interfront

Smart Systems. Better Borders.

ANNUAL REPORT 2012

A connected world needs seamless borders

iCBS

Interfront Customs and Border Solutions

Interfront's Commitment

Mandate

In line with World Customs Organization standards and modernisation initiatives, Interfront provides customs and border solutions to facilitate trade, secure borders and generate value for its shareholder and clients.

Mission

Interfront provides world-class software platforms that are WCO and WTO compliant, which enables customs and border control agencies to:

- Optimise revenue collection and yield;
- Facilitate and encourage compliance;
- Enable consistent quality and services;
- Facilitate trade;
- Improve governance and integrity.

Vision

Interfront holds a significant share of the global market for simplified world-class customs and border control software solution.

Values

- Building trust: Honesty, fairness and transparency define our interactions with each other, our customers and stakeholders;
- Winning with people: We respect and reward committed people who make a positive contribution to our organisation. We embrace diversity and enable our people to grow as they help us to pursue our company's goals;
- Delivering with certainty: We deliver top quality solutions within predictable timeframes while remaining flexible enough to respond to change. We believe in learning and continuous development as we seek to improve our team structures and delivery processes;
- Tracking the future: By staying abreast of customs trends and standardisation efforts worldwide we are able to provide the industry's top products and solutions.

3-Year Strategic Priorities

- Develop and maintain a customs solution for SARS;
- Support the Luxembourg Customs Authorities;
- Respond to requests from South Africa's neighbours through a needs assessment and, if appropriate, delivery of a common customs solution as and when assistance is requested;
- Support targeted sales of a customs solution to selected global markets through dedicated resellers; and
- Build a sustainable, financially self-sufficient organisation.

ADA	Administration des Douanes et Accises, Luxembourg
AGSA	Auditor-General of South Africa
ASB	Accounting Standards Board
CMP	SARS customs modernisation programme
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EMCS	Excise Movement Control System
EU	European Union
GRAP	Generally Recognised Accounting Practice
iCBS	Interfront Customs and Border Solutions
ICS	Import Control System
IFRS	International Financial Reporting Standards
IP	Intellectual property
IPSAS	International Public Sector Accounting Standards
PFMA	Public Finance Management Act, No. 1 of 1999
RFI	Request for information
RFP	Request for proposal
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARS	South African Revenue Service
SDLC	Software development life cycle
Tatis	Tatis International (Pty) Ltd
WCO	World Customs Organization
WTO	World Trade Organization

2011/2012 ANNUAL REPORT

PART A

PERFORMANCE AND ORGANISATIONAL HIGHLIGHTS

Part A provides an overview of key performance, organisational highlights and challenges of the 2011/2012 year, relating to customs solutions development, product marketing and support, institutional sustainability and stakeholder management.

PART B

PROGRESS AGAINST INTERFRONT'S 3-YEAR STRATEGIC PLAN

Part B reports on the five strategic outcomes that Interfront identified to deliver on its mandate and reflects on the progress of its 3-year deliverables as stated in the strategic plan of 2011/12 – 2013/14.

PART C

PERFORMANCE AGAINST INTERFRONT'S MEASURES

Part C gives a detailed account of Interfront's performance against its measures as described in the business plan of 2011/12.

PART D

GOVERNANCE

Part D details efforts made to strengthen Interfront's governance structure and administration.

PART E

HUMAN RESOURCES

Part E details Interfront's staffing and skills requirements.

PART F

FINANCIALS

Part F gives an account of Interfront's financial wellness as at the end of the financial year ended 31 March 2012.

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Message from the Chairman of the Board

SARS assumed ownership of Interfront in February 2010 and the 2011/12 financial year is its second full year of operations. It is an honour for me to succeed the Commissioner of SARS, Mr Oupa Magashula, as chairman of the board of directors and I extend my gratitude for the founding role he played.

Interfront is a wholly owned subsidiary of SARS through which its parliamentary accountability is exercised. However, its business operation functions independently through its own board of directors and it strives to be a fully sustainable, eco-friendly body.

The post-2001 period has made it abundantly clear that a porous border is a risk to national security - political, economic, social and environmental. Interfront is acutely aware of this reality and, therefore, positions itself to provide world-class (WCO and WTO compliant) customs software platforms. Such products minimise the tensions emanating from efforts to improve border security whist facilitating trade. Customs solutions that enable this "balancing" are Interfront's value proposition!

Being fully committed to South Africa's customs modernisation goals and the sharing of customs capability (i.e. systems, processes and infrastructure) within the SACU and SADC communities, Interfront has enabled the country to stabilise the source of its customs solutions and develop world-class products and support capability.

Internationally competitive customs solutions will require Interfront to sometimes merge contrasting requirements onto a universal software platform. This platform needs to be both flexible and personalised in order to preclude duplication and high maintenance costs associated with individual bespoke development. We are confident that we have the intellectual capability to achieve this.

During the year under review, the first steps have been taken to align the operations arm of the business to a process-based, rather than customer-based approach. Structures have also been put into place on the corporate side to introduce sound controls and good governance. The highlight has been the launch of the company branding and identity.

The 2013 - 2017 periods will see the organisation move into an institutional rationalisation phase so as to further establish its operational environment, perfect and standardise its products, strengthen its stewardship and brand itself as the premier provider of customs and border solutions.

M.A. Enus-Brey
Chairman of the Board

Message from the Managing Director

The publication of Interfront's first annual report marks a small, but important step in its ongoing development as a company that has growing value for its shareholder, clients and staff.

Interfront was incorporated to house the partly developed Tatis CMS together with the intellectual capital vested in the staff, to use as a vehicle to complete a first-world customs IT solution for SARS and to market it to other potential users. Various agreements were concluded at the time, which provided *inter alia* for the establishment of Interfront as a separate company, financial support by its shareholder and sales agreements with Tatis International and Accenture as its preferred resellers.

The company did not enjoy the luxury of conceptualising its product and business rationale before entering the robust world of software development. Rather, it had production challenges in respect of its primary customers, being SARS and the Luxembourg Customs Administration (ADA), from its first days in operation, whilst expanding its infrastructure to fully support the development.

In this our second year, we have sought to stabilise the business and take the first steps towards putting sound structures and mechanisms in place. In this regard, we are pleased to report on a number of developments and successes which include the following:

- The launch of the Interfront brand and tag line;
- Strengthening our governance and leadership;
- Focused alignment with our shareholder and key role players;
- Analysis of risks and thorough strategic planning;
- Re-organising of operations and the institution of a project office;
- Addressing our legacy production challenges through the completion of the backlog and achievement of quality and timely deliveries;
- Structuring the corporate operations;
- Developing and implementing appropriate policies and internal controls;
- Following up on legacy issues of non-payment;
- Achieving a positive cash flow;
- Developing a conceptual product strategy.

Naturally we have risks confronting us. First and foremost, we need to build our reputation and identity. In order to do so, we will need to engage continuously and mould the perceptions of those we deal with. This can only be embarked on from the platform of a leading product and a sound operation.

During the year ahead, we envisage that our attention will focus on defining our business rationale, launching our product brand namely Interfront Customs and Border Solutions (iCBS) and examining ways of expanding our footprint.

This has been a challenging, but rewarding year. Interfront has enjoyed exceptional support. I offer my most sincere thanks to the board for its guidance, both in board meetings and directly from board members on a continuous basis.

Also, amongst the many at SARS, I would mention in particular the heads and staff of modernisation, strategy, procurement and especially the secretariat.

Lastly, to the loyal staff in Interfront, thank you for your professionalism and support in the face of change. We have a golden opportunity to make Interfront great!

G.O Randall
Managing Director

PART A

PERFORMANCE AND ORGANISATIONAL HIGHLIGHTS

Part A provides an overview of key performance, organisational highlights and challenges of the 2011/2012 year, relating to customs solutions development, product marketing and support, institutional sustainability and stakeholder management.

Performance And Organisational Highlights

1

Strategy and Structure

The identity of Interfront has been established! The Interfront branding of International Frontier Technologies SOC Ltd was launched in January 2012. Having established the quality of our products with our existing clients, we believe that the next logical step towards a strong Interfront brand identity will be to launch the iCBS - Interfront Customs and Border Solutions - product brand. This is directly aligned with our strategic objective to provide solutions in the Southern African, African and global spheres.

To create an enabling institutional capacity, also one of our strategic outcomes, much emphasis was put on setting up corporate governance, developing shareholder and client relations and rationalising the organisational elements. Key changes were made to leadership and the company was restructured to create a sound base for growing an innovative public enterprise. Efforts to institutionalise structures, empower Interfront management and derive further efficiencies continue. We are steadily becoming the stable, focused, ethical, efficient, compliant and competitive organisation envisaged in our 2011/12 - 2013/14 strategy.

An inclusive strategic planning process involving a selection of key managers produced a strategic plan for the next five years and a business plan for 2012/13. Risk management planning formed an integral part of this process. There is consensus amongst our stakeholders, particularly our resellers, that our solutions capability is market ready. Using SARS as a basis, Interfront will leverage this value proposition within the SADC region and globally through its resellers.

Opportunities to expand our footprint beyond customs and border management to other government departments, through a "second generation" of solution offerings, exist through the application of core Interfront knowledge, skills and experience in software development.

2

Product

Interfront, through its anchor customer SARS and the company's exposure to the sophisticated European market, has established a product base (iCBS) which is now market ready. In essence the iCBS is a modular product suite, rather than a single package. A number of individual modules support customs procedures such as arrival and departure processing (cargo), declaration processing (goods) and customs warehousing, as well as various other functions such as risk assessment, inspection, tariff management, licence and certificate management. Selected modules can be supplied individually and customised to the client's respective needs.

The iCBS is platform independent and SOA (service-orientated architecture) based, thus allowing integration with major accounting packages to provide a seamless link to the customer's revenue, debtors and all its financial accounting systems. In addition, the solution can be readily interfaced with external legacy systems, providing for single screen operations with the respective trade, migration and enforcement structures.

Modernisation programmes are complex, typically implemented in a staged approach and taking place over a number of years. Once agreement has been reached to go ahead, Interfront will partner with the respective client and provide value-added services to customise modules and facilitate the integration of iCBS with externally supplied systems, such as the accounting modules, to deliver the full scope of the intended solution. To this end, we work closely with various service providers.

Interfront's value-added services afford *inter alia* regular updates encapsulating new product features and functions, support to comply with changing international customs norms and adaptations to the client-specific implementation to support changed / new operational needs.Interfront has an advanced and mature software development capability which extends to second generation IP, going beyond the national domain to now also address multi-lateral solutions. Interfront is currently engaged in the design phase of just such a cross-border system.

In a world where tariff, customs and security requirements are constantly developing against a backdrop of exploding technological capability, Interfront provides future-proof solutions and is determined to be a stable long-term partner.

This commitment is underwritten by its shareholder and its status as a state-owned company. Interfront's philosophy reflects the consensus reached at a product strategy workshop which included our shareholder, major customers, value-added resellers and senior management. High levels of alignment were achieved and actions are being put into place to enter a structured promotional phase.

Our initial development was mainly customer led (as opposed to product led) which resulted in solutions of a more bespoke nature. We have analysed the core software of past deliveries with a view to determining the embedded value contained in the developed software. Our goal moving forward will be to extract this value, focus on increased modularisation and raise the generic content of each module. To this end, we have aligned our operation organisationally to a product, rather than a customer, focus.

The strength of the IT solution lies to a significant extent in the unseen technologies that underpin the presented solution functionality, as well as its user efficiencies. These allow for continuous improvement and require a certain level of investment which is amply reimbursed through long-term licence and support income.

Ultimately our product must deliver on the fundamental demands of frontier operations. These are for uninterrupted 24/7/365 operation and long-term flexibility, as well as ease of integration across agencies. In so doing, iCBS can serve as a key building block for upholding the national security of sovereign nations.

3

Operations

During the course of the year, the Operations group was restructured under the leadership of the Operations Director to meet the increasing demands of the two large programmes that were in progress for SARS and ADA.

Project delivery systems and processes were adapted to enable predictable quality and on-time deliveries to our clients and improve internal efficiency and discipline.

Clear communication channels were established with clients and contractual interfaces were improved by the establishment of a Project Office. By the end of the calendar year, the Interfront software delivery "engine" was well positioned to deliver quality solutions to our two major clients on time, effectively and professionally.

The overall level of activity has declined and there has been a movement of resources from ADA to the SARS development. We believe this to be cyclical and expect a significant upturn in SARS activity in the coming year, with new customers and an expansion in our offering coming on stream in the longer term.

3.1 South African Revenue Service

During the year, expectations were met on the delivery of key milestones as set by SARS, predictably and repeatedly in a dynamic environment. The project delivery to SARS as a client improved significantly over the previous year and Interfront is now able to meet the pace and changes required by the challenges of modernising the customs landscape.

The construction phase of Phase one of CMP is nearing completion after just more than two years. Changes requested by the client are being incorporated in all the major modules. Extensive qualification and parallel running with SARS legacy systems will follow before the transition into operation of the main modules in

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the course of this year. This will provide SARS with a modernised and flexible technology solution, which is WCO compliant and replaces multiple legacy systems.

Apart from establishing internal control and systems engineering capabilities, the areas in which Interfront excelled specifically and in which they exceeded the expectations of the client include:

- Establishment of project management capability including improved communication between the client and Interfront at company and programme level;
- Technology/tools and environment – development of test-and-compare tools relating to the huge data-cleaning and testing effort required;
- Establishment of effective and reliable release delivery capability;
- Ongoing development and adaptation of business user functions.

3.2 Administration des Douanes et Accises, Luxembourg

Legacy issues on the ADA projects from the previous year continued into 2011/12. This hampered progress and required investment by Interfront to achieve more predictable outputs. These matters have all been addressed and delivery has been tendered against an undertaking by ADA to commit to costing and payment terms.

Further reference to these matters is made elsewhere in this report.

Stakeholder Relationships

Interfront has had to contend with the legacy of informal institutional arrangements between itself, its customer (Tatis), its reference site (ADA), its resellers (Accenture and Tatis) and SARS as shareholder and client. Although a separate legal persona was established when SARS assumed ownership in 2010, Interfront's identity and operations had remained intertwined and conscious steps have been taken to crystallise our respective identities.

4.1 South African Revenue Service as shareholder

Although we are an independent company, Interfront supports SARS goals and objectives regarding its own customs modernisation and its commitment to assist and facilitate the building of appropriate customs capability within the SADC region.

To this end, the period under review has required the active participation of our shareholder with regard to governance capacity building, our strategic focus and financial stewardship. A balancing of "interests" between Interfront, as an independent company, and SARS, as shareholder, continues to mature with agreements being envisaged in a shareholder's compact.

It is anticipated that Interfront's value proposition as an information technology resource that SARS can offer the rest of government, in the spirit of cooperative governance, will be realised through this compact.

4.2 South African Revenue Service as client

Our primary objective is to build the iCBS for SARS. Whilst we are at the beginning of this partnership, we believe it to be sound and constructive and have engaged continuously to cement this relationship.

Consensus has been reached on the terms of the SARS-Interfront Master Services Agreement which will further structure our dealings and is in the process of final legal review. The physical distance between Interfront and the SARS customs modernisation programme (CMP) team has posed alignment and communication challenges. This is particularly relevant when compared to other service providers working with the SARS CMP Office. To remedy this, the following specific interventions were made:

- Raising the level of Interfront's engagements with SARS CMP – the Interfront Director: Operations became a member of the SARS CMP steering committee. This involvement significantly improved communication between SARS and Interfront's operational team and resulted in better alignment between client expectations and delivery;
- Creating a more robust delivery capacity within the Interfront development team by appropriately structuring the team, creating relevant tools and processes to provide a flexible and responsive service.

As a result, the relationship with the SARS CMP Office improved significantly from early 2011. This was achieved through improvement in management and communication structures and consistent delivery on key milestones through the year.

As a testimony to the quality of the SARS-Interfront relationship, the SARS CMP Office said: "During the year, expectations were met on delivering of key milestones.... Interfront as an organisation has proved that they are agile enough to meet the demands of a turbulent environment."

4.3 Administration des Douanes et Accises, Luxembourg / Tatis International (Pty) Ltd

The intention moving forward is for resellers to market iCBS augmented by other products and services, whilst providing for direct contracting between Interfront and the user. In the case of ADA, their existing relationship with Tatis at the time of the sale to Interfront was allowed to continue to provide continuity but will be reviewed moving forward.

A Licence and Service Agreement between Interfront and ADA, formalising and clarifying Interfront's maintenance and support, has been adopted by the Deputy Commissioner of ADA and submitted to the Minister of Finance in Luxembourg for approval.

4.4 Resellers

The full potential of a mutually beneficial relationship between Interfront and its resellers has still to be fully exploited. Preparations for launching the Interfront product at the World Customs Organization conference in June 2012 are in progress and stem from heightened reseller engagements.

At a joint Interfront-Resellers product workshop held towards the end of the 2011/12 year, the Interfront product strategy was discussed with regard to the resellers' marketing and sales strategy and specific market opportunities. It was agreed that Interfront would engage each reseller separately to tailor a product-marketing and sales strategy with each respective reseller.

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Policies, Procedures and Systems

A critical challenge for Interfront has been to put in place the required policies, procedures and systems to ensure regulatory compliance and good governance. Efforts to embed compliant policies, rational procedures and integrated systems have taken place in two areas:

5.1 Corporate

Finance, procurement and human resources policies have been reviewed and revised to be in line with relevant legislation such as the Public Finance Management Act and SARS counterparts.

The result has been a rational and auditable corporate services function that ensures policy and regulatory compliance.

Specific policies adopted by the Interfront board include:

- Finance – accounts payable, accounts receivable, cash management (banking, investment, petty cash), general ledger, asset management (tangible and intangible), procurement, travel management;
- Human resources – conditions of employment, grievance and disciplinary procedures.

5.2 Operational

There has been a fundamental overhaul of the operational systems, processes and procedures to build project discipline, process efficiency and client responsiveness. As a result, Interfront is better equipped for predictable delivery that meets customer quality and timeline requirements. Specific changes include:

- Installed technical disciplines and processes to meet the required pace, quality and agility as demanded by modern-day clients;
- Introduced a Project Management Office to improve resource planning, project reporting and tracking;
- Introduced common disciplines and processes across the company to minimise change management issues for resources that are deployed within different project teams. This creates efficiencies within the company;
- Re-organised the company from a client focus to a functional focus that uses the same project delivery methodology, developers, testers, designers etc.;
- Aligned formal communication channels within the company as well as to our resellers and clients. This has ensured that expectations are now clear in terms of who is responsible for each deliverable, at all levels;
- Established a project rhythm that allows Interfront to manage the interaction with clients and adapt to the challenges accordingly.

PART B

PROGRESS AGAINST INTERFRONT'S STRATEGIC PLAN

Part B reports on the five strategic outcomes that Interfront identified to deliver on its mandate and reflects on the progress of its 3-year deliverables as stated in the strategic plan of 2011/12 – 2013/14.

Progress Against Interfront's Strategic Plan

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6.1 Development and long-term support of a customs solution for SARS

During 2011, management structures, processes and capabilities were established to fully meet the demands of the SARS customs modernisation programme. Deliveries of the various components of the iCBS met or exceeded the expectations of SARS in terms of milestones and quality. Major achievements along the delivery path include:

- Implementing and testing several thousand business rules;
- Preparing the iCBS system to replace SARS legacy systems by creating tools to manage rules and data, as well as cleaning legacy data;
- Modularisation of the iCBS system.

A strong and capable team is in place to meet the challenges of 2012/13 where several components of the first phase of the customs modernisation solution will be deployed and supported in operation. The first module of the Tariff Management System is on schedule to go live in the first quarter of 2012/13.

6.2 Supporting the Luxembourg customs authorities - ADA

This year, two new customs system components were developed for Luxembourg - ICS and EMCS (Phase 3).

During the first quarter of 2011 it became clear that the ICS project (the main development project) had been underestimated in terms of scope, complexity and qualification effort and required more than the agreed resources and budget. Interfront fully committed to the expansion of the development and qualification teams, the associated team leadership and management to ensure successful completion of the ICS system. From the second quarter of 2011, this commitment started making an impact and ICS deliveries increasingly met customer expectations in terms of on-time delivery and quality. The project was finally completed and assessed to be delivered at a commendable level of quality in January 2012.

The quality and reliability of earlier EMCS releases during 2010/11 were raised as concerns by the customer.

A focused three-month effort by the development team, including significant steps to improve product qualification processes in the development group, achieved a high level of product stability and much improved client satisfaction.

Interfront gained valuable experience with the implementation of a cargo system and an excise system based on EU standards in the ICS and EMCS projects. This experience can be effectively applied in the development of similar systems for SARS in the medium term.

6.3 Responding to the requests of South Africa's neighbours through a needs assessment and, if appropriate, delivery of a common customs solution

In 2011 SARS planned the All Africa Customs Modernisation Conference in South Africa and Interfront hosted the Conference for two days. The Conference was attended by nineteen delegates from twelve countries.

Interfront was able to leverage SARS's trade facilitation role in Southern Africa and on the continent to promote its customs solution and has consequently been requested to participate in the development and establishment of a regional transit customs solution for SADC. The tri-partite agreement established between SADC, COMESA and the EAC now expands this opportunity to other African countries.

As an indication of the need for customs solutions in the SADC region, a number of countries have issued RFIs or RFPs. Interfront has responded to a number of these and the respective outcomes are awaited.

6.4 Building a sustainable, financially self-sufficient organisation

Interfront is excited about the future. As a company that has significant development capability and good processes in place to become a major player in the customs and border management domains, its future looks bright and the possibilities endless. The platform is there; what is needed is the conversion of opportunities to build on it. As can be expected of an organisation evolving from a pioneer informal style of operations to a rational predictable approach, lessons are many and include the accurate costing of project work. A significant turnaround strategy was implemented during the year under review and we believe that this resulted in a current costing approach that is market related and will support our operations, as well as covering overheads that are necessary to sustain the entity.

Our experience and lessons learned also contributed to a matured capability to minimise quality and costing errors, resulting in customers that are content and a healthy financial environment. The major impact of this process was only seen close to year-end and although the current financial results are not yet positive, we are confident that we will see the yield of this effort manifesting in the new financial year.

As we proceed into the 2012/13 year, we plan to spend some time on developing a mature product strategy. Time spent on this will be limited and only components that need little additional effort to reach this result will be considered.

The reasoning behind this approach is that most of the customers in our field will have specific requirements and time spent on standard products might be in vain. Some time is also planned for research and development.

In an ever changing technological environment it is important to stay abreast of technological changes and the importance of this investment cannot be taken too lightly.

As we build on our relationships we are optimistic that the scope and volume of work required from SARS and the Southern African region will increase and this will assist in not only increasing our scope of work in South Africa but also in gaining customers from other SADC regions. This will limit our dependency on our shareholder and result in Interfront becoming a mature entity that is self-sustained.

6.5 Support targeted sales of a customs solution to selected global markets through our dedicated resellers

Our resellers were prominent at the annual WCO IT Conference in Seattle in May 2011 where the iCBS (then TATIScms) was promoted by Interfront and reseller representatives. This conference is the primary annual forum for promoting customs products and meeting prospective clients.

Responses were submitted to certain RFIs and RFPs issued by prospective customers through the year and Interfront continued its interactions with various countries on the global scene. Further interaction with potential African clients occurred at the All Africa Customs Modernisation Conference held by SARS in November 2011. The following statement is an extract from the SARS report on the Conference:

"The workshop was a great success and ... was exceptionally organised in terms of workshop content and logistics."


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PART C

PERFORMANCE AGAINST INTERFRONT'S MEASURES

Part C gives a detailed account of Interfront's performance against its measures as described in the business plan of 2011/12.

In this part of the report, Interfront provides performance measurements against key outcome targets for the past year. Where targets were not achieved, explanations are provided.

Section 2 of the report provides contextual narrative on the performance against each of these outcomes.

Development & maintenance of a customs solution for SARS

Outcome/Output Measure	Measurement Unit	Baseline	Target 2012/2013
Meeting SARS key modernisation milestones	Number of milestones	n/a	8
Deviation from service level agreements	%	n/a	<5%

Supporting the Luxembourg Customs Authorities

Outcome/Output Measure	Measurement Unit	Baseline	Target 2012/2013
Deviation from service level agreements	%	n/a	<5%

Responding to the requests of South Africa's neighbours through a needs assessment and, if appropriate, delivery of a common Customs solution

Outcome/Output Measure	Measurement Unit	Baseline	Target 2012/2013
Satisfaction level (as measured by requesting country) and relevance of assessment findings conducted as a result of neighbouring country's request	High/Medium/Low	n/a	Medium to High
Deviation from service level agreements	%	n/a	<5%

	Actual	Variance	Comments
	> 8		Consistent on-time delivery in accordance with changing SARS milestones
	Not applicable		Service level agreements were not executed in 2011/12 because no Interfront modules were deployed in operation. Modernisation programme schedules were adapted to schedule Interfront deliveries in 2012.

	Actual	Variance	Comments
	Informally measured. Partially met: IETA product –<5% EMCS product – <20%		Instability problems on EMCS during the first half of the year impacted service levels negatively

	Actual	Variance	Comments
	High		Interfront participated in and co-hosted part of the All Africa Customs Modernisation Conference in South Africa where delegates from twelve countries were represented. A cooperation agreement was established involving three regional organisations (COMESA, EAC & SADC), representing 23 countries. Interfront was positioned with SARS as technology leaders in customs modernisation and integration.
	Not applicable		No product deliveries have been made to neigbouring countries, hence no service level agreements are in place between Interfront and neigbouring countries.

Building of a sustainable, financially self-sufficient organisation

Outcome/Output Measure	Measurement Unit	Baseline	Target 2012/2013
Growth of profit generated from external customers (other than SARS)	%	Breakeven	20%
Single processing platform (% achievement towards goal)	%	n/a	50%

Support targeted sales of a customs solution to selected global markets through our dedicated resellers

Outcome/Output Measure	Measurement Unit	Baseline	Target 2012/2013
Percentage of active potential target customers engaged by resellers	%	n/a	25%
Satisfaction level (%) in Luxembourg and South Africa measured by authorities	%	n/a	70%

	Actual	Variance	Comments
	Not achieved		Influenced mainly by lengthy product development and marketing cycles
	Not applicable		Initial discussions were held with the shareholder and a product strategy workshop was held in Jan. 2012. The product strategy clarifies the platform approach as well as commonality. The product strategy has not yet been approved and will take a number of years to implement.

	Actual	Variance	Comments
	25%		Engagements that took place included those with Lesotho, Angola, Tanzania, Rwanda, Oman, Canada and New Zealand. Several engagements also took place at the World Customs Organization conference, including a significant one with India. Further interaction with potential African clients occurred at the All Africa Customs Modernisation Conference held by SARS in Nov. 2011.
	SARS - 80% Luxembourg - 70%		SARS indicated high levels of satisfaction with the service they are receiving from Interfront by responding to an evaluation request. Service levels to ADA were measured by the reseller, Tatis International, and improved from less than 40% to 70% over the course of the past year.


G12 PORT OF

PART D

GOVERNANCE

Part D details efforts made to strengthen Interfront's governance structure and administration.

Governance

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Commitment

The board is committed to the highest principles of business integrity, transparency and professionalism in all its activities. As part of this commitment, the board supports the highest standards of corporate governance and the ongoing development of best practice.

A number of governance-related regulations are applicable to Interfront, of which the Companies Act, No. 71 of 2008 ("Companies Act") are the most significant. The board supports the Code of Corporate Practices and Conduct set out in King III. The board is of the opinion that Interfront has applied the significant governance principles in King III. In instances where the company has elected not to apply certain recommendations contained in King III or do not comply with other legislative requirements, the reason / rationale has been explained in the relevant sections of this report.

During 2011 certain amendments were made to Interfront's governance structure to ensure compliance with the applicable regulations. Significant changes include the formulation of an audit committee and a remuneration committee. The remuneration committee will also fulfil the role of the social and ethics committee and is expected to be renamed as such from the 2012/2013 financial year.

The company confirms and acknowledges its responsibility for compliance with the above-mentioned requirements. The board discusses the responsibilities of management in this respect at board meetings and monitors the company's compliance.

The salient features of the entity's adoption of good governance principles are outlined below:
As a state-owned company, Interfront is regulated by the Companies Act, No. 71 of 2008, the Public Finance Management Act, No. 1 of 1999 and the Treasury Regulations.

This has required the:

- Appointment of auditors;
- Establishment of a board of directors with a minimum of three members;
- Establishment of an audit committee;
- Establishment of a social and ethics committee (to be effective for the 2012/2013 financial year);
- Establishment of a remuneration committee;
- Confirmation of a company secretary;
- Presentation of audited financial statements.

Protocols have been established with its principal, SARS, through which accountability at parliamentary level occurs. Interfront's accountability takes place through the managing director who reports to its accounting authority, the Interfront board.

Initially the majority of Interfront's board of directors were appointed from the ranks of senior SARS officials with the Commissioner as the chairperson. However, to ensure a clear separation of powers between the shareholder and Interfront, on 18 October 2011, an independent director (Mr. Mustaq Enus-Brey) was appointed as chairperson of the Interfront board. In the upcoming year, it is envisaged that more independent directors will be appointed. Whilst the company has made good progress on this front, it intends to continue to mature its structures and make use of wider expertise in the market-place.

The decision of the founding managing director to return to Tatis in September 2011, was appropriately managed so as to maintain institutional stability. His successor brought a financial rigour that embedded a compliant financial, procurement and shareholder management capability. The appointment of the Director: Operations in the same month ensured a concerted approach for operations management and focused project/product leadership. Intra-enterprise governance was further strengthened through the recruitment of a financial director in October 2011.

8

Board

The board:

- retains full control over the company, its plans and strategy;
- acknowledges its responsibility as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the company;
- is of unitary structure comprising:
- non-executive directors and
- executive directors.

8.1 Composition

Name	Role	Appointed	Resigned
Oupa Magashula	Chairperson, Director: Non-Executive	22 December 2009	18 October 2011
Ivan Pillay	Director: Non-Executive	22 December 2009	03 April 2012
Barry Hore	Director: Non-Executive	22 December 2009	
Kosie Louw	Director: Non-Executive	22 December 2009	
Gene Ravele	Director: Non-Executive	22 December 2009	
Bob Head	Director: Non-Executive	4 April 2012	
Mustaq Enus-Brey	Chairperson, Director: Non-Executive Independent	18 October 2011	
Eddie Theart	Director: Managing	22 December 2009	31 August 2011
Sean Paterson	Director: Finance	22 December 2009	31 May 2011
Graham Randall	Director: Finance / Managing	1 June 2011	
John Robertson	Director: Operations	1 September 2011	
Leilanie Janse van Rensburg	Director: Finance	1 October 2011	

8.2 Chairperson and chief executive

The chairperson is a non-executive and independent director as defined by King III. The roles of chairperson and chief executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

8.3 Remuneration

The board, which includes a majority of shareholder representatives, has been delegated the authority to determine the remuneration of the executive directors.

The board appointed a remuneration committee during the financial year to govern all remuneration matters, make recommendations and guide the board in matters affecting the remuneration of staff members.

8.4 Executive meetings

The board has met on four separate occasions pertaining to the financial year under review. The board schedules meetings at least four times per annum.

Non-executive directors have access to all members of the board or management of the company. Any director has the right to call a board meeting at any time if he should deem it necessary. *Ad hoc* meetings are scheduled as and when a need arises.

Meetings and attendance

Name	15/03/2011	18/10/2011	13/12/2011	01/06/2012
Oupa Magashula	ⓐ	ⓐ	n/a	n/a
Ivan Pillay	ⓐ	x	x	n/a
Barry Hore	ⓐ	ⓐ	ⓐ	ⓐ
Kosie Louw	ⓐ	ⓐ	ⓐ	ⓐ
Gene Ravele	ⓐ	ⓐ	ⓐ	ⓐ
Bob Head	n/a	n/a	n/a	ⓐ
Mustaq Enus-Brey	n/a	ⓐ	ⓐ	ⓐ
Eddie Theart	ⓐ	n/a	n/a	n/a
Sean Paterson	ⓐ	n/a	n/a	n/a
Graham Randall	n/a	ⓐ	ⓐ	ⓐ
John Robertson	n/a	ⓐ	ⓐ	ⓐ
Leilanie Janse van Rensburg	n/a	ⓐ	ⓐ	ⓐ

ⓐ - Attended x - Did not attend n/a - Not a director during the specific period

8.5 Delegation of authority

The entity's Delegation of Authority framework provides an approval structure to ensure optimised management and effective governance.

The shareholder bestows general authority to the board to direct the company and manage its affairs. In turn, the board delegates the power to run the day-to-day activities of the company to the executive officers.

The Delegation of Authority document classifies and regulates any such delegation of authority within the company. The board approves all delegated authorities as and when changes are necessary, but at least annually.

8.6 Executive and non-executive directors and prescribed officers

The directors and prescribed officers have a fiduciary duty to exercise due care and skill in carrying out their mandate as custodians of the company. In doing so, they will ensure that they do not receive any personal gain as a result of their fiduciary relationship with the company and act in the best interest of the company at all times.

8.7 Company secretary

The company secretary provides guidance to the entire board and to individual directors on how to fulfill their responsibilities in the best interest of the entity and in terms of applicable legislation and regulations.

8.8 Board committees

The committees are convened, in accordance with the requirements of the applicable legislation, to assist the board in discharging its duties and responsibilities. The establishment of these committees does not result in the board relinquishing its responsibilities, as the ultimate responsibility still vests with the board.

The responsibilities of the committees are contained in their respective charters, which are approved by the board. The chairperson of each committee reports back to the board on issues tabled for discussion at the committee meeting. All committees are chaired by non-executive directors of whom currently none are independent.

Although the chairpersons are not independent, the board is supportive of their chairmanship due to their expertise in their relevant fields and the value they add.

The appointment of independent directors to serve on the various committees is a high priority for the board and chairpersons are expected to be replaced by independent non-executive directors as soon as this is possible.

8.9 Companies Act, No. 71 of 2008

Interfront has had to act in response to the provisions of the Companies Act during the reporting period. The relevant charters of the committees have been reviewed internally and updated to ensure compliance and the board has resolved that the social and ethics committee be constituted to be effective for the financial year starting 1 April 2012 as reported under "Commitment" above.

The company intends to have its Memorandum and Articles of Association replaced by a Memorandum of Incorporation (MoI) approved by the shareholder during the 2012/2013 financial year. The MoI will bring Interfront's constitutional documents in line with the provisions of the new legislation relating to companies. The non-alterable provisions of the Companies Act will be included in the company's MoI.

8.10 Audit and risk committee

The audit committee is a statutory committee formed during the year under review due to the requirements of the Companies Act, the PFMA, the Treasury Regulations and King III report.

It is a sub-committee of the board that was convened to serve as an oversight committee to assist the board in discharging its duties relating to, amongst others:

- The safeguarding of assets;
- The operation of adequate internal controls and systems;
- Ensuring that adequate financial accounting controls and processes exist;
- Reviewing stakeholder information and the annual financial statements for presentation to the shareholder; and
- Overseeing that statutory and regulatory requirements are met on an ongoing basis.

The committee is pleased to present its report for the financial year ended 31 March 2012 (refer to page 46).

The report is presented in accordance with the requirements of the above-mentioned regulations.

Amongst others, the committee's operations are guided by a formal charter that is in line with the provisions, requirements and recommendations of the aforementioned.

For the financial year under review the chairperson of the audit committee was Mr Kosie Louw (non-executive director) and Mr Bob Head (non-executive director) was appointed as chairperson in the new financial year commencing on 1 April 2012.

The committee met three times to review matters necessary to fulfil its role. Two of these meetings took place early in the new financial year to conclude important matters relating to the financial period under review.

Due to various factors, including the limited number of independent non-executive directors on the Interfront board and the fact that the company is very new and still addressing growing pains, the committee did not comprise of three independent non-executive directors.

The committee comprised only two members for the financial year; a third member was however appointed during April 2012. It is a priority for the board to rectify this and ensure full compliance.

8.11 Internal audit

The entity has outsourced its internal audit function to the internal audit department of SARS.

8.12 Remuneration committee

The remuneration committee was created during the year under review to advise the board on matters concerning the terms and conditions of employment in respect of Interfront's employees.

During the year under review the committee made recommendations and gave directions in respect of the implementation of a new performance management system, remuneration matters, employment equity and other staff-related matters.

8.13 Composition of the remuneration committee

Name	Role	Appointed
Kosie Louw	Chairperson	28 November 2011
Gene Ravele	Member	28 November 2011
Mustaq Enus-Brey	Member	28 November 2011
Permanent Advisor		
Mike Olivier	Specialist Advisor	28 November 2011
Oupa Magashula	Specialist Advisor	28 November 2011

The chairpersons of the committee as well as the other members complied with statutory requirements regarding competency and conflict of interest.


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PART E

HUMAN RESOURCES

Part E details Interfront's staffing and skills requirements.

Human Resources

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Staffing and Skills

As a young information technology company, retention of Interfront's team of information technology professionals is the company's most critical risk area.

During 2011/12 the staff turnover was 25% of the averaged workforce against the industry norm of 10,5%. Attrition occurred in two clearly identifiable periods - the beginning and end of the financial year - both being periods of operational change and realignment.

The attrition rate of 14,5% above the industry average is understandable in view of the company's transition and has been analysed as follows:

Attributable to normal industry trends

- Work and family life balance - "on call" project delivery demands, high availability and extended hours;
- Career path development;
- Capability mismatch - revealed because of project delivery pressures and operational restructuring.

Attributable to transitional phase

- Work challenge - expectations regarding the new ADA Integrated Customs Management System project were unfulfilled;
- Perceived company instability - Interfront's transition from a private entrepreneurial to a state-owned enterprise;
- Restructuring - key changes within management.

86% of our workforce consists of skilled and experienced IT graduates and post-graduates. Java developers are in high demand within a relatively small community of IT resources. Since Interfront strives to be a frontrunner in the development of customs management solutions, our proposed Rewards Policy reflects our specific approach to ensure continuity in customs domain knowledge and retain our application development and qualification skills, knowledge and experience base. Our remuneration approach is clear and transparent, designed and administered to align employees' interests with those of all stakeholders and ensure the company's short- and long-term success. It is an objective of the company to provide a level of remuneration that attracts and retains employees of the highest calibre.

The aim of the overall philosophy is to ensure that employees are fairly rewarded for their individual contribution to the company's operating and financial performance in line with its strategic and business objectives.

10

Remuneration

10.1 Principles

Even in the current stressed economical environment, Interfront remains committed to investing in its employees. Interfront has experienced major growth since SARS assumed ownership in 2010.

It is a knowledge-based business and must constantly evolve employee skills based on customer demand. Interfront strives towards three fundamental goals to ensure our human capital is not lost, namely:

- Retraining and evolving skills from within. A training plan has been developed and budgeted for to ensure staff stay on top of recent developments and continue to be motivated in a continuously changing technological world;
- Ensuring that staff remuneration continues to be competitive in the market;
- Offering a continuous performance-based bonus programme for all employees.

10.2 Performance based

The company acknowledges the important contribution made by its employees towards the achievement of the company's goals. Moreover, it accepts its role in furthering the development of all employees through providing the medium and forum for full and balanced feedback on performance in the job. Effective management of employees' performance provides direction to employees on what is important for the company to be successful and has a significant impact on the way employees work.

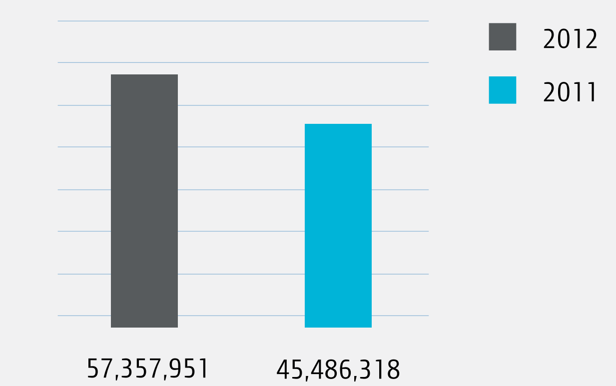
Performance reviews / appraisals are designed to encourage discussion of the results achieved between individuals and their team leaders / managers. Performance against objectives is also an input for separate discussions with employees on their career management and development.

As such, work on a performance management system together with a training and development programme to address our human capital concerns has commenced and will be rolled out in 2012/13.

10.3 Employee cost

The increase in employee cost of 26,1 % can be attributed to the following:

- Annual inflation increase of between 5,4 % and 10,0% with an average of 6,9% (increases were linked to performance);
- An increased staff establishment average from 78 employees during the 2010/2011 financial year to 95 employees during 2011/2012. This number included individual contractors that were employed for most of the year.



Employee Cost

* The 2011 amount was determined by adding the R23 380 695 amount recognised in the statement of financial performance to the R22 105 623 that was capitalised to IP in the statement of financial position.

10.4 Performance-based bonus

During the 2011/2012 financial year a new strategy was introduced and bonuses were paid based on individual performance. This is in line with the company's strategy to retain high-performing employees. The performance management system is still in its introductory phase and the formal policy was only approved after financial year-end. The implementation of the policy and the detailed process will be introduced to the company during the coming financial year.

10.5 Long-term incentive schemes

As part of the future strategic plan to retain employees, Interfront is considering the introduction of long-term incentives to ensure key employees are retained.

10.6 Staff benefits

Interfront contributes towards employees' medical aid payments as part of their cost to company (CTC). The company also contributes to a provident fund on behalf of its employees. This is a defined contribution retirement fund and thus Interfront has no legal or constructive obligation to pay for future benefits; this responsibility vests with the provident fund. Contributions vary from 5% - 15% and are structured as part of the employees' CTC.

10.7 Transformation

Interfront is committed to transformation principles as guided by South African legislation. We are proud to be part of a diverse nation and strive to ensure our employee profile increasingly reflects the broad diversity of the Western Cape and South Africa. To this end we are to introduce a formal employment equity plan during 2012/2013. This plan will include various initiatives to develop and procure appropriate skills and will be continuously fine-tuned as we mature as a company.

PART F

FINANCIALS

Part F gives an account of Interfront's financial wellness as at the end of the financial year ended 31 March 2012.

Financials

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Board's responsibilities and approval

The board is required by the PFMA to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the board to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period under review. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The board acknowledges that it is ultimately responsible for the system of internal financial control established by the company and places considerable importance on maintaining a strong control environment.

To enable the board to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or deficit in a cost-effective manner.

The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the company is on identifying, assessing, managing and monitoring all forms of risk across the company.

While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The board is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements.

However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

Although the board is primarily responsible for the financial affairs of the entity, they are supported by the entity's external auditors.The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is attached hereto.

The annual financial statements set out on page 53 to 103, which have been prepared on the going concern basis, were approved by the board on 31 May 2012 and were signed on its behalf by:

M.A. Enus-Brey
Chairman of the board

G. O. Randall
Managing Director

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Audit Committee Report

We are pleased to present our report for the financial year ended 31 March 2012.

The Audit Committee has adopted appropriate formal terms of reference as its audit committee charter.

i) Audit committee members and attendance

Members		Meeting Dates		
Name	**Role and qualifications**	**19/07/2011**	**12/04/2012**	**31/05/2012**
Kosie Louw SARS Chief Officer: Legal and Policy	Chairman up to 3 April 2012 Member after 3 April 2012	ⓐ	ⓐ	ⓐ
Barry Hore SARS Chief Officer: Operations	Member	ⓐ	ⓐ	ⓐ
Bob Head SARS Special Advisor to the Commissioner	Chairman after 3 April 2012	n/a	ⓐ	ⓐ

ⓐ – Member attended meeting *n/a – Member not appointed yet*

Audit committee responsibility

The audit committee reports that it has complied with its responsibility arising from sections 51(1) (a) (ii) and 76(4) (d) of the PFMA and Treasury Regulations 27.1 except where else reported. The audit committee has regulated its affairs in compliance with its terms of reference and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the entity over financial and risk management has improved significantly during the year under review. Risk areas have been identified and high-risk areas addressed. Actions included the appointment of more support staff to ensure the effective segregation of duties and the establishment of an audit committee and remuneration committee. In line with the PFMA and the King III requirements, Internal Audit provides the audit committee and management with assurance regarding the effectiveness and appropriateness of the internal controls.

This is achieved by means of a risk management process, as well as the identification of corrective actions and suggested enhancements to the control processes.

From the report of the internal auditors, the audit report on the annual financial statements, and the management report of the Auditor-General of South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom.

Accordingly, we can report that the system of internal control over the financial reporting for the period under review was efficient and effective.

Evaluation of annual financial statements

The audit committee has:

Reviewed and discussed the audited annual financial statements to be included in the annual report, with the AGSA and the board;

Reviewed the AGSA's management report and management's response thereto;

Reviewed the entity's compliance with legal and regulatory provisions;

Noted that there were no significant accounting adjustments resulting from the audit;

The audit committee concurs with and accepts the AGSA's report on the annual financial statements and is of the opinion that the audited financial statements should be accepted and read together with the report of the AGSA.

Independence

The members of the audit committee are all employed by the sole shareholder and are therefore not regarded as independent. The recruitment of independent board members is a priority in order to address this and ensure good corporate governance.

Internal audit

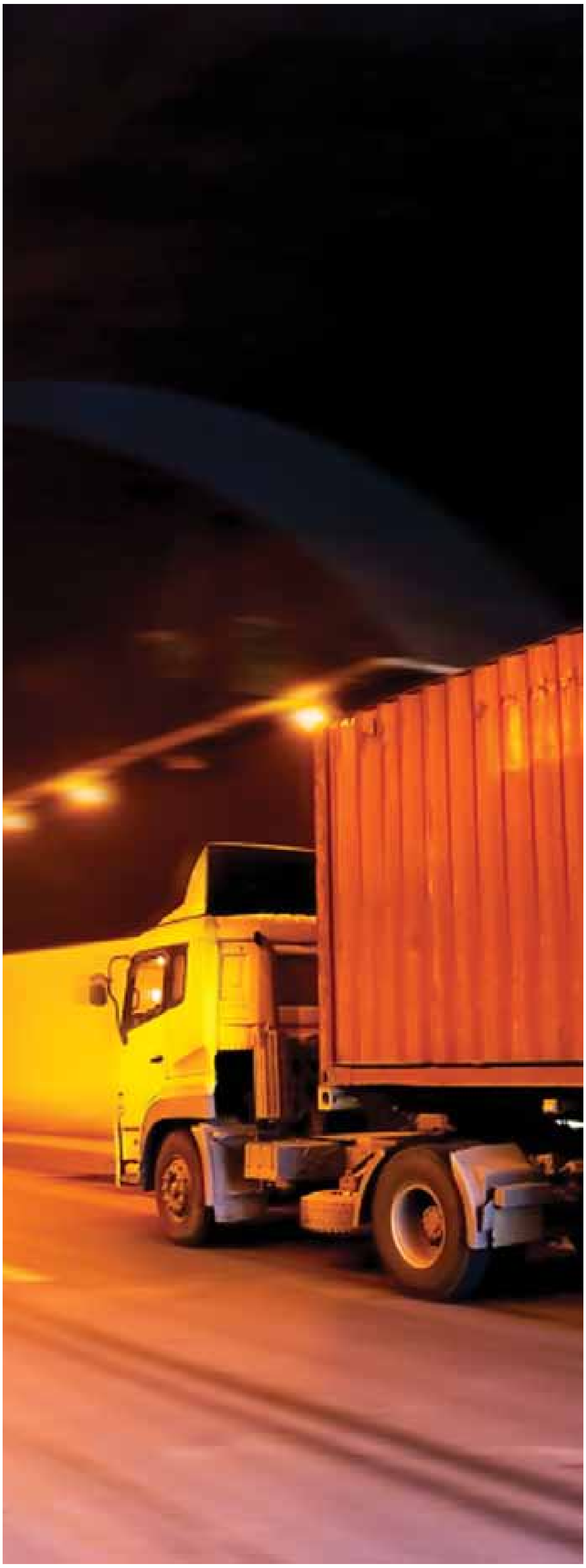
The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the entity and its audits.

Auditor-General of South Africa

The audit committee has met with the AGSA to ensure that there are no unresolved issues.

Signed

Bob Head
Chair: Audit Committee



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Report by the Board of Directors

Introduction

The board as accounting authority of Interfront presents its Annual Report that forms part of the annual financial statements for the year ended 31 March 2012.

Interfront was incorporated in South Africa on 20 April 2009 and received its certificate to commence business on the same day. Although it only started its official business activities in February 2010 its registration number is 2009/007987/07.

Review of activities

Interfront is primarily engaged in the following:

- to hold, invest in and develop customs and border management software solutions for SARS and for use by other border control and revenue agencies around the globe;
- to commercialise the software solution to enable the marketing thereof globally; and
- operates principally in South Africa.

The operating results and the state of affairs of the entity are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

The net deficit of the entity was R5 287 646 (2011: surplus R15 971 764), after a taxation asset of R 382 616 (2011: R 496 738).

Corporate governance

The board of Interfront supports the principles contained in King III. How these principles were applied in Interfront are set out in Part D of this annual report. Full compliance is high on the list of priorities for the future.

Shareholder

The entity's ultimate controlling entity is SARS, established in 1997 in terms of the South African Revenue Service Act, No. 34 of 1997. It is listed as a national public entity in schedule 3A of the Public Finance Management Act, No. 1 of 1999.

In terms of the PFMA, Interfront is also recognised as a schedule 3A public entity, it being a wholly owned subsidiary of SARS.

Going concern

The annual financial statements have been prepared on the basis of the accounting policies applicable to a going concern.

Share capital

The company did not issue any new shares during the year. The total number of shares in issue was one at a capital value of R1. The total authorised number of ordinary shares is 1 000 shares of no par value. The issued share is fully paid.

Companies Act, No. 71 of 2008

Interfront's response to the changes in the Companies Act is set out in Part D of this annual report. Changes in legislation continue to have a corporate impact on the entity.

Risk management

Interfront is exposed to several financial and other risks. The material risks include capital risk, financial risk, liquidity risk, interest rate risk, cash flow risk and credit risk. The potential impact and management of these risks are discussed in detail in note 30 to the financial statements.

Events after the reporting period

The board are not aware of any matter or circumstance arising since the end of the financial year that impacted the state of affairs as at year-end.

During the new financial year Interfront has started to show a surplus in its financial records. This is a material step in the Interfront journey towards becoming a self-sustaining entity.

Company secretary

Sean Paterson resigned as company secretary on 31 May 2011 and Leilanie Louise Janse van Rensburg was appointed in his stead on 1 October 2011.

Graham Randall fulfilled the role of company secretary for the period 1 June 2011 up to 30 September 2011.

Business address	**Postal address**
Gleneagles Building	Postnet Suite #10
Somerset Links Office Park	Private Bag X15
De Beers Avenue	Somerset West
Somerset West	7129
7129	South Africa

Accounting policies

The annual financial statements have been prepared in accordance with the GRAP reporting framework as set out in Directive 5 issued by the Accounting Standards Board. In accordance with this framework, the financial statements have been compiled in accordance with effective Standards of GRAP including any interpretations, guidelines and directives issued by the ASB as guided by the National Treasury.

In the absence of an effective GRAP standard, the relevant standard of the International Public Sector Accounting Standards has been applied and in the absence of a relevant IPSAS, the applicable effective statement of the International Financial Reporting Standards has been used as basis for preparation.

The accounting policies applied during the period ending 31 March 2012 are consistent, in all material respects, with those applied in the annual financial statements for the year ended 31 March 2011. Refer to note 1 to the annual financial statements for detailed disclosure.

Board composition

Refer to section 8 of the annual report for disclosure of the board composition and attendance of meetings.

Auditors

In line with the requirements of the Public Audit Act of South Africa, No. 25 of 2004, the Auditor-General of South Africa will continue in office for the next financial period.

Addresses		
Business Address	**Postal Address**	**Registered Address**
Gleneagles Building Somerset Links Office Park De Beers Avenue Somerset West 7130	Postnet Suite #10 Private Bag X15 Somerset West 7129 South Africa	Gleneagles Building Somerset Links Office Park De Beers Avenue Somerset West 7130

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Financial Overview

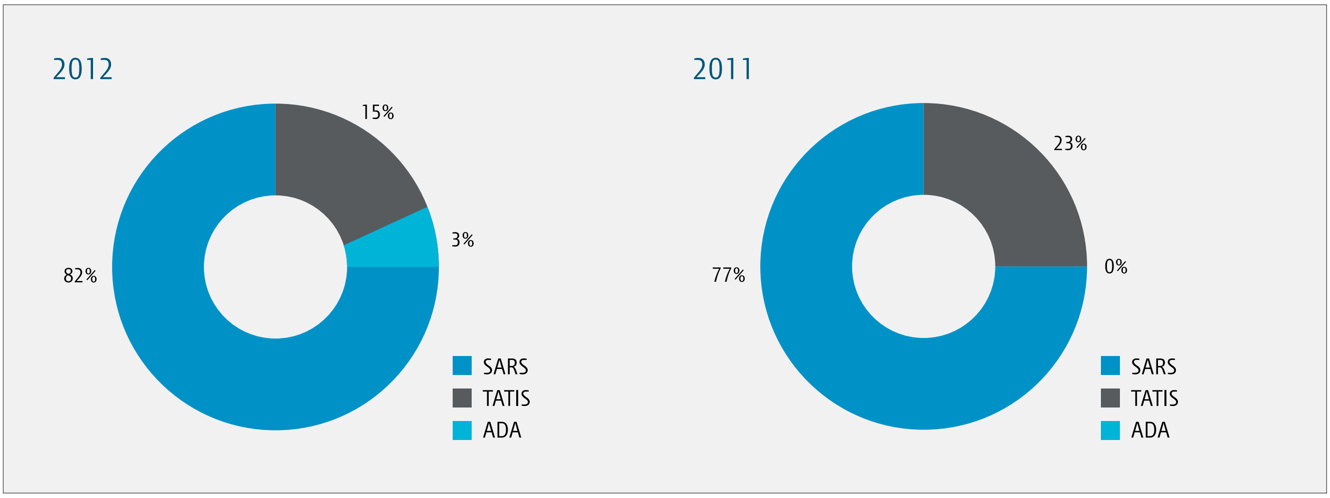
Revenue was derived from our two main customers namely SARS, who is also our sole shareholder, and Tatis that supplies our product to ADA. A decline in the revenue from Tatis was more than offset by the increased revenue from SARS.

14.1 Revenue

Revenue is derived from service fees billed to customers for software development. A time and material model is used as opposed to fixed pricing.

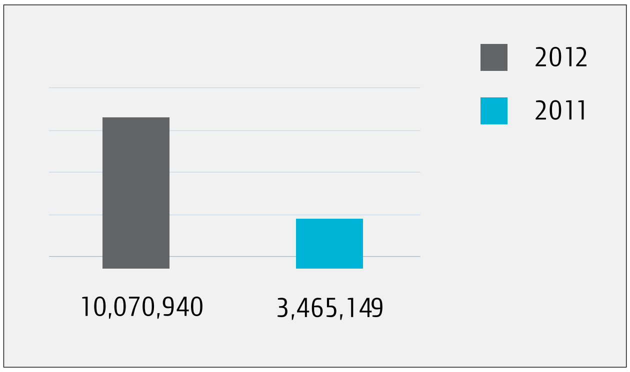
This model was adopted based on the premise that customs authorities are unique and each country has its own particular needs.

14.2 Revenue Split



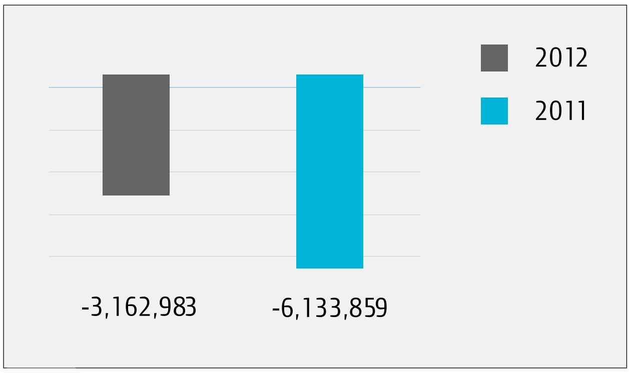
14.2 Trade and other Receivables

Although trade and other receivables increased by 190% over the previous financial year, 69% of the amounts due are current. Overdue amounts are being followed up rigorously. The overdue amounts relate to the arrear account of Tatis which in turn is linked to ADA's overdue account. Processes have been implemented to address this but follow-up at governmental level is a time-consuming process. Interfront is of the opinion that the outstanding amount will be recovered.



14.3 Current Year Deficit

Although the previous year showed an accounting surplus, it is important to note that an amount of R22 105 623 was capitalised against the IP. Although this was a valid accounting entry it is imperative to reverse this entry when one compares the current year's results to those of the previous year. The result of the reversal then indicates that the actual capital injection into the entity to ensure its survival decreased from R6 133 859 in the previous year to only R3 162 983, indicating that Interfront is funding more of its own activities. This improvement came mainly in the second half of the financial year and the corner was turned in January 2012 when Interfront's income started to exceed its expenses.



ANNUAL FINANCIAL STATEMENTS

INTERNATIONAL FRONTIER TECHNOLOGIES SOC LTD

Trading as Interfront
Annual financial statements for the year ended 31 March 2012

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The Annual Financial Statements set out on pages 58 to 103, which have been prepared on the going concern basis, were approved by the board on 31 May 2012 and were signed on its behalf by:

M.A. Enus-Brey
Chairman of the board

G. O. Randall
Managing Director

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON INTERNATIONAL FRONTIER TECHNOLOGIES (INTERFRONT) SOC LTD

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Interfront SOC Ltd set out on pages 58 to 103, which comprise the statement of financial position as at 31 March 2012, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The board of directors which constitutes the accounting authority is responsible for the preparation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act no. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice 839 of 2011* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Interfront SOC Ltd as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

Additional matter

Other reports required by the Companies Act

7. As part of my audit of the financial statements for the year ended 31 March 2012, I have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements. This report is the responsibility of the respective preparers. Based on reading this report I have not identified material inconsistencies between the report and the audited financial statements

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

8. In accordance with the PAA and the *General Notice* 839 of 2011 issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

9. I performed procedures to obtain evidence about the usefulness and reliability of the information in the strategic plan as set out on pages 24 to 27 of the annual report.

10. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

    The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

11. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

12. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.

13. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice 839 of 2011 issued in terms of the PAA.

Internal control

14. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations.

15. I did not identify any deficiencies in internal control which I considered sufficiently significant for inclusion in this report

Auditor-General

Pretoria
31 July 2012

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

INTERNATIONAL FRONTIER TECHNOLOGIES SOC LTD

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STATEMENT OF FINANCIAL POSITION

Figures in Rand	Note(s)	2012	2011
ASSETS			
Trade and other receivables	4	10 070 940	3 465 149
Cash and cash equivalents	5	3 470 554	1 892 894
Current Assets		**13 541 494**	**5 358 043**
Property, plant and equipment	6	5 809 687	8 629 085
Intangible assets	7	74 037 263	73 854 574
Deferred tax	8	879 354	496 738
Non-Current Assets		**80 726 304**	**82 980 397**
TOTAL ASSETS		**94 267 798**	**88 338 440**
LIABILITIES			
Finance lease obligation	9	89 319	77 606
Operating lease liability	10	19 059	-
Trade and other payables	11	6 334 586	5 942 479
VAT payable	12	843 117	5 307 881
Provisions	13	3 789 416	1 409 134
Current Liabilities		**11 075 497**	**12 737 100**
Finance lease obligation	9	32 546	121 865
Operating lease liability	10	360 500	282 149
Non-Current Liabilities		**393 046**	**404 014**
TOTAL LIABILITIES		**11 468 543**	**13 141 114**
NET ASSETS		**82 799 255**	**75 197 326**
NET ASSETS			
Share capital	15	1	1
Shareholder's loan - equity	14	102 711 836	89 822 261
Accumulated deficit		(19 912 582)	(14 624 936)
TOTAL NET ASSETS		**82 799 255**	**75 197 326**

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STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2012	2011
REVENUE			
Rendering of services	19	64 242 141	48 430 402
Other income	20	-	110 449
Interest received		115 052	273 690
Total Revenue		**64 357 193**	**48 814 541**
EXPENDITURE			
Employee cost		(57 357 951)	(23 380 695)
Depreciation and amortisation	6	(3 384 371)	(2 616 021)
Finance costs	21	(23 396)	(21 630)
Doubtful debt		(2 284 974)	-
Repairs and maintenance		(87 312)	(82 417)
Administrative expenses		(5 697 358)	(3 163 926)
Professional services and special services		(1 192 093)	(4 074 826)
Total Expenditure		**(70 027 455)**	**(33 339 515)**
Taxation	22	382 616	496 738
(DEFICIT) SURPLUS for the year		**(5 287 646)**	**15 971 764**

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STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Share capital	Shareholder's loan	Accumulated deficit	Total net assets
Opening balance as previously reported	1	88 004 974	(30 552 913)	57 452 062
Adjustments				
Prior year adjustments			(43 787)	(43 787)
Balance at 01 April 2010 as restated	**1**	**88 004 974**	**(30 596 700)**	**57 408 275**
Changes in net assets				
Surplus for the year			15 971 764	15 971 764
Shareholder's loan		1 817 287		1 817 287
Total changes		**1 817 287**	**15 971 764**	**17 789 051**
Balance at 01 April 2011	**1**	**89 822 261**	**(14 624 936)**	**75 197 326**
Changes in net assets				
Deficit for the year			(5 287 646)	(5 287 646)
Shareholder's loan		12 889 575		12 889 575
Total changes		**12 889 575**	**(5 287 646)**	**7 601 929**
BALANCE at 31 March 2012	**1**	**102 711 836**	**(19 912 582)**	**82 799 255**
Note(s)	15	14		

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CASH FLOW STATEMENT

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Rendering of services		57 636 350	47 792 412
Interest income		115 052	273 690
		57 751 402	**48 066 102**
Payments			
Employee costs		(57 357 951)	(23 380 695)
Suppliers		(6 561 333)	(3 629 225)
Finance costs		(23 396)	(21 630)
Other movements		192 718	1 223 440
Taxes on surpluses	26	-	(5 135 301)
VAT movement		(4 464 764)	1 320 921
		(68 214 726)	**(29 622 490)**
Net cash (utilised in) / generated from operating activities	**25**	**(10 463 324)**	**18 443 612**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(486 315)	(11 056 815)
Proceeds from sale of property, plant and equipment	6	-	13 517
Purchase of other intangible assets	7	(261 349)	(176 949)
Capitalised development costs	7	-	(22 105 623)
Net cash flows from investing activities		**(747 664)**	**(33 325 870)**
Cash flows from financing activities			
Amounts received from shareholder		12 889 575	1 817 287
Finance lease payments		(100 927)	177 899
Net cash flows from financing activities		**12 788 648**	**1 995 186**
Net increase/(decrease) in cash and cash equivalents		1 577 660	(12 887 072)
Cash and cash equivalents at the beginning of the year		1 892 894	14 779 966
Cash and cash equivalents at the end of the year	**5**	**3 470 554**	**1 892 894**

INTERNATIONAL FRONTIER TECHNOLOGIES SOC LTD
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Accounting Policies

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Public Finance Management Act 1 of 1999.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, is disclosed below.

These accounting policies are consistent with the previous period.

1.1 Consolidation

Business combinations

The entity is a fully owned subsidiary of the South African Revenue Service. The holding company will be the preparer of the consolidated financial statements.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the entity for similar financial instruments.

Impairment testing

The recoverable amounts of cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the key assumption may change, which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

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Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of intangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including projected future revenue forecasts, together with economic factors such as inflation and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Useful lives and residual value of assets

As described in the accounting policy below, the company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, the directors determined that no revision is required to the useful lives and residual values of property, plant and equipment based on the forecast commercial and economic realities and through benchmarking of accounting treatments in the industry.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

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Accounting Policies

1.3 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	***Average useful life***
Furniture and fixtures	3-6 years
Generators	10 years
IT equipment	3-5 years
Leasehold improvements	Over the life of the asset or the lease period whichever is the shorter

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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Accounting Policies

1.3 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

The cost of an intangible asset acquired at no or nominal cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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Accounting Policies

1.4 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	***Useful life***
Intellectual Property and other rights	indefinite
IT Software	5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential is expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

No amortisation has been provided in the current year on Intellectual Property as the property is not yet available for use.

1.5 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

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Accounting Policies

1.5 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write-off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

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Accounting Policies

1.5 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.6 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting surplus / (deficit) nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that a taxable surplus will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:
- is not a business combination; and
- at the time of the transaction affects neither accounting surplus or deficit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carrying forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

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Accounting Policies

1.6 Tax (continued)

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset or liability.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit.

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Accounting Policies

1.8 Impairment of cash-generating assets (continued)

The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

1.9 Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity.

1.10 Employee benefits

Short-term employee benefits

The costs of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

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Accounting Policies

1.10 Employee benefits (continued)

The entity has no legal or constructive obligation to pay future benefits, which responsibility vests with the contribution retirement benefit schemes.

1.11 Provisions and contingencies

Provisions are recognised when:
- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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Accounting Policies

1.12 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest and royalties

Revenue arising from the use by others of entity assets yielding interest and royalties is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus / (deficit), using the effective interest rate method.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Donations

Donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately.

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an asset in the period in which they are incurred when the following criteria are met:
- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the entity can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

1.17 Budget information

The entity is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

INTERNATIONAL FRONTIER TECHNOLOGIES SOC LTD
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Notes to the Financial Statements

2. CHANGES IN ACCOUNTING POLICY

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

3. NEW STANDARDS AND INTERPRETATIONS

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard & Description	Effective date (Years beginning on or after)	Objective	Impact
IGRAP 3: Determining Whether an Arrangement Contains a Lease	01 April 2011	The objective of the Standard is to prescribe how to determine whether an arrangement is, or contains, a lease and if an arrangement is a lease how the payments should be accounted for.	The impact of the amendment is not material
GRAP 1 (Amended 2010): Presentation of Financial Statements	01 April 2011	The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.	The impact of the amendment is not material
GRAP 2 (Amended 2010): Cash Flow Statements	01 April 2011	The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.	The impact of the amendment is not material

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3.1 Standards and interpretations effective and adopted in the current year (continued)

Standard & Description	Effective date (Years beginning on or after)	Objective	Impact
GRAP 3 (Amended 2010): Accounting policies, Changes in Accounting Estimates and Errors	01 April 2011	The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of the entity'sfinancial statements and the comparability of those financial statements over time and with the financial statements of other entities.	The impact of the amendment is not material
GRAP 4 (Amended 2010): The Effects of Changes in Foreign Exchange Rates	01 April 2011	The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.	The impact of the amendment is not material
GRAP 9 (Amended2010): Revenue from Exchange Transactions	01 April 2011	The objective of this Standard is to prescribe the accounting treatment of revenue arising from exchange transactions and events.	The impact of the amendment is not material
GRAP 13 (Amended 2010): Leases	01 April 2011	The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases.	The impact of the amendment is not material

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Notes to the Financial Statements

3.1 Standards and interpretations effective and adopted in the current year (continued)

Standard & Description	Effective date (Years beginning on or after)	Objective	Impact
GRAP 14 (Amended 2010): Events After the Reporting Date	01 April 2011	The objective of this Standard is to prescribe: (a) when an entity should adjust its financial statements for events after the reporting date; and (b) the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting date.	The impact of the amendment is not material
GRAP 17 (Amended 2010): Property, Plant and Equipment	01 April 2011	The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that the users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.	The impact of the amendment is not material
GRAP 19 (Amended 2010): Provisions, Contingent Liabilities and Contingent Assets	01 April 2011	The objective of this Standard is to define provisions, contingent liabilities and contingent assets, identify the circumstances in which provisions should be recognised, how they should be measured and the disclosures that should be made about them.	The impact of the amendment is not material

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Notes to the Financial Statements

3.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods, but only effective for future dates:

Standard & Description	Effective date (Years beginning on or later than)	Objective	Impact
GRAP 18: Segment Reporting	01 April 2013	The objective of this Standard is to establish principles for reporting financial information by segments. The disclosure of this information will: (a) enable users of the financial statements to better understand the entity's past performance, to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates; (b) identify the resources allocated to support the major activities of the entity and assist in making decisions about the allocation of resources; and (c) enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.	The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the annual financial statements.
GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination.	The impact of this standard will be material.
GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable.	The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the annual financial statements.

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3.2 Standards and interpretations issued, but not yet effective (continued)

Standard & Description	Effective date (Years beginning on or later than)	Objective	Impact
GRAP 25: Employee benefits	01 April 2013	The objective of this Standard is to prescribe the accounting and disclosure for employee benefits.	It is unlikely that the standard will have a material impact on the entity's annual financial statements.
GRAP 26: Impairment of cash generating assets	01 April 2012	The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognised. The Standard also specifies when an entity would reverse an impairment loss and prescribes disclosures.	It is unlikely that the standard will have a material impact on the entity's annual financial statements.
GRAP 104: Financial Instruments	01 April 2012	This Standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments.	It is unlikely that the standard will have a material impact on the entity's annual financial statements.

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the entity's accounting periods but are not yet effective or not currently relevant to the operations of the entity:

Standard & Description	Effective date (Years beginning on or later than)	Objective	Impact
GRAP 106: Transfers of functions between entities not under common control	01 April 2014	The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.	The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations and thus the standard will have no impact.

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4. TRADE AND OTHER RECEIVABLES

	2012	2011
Trade debtors	10 055 635	3 449 844
Deposits	15 305	15 305
	10 070 940	**3 465 149**

None of the financial assets that are fully performing have been renegotiated in the last year.

Fair value of trade and other receivables

Trade and other receivables	10 070 940	3 465 149

Trade and other receivables are measured at amortised cost using the effective interest rate method.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 31 March 2012, R 1 127 050 (2011: R 11 294) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	360 763	-
2 months past due	647 631	-
3 months past due	118 656	11 294

Reconciliation of provision for impairment of trade and other receivables

Provision for doubtful debt	2 284 974	-

The creation and release of the provision for the impaired receivables have been included in operating expenses in surplus or deficit. Amounts charged to the provision for doubtful debt allowance are generally written off when there is no expectation of recovering additional cash.

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Notes to the Financial Statements

5. CASH AND CASH EQUIVALENTS

	2012	2011
Cash and cash equivalents consist of:		
Cash on hand	5 835	7 500
Bank balances	3 464 719	1 885 394
	3 470 554	**1 892 894**

Credit quality of cash at bank and short term deposits, excluding cash on hand

Bank balances comprise cash and short term investment that are held with registered banking institutions. The carrying amount of these assets approximates their fair value.

6. PROPERTY, PLANT AND EQUIPMENT

	2012			2011		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Plant and machinery	203 544	(75 966)	127 578	203 544	(34 530)	169 014
Furniture and fixtures	657 860	(191 223)	466 637	622 703	(78 656)	544 047
Office equipment - leased	215 269	(122 883)	92 386	215 269	(51 126)	164 143
IT equipment	6 094 057	(3 721 505)	2 372 552	5 642 900	(1 612 330)	4 030 570
Leasehold improvements	4 528 991	(1 778 457)	2 750 534	4 528 991	(807 680)	3 721 311
Total	**11 699 721**	**(5 890 034)**	**5 809 687**	**11 213 407**	**(2 584 322)**	**8 629 085**

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6. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment

2012	Opening balance	Additions	Disposals	Depreciation	Total
Plant and machinery	169 014	-		(41 436)	127 578
Furniture and fixtures	544 047	35 158		(112 568)	466 637
Office equipment - leased	164 143	-		(71 757)	92 386
IT equipment	4 030 570	451 157		(2 109 175)	2 372 552
Leasehold improvements	3 721 311	-		(970 777)	2 750 534
	8 629 085	**486 315**		**(3 305 713)**	**5 809 687**

2011	Opening balance	Additions	Disposals	Depreciation	Total
Plant and machinery	-	203 544	-	(34 530)	169 014
Furniture and fixtures	-	622 703	-	(78 656)	544 047
Office equipment - leased	-	215 269	-	(51 126)	164 143
IT equipment	54 789	5 596 757	(13 517)	(1 607 459)	4 030 570
Leasehold improvements	-	4 528 991	-	(807 680)	3 721 311
	54 789	**11 167 264**	**(13 517)**	**(2 579 451)**	**8 629 085**

	2012	2011
Assets subject to finance lease (Net carrying amount)		
Office equipment	92 386	164 143

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6. PROPERTY, PLANT AND EQUIPMENT (continued)

Other information

Property, plant and equipment fully depreciated and still in use (Residual value)

	2012	2011
Property, plant and equipment	140 502	20 130

7. INTANGIBLE ASSETS

	2012			2011		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Intellectual property and other rights	73 582 623		73 582 623	73 582 623		73 582 623
IT software	587 930	(133 290)	454 640	326 581	(54 630)	271 951
Total	**74 170 553**	**(133 290)**	**74 037 263**	**73 909 204**	**(54 630)**	**73 854 574**

Reconciliation of intangible assets

2012	Opening balance	Additions	Internally generated	Amortisation	Total
Intellectual property and other rights	73 582 623				73 582 623
IT software	271 951	261 349		(78 660)	454 640
	73 854 574	**261 349**		**(78 660)**	**74 037 263**

2011	Opening balance	Additions	Internally generated	Amortisation	Total
Intellectual property and other rights	51 477 000		22 105 623		73 582 623
IT software	131 571	176 949		(36 569)	271 951
	51 608 571	**176 949**	**22 105 623**	**(36 569)**	**73 854 574**

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7. INTANGIBLE ASSETS (continued)

Development cost capitalised

During the previous year development cost consisting of personnel expenditure were capitalised to Intellectual Property amounting to R 22,105,623.

Details of impairment test

An impairment test was performed during the year to determine whether the intangible asset's value should be impaired. The effective date of the valuation was 31 March 2012. The valuation was performed by the independent valuer, Ernst and Young. Ernst and Young is not connected to the entity and have recent experience in valuing similar assets.
The valuation technique adopted in undertaking this valuation has been the Discounted Cash flow approach.

The Discounted Cash Flow approach estimates future cash flows that will flow to the entity from the assets under review. These cash flows are discounted to their present value using the effective interest rate.

Details of impairment test (Continued)

This approach focuses on the income producing capability of the intangible asset i.e. Intellectual Property (IP), that best represents the present value of the future economic benefit expected to be derived from it.

It reflects the present value of the net income generated by the IP after taking into account the costs to realise the revenue, and an appropriate discount rate to reflect the relative risks of the cash flow and the time value of money.

The following key inputs were used:

Interfront strategic plan forecasts, extended to 10 years using the forecast inflation rates, limited to income derived from current IP.

Average implied discount rate	26.11%
Tax rate	28.00%

The impairment test did not indicate an impairment of the Intellectual Property.

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8. DEFERRED TAX

	2012	2011
Deferred tax asset	879 354	496 738
Reconciliation of deferred tax asset (liability)		
At beginning of the year	496 738	-
Increase (decrease) in tax losses available for set off against future taxable income	947 519	-
Originating temporary difference on tangible fixed assets	(193 513)	294 823
Originating permanent difference on tangible fixed assets	(271 818)	-
Movement in provisions & accruals	(404 635)	-
Originating temporary difference on finance lease	4 697	-
Originating temporary difference on operating lease	(16 654)	-
Prior year adjustment	317 020	201 915
	879 354	**496 738**

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable surpluses in excess of the surpluses arising from the reversal of existing taxable temporary differences; and
- the entity has suffered a deficit in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

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Notes to the Financial Statements

9. FINANCE LEASE OBLIGATION	2012	2011
Minimum lease payments due		
- within one year	100 927	100 928
- in second to fifth year inclusive	33 514	134 440
	134 441	**235 368**
less: future finance charges	(12 576)	(35 897)
Present value of minimum lease payments	**121 865**	**199 471**
Present value of minimum lease payments due		
- within one year	89 319	77 606
- in second to fifth year inclusive	32 546	121 865
	121 865	**199 471**
Non-current liabilities	32 546	121 865
Current liabilities	89 319	77 606
	121 865	**199 471**

Certain photocopiers were capitalised and the corresponding finance lease liability raised. The leases are repayable in 36 monthly instalments. Refer note 6.

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Notes to the Financial Statements

10. COMMITMENTS

	2012	2011
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	1 486 681	1 370 213
- in second to fifth year inclusive	3 051 140	4 537 821
	4 537 821	**5 908 034**

Operating lease payments represent rentals payable by the entity for certain of its office properties. The operating lease is for a period of 5 years from 1 February 2010 to 31 January 2015. No contingent rent is payable.

11. TRADE AND OTHER PAYABLES

	2012	2011
Trade payables	3 205 475	3 477 685
Sundry creditors	22 246	75 794
Accrued leave pay	1 374 621	1 322 266
PAYE payable	1 047 446	677 051
Accrued audit fees	642 559	389 683
Salary related accruals	42 239	-
	6 334 586	**5 942 479**

Trade and other payables are carried at original invoice amounts, which approximate fair value.

12. VAT PAYABLE

	2012	2011
VAT refunds / payables	843 117	5 307 881

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Notes to the Financial Statements

13. PROVISIONS

Reconciliation of provisions

2012	Opening Balance	Additions	Utelised during the year	Total
Provision for doubtful debt	-	2 284 974	-	2 284 974
Performance bonus	1 409 134	1 280 756	(1 185 448)	1 504 442
	1 409 134	**3 565 730**	**(1 185 448)**	**3 789 416**

2011	Opening Balance	Additions	Utelised during the year	Total
Performance bonus	-	1 409 134	-	1 409 134
	-	**1 409 134**	**-**	**1 409 134**

Provision for doubtful debt was raised based on the fact that one of our main customers is experiencing financial difficulties and was not able to pay their account for the last 3 months. The recoverability of these amounts is uncertain at this stage.

Performance bonuses represent the obligation for annual performance bonuses payable to employees in terms of performance agreements. The uncertainty with performance bonuses resides in the final quantum.

14. LOAN FROM SHAREHOLDER

	2012	2011
South African Revenue Service	(102 711 836)	(89 822 261)

The loan is unsecured, bears no interest and has no fixed date of repayment. SARS as shareholder will provide Interfront with operational funding in accordance with pre-approved annual budgets until 31 March 2014 to the effect that the revenue is insufficient.

The loan has been subordinated in favour of other creditors until such time as the assets of the company, fairly valued, exceed its remaining liabilities. No portion of the loan will be repayable until such date.

The loan was classified as equity as per IAS 32 requirements

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14. LOAN FROM SHAREHOLDER (continued)	2012	2011
Non interest bearing		
Loan at beginning of the year	(89 822 261)	(88 004 974)
Receipts	(12 889 575)	(45 217 184)
Revenue from development services rendered	-	43 399 897
	(102 711 836)	**(89 822 261)**

15. SHARE CAPITAL

Authorised		
1000 Ordinary shares of R1 each	1 000	1 000
Reconciliation of number of shares issued:		
Reported as at 01 April 2011	1	1

999 unissued ordinary shares are under the control of the board in terms of a resolution of board passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

Issued		
Ordinary	1	1

Share capital is fully paid and has no restrictions.

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16. FINANCIAL ASSETS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

2012	Loans and receivables	Total
Trade and other receivables	10 070 940	10 070 940
Cash and cash equivalents	3 470 554	3 470 554
	13 541 494	**13 541 494**

2011	Loans and receivables	Total
Trade and other receivables	3 465 149	3 465 149
Cash and cash equivalents	1 892 894	1 892 894
	5 358 043	**5 358 043**

17. EMPLOYEE BENEFIT OBLIGATIONS

Defined contribution plan

Entitlement to retirement benefits is governed by the rules of the Finsolnet Provident Fund which is a defined contribution retirement fund. The entity has no legal or constructive obligation to pay for future benefits, this responsibility vests with the Finsolnet Provident Fund.

The entity is under no obligation to cover any unfunded benefits.

	2012	2011
The total economic entity contribution to such schemes	2 061 780	1 695 040

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18. FINANCIAL LIABILITIES BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

2012	Financial Liabilities at amortised cost	Total
Trade and other payables	6 334 586	6 334 586
Finance lease obligation	121 865	121 865
	6 456 451	**6 456 451**

2011	Financial Liabilities at amortised cost	Total
Trade and other payables	5 942 483	5 942 483
Finance lease obligation	199 471	199 471
	6 141 954	**6 141 954**

19. REVENUE

	2012	2011
Rendering of services	64 242 141	48 430 402

20. OTHER REVENUE

Donated assets	-	110 449

During the course of the previous year SARS transferred property, plant and equipment to Interfront for no consideration.

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Notes to the Financial Statements

21. FINANCE COSTS

	2012	2011
Finance leases	23 321	21 572
Bank	75	58
	23 396	**21 630**

22. TAXATION

Major components of the tax income

	2012	2011
Deferred		
Originating and reversing temporary differences	(382 616)	(496 738)

Reconciliation of the tax expense

Reconciliation between accounting surplus / (deficit) and tax expense

	2012	2011
Accounting (deficit) surplus	(5 670 262)	15 475 026
Tax at the applicable tax rate of 28% (2011: 28%)	(1 587 673)	4 333 007
Tax effect of adjustments on taxable income		
Deferred tax prior year adjustment	(317 020)	(201 915)
Effect of expenses that are non-deductable in determining taxable profit	1 250 259	-
Deferred tax asset not raised	-	1 407 261
Permanent difference	271 818	(6 035 092)
	(382 616)	**(496 739)**

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23. OPERATING (DEFICIT) SURPLUS

	2012	2011
Operating (deficit) surplus for the year is stated after accounting for the following:		
Operating lease charges		
Premises - Contractual amounts	1 467 622	1 972 402
Amortisation on intangible assets	78 660	36 569
Depreciation on property, plant and equipment	3 305 711	2 579 452
Employee costs	57 357 951	23 380 695

24. AUDITORS' REMUNERATION

Fees	424 800	410 380
Adjustment for previous year	-	26 333
Expenses	230 000	22 500
	654 800	**459 213**

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25. CASH (UTILISED IN) GENERATED FROM OPERATIONS

	2012	2011
(Deficit) surplus	(5 287 646)	15 971 764
Adjustments for:		
Depreciation and amortisation	3 384 371	2 616 021
Provision for doubtful debt	2 284 974	-
Finance costs - Finance leases	23 321	21 572
Movements in operating lease assets and accruals	97 410	238 362
Movements in provisions	2 380 282	1 409 134
Movement in tax receivable and payable	-	(5 135 301)
Annual charge for deferred tax	(382 616)	(496 738)
Net assets received from donations	-	(110 449)
Changes in working capital:		
Trade and other receivables	(6 605 791)	(637 990)
Provision for doubtful debt	(2 284 974)	-
Trade and other payables	392 109	3 559 923
VAT	(4 464 764)	1 320 921
Deferred income	-	(313 607)
	(10 463 324)	**18 443 612**

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26. TAX PAID

	2012	2011
Balance at beginning of the year	-	(5 135 301)

27. RELATED PARTIES

Relationships

Controlling entity	South African Revenue Service
Close family members of key management	E Theart
Key management who have significant influence in companies which were transacted with	J.M. Robertson (appointed 1 September 2011) G.F. Theart (resigned 1 August 2011)
Companies in which key management has significant influence	Tsohle Business Solutions (Pty) Ltd (25,32% effective interest) Tatis Africa (Pty) Ltd (19,97% effective interest)
Members of key management	M.A. Brey - Chairman of the board (appointed 18 October 2011) B.J.S Hore - Non-Executive Director J.J. Louw - Non-Executive Director G.N.V Magashula - Chairman of the board (resigned 18 October 2011) V. Pillay - Non-Executive Director H.G.N Ravele - Non-Executive Director G.F. Theart - Managing Director (resigned 30 August 2011) G.O. Randall - Financial / Managing Director (appointed 1 June 2011) S.M. Paterson - Financial Director (resigned 31 May 2011) J.M. Robertson - Director of Operations (appointed 1 September 2011) L.L. Janse van Rensburg - Financial Director (appointed 1 October 2011) R.M. Head (appointed 03 April 2012)

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27. RELATED PARTIES (continued)

Members of key management who are employed by the shareholder	B.J.S Hore J.J. Louw V. Pillay H.G.N. Ravele G.N.V. Magashula (resigned 18 October 2011) S.M. Paterson (resigned 31 May 2011) R.M. Head (appointed 03 April 2012)

	2012	2011
Related party balances		
Shareholder's loan account - recognised in equity		
South African Revenue Service	102 711 836	89 822 261
Property, Plant and Equipment		
South African Revenue Service	-	4 399 788
Trade Receivables		
Tatis Africa (Pty) Ltd	3 766 083	3 449 844
South African Revenue Service	4 530 434	-
Trade Payables		
Tsohle Business Solutions (Pty) Ltd	93 649	1 780 594
Tatis Africa (Pty) Ltd	1 481 109	806 761
South African Revenue Service	968 284	-

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27. RELATED PARTIES (continued)

	2012	2011
Related party transactions		
Rendering of services to related parties		
South African Revenue Service	52 764 713	38 070 086
Tatis Africa (Pty) Ltd	9 747 652	11 621 855
South African Revenue Service	(968 284)	-
Procurement of services from related parties		
Tsohle Business Solutions (Pty) Ltd	8 175 244	3 142 744
Tatis Africa (Pty) Ltd	5 130 285	2 260 536
Compensation to close family members of key management		
Short term employee benefits	381 100	287 520

Interfront provides SARS with software development services. The value of the services was determined by negotiated charge out rates and hours spent on delivering the services.

A close family member of the previous managing director (who resigned in August 2011) is employed by Interfront and receives remuneration for his services.

Two members of Interfront's key management have significant influence, through indirect shareholdings, in two suppliers and a customer of Interfront. One of the members of management resigned during the financial year.

In the ordinary course of business Interfront enters into various sales and purchase transactions on an arm's length basis at market rates with other state controlled entities (eg. Telkom). These transactions do not result in economic dependency nor does Interfront have the ability to exercise significant influence over them. In terms of IPSAS 20 - Related Party Disclosure, Interfront is not required to disclose any of the transactions.

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27. RELATED PARTIES (continued)

SARS provided operational funding to Interfront during the year to the extent that revenue was not sufficient to cover expenses.

SARS seconded three employees during parts of the financial year to Interfront for which Interfront carried the full cost.

Refer to note 28, board's and prescribed officer's emoluments for disclosure of transactions with directors and prescribed officers.

28. BOARD'S AND PRESCRIBED OFFICER'S EMOLUMENTS

No emoluments were paid to non-executive members during the year.

Executive

2012	Salary	Bonus	* Allowances (including leave payments)	Contributions (medical aid & pension)	Total
J.M. Robertson (appointed 1 Sep 2011)	720 921	588 000	20 909	119 079	1 448 909
G.O. Randall (appointed 1 Jun 2011)	1 292 083	324 375	5 110	-	1 621 568
L.L. Janse van Rensburg (appointed 1 Oct 2011)	374 680	46 667	6 601	25 320	453 268
G.F. Theart (resigned 30 Aug 2011)	548 950	-	185 752	80 899	815 601
S.M. Paterson (resigned 31 May 2011)	276 916	-	-	9 778	286 694
	3 213 550	**959 042**	**218 372**	**235 076**	**4 626 040**

2011	Salary	Bonus	* Allowances (including leave payments)	Contributions (medical aid & pension)	Total
G.F. Theart	1 295 523	755 820	33 204	189 624	2 274 171
S.M. Paterson	829 252	-	40 485	10 082	879 819
	2 124 775	**755 820**	**73 689**	**199 706**	**3 153 990**

** Allowances comprise subsistence and travel allowance, petrol card payments and leave payouts.*

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28. BOARD'S AND PRESCRIBED OFFICER'S EMOLUMENTS (continued)

Prescribed officers

2012	Salary	Bonus	* Allowances (including leave payments)	Contributions (medical aid & pension)	Total
A.C. du Toit	731 892	-	12 563	158 253	902 708
A.J. Louw	683 142	-	38 646	122 166	843 954
D. Oswald	697 997	301 178	21 339	162 511	1 183 025
C. Geldenhuys	741 116	119 970	1 697	58 684	921 467
J.A. Prinsloo (resigned 31 Mar 2012)	557 883	59 400	22 900	36 117	676 300
	3 412 030	**480 548**	**97 145**	**537 731**	**4 527 454**

2011	Salary	Bonus	* Allowances (including leave payments)	Contributions (medical aid & pension)	Total
A.C. du Toit	675 487	293 916	15 813	150 230	1 135 446
A.J. Louw	683 142	-	38 646	122 166	843 954
D. Oswald	638 958	284 130	21 226	159 309	1 103 623
C. Geldenhuys	635 494	128 760	1 120	49 566	814 940
J.A. Prinsloo (resigned 31 Mar 2012)	483 143	9 000	-	18 543	510 686
	3 116 224	**715 806**	**76 805**	**499 814**	**4 408 649**

** Allowances comprise subsistence and travel allowance, petrol card payments and leave payouts.*

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29. PRIOR PERIOD ERRORS	2012	2011

Amounts paid towards reimbursement of expenditure were recognised as revenue in the prior period.

The correction of the error(s) results in adjustments as follows:

Statement of Financial Performance

Decrease in Revenue	-	1 261 539
Decrease in Administrative Expenditure	-	(1 261 539)

30. RISK MANAGEMENT

Capital risk management

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for the owner and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 9, 10, 11, 12 cash and cash equivalents disclosed in note 5, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the entity may adjust the amount of dividends paid to the owner, return capital to owner, issue new shares or sell assets to reduce debt.

The entity monitors capital on the basis of the debt: equity ratio.

This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position.

The entity's strategy is to work towards a debt: equity ratio of less than 1 to 1. Currently the entity is geared mainly with a shareholders loan. To mitigate the risk associated with this type of financing the loan is interest free, has no fixed term of repayment and is subordinated to other creditors.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

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30. RISK MANAGEMENT (continued)

Financial risk management

The entity's activities expose it to a variety of financial risks, credit risk and liquidity risk.

Risk management is carried out by the board. The board provides written policies for overall risk management, as well as a review covering specific areas.

Liquidity risk

The entity's risk to liquidity is as a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the entity's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 March 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	No fixed date of repayment
Loan from shareholder	-	-	-	102 711 836
Trade and other payables	6 334 586	-	-	-
Finance lease obligation	100 928	33 514	-	-
Operating lease liability	1 486 681	1 486 681	1 564 459	-

At 31 March 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	No fixed date of repayment
Loan from shareholder	-	-	-	89 823 261
Trade and other payables	5 942 483	-	-	-
Finance lease obligation	100 928	100 928	33 512	-
Operating lease liability	1 370 213	1 486 681	3 051 140	-

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30. RISK MANAGEMENT (continued)

Interest rate risk

As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

Cash flow interest rate risk

Financial instrument	Current market interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	No fixed term of repayment
Trade and other receivables - normal credit terms	9,00%	10 070 940	-	-	-	-
Cash in current banking institutions	4,00%	3 470 554	-	-	-	-
Trade and other payables - normal credit terms	9,00%	6 334 586	-	-	-	-
Finance lease obligation	9,00%	88 532	29 511	-	-	-
Operating lease obligation	9,00%	1 486 681	1 486 681	1 486 681	77 778	-
Loan from shareholder	0.00%	-	-	-	-	102 711 836

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the entity assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

	2012	2011
Financial assets exposed to credit risk at year end were as follows:		
Financial instrument		
Cash and cash equivalents	3 470 554	1 892 894
Trade and other receivables	10 070 940	3 465 149

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30. RISK MANAGEMENT (continued)

Foreign exchange risk

The entity does not hedge foreign exchange fluctuations due to the fact that the entity carried a very limited foreign exchange risk during the year under review.

31. EVENTS AFTER THE REPORTING DATE

No events after the reporting date have been identified that warrant disclosure. Interfront is not aware of any matters or circumstances arising since the end of the financial period that can impact the financial state of the entity materially.

32. RECONCILIATION BETWEEN BUDGET AND STATEMENT OF FINANCIAL PERFORMANCE

SARS as principal of its wholly owned subsidiary, incorporates Interfront in its parliamentary and ultimate statutory accountability processes. Interfront is included inter alia in the SARS strategic plan, budget, monthly and annual reporting, as well as the concolidated annual financial statements. Interfront functions primarily as a service provider supporting customs modernisation. Within these overall objectives, Interfront is governed by its board under close scrutiny of SARS.

A connected world needs seamless borders

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Interfront Customs and Border Solutions

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