



# UCS GROUP LIMITED

## REVIEWED RESULTS

FOR THE YEAR ENDED 30 SEPTEMBER 2006

UCS is an IT business with a primary focus on Software, Solutions and Services for selected markets. The Group is well positioned for further growth locally and internationally through a number of defined initiatives.

**Revenue**  
**HEPS**  
**Cash generated from operating activities**  
**EBITDA**

**54%**  
**67%**  
**85%**  
**108%**

## CONDENSED INCOME STATEMENT

for the year ended 30 September 2006

|  | Reviewed<br>12 months<br>30/9/2006<br>R'000 | Restated<br>12 months<br>30/9/2005<br>R'000 | % change |
|--|---|---|----------|
| <b>Revenue</b>   | <b>793 367</b>                              | 516 722                                     | 53,5     |
| <b>Profit from operations before interest, depreciation, amortisation and research and development expenditure</b> | <b>170 949</b>                              | 92 418                                      | 85,0     |
| Research and development expenditure   | (18 872)                                    | (19 185)                                    | (1,6)    |
| Depreciation and amortisation  | (51 736)                                    | (34 940)                                    | 48,1     |
| <b>Profit before interest and taxation</b>   | <b>100 341</b>                              | 38 293                                      | 162,0    |
| Interest received  | 2 088                                       | 1 704                                       | 22,5     |
| Interest paid  | (7 242)                                     | (2 717)                                     | 166,5    |
| <b>Profit before taxation</b>  | <b>95 187</b>                               | 37 280                                      | 155,3    |
| Taxation   | (5 371)                                     | (2 977)                                     | 80,4     |
| <b>Profit for the year</b>   | <b>89 816</b>                               | 34 303                                      | 161,8    |
| Attributable to:   |   |   |          |
| Equity holders of the parent   | 83 458                                      | 33 482                                      | 149,3    |
| Minority interest  | 6 358                                       | 821   | 674,4    |
| Earnings per share (cents)   |   |   |          |
| Basic – as restated  | 34,3  | 14,0  | 145,0    |
| Basic – as previously reported   |   | 14,5  |          |
| Diluted – as restated  | 32,3  | 12,7  | 154,3    |
| Diluted – as previously reported   |   | 13,2  |          |
| Dividends paid per share (cents)   | 6,0   | 4,3   | 39,5     |
| Net asset value per share (cents)  | 120,8                                       | 92,6  | 30,5     |
| Ordinary shares in issue ('000)  | 249 108                                     | 241 857                                     | 3,0      |
| Weighted average number of ordinary shares in issue ('000)   | 243 134                                     | 239 975                                     | 1,3      |
| Diluted number of ordinary shares ('000)   | 258 373                                     | 263 109                                     | (1,8)    |
| Headline earnings per share (cents)  |   |   |          |
| Basic – as restated  | 23,4  | 14,0  | 67,1     |
| Basic – as previously reported   |   | 14,5  |          |
| Diluted – as restated  | 22,0  | 12,7  | 73,2     |
| Diluted – as previously reported   |   | 13,2  |          |

## CONDENSED BALANCE SHEET

at 30 September 2006

|  | Reviewed<br>30/09/2006<br>R'000 | Restated<br>30/09/2005<br>R'000 |
|--|---------------------------------|---------------------------------|
| <b>ASSETS</b>  |                                 |                                 |
| <b>Non-current assets</b>                                | <b>343 547</b>                  | 218 213                         |
| Property, plant and equipment including rental equipment | 52 502                          | 52 193                          |
| Intangible assets  | 122 037                         | 65 634                          |
| Goodwill   | 135 849                         | 74 139                          |
| Investments and loans receivable                         | 7 264                           | 6 926                           |
| Deferred tax assets                                      | 25 895                          | 19 321                          |
| <b>Current assets</b>                                    | <b>269 833</b>                  | 134 478                         |
| Inventory  | 23 148                          | 9 196                           |
| Trade and other receivables                              | 148 783                         | 83 297                          |
| Taxation   | 1 070                           | 879                             |
| Cash and cash equivalents                                | 96 832                          | 41 106                          |
| <b>Total assets</b>                                      | <b>613 380</b>                  | 352 691                         |
| <b>EQUITY AND LIABILITIES</b>                            |                                 |                                 |
| <b>Capital and reserves</b>                              | <b>339 444</b>                  | 225 347                         |
| Equity attributable to equity holders of the parent      | 300 996                         | 223 953                         |
| Minority interest  | 38 448                          | 1 394                           |
| <b>Non-current liabilities</b>                           | <b>76 842</b>                   | 24 639                          |
| Long and medium term loans                               | 57 325                          | 9 902                           |
| Revenue received in advance                              | 7 048                           | 14 737                          |
| Deferred tax liabilities                                 | 12 469                          | -                               |
| <b>Current liabilities</b>                               | <b>197 094</b>                  | 102 705                         |
| Trade and other payables                                 | 158 813                         | 87 530                          |
| Current portion of long and medium term loans            | 23 896                          | 4 915                           |
| Revenue received in advance                              | 9 313                           | 8 784                           |
| Taxation   | 5 072                           | 1 476                           |
| <b>Total equity and liabilities</b>                      | <b>613 380</b>                  | 352 691                         |

## COMMENTARY

OVERVIEW

UCS Group has continued to build on the platform for growth established over the past few years. Our strategy of good organic growth combined with consolidating businesses acquired into larger, more cohesive units trading under the UCS brand has begun to deliver the expected benefits. These benefits include improving margins through economies of scale as well as positioning the enlarged units to more effectively compete for bigger projects.

UCS is an IT business with a primary focus on Software, Solutions and Services for selected markets. Almost 90% of the Group's revenue is derived from the sale of its own products and services, rather than the sale of third party products.

The Group has achieved a leadership position in its domestic retail market. With effect from July 2006, UCS Solutions Holdings acquired a 60% interest in the TSS Managed Services (TSSMS) business as part of the UCS Group BEE initiatives. The TSSMS unit has a primary focus on the provision of IT infrastructure services to the Public and Financial Services sectors. It provides opportunities for further growth, consolidation and synergistic benefits going forward.

The CEB Maintenance business delivered an excellent performance and achieved its profit warranties and other objectives for the year. We are optimistic that it will also achieve its full 2 year profit warranty which runs through to September 2007.

Our specialist 'retail domain' software manufacturing unit (UCSSM) completed its transition from its set-up phase to commercial operational phase. It has made good progress with projects currently under way for 2 large domestic retailers. There is also significant interest from potential international partners. This unit is ideally placed to benefit from the global trend towards outsourced product development and its unique and compelling Assemble-to-Order (A2O) facilities for enterprise-scale retailers.

We have reviewed our strategy for the development of international markets for our 'packaged product' offerings for retailers. The most effective way of achieving significant volumes (and value) will be through the creation of a separate business. Its primary focus will be to create a leading brand and product suite for selected verticals in the global retail industry, to be sold through a global 'channel' of appropriately selected and trained dealers. It is planned that this business will be externally financed and leverage the existing UCS IP and packaged products. It will also utilise the services of UCS Software manufacturing and is intended to be 'unbundled' from the UCS Group.

## OVERVIEW OF FINANCIAL RESULTS

Revenue grew strongly by 54% to R793 million (2005: R517 million) with 22% organic growth and the balance attributable to acquisitions. Annually revenues grew by 57% to R481 million (2005: R307 million) and comprise 61% of total revenues (2005: 59%). Annually revenues remain a very important component of our business model.

The 2006 financial year saw the Group adopting International Financial Reporting Standards (IFRS) in accordance with the JSE Listings Requirements for listed companies for the first time. Accordingly the 2005 comparative numbers have been restated to reflect the impact of IFRS as if they were applicable in that period. These adjustments affected numbers reported in 2005 below the revenue line and therefore the reference in the remainder of this commentary to 2005 reflects 're-stated 2005'.

EBITDA was up 108% to R152 million (2005: re-stated R73 million) but included 'once off' profits of a capital nature of R30 million (2005: R nil). Excluding these 'once off' capital profits, the adjusted EBITDA of R122 million showed a 67% increase over the prior year and came in at 15,4% (2005: re-stated 14,1%) of revenues.

Headline earnings per share grew by 67% to 23,4 cents (2005: re-stated 14,0 cents) although this included the impact of a net R4,3 million deferred tax credit passed to raise the deferred tax in respect of accumulated tax losses in the UCS Solutions subsidiary. Excluding this deferred tax credit, normalised headline earnings per share is 21,6 cents, an increase of 54% over the prior year.

Cash flow remains a critical component of our business model. Cash generated from operating activities increased by 85% to R119 million (2005: R65 million), representing 49 cents per share (2005: 26,9 cents per share). This contributed positively to the 136% increase in the Group's cash and near cash balance of R97 million (2005: R41 million). The increase in the cash dividend declared reflects our confidence in the ongoing cash generative nature of the Group's businesses.

The balance sheet has shown considerable change largely due to acquisitions and other corporate activities. Group debt increased to R81 million (2005: re-stated R15 million), of which R40 million (2005: re-stated R12,2 million) is true bank debt with the predominant portion of the balance of R41 million (2005: re-stated R2,6 million) being IFRS accounting for deferred vendor payments and management fees. True bank debt amounted to 11,8% (2005: re-stated 5,4%) of equity whilst total debt came to 23,9% (2005: re-stated 6,6%) of equity. The current ratio improved 5% to 1,4 to 1 (2005: re-stated 1,3 to 1). Trade receivables of R136 million (2005: re-stated R79 million) represented 49 debtors days (2005: re-stated 53 debtors days), an improvement of 8% in debtors days outstanding. Net asset value per share increased by 30,5% to 120,8 cents (2005: re-stated 92,6 cents) and tangible net asset value per share showed a growth of 8,6% to 37,8 cents (2005: re-stated 34,8 cents).

During the year, the Group issued 7,3 million new ordinary shares of which 2,8 million were issued to TSS for cash while the balance were issued to honour staff incentives. A total of 10,965 million share options were granted which will vest over a four year period from the grant date of 20 June 2006 at 25 percent of the original grant per year. Based on an independent IFRS2 valuation and the related accounting treatment these new options are forecast to cost the Group R6,4 million over the financial period 2007 through to 2010. As at year end there were 24,5 million share options that have been granted but not yet exercised and 5,1 million preference shares which will convert into ordinary shares over the next three years subject to the achievement of predefined growth targets. After taking these factors into account the Group's diluted headline earnings per share increased by 73 percent to 22 cents (2005: 12,7 cents).

No shares were bought back by the Group during the 2006 financial year. The board has the authority to buy back up to 20 percent of the shares in issue, representing 48 897 832 shares.

## ACQUISITIONS

The acquisition of CEB Maintenance became effective on the first day of the current financial year. Full detail of this acquisition was disclosed in the prior year end results announcement as well as the Group's 2005 annual report.

On 1 July 2006, Newco through its UCS Solutions Holdings (Proprietary) Limited ("UCS Solutions") subsidiary company acquired 100% of the share capital of Newco ("Quadrant Consulting") and 60% of the share capital of TSS MS by issuing 25,1% of the shareholding in UCS Solutions to the seller, Tactical Software Systems (Proprietary) Limited ("TSS"), a black owned company.

The acquisition of 100% of the share capital of Newco effectively represented the acquisition of 100% of the businesses known as Quartet as well as TSS Business Services. These businesses provide training and SAP implementation services. TSSMS provides workplace infrastructure deployment and management services. The total purchase consideration amounted to R58,076,498 and as a result of the equity issued to settle, TSS became a 25,1% BEE shareholder in UCS Solutions.

Although 60% of the equity of TSS MS is held by UCS Solutions the parties agreed to enter into a three year management agreement which requires TSS to continue to manage the TSS MS business. The effective 55% shareholding of TSS in TSS MS (i.e. 40% direct holding and 25,1% of 60% indirect holding) means that TSS MS remains a black owned entity as defined in the DTI Codes of good BEE practice. The remaining UCS Solutions subsidiaries viz. UCS Solutions (Proprietary) Limited and CEB Maintenance Africa (Proprietary) Limited ("CEB"), become black empowered entities with an indirect 25,1% black shareholding.

TSS and UCS entered into a shareholders' agreement simultaneously with the abovementioned sale of shares agreement. Included in the shareholders' agreement is the acknowledgement that TSS may convert its 25,1% shareholding of UCS Solutions Holdings to a UCS shareholding after five years from the effective date at the discretion of TSS, or at any stage after the effective date at the discretion of UCS. The transaction has been concluded at commercial values on a relative basis and there is no discount or debt funding behind the structure.

## BLACK ECONOMIC EMPOWERMENT

UCS Group's current BEE strategy was fully disclosed in the 2005 annual report. UCS has made very good progress in positioning for BEE in all aspects of the charter. In particular businesses representing 61% of our projected revenue are currently either black empowered or black owned.

UCS is currently reviewing the next phase of its BEE strategy. It is possible that we will introduce BEE partners and structures at Group level.

## CONTINGENT LIABILITY

An amount limited to a maximum of an additional R12 million, may become payable in respect of the purchase price for CEB Maintenance depending on the amount by which the aggregated actual profits for the two year period ending 30 September 2007 exceed the aggregated warranted profits for the same period.

In terms of the management agreement entered into between TSSMS & TSS, there exists a management incentive fee that is payable for the 33 month period ending 30 June 2009. The possible incentive fee payable will amount to the profits achieved in excess of the warranted profits agreed by the parties and in addition to the management fee which was raised at acquisition.

## POST BALANCE SHEET EVENT

UCS Group, UCS Solutions (Proprietary) Limited ("UCS Solutions") and one of the largest network providers in South Africa ("the network provider") concluded heads of agreement in respect of a strategic partnership with an effective date of 1 November 2006. Included in the heads of agreement is the agreed sale of the UCS Solution's network business as a going concern to the network provider for a purchase consideration of R17 million which is payable in cash on the implementation date of 1 February 2007.

The conditions precedent to the transaction have already been fulfilled and the parties have embarked on a joint planning process for the implementation of the sale of the going concern business by 1 February 2007 and the broader strategic partnership which will incorporate further contractual arrangements between the network provider and the various trading subsidiary companies within the UCS Group.

The strategic partnership between UCS and the network provider has been concluded to leverage their respective market leading positions. The intention is to position a combined solution offering that is innovative and flexible while maintaining a customer centric approach and harnessing UCS's particular strength in the retail and government vertical market sectors. The breadth and depth of the combined software and services offering will enable the parties to service any customer with distributed locations.

## DIVIDEND POLICY

The Group is maintaining its policy of paying dividends twice a year. Dividend cover may vary dependent on the Group's projected cash requirements. This policy will be reviewed regularly to ensure effective capital management.

## PROSPECTS

We are building an IT enterprise that contributes meaningfully to the growth and prosperity of all of our stakeholders – our investors, our employees, our customers, our channel partners, our suppliers and our communities.

The IT market remains a challenging one, with technology change a 'constant' and with customers expecting and demanding better returns from IT investments. However, good opportunities are available to vertically focused, innovative and acquisitive businesses like UCS.

The Group is well placed, strategically as well as operationally, to continue the trend of strong top-line growth with improving cash flows established over the past few years in its domestic market. The TSSMS acquisition presents excellent growth opportunities in new markets outside of the traditional retail vertical focus. Additionally benefits from our international initiatives could start flowing through in the next twelve months.

## DIVIDEND DECLARATION

Notice is hereby given that the board of directors has declared a final dividend of 4 cents per ordinary share in respect of the year ended 30 September 2006. The dividend will be paid on Monday, 12 February 2007.

To comply with the procedures of STRATE, the last date to trade in the shares for the purpose of entitlement to the final dividend is Friday, 2 February 2007. The shares will commence trading ex dividend on Monday 5 February 2007 and the record date will be Friday, 9 February 2007.

Share certificates may not be dematerialised or rematerialised between Monday 5 February 2007 and Friday, 9 February 2007 both days inclusive.

## REVIEW REPORT

These results have been reviewed by Deloitte & Touche and their unqualified review report is available for inspection at the Group's registered office.

For and on behalf of the Board

DF Coles  
(Chairman)

JD Bright  
(CEO)

24 November 2006

Company Secretary  
Corporate Governance CC

UCS Group Limited  
Incorporated in the Republic of South Africa  
Reg. No. 1993/002253/06  
ISIN ZAE000016150  
JSE Code UCS

Registered office  
20th Floor, 209 Smit Street,  
Braamfontein 2001  
PO Box 31266,  
Braamfontein 2017

Transfer secretaries  
Link Market Services South Africa (Pty) Ltd  
11 Diagonal Street, Johannesburg 2001  
PO Box 4844,  
Johannesburg 2000

## CONDENSED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2006

|   | Share capital<br>R'000 | Preference share capital<br>R'000 | Share premium<br>R'000 | Share based payments reserve<br>R'000 | Foreign currency translation reserve<br>R'000 | Accumulated profit<br>R'000 | Attributable to equity holders of the parent<br>R'000 | Minority interest<br>R'000 | Total equity<br>R'000 |
|---|------------------------|-----------------------------------|------------------------|---------------------------------------|---|-----------------------------|---|----------------------------|-----------------------|
| Balance at 1 October 2004 as previously reported                  | 1 197                  | 40                                | 61 876                 | -                                     | -   | 134 948                     | 198 061   | 810                        | 198 871               |
| Net IFRS adjustment to equity                                     |                        |                                   |                        | 4 248                                 | (4 465)                                       | (4 465)                     | (217)   |                            | (217)                 |
| IFRS 2 Share based payment opening balance adjustment             |                        |                                   |                        | 4 248                                 |   | (4 248)                     | -   |                            | -                     |
| IAS 38 Intangible assets opening balance adjustment               |                        |                                   |                        | -                                     |   | (217)                       | (217)   |                            | (217)                 |
| <b>Balance at 1 October 2004 as restated</b>                      | <b>1 197</b>           | <b>40</b>                         | <b>61 876</b>          | <b>4 248</b>                          | <b>-</b>                                      | <b>130 483</b>              | <b>197 844</b>  | <b>810</b>                 | <b>198 654</b>        |
| Exchange differences arising on translation of foreign operations |                        |                                   |                        |                                       | 205   |                             | 205   |                            | 205                   |
| Net income recognised directly in equity                          |                        |                                   |                        |                                       |   |                             |   |                            | 205                   |
| Net profit for the year as restated                               |                        |                                   |                        | 1 811                                 | 205   | 33 482                      | 35 293  | 821                        | 36 114                |
| Net profit for the year as previously reported                    |                        |                                   |                        |                                       |   | 34 750                      | 34 750  |                            | 35 571                |
| IFRS 2 Share based payment transition adjustment                  |                        |                                   |                        | 1 811                                 |   | (1 811)                     | -   |                            | -                     |
| IAS 38 Intangible assets transition adjustment                    |                        |                                   |                        |                                       |   | 543                         | 543   |                            | 543                   |
| Total recognised income and expense for the year                  |                        |                                   |                        | 1 811                                 | 205   | 33 482                      | 35 498  | 821                        | 36 319                |
| Dividend paid   |                        |                                   |                        |                                       |   | (10 351)                    | (10 351)  | (237)                      | (10 588)              |
| Ordinary shares issued at a premium                               |                        |                                   | 995                    |                                       |   | 1 003                       | 1 003   |                            | 1 003                 |
| Preference shares converted to ordinary shares                    | 8                      |                                   |                        |                                       |   |                             |   |                            |                       |
| Preference shares repurchased                                     | 4                      | (4)                               |                        |                                       |   |                             |   |                            |                       |
| Preference shares repurchased                                     |                        | (1)                               | (40)                   |                                       |   |                             |   |                            | (41)                  |
| <b>Balance at 30 September 2005 as restated</b>                   | <b>1 209</b>           | <b>35</b>                         | <b>62 831</b>          | <b>6 059</b>                          | <b>205</b>                                    | <b>153 614</b>              | <b>223 953</b>  | <b>1 394</b>               | <b>225 347</b>        |
| Exchange differences arising on translation of foreign operations |                        |                                   |                        |                                       | (545)   |                             | (545)   |                            | (545)                 |
| Net loss recognised directly in equity                            |                        |                                   |                        |                                       | (545)   |                             | (545)   |                            | (545)                 |
| Net profit for the year   |                        |                                   |                        |                                       |   | 83 458                      | 83 458  | 6 358                      | 89 816                |
| Total recognised income and expense for the year                  |                        |                                   |                        |                                       | (545)   | 83 458                      | 82 913  | 6 358                      | 89 271                |
| Ordinary shares issued at a premium                               | 31                     |                                   | 7 059                  |                                       |   | 7 090                       | 7 090   |                            | 7 090                 |
| Preference shares converted to ordinary shares                    | 6                      | (6)                               |                        |                                       |   |                             |   |                            |                       |
| Preference shares repurchased                                     |                        | (4)                               | (123)                  |                                       |   |                             |   |                            | (127)                 |
| Preference shares repurchased                                     |                        |                                   |                        |                                       |   | 2 034                       | 2 034   | 156                        | 2 190                 |
| Increase in share based payment reserve                           |                        |                                   |                        | 2 034                                 |   | (14 867)                    | (14 867)  | (1 872)                    | (16 739)              |
| Dividend paid   |                        |                                   |                        |                                       |   |                             |   | 32 412                     | 32 412                |
| Minority acquired share of equity in subsidiaries                 |                        |                                   |                        |                                       |   |                             |   |                            |                       |
| <b>Balance at 30 September 2006</b>                               | <b>1 246</b>           | <b>25</b>                         | <b>69 767</b>          | <b>8 093</b>                          | <b>(340)</b>                                  | <b>222 205</b>              | <b>300 996</b>  | <b>38 448</b>              | <b>339 444</b>        |

## CONDENSED CASH FLOW STATEMENT

for the year ended 30 September 2006

|  | Reviewed<br>12 months<br>30/9/2006<br>R'000 | Restated<br>12 months<br>30/9/2005<br>R'000 | % Change |
|--|---|---|----------|
| <b>Cash flow from operating activities</b>     | <b>86 982</b>                               | 47 097                                      | 84,7     |
| Cash generated from operations                 | 120 330                                     | 75 251                                      | 59,9     |
| Working capital changes                        | (1 121)                                     | (10 654)                                    |          |
| Cash generated from operating activities       | 119 209                                     | 64 597                                      | 84,5     |
| Investment income and net finance cost         | (2 756)                                     | (1 013)                                     |          |
| Dividend paid                                  | (16 739)                                    | (10 588)                                    |          |
| Taxation paid                                  | (12 732)                                    | (5 899)                                     |          |
| <b>Cash applied to investing activities</b>    | <b>(65 334)</b>                             | (67 425)                                    | (3,1)    |
| <b>Cash received from financing activities</b> | <b>34 078</b>                               | 10 419                                      | 227,1    |
| <b>Cash and cash equivalents</b>               |   |   |          |
| - Net increase (decrease)                      | 55 726                                      | (9 909)                                     |          |
| - At beginning of the year                     | 41 106                                      | 51  |          |