

The Board of directors of UCS Group Limited confirms its commitment to the principles of openness, integrity and accountability as advocated in the King Code on Corporate Governance.

Board of directors

The Board of directors as set out on page 62 of this report is comprised of five executive and six non-executive directors of whom four are independent. The roles of Chairman and Chief Executive Officer are separated and the Chairman is an independent non-executive director.

The Board is based on a unitary structure and retains full and effective control over the Group.

The Board provides strategic direction by proposing, discussing and questioning, whilst evaluating and approving plans and strategies. In directing the Group, the Board exercises leadership, integrity and judgement based on fairness, accountability, responsibility and transparency in order to achieve continuing prosperity for the Group.

The Board meets at least four times a year. Non-executive directors have access to management, including the Company Secretary, and to the information that is required to carry out their duties and responsibilities fully and effectively.

The directors are entitled and authorised, at the Company's expense, to seek independent professional advice about the affairs of the Group.

Executive directors do not have long-term service contracts with the Company. In terms of the Company's articles of association directors are subject to retirement by rotation and stand for re-election by shareholders at least every three years.

Internal control and risk management

It is the directors' responsibility to ensure the maintenance of adequate accounting records and to prepare annual financial statements that present fairly the state of affairs and results of the Company and

the Group. The external auditors are responsible for independently auditing and reporting on the fair presentation of these annual financial statements.

The annual financial statements referred to in this report have been prepared by management in accordance with South African Statements of Generally Accepted Accounting Practice. They are based on appropriate accounting policies, which have been consistently applied and are supported by reasonable and prudent judgment and estimates. The annual financial statements have been prepared on a going concern basis and the directors are satisfied that the Company will remain a going concern for the foreseeable future.

The directors are responsible for the process of risk management and the system of internal controls. Internal control systems are designed to provide reasonable, but not absolute, assurance that accounting records accurately reflect all transactions; are executed and recorded in accordance with sound business practices, that the assets are safeguarded and that protection is provided against serious risk of error or loss, in a cost effective manner. These controls are monitored throughout the Group by management and employees. Close management supervision mitigates the risks that arise where certain duties are not separated due to limited administration staff within the subsidiary companies. Processes are in place to monitor internal controls, to identify material breakdowns and implement timely corrective action.

The Group does not currently have an internal audit function. However, as part of the monitoring process, the Group has adopted a policy whereby the external auditors of the respective subsidiary companies are required to report at half year and year-end to the audit committee, on the system of internal controls and whether there has been any significant breakdown in the controls. We are pleased to report that no significant breakdown has been reported at the year-end.

Based on the audit procedures performed to express an opinion on the fair presentation of the annual financial statements, the auditors concur with the directors' statements on going concern and financial internal controls.

Health and HIV/AIDS reporting

The Group has a formal HIV/Aids policy and is committed to managing the pandemic actively, and the business risks associated with it. The policy makes provision, inter alia, for the following:

- No discrimination against employees or potential employees based on their HIV status;
- Strict confidential treatment of information on the HIV status of employees; and
- The commitment to provide HIV/Aids education through Education and Awareness Programmes.

Corporate social investment

UCS Group established the UCS Foundation to drive its corporate social investment (CSI) initiatives. In line with the developments within the ICT Charter & Scorecard, the UCS Foundation has defined its scope to focus on CSI programmes and projects.

In principle the UCS Foundation will direct 75 percent of CSI funding towards skills development based on learnerships and educational bursaries. The balance of CSI funding will be allocated to community development projects.

The UCS Foundation's flagship CSI programmes will continue to be designed & implemented in ways that contribute to external ICT skill development and related entrepreneurial opportunities where viable.

CSI Projects for 2005 include

- The UCS, Youth Development Trust (YDT) and Diversity Factory Programme
The programme between UCS, YDT and Diversity Factory was formed as a result of a UCS Foundation sponsorship of four participants on the "Arts for Social Change" Learning Journey to Brazil in May 2004.

Participants in the programme are exposed to a corporate environment and have the opportunity to develop business related projects that can be implemented beyond UCS when successful. The partnership is intended to enhance the computer literacy, entrepreneurship, career skills and creativity in participating youth by developing a multiple outcomes-based educational programme that is an 'on-the-job' entrepreneurial training opportunity.

• **Youth Development Trust (YDT)**

An innovative partnership is being developed between UCS and YDT's Newtown Computer Clubhouse, their Business Development Unit and an emerging enterprise, the Digital Portfolio Development.

The YDT's Newtown Computer Clubhouse provides a creative and safe after-school learning environment where young people from under-served communities work with adult mentors to explore their own ideas, develop skills, and build confidence in themselves through the use of technology.

• **Diversity Factory**

Diversity Factory is a community project that intends developing into a BEE enterprise. Using arts-based interventions such as theatre, drumming, poetry, dance, video and visual arts, Diversity Factory intends generating income through the production of marketable products that will assist organisations with meeting transformation and diversity-related objectives. Learnerships were nurtured during 2004 with workplace experience offered across the majority of UCS Group companies. The learnerships are focused primarily on IT technical and software development qualifications and have been approved in principle by both the ISETT SETA and the selected core training provider.

- The continuation of tertiary level bursaries for historically disadvantaged students. The bursary beneficiaries are studying a range of business degrees at the University of Witwatersrand (WITS), with majors in information systems, marketing, accounting and finance. The majority of bursary students are placed into UCS Group companies for vacation work experience and, where feasible, full-time employment on graduation.

Additional community projects under way within the Group include active employee support for Tswelopele, a community-based initiative that promotes the sale of handmade bags and other home industry and handcrafted items by people who would otherwise have no income. The Group is also a proud sponsor of Reach for A Dream (RFAD) and the Johannesburg Association for the Aged (JAFTA).

The Group continues to encourage member companies to create their own CSI initiatives that lie beyond the scope of the UCS Foundation.

Audit committee

The audit committee is comprised of two non-executive directors and one executive director.

Mr P Terblanche (Chairman)
Mr EB Levenstein
Mr NA Michelson

The committee meets at least twice a year, at half year and year-end, with additional meetings convened as necessary. The audit committee is entitled to invite one or more executives to attend the meeting with the requirement however that the Group chief financial officer and external audit representative attend all audit committee meetings.

The external auditors have unrestricted access to the Chairman of the Audit Committee.

The overall objective of the committee is to provide assurance that the relevant Board duties are discharged by reviewing the policies related to safeguarding assets, monitoring and reviewing the effectiveness of the internal systems and related controls and by monitoring the integrity of the interim and annual financial statements.

The committee met on four occasions during the year. Each meeting was attended by the external auditors and by the Group chief financial officer.

The audit committee has satisfied itself that the annual financial statements as published in this report presents a balanced assessment of the Company's position, performance and prospects.

Remuneration committee

The UCS Group Limited Remuneration Committee is comprised of three non-executive directors.

Mr BP Hattingh (Chairman)
Mr EB Levenstein
Mr JR Claassen

The terms of reference of the remuneration committee are to:

- Determine on behalf of the Board and the shareholders of the Company the broad policy for executive remuneration, and approve the entire individual remuneration packages for each executive director and other senior executives of both the holding company and its respective subsidiary companies;
- encourage enhanced Company and Group performance through the remuneration policy;
- recommend to the Board what it considers to be fair reward for individual contribution and contribution to the achievement of corporate goals; and
- provide a mechanism for assurance to all stakeholders in the organisation that all aspects of executive remuneration are decided upon by the remuneration committee constituted of non-executive directors.

The committee is required to meet at least twice a year to review and approve remuneration practices and invites any such executive directors to attend meetings as deemed necessary to discuss performance of the executive directors. Where necessary the remuneration committee will draw on outside advice with regards to remuneration comparisons, philosophies and trends.

UCS Group Limited directors' emoluments for the financial year ended 30 September 2004 have been disclosed in note [3.4] to the annual financial statements.

Corporate Citizenship and Employment Equity

UCS Group recognises that good corporate citizenship pays long-term dividends in goodwill from the community and in social upliftment for the benefit of the whole society in which it operates.

The Group has established a Corporate Citizenship programme, which gives the Group a practical framework to help previously disadvantaged people and communities from active participation in the economy and from the Group's investments in upliftment projects.

The programme takes an inclusive, integrated approach, making use of the skills and vision of executive management teams at both Group and subsidiary level to identify and implement black economic empowerment (BEE) initiatives that support transformation.

At an operational level, Group companies are committed to appointing BEE organisations as business partners and resellers and to assist these partners with skills development and the transfer of knowledge.

UCS Group is committed to addressing and exceeding the requirements of the Employment Equity Act, the Skills Development Act and the Skills Development Levies Act. The Group subscribes to legislative adherence, as well as other more progressive objectives

through the implementation of structured human resource policies, strategies and activities.

The Group remains committed to supporting social and workplace transformation in a free and democratic South Africa. Attention is focused on training and development with particular emphasis on people from previously disadvantaged communities.

The Group requires all its subsidiaries to comply with employment equity legislation and submit and implement their respective plans at individual Company level.

Code of ethics

The Group has published its basic tenets, which are set out on page 3 of this report. All employees are required to maintain high ethical standards in ensuring that the Company's business practices are conducted in a manner which in all reasonable circumstances complies with these tenets.

Relations with shareholders

The Group is represented by Southgro Investor Relations, an independent professional consultancy, and the investor relations programme includes communications with shareholders through interim and annual reports, meetings and presentations.

Insider trading

Directors and other senior management officials of the Group who have access to unpublished price-sensitive information in respect of any of the Group's companies may not trade in UCS Group Limited's shares during defined closed periods. At a minimum these periods run between the end of the interim and annual reporting periods and the announcement of results for such period.