



HEPS growth **77% to 14,5 cents**  
 EBITDA growth **74% to R92 million**  
 Cash generated from operations **71% to R86 million**  
 Turnover growth **44% to R511 million**  
 Dividend declared **33% to 4 cents per share**



# UCS Group limited

Interim report for the six months ended 31 March 2007

There is more to UCS than meets the eye.

## Condensed consolidated income statement for the period ended 31 March 2007

	Reviewed 6 months 31/3/2007 R'000	Reviewed 6 months 31/3/2006 R'000	% change	Audited 12 months 30/9/2006 R'000
<b>Revenue</b>	<b>510 529</b>	355 596	43,6	793 367
<b>Profit from operations before interest, depreciation, amortisation and research and development</b>	<b>106 883</b>	63 023	69,6	166 605
Depreciation of property, plant and equipment (including rental equipment)	(17 882)	(17 199)	4,0	(27 518)
Amortisation of intangible assets	(13 332)	(3 708)	259,5	(19 874)
Research and development expenditure	(14 886)	(10 209)	45,8	(18 872)
<b>Profit before net interest paid and taxation</b>	<b>60 783</b>	31 907	90,5	100 341
Net interest paid	(2 123)	(3 285)	(35,4)	(5 154)
Interest paid	(3 811)	(3 813)	(0,1)	(9 647)
Investment revenues	1 688	528	219,7	4 493
<b>Profit before taxation</b>	<b>58 660</b>	28 622	104,9	95 187
Taxation	(8 269)	(6 729)	22,9	(5 371)
<b>Profit for the period</b>	<b>50 391</b>	21 893	130,2	89 816
Attributable to:				
Equity holders' of the parent	42 383	21 074	101,1	83 458
Minority interest	8 008	819	877,8	6 358
	<b>50 391</b>	21 893	130,2	89 816
Earnings per share (cents)				
Basic	17,1	8,7	96,6	34,3
Diluted	16,0	8,0	100,0	32,3
Dividends paid per share (cents)	4,0	3,0	33,3	6,0
Net asset value per share (cents)	159,3	97,8	62,9	120,8
Ordinary shares in issue ('000)	277 254	244 939	13,2	249 108
Weighted average of ordinary shares in issue ('000)	248 112	242 192	2,4	243 134
Diluted number of ordinary shares ('000)	264 877	263 102	0,7	258 373
Headline earnings per share (cents)				
Basic	14,5	8,2	76,8	23,4
Diluted	13,6	7,5	81,3	22,0

## Condensed consolidated balance sheet at 31 March 2007

	Reviewed 31/3/2007 R'000	Reviewed 31/3/2006 R'000	Audited 30/9/2006 R'000
<b>ASSETS</b>	<b>456 890</b>	252 792	343 547
<b>Non-current assets</b>	<b>59 237</b>	50 354	52 502
Property, plant and equipment (including rental equipment)	116 115	80 474	122 037
Intangible assets	246 965	97 338	135 849
Goodwill	7 888	7 674	7 264
Investments and loans receivable	26 685	16 952	25 895
Deferred tax assets			
<b>Current assets</b>	<b>295 677</b>	172 583	269 833
Inventory	27 063	19 991	23 148
Trade and other receivables	167 238	116 313	148 783
Taxation	1 018	683	1 070
Cash and cash equivalents	100 358	35 596	96 832
<b>Total assets</b>	<b>752 567</b>	425 375	613 380
<b>EQUITY AND LIABILITIES</b>	<b>460 048</b>	241 782	339 444
<b>Capital and reserves</b>	<b>441 649</b>	239 622	300 996
Equity attributable to equity holders' of the parent	18 399	2 160	38 448
Minority interest			
<b>Non-current liabilities</b>	<b>52 214</b>	42 442	76 842
Long and medium term loans	39 196	31 550	57 325
Revenue in advance	3 204	10 892	7 048
Deferred tax liabilities	9 814	-	12 469
<b>Current liabilities</b>	<b>240 305</b>	141 151	197 094
Trade and other payables	164 182	103 654	158 813
Current portion of long term loans	58 097	24 306	23 896
Revenue in advance	8 881	10 149	9 313
Taxation	9 145	3 042	5 072
<b>Total equity and liabilities</b>	<b>752 567</b>	425 375	613 380

All other operating business units within the Solutions and Services division traded well and largely achieved or exceeded budgeted targets.

### FINANCIAL OVERVIEW

Total turnover grew by 44% to R511 million (2006: R356 million), with organic growth of 15% and the remainder due to acquisitions. Annuity revenues grew by 19% to R280 million (2006: R235 million), representing 55% of total revenues (2006: 66%). The Group is on track to record revenue, for the first time, in excess of R1 billion for the financial year ending 30 September 2007.

R & D expenditure increased by 46% to R14,9 million compared to the first half of last year but development costs capitalised in UCSSM reduced by 35% to R6,6 million (2006: R8,6 million) which results in a more normalised net 14% or R2,7 million increase in the combined R&D and development costs capitalised activity.

EBITDA is up 74% at R92 million (2006: R52,8 million) including the R8 million profit realised on the sale by UCS Solutions of the network business to Internet Solutions in November 2006. After excluding this once off profit, "normalised" EBITDA is up 59% at R84 million which represents an improving EBITDA margin at 16,4% (2006: 14,9%) and supports the quality of the revenue growth realised and the related earnings achieved.

Net Profit for the period under review increased by 130% to R50,4 million (2006: R21,9 million).

After a 2,4% increase in the weighted average number of ordinary shares in issue to 248,1 million (2006: 242,2 million), earnings per share grew by 97% to 17,1 cents (2006: 8,7 cents), whilst headline earnings per share grew by 77% to 14,5 cents (2006: 8,2 cents).

The substantial growth of R111,1 million in goodwill is due largely to the acquisitions concluded in the period under review which have been disclosed under the acquisitions paragraph below. The Tactical Software Systems (Proprietary) Limited ("TSS") roll up transaction was the most significant contributor to the growth in goodwill as it became effective on 1 March 2007 through the issue of UCS shares when the share price was R4,30 and after the reduction of the minority interest on the Group balance sheet accounted for R76,4 million of the increase. The increase in the Goodwill balance as a consequence of the 3J Holdings and LifeWorld acquisitions was R19,5 million and R1,1 million respectively whilst the provision in full of the likely upside payment in November 2007 in terms of the CEB Maintenance agreement contributed R12 million.

Cash flow from operating activities grew by 95% to R37,8 million (2006: R19,3 million) after working capital changes resulted in a net outflow of R23,5 million (2006: R15,6 million) largely as a result of the increase in accounts receivable due to the growth in trading.

Cash applied in investing activities reduced by 58% to R19,4 million (2006: R46,0 million) as a consequence of transactions concluded in the period under review being predominantly equity settled but also as a result of a R12 million cash inflow from the sale of the network business. There was a net cash outflow in respect of financing activities of R14,9 million (2006: inflow R21,1 million) largely due to the settlement of the first CEB deferred vendor payment of R12 million.

Headcount at the end of March 2006 was 2,265 (March 2006 1,712), a growth of 32,3% which relates mainly to the TSS MS and Quadrant Consulting acquisitions.

### PROSPECTS

The performance in the first half of the 2007 financial year has provided the Group with an excellent platform on which to deliver strong growth for the full year.

All business units in the Group appear, at this stage, well positioned to achieve or exceed their budget objectives for the full year. In addition, the set-up and unbundling of Product Co, which is expected to be concluded in the second half of 2007, should contribute positively to Group earnings going forward and is also expected to result in a significant one-off gain arising on the sale of the products and intellectual property into Product Co and subsequent unbundling.

Contributions from acquisitive growth in the second half of 2007 are not expected to be as significant as that achieved in the first half due to the fact that the TSS MS and Quadrant acquisitions were effective from 1 July 2006 and therefore contributed for the last three months of the 2006 financial year. This will be partially offset by the initial contributions from the smaller Lifeworld and 3J Holdings acquisitions recently announced.

Barring any unforeseen circumstances arising, the Group is therefore optimistic that it will continue to deliver strong growth in earnings and cash flows for the year to September 2007.

### ACQUISITIONS

During the period under review UCS concluded the following acquisitions:

- The TSS (BEE) roll up transaction through which UCS acquired the 25,1% outside shareholders interest in UCS Solutions Holdings (Proprietary) Limited from TSS in return for the issue of 24,2 million UCS Shares. This transaction was approved by shareholders at a general meeting held on 27 February 2007 and became effective on 1 March 2007.
- The acquisition of 51% of 3J Holdings (Proprietary) Limited ("3J Holdings") (now renamed DiverseIT (Proprietary) Limited) with effect from 1 March 2007 for R12,2 million settled through the issue of UCS Shares as disclosed in an announcement to the market on 27 March 2007 and which subsequently became unconditional on receipt of the unconditional competition commission approval.
- The acquisition of a 51% interest in LifeWorld Relationship Management (Proprietary) Limited ("LifeWorld") with effect from 1 March 2007 for R2 million. LifeWorld is a strategic loyalty programme consulting and management business which provides a key component of the overall expertise Group management envisage positioning in a value added services division for the retail industry.

### POST BALANCE SHEET EVENT

UCS has entered into a Memorandum of Understanding ("MoU") with Amabubesi Investments (Proprietary) Limited ("The Amabubesi-Direng Consortium") subsequent to the end of the period under review for the sale of 25,1% of Accsys (Proprietary) Limited ("Accsys") with effect from 1 May 2007. Pending the results of the due diligence, the purchase price has been agreed at R8,1 million to be settled R4 million in cash upfront on the implementation date (envisaged to be 31 May 2007) and the balance of R4,1 million by no later than 30 April 2012 with a requirement that interest at prime less 2% shall accrue on such outstanding balance of the purchase price and shall be paid bi-annually. Profit after tax targets ("Targets") have been set for a five year period post the effective date to ensure that the transaction is at a minimum 10% per annum earnings enhancing for UCS and to the extent that profits after tax equal to the Targets, less 15% thereof, are not achieved then UCS will have a call option to buy back a portion of the shares sold (calculated in accordance with a formula), at the original purchase price per share. The Amabubesi-Direng Consortium are in the process of finalising the due diligence investigation. The remaining suspensive conditions to the transaction relate to respective board approvals of UCS Group and Amabubesi-Direng Consortium, the finalisation and execution of a definitive sale of shares agreement and an appropriate shareholder's agreement in respect of Accsys as well as the obtaining of any applicable regulatory approvals.

### CONTINGENT LIABILITY

In terms of the management agreement entered into with TSS, there exists a management incentive fee that is payable annually for a three year period ending 30 June 2009. The contingent liability (incentive fee) equates to that portion of the profits which exceeds the warranted profits.

### DIVIDEND DECLARATION

Notice is hereby given that the board of directors has declared an interim dividend of 4 cents per ordinary share in respect of the 6 months ended 31 March 2007. The dividend will be paid on Monday 9 July 2007.

To comply with the procedures of STRATE, the last day to trade in the shares for the purpose of entitlement to the interim dividend is Friday 29 June 2007. The shares will commence trading ex dividend on Monday 2 July 2007 and the record date will be Friday 6 July 2007.

Share certificates may not be dematerialised or rematerialised between Monday 2 July 2007 and Friday 6 July 2007, both days inclusive.

### REVIEW REPORT

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

For and on behalf of the Board

DF Coles (Chairman) JD Bright (CEO)

11 May 2007

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

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Transfer secretaries  
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## Condensed consolidated statement of changes in equity for the period ended 31 March 2007

	Ordinary Share capital R'000	Preference share capital R'000	Share premium R'000	Share based payments reserve R'000	Foreign currency translation reserve R'000	Accumulated profit R'000	Attributable to equity holders of the parent R'000	Minority interest R'000	Total equity R'000
<b>Balance at 1 October 2005</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					39		39		39
Net income recognised directly in equity					39	21 074	21 074	819	21 893
Net profit for the period									
Total recognised income and expenses for the period					39	21 074	21 113	819	21 932
Ordinary shares issued at a premium	10		1 209				1 219		1 219
Preference shares converted to ordinary shares	6	(6)							
Preference shares repurchased		(2)	(57)				(59)		(59)
Increase in share based payments reserve				731			731		731
Dividend paid						(7 335)	(7 335)	(154)	(7 489)
Minority acquired share of equity in subsidiary								101	101
<b>Balance at 31 March 2006</b>	<b>1 225</b>	<b>27</b>	<b>63 983</b>	<b>6 790</b>	<b>244</b>	<b>167 353</b>	<b>239 622</b>	<b>2 160</b>	<b>241 782</b>
Exchange differences arising on translation of foreign operations					(584)		(584)		(584)
Net income recognised directly in equity					(584)	62 384	62 384	5 539	67 923
Net profit for the period									
Total recognised income and expenses for the period					(584)	62 384	61 800	5 539	67 339
Ordinary shares issued at a premium	21		5 850				5 871		5 871
Preference shares repurchased		(2)	(66)				(68)		(68)
Increase in share based payments reserve				1 303			1 303	156	1 459
Dividend paid						(7 532)	(7 532)	(1 718)	(9 250)
Minority acquired share of equity in subsidiary								32 311	32 311
<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>
Exchange differences arising on translation of foreign operations					36		36		36
Net income recognised directly in equity					36	42 383	42 383	8 008	50 391
Net profit for the period									
Total recognised income and expenses for the period					36	42 383	42 419	8 008	50 427
Ordinary shares issued at a premium	134		106 116				106 250		106 250
Preference shares converted to ordinary shares	6	(6)							
Preference shares repurchased		(1)	(35)				(36)		(36)
Increase in share based payments reserve				2 318			2 318		2 318
Dividend paid						(10 092)	(10 092)	(2 609)	(12 701)
Share issue expenses applied to share premium							(206)		(206)
Minority share of equity in subsidiaries at acquisition								2 984	2 984
Acquisition of equity in subsidiary from minorities								(28 432)	(28 432)
<b>Balance at 31 March 2007</b>	<b>1 386</b>	<b>18</b>	<b>175 642</b>	<b>10 411</b>	<b>(304)</b>	<b>254 496</b>	<b>441 649</b>	<b>18 399</b>	<b>460 048</b>

## Condensed consolidated cash flow statement for the period ended 31 March 2007

	Reviewed 6 months 31/3/2007 R'000	Reviewed 6 months 31/3/2006 R'000	% change	Audited 12 months 30/9/2006 R'000
<b>Cash flow from operating activities</b>	<b>37 772</b>	19 334	95,4	86 982
Cash generated from operations	85 686	50 269	70,5	120 330
Working capital changes	(23 502)	(15 643)	(1 121)	(1 121)
Cash generated from operating activities	62 184	34 626	79,6	119 209
Investment income and net finance cost	(1 227)	(2 215)	(2 756)	(2 756)
Dividend paid	(12 701)	(7 489)	(16 739)	(16 739)
Taxation paid	(10 484)	(5 588)	(12 732)	(12 732)
<b>Cash applied to investing activities</b>	<b>(19 392)</b>	(45 956)	(57,8)	(65 334)
<b>Cash (utilised in) received from financing activities</b>	<b>(14 854)</b>	21 112	(170,4)	34 078
<b>Cash and cash equivalents</b>	<b>3 526</b>	(5 510)	55 726	55 726
- Net increase (decrease)	96 832	41 106	41 106	41 106
- At beginning of the year	100 358	35 596	181,9	96 832
- At end of period				

## Condensed consolidated segmental analysis for the period ended 31 March 2007

	Reviewed 6 months 31/3/2007 R'000	Reviewed 6 months 31/3/2006 R'000	% change	Audited 12 months 30/9/2006 R'000
<b>Revenue</b>	<b>510 529</b>	355 596	43,6	793 367
Software	185 321	163 418	13,4	327 752
Solutions & Services	325 208	192 178	69,2	465 615
<b>Profit from operations after research &amp; development but before net interest paid, depreciation and amortisation (EBITDA</b>				