid to parent shareholders		(280,329)	(280,329)	(280,329)	(280,329)
Dividends paid to minority interest		(146,854)	(214,685)	-	-
		(427,183)	(495,014)	(280,329)	(1,358,935)
Net cash (outflow)/inflow from financing activities		(427,183)	(495,014)	33,909	(1,358,935)
Net (decrease)/increase in cash held		(2,624,214)	(1,367,888)	(3,089,987)	(705,186)
Foreign currency translation adjustment		8,376	189,799	(2,084)	3,889
Cash at beginning of the year		1,153,328	2,331,417	1,051,946	1,753,243
Cash at end of the year		(1,462,510)	1,153,328	(2,040,125)	1,051,946

Note: This Statement is to be read in conjunction with the Notes to the Financial Statements. A copy of the full annual report can be obtained from Fronde's registered office.

Notes to the Financial Statements

For the year ended 31 March 2007

1. Statement of accounting policies

Basis of preparation

The summary financial statements for Fronde Systems Group Limited have been prepared in accordance with Financial Reporting Standard FRS 39 "Summary Financial Reports".

The information contained in this summary financial report has been extracted from the full financial report authorised for issue by the Board of Directors on 9 July 2007. The summary financial report does not provide complete information and should be read in conjunction with the full financial report.

The full financial report has been audited and an unqualified opinion has been expressed.

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

2. Reconciliation of net surplus after taxation with cash inflow from operating activities

	Group 2007	Group 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$
Reported surplus after taxation	202,260	403,988	1,689,973	296,784
Minority interest share of surpluses	160,837	212,941	-	-
	363,097	616,929	1,689,973	296,784
Items not involving cash flows:				
Depreciation and amortisation	848,202	683,782	839,004	681,108
Movement in foreign exchange	22,220	(88,903)	2,083	(6,803)
Other including movement in provisions	186,527	(188,829)	273,733	(155,197)
	1,056,949	406,050	1,114,820	519,108
Impact of changes in working capital items:				
Decrease/(increase) in accounts receivable	1,045,244	(2,172,545)	(1,497,165)	519,795
Decrease/(increase) in taxation receivable	(298,695)	(345,962)	(114,717)	(518,451)
(Decrease)/increase in accounts payable	(1,964,766)	957,617	(1,010,505)	498,668
(Decrease)/increase in GST/VAT payable	(337,796)	358,442	145,017	16,883
	(1,556,013)	(1,202,448)	(2,477,370)	516,895
Items classified as investing activities:				
Loss on disposal of fixed assets	38,024	16,688	38,024	16,688
Net cash inflow from operating activities	(97,943)	(162,781)	365,447	1,349,475

Notes to the Financial Statements continued

For the year ended 31 March 2007

3. Contingent Liabilities

Fronde Systems Group Limited has guaranteed the unexpired term of the operating lease for the Mobil on the Park Wellington Office. The guarantee is for a maximum of \$350,000 based on the hard fit-out cost of the offices. The term of the guarantee is for 10 years, with the liability diminishing on the anniversary of the lease in December of each year.

At 31 March 2007, the contingent liability is \$173,000 (2006: \$207,000).

4. Minority Interest

In November 2006, the Group purchased the remaining equity of Synergy (UK) Ltd and renamed the company Fronde Synergy Great Britain Ltd. The prior year hold was 66.6%.

5. International Financial Reporting Standards

In December 2002, New Zealand's Accounting Standards Review Board (ASRB) determined that all New Zealand reporting entities will be required to comply with International Financial Reporting Standards (IFRS) for periods commencing on or after 1 January 2007, with the option to adopt early for periods beginning on or after 1 January 2005.

Fronde intends to adopt NZIFRS for the year ended 31 March 2008. In adopting NZIFRS Fronde will also be in compliance with IFRS. A conversion project has commenced which includes an impact assessment and commitment has been received from the Board. At the time of preparing this report, the impact of NZIFRS is not expected to be material.

Full comparatives and a reconciliation of closing New Zealand GAAP net assets to opening IFRS net assets will be provided in the interim report dated 30 September 2007.

Audit Report

For the year ended 31 March 2007



TO THE SHAREHOLDERS OF FRONDE SYSTEMS GROUP LIMITED AND GROUP

We have audited the summary financial statements of Fronde Systems Group Limited and group for the year ended 31 March 2007 as set out on pages 5 to 10.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation of summary financial statements, in accordance with New Zealand law and generally accepted accounting practice.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the summary financial statements.

Basis of Opinion

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed procedures to ensure the summary financial statements are consistent with the full financial statements on which the summary report is based. We also evaluated the overall adequacy of the presentation of information in the summary financial report against the requirements of FRS-39: *Summary Financial Reports*.

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 or its associate.

Unqualified Opinion

In our opinion, the information reported in the summary financial statements complies with FRS-39: *Summary Financial Reports* and is consistent with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report to the shareholders dated 9 July 2007.

For a better understanding of the scope of our audit of Fronde Systems Group Limited and group's financial statements and of Fronde Systems Group Limited and group's financial position, financial performance and cash flows for the year ended 31 March 2007, this report should be read in conjunction with Fronde Systems Group Limited and group's audited financial statements for that period.

Our examination of the summary financial report was completed on 9 July 2007 and our unqualified opinion is expressed as at that date.



**CHARTERED ACCOUNTANTS
WELLINGTON, NEW ZEALAND**

This audit report relates to the summary financial statements of Fronde Systems Group Limited and group ("Fronde") for the year ended 31 March 2007 included on Fronde's website. The Board of Directors is responsible for the maintenance and integrity of Fronde's website. We have not been engaged to report on the integrity of Fronde'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 9 July 2007 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.

Company Directory

Directors

Philip Shewell, Chairman
Rick Bettle
David Irving
Sandy Maier Jr
Penny Mudford

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