


THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take arising from this circular, please consult your CSDP, broker, accountant, attorney, banker or other professional adviser immediately.

Action required:

If you have disposed of all your shares in UCS Group Limited ("UCS"), please forward this circular to the acquirer of such shares or to the broker, accountant, attorney, banker or other agent through whom the disposal was effected.

UCS shareholders are referred to page 2, which sets out the action required by them.



UCS Group Limited
(Incorporated in the Republic of South Africa)
(Registration number 1993/002253/06)
JSE code: UCS ISIN: ZAE000016150
("UCS" or "the company")

CIRCULAR TO UCS SHAREHOLDERS

regarding

the proposed unbundling of the shares in Rendalyn Trading Limited ("Product Co"), a wholly-owned subsidiary of UCS, by way of a distribution *in specie* in terms of section 90 of the Companies Act, 1973 (Act 61 of 1973), as amended, in the ratio of one unlisted share in Product Co for every holding of ten UCS ordinary shares held at the close of business on Friday, 21 September 2007;

and incorporating

- **a notice convening a general meeting of UCS shareholders; and**
- **a form of proxy (for use by certificated shareholders and dematerialised shareholders with "own-name" registration only).**

The directors of UCS whose names appear on page 10 of this circular, collectively and individually accept full responsibility for the accuracy of the information given in this circular, and certify that, to the best of their knowledge and belief, there are no facts the omission of which would make any statement in this circular false or misleading and that they have made all reasonable inquiries to ascertain such facts.

Corporate advisors and sponsor

 **Corporate
Finance**

Joint legal advisors

 **JOWELL
GLYN &
MARAIS**

Reporting accountants and tax advisors

Deloitte.
Deloitte & Touche
Registered Auditors

Independent professional expert

 **KPMG**

Communication advisors

 **edward
nathan
sonnenbergs**

 **◀ COLLEGE HILL ▶**

Date of issue: 28 August 2007

This circular is only available in English. Copies may be obtained at the registered address of UCS and the transfer secretaries, whose addresses are set out in the "Corporate Information" section of this circular.

CORPORATE INFORMATION AND ADVISERS

Registered office

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20th Floor
209 Smit Street
Braamfontein
Johannesburg, 2001
(PO Box 31266, Braamfontein, 2017)

Company secretary

Corporate Governance CC
Chartered Secretaries
(Registration number 1994/023438/23)
(PO Box 279, Randpark Ridge, 2156)

Sponsor and corporate advisor

BJM Corporate Finance (Pty) Limited
(Registration number 2000/023249/07)
2nd Floor, Barnard Jacobs Mellet House
5 Sturdee Avenue
Rosebank
Johannesburg, 2196
(PO Box 62200, Marshalltown, 2107)

Reporting accountants and tax advisors

Deloitte & Touche
Registered Auditors
Deloitte & Touche Place
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Woodmead
Sandton, 2146
(Private Bag X6, Gallo Manor, 2052)

Independent professional expert

KPMG Services (Pty) Limited
(Registration number 1999/012876/07)
KPMG Crescent
85 Empire Road
Parktown, 2193
(Private Bag X9, Parkview, 2122)

Date of incorporation: 29 April 1993

Place of incorporation: RSA

Joint legal advisors

Edward Nathan Sonnenbergs
150 West Street
Sandton, 2196
(PO Box 783347, Sandton, 2146)

Joint legal advisors

Jowell Glyn & Marais Incorporated
4th Floor, Jowell Glyn & Marais House
72 Grayston Drive
Sandton, 2146
(PO Box 652361, Benmore, 2010)

Transfer secretaries

Link Market Services South Africa
(Proprietary) Limited
(Registration number 2000/007239/07)
11 Diagonal Street
Johannesburg, 2001
(PO Box 4844, Johannesburg, 2000)

Communication advisors

College Hill
Fountain Grove
5, 2nd Avenue
Hyde Park, 2196
(PO Box 413187, Johannesburg, 2024)

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ACTION REQUIRED BY UCS SHAREHOLDERS

The definitions and interpretations commencing on page 7 of this circular have, where necessary, been used in the following action required by UCS shareholders.

Please take careful note of the following provisions regarding the action required by UCS shareholders:

1. If you are in any doubt as to what action you should take in relation to this circular, please consult your CSDP, broker, accountant, attorney, banker or other professional adviser immediately.
2. If you have disposed of all your UCS shares, this circular should be handed to the acquirer of such shares or to the broker, accountant, attorney, banker or other agent through whom the disposal was effected.
3. The general meeting convened in terms of the notice incorporated in this circular will be held at the registered office of UCS, 20th Floor, 209 Smit Street, Braamfontein, Johannesburg at 09:30 on Wednesday, 12 September 2007.
4. If you have dematerialised your shares:
 - 4.1 Own-name registration

You are entitled to attend in person, or be represented by proxy, at the general meeting. If you are unable to attend the general meeting in person, but wish to be represented thereat, you must complete and return the attached form of proxy (*yellow*), in accordance with the instructions contained therein, to be received by the transfer secretaries, Link Market Services South Africa (Proprietary) Limited, 11 Diagonal Street, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000) by no later than 09:30 on Monday, 10 September 2007.
 - 4.2 Other than own-name registration

You are entitled to attend, or be represented, at the general meeting. You must not, however, complete the attached form of proxy (*yellow*). You must advise your CSDP or broker timeously if you wish to attend or be represented at the general meeting.

If your CSDP or broker has not contacted you, you are advised to contact your CSDP or broker and provide them with your voting instructions in the manner and by the cut-off time stipulated by the CSDP or broker. If your CSDP or broker does not obtain instructions from you, they will be obliged to act in terms of your mandate furnished to them.

If you do wish to attend or be represented at the general meeting, your CSDP or broker will be required to issue the necessary letter of authority to enable you to attend or be represented at the general meeting.
5. If you hold certificated shares

You are entitled to attend in person, or be represented by proxy, at the general meeting. If you are unable to attend the general meeting in person, but wish to be represented thereat, you must complete and return the attached form of proxy (*yellow*), in accordance with the instructions contained therein, to be received by the transfer secretaries, Link Market Services South Africa (Proprietary) Limited, 11 Diagonal Street, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000) by no later than 09:30 on Monday, 10 September 2007.
6. The attention of UCS shareholders is drawn to the fact that it is not the intention to list Product Co and accordingly, those shareholders holding UCS shares in certificated and/or dematerialised form, will receive a share certificate in respect of the Product Co distribution shares.
7. UCS share certificates may not be dematerialised or rematerialised between Monday, 17 September 2007 and Friday, 21 September 2007, both days inclusive.

IMPORTANT DATES AND TIMES

The definitions and interpretations commencing on page 7 of this circular have, where necessary, been used in the important dates and times as set out below:

2007

Last day for lodging of forms of proxy for the general meeting by 09:30 on	Monday, 10 September
General meeting of UCS shareholders at 09:30 on	Wednesday, 12 September
Results of the general meeting released on SENS on	Wednesday, 12 September
Results of the general meeting published in the press on	Thursday, 13 September
Last day to trade in UCS shares on the JSE to participate in the unbundling on	Friday, 14 September
UCS shares trade "ex" the entitlement to the Product Co distribution shares from commencement of business on	Monday, 17 September
Record date to participate in the unbundling on	Friday, 21 September
Unbundling date on	Tuesday, 25 September
Product Co share certificates will be posted, by registered post, at the risk of the shareholders concerned, to certificated and dematerialised shareholders on or about	Tuesday, 25 September

Notes:

1. Any changes to the above dates and times will be released on SENS and published in the press.
2. All times given in this circular are local times in South Africa.
3. UCS share certificates may not be dematerialised or rematerialised between Monday, 17 September 2007 and Friday, 21 September 2007, both days inclusive.

SALIENT FEATURES

This summary contains salient features of the information detailed in this circular, which should be read in its entirety for a full appreciation thereof. The definitions included in the “Definitions and interpretations” section of this document apply *mutatis mutandis* to the salient information.

1. INTRODUCTION

On 15 May 2007, UCS announced its intention to dispose of certain proprietary products and related intellectual property to a new company, Product Co and to unbundle UCS’s interests in Product Co by means of a distribution of a dividend *in specie* to UCS shareholders.

The UCS directors have therefore resolved, following the establishment and financing of Product Co and, subject to the fulfilment of the conditions precedent, to distribute all of the issued shares in Product Co to UCS shareholders, recorded in the register on the record date.

The unbundling will be effected by way of a distribution *in specie* and a reduction in the share premium account of UCS in terms of section 90 of the Companies Act.

The Product Co distribution shares will be distributed in the ratio of one Product Co share for every holding of ten UCS ordinary shares held by a shareholder recorded in the register at the close of business on Friday, 21 September 2007.

It is not the intention to list Product Co on the JSE on the unbundling. Post-implementation of the distribution, it is unlikely that Product Co will be listed in the short to medium term. However, such decision will reside with the board of directors of Product Co.

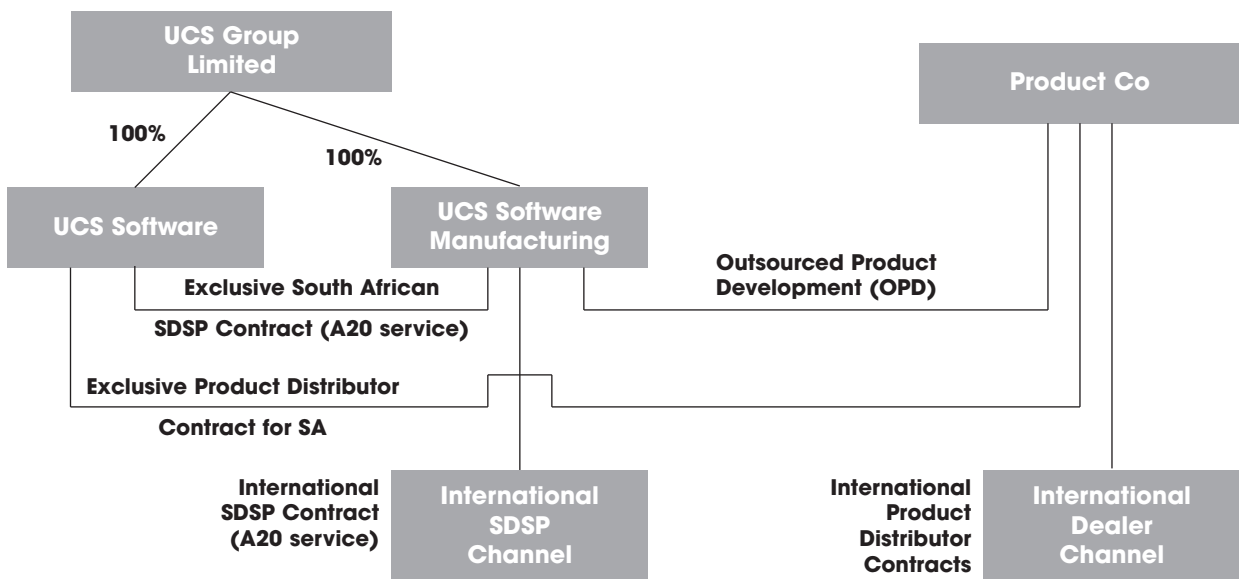
2. RATIONALE FOR THE UNBUNDLING

UCS is an investment holding company for a group of information technology companies focused on the provision of software, solutions and outsourcing services in chosen markets. UCS has shown significant growth since its listing and has achieved a market leadership position in the provision of software as well as related solutions and services in the retail sector in South Africa.

Having achieved this position in South Africa, the Group is looking to expand internationally through a number of defined initiatives, one of which is the establishment and subsequent unbundling of Product Co.

3. GROUP STRUCTURE

An abridged UCS group structure depicting the key relationship with the UCS Group after the unbundling of Product Co, is set out below:



4. CONDITIONS PRECEDENT

The implementation of the unbundling is subject to the fulfilment of each of the following conditions precedent:

- in terms of Section 5.85 of the Listings Requirements the unbundling is deemed a specific payment and accordingly the requisite approval by UCS shareholders is sought in a general meeting;
- the approval of the unbundling by the necessary regulatory authorities; and
- the conclusion and implementation of the relevant agreements to give effect to the assignment of the products and associated IP, the financing of Product Co and the subsequent unbundling, including, without limitation, the assignment of products and IP agreements, the loan agreement, the facility agreement, the subscription agreement and the outsourced product development agreement.

5. PRO FORMA FINANCIAL EFFECTS OF THE UNBUNDLING

The table below sets out the *pro forma* financial effects of the unbundling on UCS shareholders in respect of their UCS shares for the six months ended 31 March 2007.

The *pro forma* financial information has been prepared to illustrate the impact of the unbundling on the reported financial information of UCS for the six months ended 31 March 2007, had the unbundling occurred on 1 October 2006 for income statement purposes and on 31 March 2007 for balance sheet purposes.

The *pro forma* financial information has been prepared using accounting policies that comply with IFRS and are consistent with those applied in the interim results for the six months ended 31 March 2007.

The *pro forma* financial information is the responsibility of the directors and has been prepared for illustrative purposes only and because of its nature may not fairly present the financial position, changes in equity, results of operations or cash flows of UCS after the unbundling.

Per UCS share (cents)	Before the unbundling ⁽¹⁾	After the unbundling ⁽³⁾	Percentage change
Basic earnings ⁽²⁾	17.1	43.8	156.1
Headline earnings ⁽²⁾	14.5	14.8	2.1
Net asset value	159.3	122.1	(23.4)
Tangible net asset value	42.9	21.5	(49.9)

Notes:

1. Based on the published reviewed interim results for the six months ended 31 March 2007.
2. Basic earnings per share and headline earnings per share are based on 248 112 202 shares, being the weighted average number of shares in issue during the six months ended 31 March 2007.
3. Included in the "After the unbundling" earnings and headlines earnings are the following adjustments and related assumptions:
 - (a) Six months contribution to revenue relating to the outsourced product development contract between Product Co and UCSSM which equates to R10 million (annual contract revenue is R20 million);
 - (b) The reversal of the development costs capitalised related to the products sold and the resultant net expense thereof (i.e. offset by the development costs written off during the period) which amounted to R4.7 million;
 - (c) The inclusion of an outsourced finance, administration and treasury fee of R1.25 million for the period under review (R2.5 million annually);
 - (d) The inclusion of cost of sales related to the license fees now payable to Product Co which amounted to R3.6 million for the period under review (i.e. 50% of the end user license fee on the products that would be payable);
 - (e) The realisation of the applicable profit on sale of the products and associated IP which amounted to R74.8 million pre-tax and transaction costs;
 - (f) The inclusion of the interest expense related to the R50 million loan payable to Product Co which amounts to R2.3 million (based on an agreed variable interest rate which is calculated herein at 9%) for the period under review;
 - (g) The net tax effect of the preceding adjustments totals R9.7 million of which the once off component specific to the profit on sale and subsequent unbundling amounts to R9.3 million. This includes the realisation of estimated tax losses in the Group which amounted to R58.7 million. Both UCS Software and UCSSM will now as a consequence be in a fully taxable position moving forward; and
 - (h) The assumption that R155 million of the R163.7 million distribution value will be sheltered by the company's share premium for purposes of Secondary Tax on Companies.
4. The net asset value per share and tangible net asset value per share were not adjusted for any costs relating to the unbundling and are based on the unbundling having been effected on 31 March 2007.

The reporting accountants' report from Deloitte & Touche on the *pro forma* financial effects, the *pro forma* income statement and *pro forma* balance sheet is set out in Annexure 3 to this circular.

6. OPINIONS AND RECOMMENDATION

The Corporate Finance division of KPMG Services (Proprietary) Limited has been appointed by the UCS board to prepare the indicative valuation of the products and associated IP being sold by the Group to Product Co and to express an opinion on the fairness and reasonableness of this value. Their opinion is included in Annexure 4 of this circular.

The UCS board has considered the terms and conditions of the unbundling and the opinion of KPMG Services (Proprietary) Limited and is of the opinion that the unbundling will be advantageous to UCS shareholders.

Accordingly, the UCS board members who hold shares in UCS intend to vote in favour, in respect of the UCS shares held by them, of the resolutions necessary to implement the unbundling and the UCS Board recommend that UCS shareholders also vote in favour of such resolutions.

7. NOTICE OF GENERAL MEETING

The general meeting of UCS shareholders will be held at 20th Floor, 209 Smit Street, Braamfontein, Johannesburg at 09:30 on Wednesday, 12 September 2007 to consider and, if deemed fit, pass, with or without modification, the resolutions required in order to implement the unbundling.

Certificated shareholders and dematerialised own name registered shareholders who are unable to attend the general meeting and wish to be represented thereat, must complete and return the attached form of proxy (*yellow*) in accordance with the instructions contained therein so as to be received by the transfer secretaries, Link Market Services South Africa (Proprietary) Limited, 11 Diagonal Street, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000) by no later than 09:30 on Monday, 10 September 2007.

UCS shareholders who have already dematerialised their shares through a CSDP or broker, other than dematerialised own name registered shareholders, and who wish to attend the general meeting, must request their CSDP or broker to provide them with the necessary authorisation to attend the general meeting or must instruct their CSDP or broker to vote by proxy on their behalf in terms of the agreement entered into between the UCS shareholder concerned and their CSDP or broker.

8. HOW WILL UCS SHAREHOLDERS RECEIVE THEIR PRODUCT CO SHARES?

The attention of UCS shareholders is drawn to the fact that it is not the intention to list Product Co on the JSE on the unbundling.

Accordingly, those shareholders holding UCS shares in certificated and/or dematerialised form will receive a share certificate in respect of the Product Co distribution shares.

UCS share certificates may not be dematerialised or rematerialised between Monday, 17 September 2007 and Friday, 21 September 2007, both days inclusive.

9. FRACTIONAL ENTITLEMENTS

The proposed unbundling ratio is disclosed in the table of entitlement as set out in Annexure 1 to this circular and will be applied to the aggregate number of UCS shares held by each UCS shareholder on the record date. The resultant number of shares will be rounded down to the nearest whole number if it is less than 0.5 and will be rounded up to the nearest whole number if it is equal or greater than 0.5.

10. THE BOOK BUILDING PROCESS

BJM Corporate Finance (Proprietary) Limited (with the assistance of other divisions within the Barnard Jacobs Mellet Holdings Limited Group, where applicable) will be managing the book building process in Product Co shares on behalf of UCS. UCS shareholders wishing to dispose of their Product Co shares or to acquire further Product Co shares, are requested to contact Anthony Clark at Barnard Jacobs Mellet (Fax: 011 283 0460, PO Box 62200, Marshalltown, 2107) by no later than 10:00 on Wednesday, 17 October 2007.

Based on the supply and demand of Product Co shares in the book building process, BJM Corporate Finance (Proprietary) Limited will advise the directors of UCS on the price of the book build. The price per Product Co share, determined by the book build, will be released on SENS on Friday, 19 October 2007.

DEFINITIONS AND INTERPRETATIONS

In this document and its annexures, unless otherwise stated or the context otherwise indicates, the words and expressions in the first column shall have the meanings stated opposite them in the second column and words and expressions in the singular shall include the plural and *vice versa*, words importing natural persons shall include corporations and associations of persons and words and expressions denoting any gender shall include the other genders:

"assignment agreements"	the agreements between UCS Software and Product Co and UCSSM, respectively, whereby each of UCS Software and UCSSM cedes, assigns, transfers and makes over to Product Co, its right, title and interest in and to the IP described in paragraph 5 of this circular;
"book build" or "book building exercise"	the book building exercise to be undertaken by BJM Corporate Finance (Proprietary) Limited on the distribution of Product Co shares;
"broker"	a "stockbroker" as defined in the Securities Services Act;
"certificated shareholders"	UCS shareholders who have not dematerialised their UCS shares and accordingly hold certificated shares;
"certificated shares"	UCS shares which have not yet been dematerialised in terms of Strate, the title to which is represented by a share certificate or other physical document of title;
"CGT"	Capital Gains Tax levied in terms of section 26A and the 8th Schedule of the Income Tax Act;
"the circular" or "this circular"	this bound document, dated 28 August 2007, containing the circular to UCS shareholders, the annexures thereto, a notice of the general meeting and the form of proxy (<i>yellow</i>);
"common monetary area"	South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland;
"Companies Act"	the Companies Act, 1973 (Act 61 of 1973), as amended;
"conditions precedent"	the conditions precedent to the unbundling as set out in paragraph 4 of the Salient Features section and paragraph 6 of this circular;
"CSDP"	a Central Securities Depository Participant appointed by individual shareholders for purposes of and in regard to dematerialisation, in terms of the Custody and Administration of Securities Act, 1992 (Act 85 of 1992), as amended;
"dematerialisation"	the process whereby documents of title in a tangible form are dematerialised into an electronic record for the purposes of Strate;
"dematerialised own name registered shareholders"	dematerialised shareholders whose dematerialised shares are registered in their own names;
"dematerialised shareholders"	shareholders who have replaced their documents of title with dematerialised shares;
"dematerialised shares"	UCS shares which have been incorporated into the Strate system and which are held on UCS' terms of the Custody and Administration of Securities Act, 1992 (Act 85 of 1992), as amended;
"directors" or "UCS directors" or "the UCS board"	directors of UCS, whose names appear on page 10 of this circular;

“the distribution”	the distribution <i>in specie</i> by way of a reduction in the share premium account of UCS in terms of section 90 of the Companies Act;
“documents of title”	share certificates, certified transfer deeds, balance receipts or any other documents of title pertaining to UCS shares;
“entitlement ratio”	one Product Co share for every holding of ten UCS ordinary shares held by a UCS ordinary shareholder, at the close of business on the record date;
“Exchange Control Regulations”	the Exchange Control Regulations, 1961, as amended, promulgated in terms of section 9 of the Currency and Exchanges Act, 1933 (Act 9 of 1933), as amended;
“facility agreement”	the facility agreement between UCS and Product Co whereby R50 000 000 will be made available by UCS to Product Co as a term facility;
“foreign shareholders”	UCS shareholders who are resident, or who are nationals or citizens of, or who have registered addresses in countries other than South Africa;
“general meeting”	the general meeting of UCS shareholders, convened by the notice of general meeting contained in this circular, to be held at the registered office of UCS, 20th Floor, 209 Smit Street, Braamfontein, Johannesburg on Wednesday, 12 September 2007 commencing at 09:30, or any adjournment thereof, for the purpose of considering, and, if deemed appropriate, passing the resolutions necessary to implement the unbundling of Product Co;
“HEPS	headline earnings per share;
“IFRS”	International Financial Reporting Standards;
“Income Tax Act”	the Income Tax Act, 1962 (Act 58 of 1962), as amended;
“IP”	Intellectual Property;
“JSE”	the exchange operated by the JSE Limited (Registration number 2005/022939/06), a public company duly registered and incorporated with limited liability under the company laws of South Africa and licensed as an exchange under the Securities Services Act;
“last day to trade”	the last day to trade in UCS ordinary shares in order to participate in the unbundling, being Friday, 14 September 2007;
“last practicable date”	the last practicable date prior to the finalisation of this document, being Wednesday, 22 August 2007;
“Listings Requirements”	the Listings Requirements of the JSE, as amended from time to time;
“loan agreement”	the loan agreement between UCS and Product Co whereby Product Co will lend to UCS a loan amount of R50 000 000;
“NAV”	net asset value;
“outsourced product development agreement”	the agreement between UCSSM and Product Co whereby UCSSM makes available its software factory infrastructure and a dedicated product team and whereby Product Co instructs UCSSM to make use of and direct these resources in order to refresh or extend Product Co’s software application programmes (the products). The contract is based on a fixed fee of R20 million per annum which is payable in 12 equal monthly instalments;
“Product Co” or “Rendalyn Trading”	Rendalyn Trading Limited (Registration number 2007/010401/06) a public company duly registered and incorporated with limited liability according to the company laws of South Africa;
“Product Co distribution shares” or “distribution shares”	all of the ordinary shares held by UCS in the issued share capital of Product Co, as at the record date, which are to be distributed to UCS ordinary shareholders recorded in the register at the close of business on the record date pursuant to the unbundling, in the entitlement ratio;

"Product Co shares"	ordinary shares having a nominal value of one cent each in the issued share capital of Product Co;
"Rand"	South African Rand, the official currency of South Africa;
"record date"	the last date on which a shareholder must be recorded in the register to participate in the unbundling, which is expected to be on Friday, 21 September 2007;
"register"	the register of certificated shareholders maintained by the transfer secretaries and the sub-register of dematerialised shareholders maintained by the relevant CSDP's;
"SENS"	the Securities Exchange News Service of the JSE;
"Securities Services Act"	the Securities Services Act, No. 36 of 2004, as amended;
"SDSP"	Software Development Service Provider;
"South Africa"	the Republic of South Africa;
"STC"	Secondary Tax on Companies levied in terms of section 64B of the Income Tax Act;
"Strate"	Strate Limited (Registration number 1998/022242/06), a public company incorporated in South Africa and the electronic clearing and settlement system used by the JSE to settle trades;
"subscription agreement"	the subscription agreement between UCS and Product Co whereby UCS subscribes for 8 603 833 ordinary shares of one cent each in the authorised share capital of Product Co for a total subscription price of R50 000 000;
"TNAV"	tangible net asset value;
"this circular" or "this document"	this bound document dated 28 August 2007, and the annexures attached hereto, the notice of general meeting and form of proxy (<i>yellow</i>);
"transfer secretaries"	Link Market Services South Africa (Proprietary) Limited (Registration number 2000/007239/07), a private company incorporated in South Africa, being the transfer secretaries of UCS;
"UCS" or "the company"	UCS Group Limited (Registration number 1993/002253/06), a public company incorporated in South Africa, the shares of which are listed on the JSE;
"UCS group" or "Group"	UCS and its subsidiaries from time to time;
"UCS shares" or "shares"	ordinary shares having a nominal value of 0.5 cent each in the issued share capital of UCS;
"UCS shareholders" or "shareholders"	holders of UCS shares from time to time;
"UCSSM"	UCS Software Manufacturing (Proprietary) Limited (Registration number 1995/009238/07), a private 100% held subsidiary company of UCS Group Limited incorporated in South Africa;
"UCS Software"	UCS Software (Proprietary) Limited (Registration number 1998/004518/07) a private 100% held subsidiary company of UCS Group Limited incorporated in South Africa;
"unbundling"	subject to the fulfilment of the conditions precedent, the distribution <i>in specie</i> by UCS, of its entire holding of the Product Co distribution shares to UCS shareholders, who are recorded in the register on the record date, by way of a reduction in the share premium account of UCS in terms of section 90 of the Companies Act;
"the unbundling date"	the date of distribution of the Product Co distribution shares, which is expected to be Tuesday, 25 September 2007; and
"VAT"	Value-Added Tax payable in terms of the Value-Added Tax Act, 1991 (Act 91 of 1991), as amended.



UCS Group Limited

(Incorporated in the Republic of South Africa)

(Registration number 1993/002253/06)

JSE code: UCS ISIN: ZAE000016150

("UCS" or "the company")

Directors

Duncan Coles (*Chairman*)

John Bright (*Chief Executive Officer*)

Vani Chetty*

Joseph Claassen*

Adv Richard Goodman*

Bryan Hattingh*

Neil Michelson (*Chief Operating Officer*)

Mntungwa Morojele*

Dean Sparrow (*Chief Financial Officer*)

Peter Terblanche*

*Non-executive

CIRCULAR TO UCS SHAREHOLDERS

1. INTRODUCTION

Shareholders are referred to the announcement regarding the establishment, financing and intended unbundling of Product Co released on SENS on 15 May 2007, the cautionary announcements released on SENS on 25 April 2007, 6 June 2007 and 20 July 2007 respectively and the detailed announcement released on SENS on 2 August 2007 and are advised that the board of directors of UCS has resolved, following the establishment and financing of Product Co and subject to the fulfilment of the conditions precedent as set out in paragraph 6 below, to distribute all of the issued shares in Product Co to UCS shareholders.

The unbundling will be effected by way of a distribution *in specie* and a reduction in the share premium account of UCS in terms of section 90 of the Companies Act.

The Product Co distribution shares will be distributed in the ratio of one Product Co share for every holding of ten UCS ordinary shares held by a shareholder recorded in the register at the close of business on Friday, 21 September 2007.

2. PURPOSE OF THIS CIRCULAR

The purpose of this circular is to:

- provide UCS shareholders with the relevant information regarding the unbundling of Product Co; and
- convene a general meeting of UCS shareholders in terms of the notice of general meeting forming part of this circular, at which meeting the resolutions required to approve and implement the unbundling will be proposed and be voted on by UCS shareholders.

3. RATIONALE FOR THE UNBUNDLING

UCS is an investment holding company for a group of information technology companies focused on the provision of software, solutions and outsourcing services in chosen markets. UCS has shown significant

growth since its listing and has achieved a market leadership position in the provision of software as well as related solutions and services in the retail sector in South Africa.

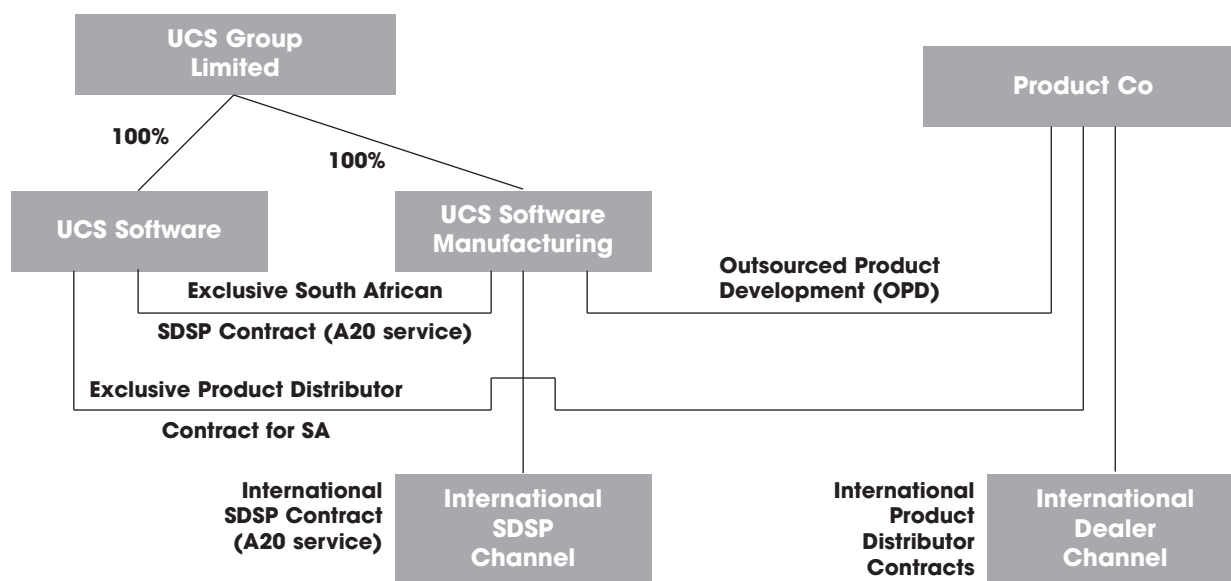
Having achieved this position in South Africa, the Group is looking to expand internationally through a number of defined initiatives, one of which is the establishment and subsequent unbundling of Product Co.

The establishment and unbundling of Product Co will enable UCS to:

- establish a separate and independent software product business with its primary focus being 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;
- allow Product Co to exclusively focus on the development of the acquired Active Retail and Dolfin product suite and associated IP and in so doing enable such products to reach their true global potential;
- allow Product Co to have an independent channel to market and operate free from the inherent limitations currently imposed by virtue of the Group exercising control over the IP and the Group thereby being seen as a competitor (or potential competitor) to the envisaged distribution channels of Product Co;
- create an arm’s length partner who will enter into an outsourced product development contract with UCSSM to maintain and enhance the Product Co IP and the products for the global market; and
- create additional value to UCS shareholders through revenue earned by UCSSM on the outsourced product development contract as well as a royalty entitlement on license revenues earned by Product Co in respect of the Active Retail and Dolfin product suite.

4. GROUP STRUCTURE

An abridged UCS Group structure depicting the key relationships between the Group and Product Co after the unbundling of Product Co, is set out below:



5. THE UNBUNDLING

Based on the current number of UCS shares in issue (281 641 304) and the enterprise value of Product Co at the time of unbundling (R163 672 000) the value of Product Co:

- per UCS share equates to R0.58 (fifty-eight cents); or
- per Product Co share R5.81 (five Rand and eighty-one cents).

The R163 672 000 enterprise value consists of the Active Retail and Dolfin product suites and associated IP acquired from UCS Software and UCSSM for R113 672 000 and a loan receivable from UCS in terms of the loan agreement in the amount of R50 000 000 to fund initial working capital requirements.

This loan receivable arises as a result of Product Co reinvesting the cash raised from UCS through the subscription agreement prior to the unbundling.

UCS has also entered into the facility agreement with Product Co to provide a further R50 000 000 for working capital funding which Product Co is entitled to access after the first R50 000 000 (the loan receivable pursuant to the loan agreement) has been utilised but prior to the third anniversary date of the

distribution, on which date this facility will cease to be available. Loan funding that is specifically accessed by Product Co under the facility agreement will be repayable within three years from the end of the loan facility availability period, i.e. within six years from the date of the distribution, and will be secured by a cession over the annuity revenue streams created by Product Co for the duration that there is a loan amount outstanding. The funds available under the facility agreement shall reduce to the extent that Product Co raises working capital funding elsewhere.

It is not the intention to list Product Co on the JSE on the unbundling. Product Co is forecast to realise losses for at least the first two years after its establishment and unbundling out of the Group. Post implementation of the distribution, it is therefore unlikely that Product Co will be listed in the short to medium term, however such decision will reside with the board of directors of Product Co.

BJM Corporate Finance (Proprietary) Limited (with the assistance of other divisions within the Barnard Jacobs Mellet Holdings Limited Group, where applicable) will conduct a book building exercise, of which more details are set out in paragraph 5.4 below, on behalf of Product Co on the distribution of the Product Co shares. The book building exercise will undertake to identify potential sellers of Product Co shares and match them with identified buyers.

Subsequent to the unbundling and the book building exercise, those shareholders that hold their scrip in Product Co will be placed on a platform as from 1 November 2007 which will enable them to continue to trade on an "over the counter" basis.

5.1 UCS post unbundling

This unbundling represents the sale by UCS of the Active Retail and Dolfin product suites and the associated IP together with the creation of a material outsourced product development customer for UCSSM. Based on the interim results for the six months ended 31 March 2007 these product suites and the associated IP accounted for R7.2 million of the Group's reported revenue of R510.5 million and therefore based on current activity represents an immaterial portion of the Group's overall domestic revenue generating potential.

The Group retains its extensive retail domain application components and associated IP within UCSSM as well as the other retail application product sets currently owned by the various companies within the Software division. The Solutions and Services division continues unaffected by the unbundling.

5.2 Details of the unbundling

Subject to the fulfilment of the conditions precedent, UCS will distribute the Product Co distribution shares to its shareholders by way of the unbundling. UCS shareholders will receive one share in Product Co for every holding of 10 UCS ordinary shares held by them on the record date.

The unbundling will be effected in terms of section 90 of the Companies Act, by way of a reduction in UCS' share premium account.

Procedure for implementation of the unbundling:

- 5.2.1** A general meeting of UCS shareholders will be held to consider and, if deemed fit, pass the ordinary resolutions to implement the unbundling.
- 5.2.2** For the purpose of the unbundling, UCS shareholders holding their shares in certificated and dematerialised form will be issued Product Co distribution shares in certificated form and share certificates will be posted, at the risk of the UCS shareholder concerned, by registered post, to the addresses reflected in the register on the record date.
- 5.2.3** Documents of title in respect of UCS shares held are not required to be surrendered in order to receive the Product Co distribution shares.
- 5.2.4** UCS shareholders resident outside South Africa must satisfy themselves as to the full observance of the laws of their country or territory of residence, as well as the Exchange Control Regulations, summarised in paragraph 13 below.

5.3 Fractional entitlements

The unbundling ratio is disclosed in the table of entitlement as set out in Annexure 1 to this circular and will be applied to the aggregate number of UCS shares held by each UCS shareholder on the record date. The resultant number of shares will be rounded down to the nearest whole number if it is less than 0.5 and will be rounded up to the nearest whole number if it is equal or greater than 0.5.

5.4 Book building exercise

BJM Corporate Finance (Proprietary) Limited will conduct a book building exercise on behalf of Product Co on the distribution of the Product Co shares. The book building exercise will undertake to identify potential sellers of Product Co shares and match them with identified buyers.

To the extent that the supply of Product Co shares that becomes available through the book building exercise does not meet the demand for such shares, Product Co would be prepared to offer a further 7 500 000 shares (constituting a maximum of 21.03% of Product Co's issued share capital calculated with reference to the expected issued share capital at that time, upon such allotment and issue) at a price of between R6.40 and R6.95 per share.

Subsequent to the unbundling and the book building exercise, those shareholders that hold their script in Product Co will be placed on a platform as from 1 November 2007 which will enable them to continue to trade on an "over the counter" basis.

UCS shareholders wishing to dispose of their Product Co shares or to acquire further Product Co shares, are requested to contact Anthony Clark at Barnard Jacobs Mellet (Fax: 011 283 0460, PO Box 62200, Marshalltown, 2107) by no later than 10:00 on Wednesday, 17 October 2007.

Based on the supply and demand of Product Co shares in the book building process, BJM Corporate Finance (Proprietary) Limited will advise the directors of UCS on the price of the book build. The price per Product Co share, determined by the book build, will be released on SENS on Friday, 19 October 2007.

6. CONDITIONS PRECEDENT

The implementation of the unbundling is subject to the fulfilment of each of the following conditions precedent:

- in terms of Section 5.85 of the JSE Listings Requirements the unbundling is deemed a specific payment and accordingly the requisite approval by UCS shareholders is sought for the unbundling by way of the distribution, in a general meeting;
- the approval of the unbundling by the necessary regulatory authorities; and
- the conclusion and implementation of the relevant agreements to give effect to the assignment of the products and associated IP, the financing of Product Co and the subsequent unbundling, including, without limitation, the assignment of products and IP agreements, the loan agreement, the facility agreement, the subscription agreement and the outsourced product development agreement.

7. PRO FORMA FINANCIAL EFFECTS

The table below sets out the *pro forma* financial effects of the unbundling on UCS shareholders in respect of their UCS shares for the six months ended 31 March 2007.

The *pro forma* financial information has been prepared to illustrate the impact of the unbundling on the reported financial information of UCS for the six months ended 31 March 2007, had the unbundling occurred on 1 October 2006 for income statement purposes and on 31 March 2007 for balance sheet purposes.

The *pro forma* financial information has been prepared using accounting policies that comply with IFRS and are consistent with those applied in the interim results for the six months ended 31 March 2007.

The *pro forma* financial information is the responsibility of the directors and has been prepared for illustrative purposes only and because of its nature may not fairly present the financial position, changes in equity, results of operations or cash flows of UCS after the unbundling.

Per UCS share (cents)	Before the unbundling ⁽¹⁾	After the unbundling ⁽³⁾	Percentage change
Basic earnings ⁽²⁾	17.1	43.8	156.1
Headline earnings ⁽²⁾	14.5	14.8	2.1
Net asset value	159.3	122.1	(23.4)
Tangible net asset value	42.9	21.5	(49.9)

Notes:

1. Based on the published reviewed interim results for the six months ended 31 March 2007.
2. Basic earnings per share and headline earnings per share are based on 248 112 202 shares, being the weighted average number of shares in issue during the six months ended 31 March 2007.

3. Included in the "After the unbundling" earnings and headlines earnings are the following adjustments and related assumptions:
- Six months contribution to revenue relating to the outsourced product development contract between Product Co and UCSSM which equates to R10 million (annual contract revenue is R20 million);
 - The reversal of the development costs capitalised related to the products sold and the resultant net expense thereof (i.e. offset by the development costs written off during the period) which amounted to R4.7 million;
 - The inclusion of an outsourced finance, administration and treasury fee of R1.25 million for the period under review (R2.5 million annually);
 - The inclusion of cost of sales related to the license fees now payable to Product Co which amounted to R3.6 million for the period under review (i.e. 50% of the end user license fee on the products that would be payable);
 - The realisation of the applicable profit on sale of the products and associated IP which amounted to R74.8 million pre-tax and transaction costs;
 - The inclusion of the interest expense related to the R50 million loan payable to Product Co which amounts to R2.3 million (based on an agreed variable interest rate which is calculated herein at 9%) for the period under review;
 - The net tax effect of the preceding adjustments totals R9.7 million of which the once off component specific to the profit on sale and subsequent unbundling amounts to R9.3 million. This includes the realisation of estimated tax losses in the Group which amounted to R58.7 million. Both UCS Software and UCSSM will now as a consequence be in a fully taxable position moving forward; and
 - The assumption that R155 million of the R163.7 million distribution value will be sheltered by the company's share premium for purposes of Secondary Tax on Companies.
4. The net asset value per share and tangible net asset value per share were not adjusted for any costs relating to the unbundling and are based on the unbundling having been effected on 31 March 2007.

The reporting accountants' report from Deloitte & Touche on the *pro forma* financial effects, the *pro forma* income statement and *pro forma* balance sheet is set out in Annexure 3 to this circular.

8. SHARE CAPITAL AND MAJOR SHAREHOLDERS

8.1 Share capital of UCS

The table below shows the authorised and issued share capital of UCS as at the last practicable date:

	R'000
Authorised share capital	
480 000 000 ordinary shares of 0.5 cent each	2 400
20 000 000 redeemable compulsory convertible preference shares of 0.5 cent each	100
800 000 A class shares	4
1 200 000 B class shares	6
1 600 000 C class shares	8
2 000 000 D class shares	10
2 400 000 E class shares	12
1 600 000 F class shares	8
2 400 000 G class shares	12
3 200 000 H class shares	16
2 000 000 I class shares	10
2 800 000 J class shares	14
Total authorised share capital	2 500
Issued share capital	
281 641 304 ordinary shares of 0.5 cent each	1 408
3 547 500 redeemable preference shares of 0.5 cent each	18
Total issued share capital	1 426
Share premium	155 396
Total issued share capital	156 822

All of the issued ordinary shares in UCS are of the same class, rank *pari passu* in every respect and are fully paid-up. UCS has no deferred shares in issue.

8.2 Major shareholders

As at the last practicable date, the following shareholders (excluding directors), are directly or indirectly, beneficially interested in 5% or more of the issued share capital of UCS:

Name	Number of shares	Percentage held
RMB Equity Capital	29 786 484	10.58
Tactical Software Systems (Pty) Limited	24 217 900	8.60

Save as indicated above, the directors are not aware of the existence of any shareholder (excluding directors) who is beneficially interested in 5% or more of the issued share capital of UCS.

9. DIRECTORS AND DIRECTORS' INTERESTS

9.1 Directors

The names, business addresses and occupations of the directors of UCS are set out below:

Name	Business address	Occupation
Duncan Coles	20th Floor, 209 Smit Street, Braamfontein Johannesburg 2001	Chairman
John Bright	20th Floor, 209 Smit Street, Braamfontein Johannesburg 2001	Chief Executive Officer
Vani Chetty*	20th Floor, 209 Smit Street, Braamfontein Johannesburg 2001	Non-executive
Joseph Claassen*	20th Floor, 209 Smit Street, Braamfontein Johannesburg 2001	Non-executive
Adv Richard Goodman*	20th Floor, 209 Smit Street, Braamfontein Johannesburg 2001	Non-executive
Bryan Hattingh*	20th Floor, 209 Smit Street, Braamfontein Johannesburg 2001	Non-executive
Neil Michelson	20th Floor, 209 Smit Street, Braamfontein Johannesburg 2001	Chief Operating Officer
Mntungwa Morojele*	20th Floor, 209 Smit Street, Braamfontein Johannesburg 2001	Non-executive
Dean Sparrow	20th Floor, 209 Smit Street, Braamfontein Johannesburg 2001	Chief Financial Officer
Peter Terblanche*	20 Floor, 209 Smit Street, Braamfontein Johannesburg 2001	Non-executive

Effective 2 March 2007, Ms R J Eliot resigned from the board and Ms V Chetty was appointed as a non-executive director.

9.2 Directors' interests in UCS ordinary shares

The interests of the directors in the issued ordinary shares of UCS as at the last practicable date are set out in the table below:

	Beneficial direct (R'000)	Beneficial indirect (R'000)	Percentage holding
Executive directors			
J D Bright	5 945	31 400	13.3
D F Coles	7 595	29 760	13.3
N A Michelson	–	6 087	2.0
D C Sparrow	488	4 800	1.9
	14 028	72 047	30.5
Non-executive directors			
J R Claassen	100	–	*
R G Goodman	80	–	*
	180	–	0.1
Total	14 208	72 047	30.6

* Less than 0.1%.

9.3 Directors' interests in UCS preference shares

The aggregate interests of the directors in the issued number of the preference shares of the company as at the last practicable date are as follows:

	Direct (R'000)	Indirect (R'000)
N A Michelson	220	–
D C Sparrow	138	–
Total	358	–

9.4 Future entitlements under the share option schemes

The future entitlements under the share options schemes as at 30 September 2006 were as follows:

	Grant date	Opening balance (R'000)	Options granted during the year (R'000)	Strike price (cents)	Options exercised during the year (R'000)	Market price (cents)	Total (R'000)
N A Michelson	01/04/03	1 000	–	60	500*	140	500
D C Sparrow	30/04/03	500	–	62	250*	147	250
R G Goodman	27/02/04	100	–	109	–	–	100
J R Claassen	27/02/04	100	–	109	–	–	100
R J Eliot	27/02/04	100	–	109	–	–	100
B P Hattingh	27/02/04	100	–	109	–	–	100
P Terblanche	27/02/04	100	–	109	–	–	100
M P R Morojele	18/11/05	–	100	134	–	–	100
		2 000	100		750		1 350

* N A Michelson and D C Sparrow exercised these options on 22 November 2005 and 24 November 2005, respectively.

The options are exercisable in tranches of 25% per annum commencing on the anniversary of the grant date. Options are cumulative in respect of options not taken up at any anniversary and may be exercised at any time up to the 10th anniversary at which time any options not exercised will lapse.

9.5 Directors' dealings in securities

The following changes have occurred between the financial year-end and the last practicable date:

	Date	Directors dealings	Price (cents)	Number of securities
N A Michelson	28/11/2006	Share options exercised	60	250 000
N A Michelson	15/12/2006	Sale of shares	300	750 000
D C Sparrow	29/01/2007	Share options exercised	62	125 000
J R Claassen	26/01/2007	Share options exercised	109	50 000
R G Goodman	20/03/2007	Share options exercised	109	75 000

10. INFORMATION RELATING TO PRODUCT CO

Product Co is a pure software product business with its primary focus being 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.

The initial management team that has been assembled to execute the Product Co strategy comprises a suitable blend of local management who have the knowledge and expertise of the product sets and associated IP being assigned to Product Co. This is complemented by strong international (United Kingdom based) management who too have extensive retail software and industry expertise and a well established network. Lester Aderem, previously a senior executive of the UCS Software business and responsible for the package software and the southern region has been appointed managing director of Product Co.

The international management currently comprise Ian Bowater, who has been appointed as Product Co's non-executive chairman (founder, entrepreneur and chief executive of Compass Software PLC which was listed on AIM in 2000 and subsequently acquired by Alphameric PLC in 2003) and Andrew Blatherwick, who has been appointed as executive director – business development (previously managing director for JDA Europe Middle East Africa region).

Through an outsourced product development agreement with UCSSM, Product Co is able to leverage the unique capabilities of the internationally certified specialist retail software manufacturing unit as well as the experience and expertise of its CEO, Neels van Tonder, and his team of professional retail software engineers. This will ensure that Product Co is able to concentrate on its primary focus of creating a leading retail software brand and a strong international channel to market.

10.1 Capital structure

Details of Product Co's authorised and issued share capital after the unbundling is as follows:

Authorised share capital		
Ordinary shares of R0.01 each	100 000 000	R1 000 000
Issued share capital		
Ordinary shares of R0.01 each	28 174 131	R281 741
Share premium		R163 390 359
		R163 672 100

10.2 Directors

Non-executive directors:

Ian Bowater – Chairman

Age 43

Nationality British

Experience Ian Bowater, is a director of two UK unquoted property businesses and is a non-executive director and consultant to a UK based unquoted logistics software business. Ian has extensive experience in the European and North American retail sectors as a result of 15 years spent founding and developing his retail software and consultancy group – Compass Software Group PLC. The group which had clients such as Marks & Spencer PLC, Tesco PLC, Wal-Mart, Nike and a wide range of other European multiple retailers, was listed on AIM in 2000 and Ian became Chief Executive. The group continued its growth via acquisition and expansion into overseas markets before being acquired in 2003 by Alphameric.

John Bright

Age 59
Nationality South African
Experience John Bright is a principal founder of UCS Group Limited. His original background was as a software developer and systems analyst. He worked in the computer bureau division of NCR from 1968 to 1978 when he left to start Universal Computer Services (Proprietary) Limited. John now provides strategic direction to UCS as Chief Executive Officer of UCS Group Limited.

Josephine Fortuin

Age 26
Nationality South African
Experience Josie Fortuin graduated from UNISA with a B. Compt degree in 2002 and completed her articles with Watermark Auditors in the same year. She completed her CTA in 2003 and passed the FQE in 2004 qualifying as a Chartered Accountant (SA). Josie joined the UCS Group in March 2004 and was appointed Group Financial Manager in March 2005 and has performed this role to date.

Executive directors:**Lester Aderem**

Age 51
Nationality South African
Experience Lester studied Electrical Engineering and Computer Science at UCT. After completing his National Service, Lester established his own Software development business developing solutions for the retail and clothing environments. This business was merged with Triple-S Computers in 1984. Triple-S Computers, of which Lester was a director became a leading supplier of product and solutions to high profile South African retailers. In 1998 Lester sold his share in Triple-S Computers and joined Universal Computer Services, the founding company of the UCS Group. Lester served as chief operating officer of Universal Computer Services from 2000 to 2004. Prior to accepting his role as managing director of Product Co, Lester was an Executive of UCS Software (Pty) Limited, responsible for the Packaged Software and the Southern Region.

Andrew Blatherwick

Age 52
Nationality British
Experience Andrew Blatherwick has 20 years experience in retail companies including Boots and Iceland Foods Group. He has held senior management and Director positions in Buying, Marketing, Supply Chain and Logistics, most latterly as Supply Chain Director at Iceland from 1990 to 1995. Following this Andrew moved into the IT market as President of E3's International Business and following the sale to JDA was Managing Director responsible for their EMEA business. After nine years with E3/JDA Andrew joined Alphameric one of the UK's largest retail solutions providers as Managing Director responsible for the Retail Division which he developed and sold to Torex in 2005. Since this time Andrew has worked with smaller IT companies helping them establish their business in the UK and Europe and is currently a Non-Executive or Advisory Board member of Storetech, Manthan and RPS.

10.3 Outsourced product development partner

Product Co will leverage the facilities and expertise of UCSSM for on-going product development and have entered into an outsourced product development agreement with UCSSM to provide pre-defined development services for a fixed consideration, the salient terms of which can be summarised as follows:

- Outsourced Product Development Services will be contracted on a monthly basis for a fixed consideration of R20 million per annum for a minimum two-year period;
- Outsourced Product Support Services such as consultation services, research support services and development risk assessment services may be contracted for and charged for on a time and materials basis; and
- UCSSM will earn a 10% royalty on all Product Co licence sales.

10.4 Channel distribution model

Product Co will go-to-market through a global channel of dealers, Value Added Resellers ("VAR's") who will provide the direct sales, integration, implementation and support services for retailers in the selected geographies and market sectors.

Product Co will select channel partners who currently have a substantial customer base of retailers in the selected market sectors and possess the ability to sell its products to these customers and new ones assisted by Product Co sales and product specialists.

The single biggest challenge to the ultimate success of Product Co lies in the building of an effective channel to market.

Potential channel partners can be segmented as follows:

- Geographically based VAR's already selling Electronic Point of Sale ("EPOS") solutions looking for an improved offering.
- Software vendors to the retail market not currently offering a store based solution.
- Hardware vendors looking for a software solution.
- Consultants/implementation specialists looking for a market leading offering.

UCS Software, already established in the South African market, qualifies as an ideal partner for Product Co in the domestic market.

The Partner Accreditation Programme and regular compliance checks will reduce the inherent risk to the quality and profile of the Product Co brands and products being delivered by third parties and will ensure that its channel is of a consistently high quality to further the reputation of the brands.

Channel partners will be appropriately supported with extensive training and marketing collateral and particularly in the early stage of any partner relationship, Product Co will also provide professional sales support and product specialists to assist its partners in succeeding with the sales of its products.

10.5 Target markets and territories

During the first three years, Product Co will be targeted at the Non Foods Retail market in South Africa, Europe and North America. Whilst tier one customers will not be precluded the main focus will be on the tier two and larger tier three retailers of which there are significantly larger numbers, shorter sales cycles and less demanding requirements and maintenance.

In the South African market, UCS Software is already established and has an existing pipeline of sales prospects for the products. The primary focus in its first year will be to maintain the sales stream in South Africa and to develop the market in the UK and Middle East. During this time there will also be research into the US market to identify the potential target customers reaching the replacement point for their EPOS and channel partners with whom they have a relationship.

Continental European markets are not being targeted earlier as they will require translation of the solutions, different functionality and a more complex support structure with multi language skills. The English speaking markets offer sufficient potential for the first three years sales to be achieved without the additional cost of this infrastructure.

10.6 Competitive landscape in these target markets

The retail in-store market is competitive and fragmented with no player achieving international dominance or significant strength. There are large numbers of VAR's and implementation specialists who have close relationships with local retailers, particularly in the tiers two and three market where retailers do not have large IT departments and rely heavily on the expertise of their partners. Certain Enterprise Resource Planning ("ERP") providers do have EPOS offerings but have not made any real headway in what has always been a specialist sector of the retail software market.

The UK market has seen many changes over the last three years with the consolidation of many of the mid sized players under Torex which has recently emerged from receivership and is now owned by private equity company Cerberus.

There is a significant opportunity to create a strong brand within this market and take advantage of the fragmented market. The ability to also offer a central merchandising solution and the strong credibility of the UCS customer base, including current UK customers, will add to the strength of the Product Co entrance.

The US market is similarly fragmented and Product Co provides an attractive proposition to many tier two targets over a larger geographical area through their channel of local VAR's.

10.7 Key drivers to the Product Co business plan

- Product Co is a reasonably high risk proposition (i.e. akin to a start-up operation venturing into new territories and without a track record). It has an indirect sales model – selling through dealers (i.e. resellers and VAR's).
- The single largest challenge to Product Co's success is the building of an effective channel to market. i.e. securing quality dealers in the geographies identified and their ability to secure sales of the product suite within their respective geographies.
- The business plan is based on targeting three territories and five dealers in the first year:
 - a. South Africa;
 - b. United Kingdom ("UK"); and
 - b. Middle East.
- One dealer (including UCS Software) is already positioned in each territory with a further two to be targeted in the UK within the first year.
- Further territories will be targeted over a three-year period with North America ("US") identified as the next attractive market following the appropriate positioning in the UK.
- Product Co earns 50% of all end user software license sales with the remaining 50% being split 40% attributable to the dealer and 10% attributable to UCSSM.
- The revenue projections included in the business plan have been prepared using the following assumptions:
 - a. a number of deals per dealer within a given geography;
 - b. average size deals achievable per dealer; and
 - c. the average size deal based on a blend of deal sizes per product profile, as follows:
 - i. 260 stores per customer;
 - ii. R18 500 deployment license per store; and
 - iii. annual usage license represents 15% of deployment license.
- The pricing, size and number of the deals assumed in the projections are based on Product Co management experience to date within the identified territories supported by independent research and is relevant to current market conditions.
- The material expense drivers supporting the business plan can be broken down into three distinct categories:
 - a. Outsourced Product Development ("OPD") fee – R20 million p.a. contracted with UCSSM, i.e. 40% of the upfront working capital funding provided by UCS;
 - b. Sales and marketing initiatives focused on channel development (i.e. the building of an effective channel to market) is planned to account for 30% of the upfront working capital funding provided by UCS; and
 - c. Overhead expenditure (including the outsourced accounting, administration and treasury fee) largely relating to staff costs is expected to account for the remaining upfront working capital funding provided by UCS.
- The projected staff costs, which is the major component of the overhead expenditure, consists of a lean management and staff structure consisting of channel development and sales support staff, commercial product managers and product specialists.
- The realisation of the business plan is dependent on the validity of the assumptions on which the business plan is based. Since the business plan relates to future anticipated events, actual results may be different from the plan due to the fact that events and circumstances frequently do not occur as expected and these variances may be material.

11. GOVERNING LAW

The unbundling will be governed by the laws of South Africa.

12. TAX CONSIDERATIONS

The summary hereunder is a general guide and is not intended to constitute a complete analysis of the tax consequences of the unbundling under South African tax law. It is not intended to be, nor should it be considered to be, legal or tax advice. UCS shareholders should, therefore, consult their own tax advisers on the tax consequences to them of the unbundling, for which UCS and its advisers will not be held responsible.

12.1 South African income tax and CGT considerations

12.1.1 Disposal of Product Co shares by UCS

The unbundling will be taken into account by UCS for the purposes of determining its taxable income or assessed loss.

12.1.2 Secondary Tax on Companies

The unbundling of the Product Co shares will be deemed not to be a dividend for STC purposes, both in the hands of UCS as well as any shareholder that is a company only to the extent that it is effected through the reduction of the share premium account (approximately R155 million) of UCS. The balance of the unbundling of the shares (approximately R8.72 million) will be regarded as a dividend and subject to STC.

12.1.3 UCS shares held as trading stock

To the extent that the unbundling of the Product Co shares does not constitute a "dividend" (on the basis that the distribution is out of share premium), shareholders holding UCS shares as trading stock will be subject to income tax on the market value of the Product Co shares on the date of the unbundling.

To the extent that the Product Co shares are unbundled out of the reserves of UCS, the Product Co shares will be regarded as a dividend in the hands of the UCS shareholders for income tax purposes.

The market value of the Product Co shares received by UCS shareholders is likely to be regarded as the cost of the Product Co shares for income tax purposes.

12.1.4 UCS shares held as capital assets

To the extent that the unbundling of the Product Co shares does not constitute a "dividend" on the basis that they are distributed out of share premium, for capital gains tax purposes, UCS shareholders must add the market value of the Product Co shares on the date of the unbundling to "proceeds" on the disposal of the UCS shares.

To the extent that the Product Co shares are unbundled by a reduction in premium, they will be regarded as a dividend in the hands of the UCS shareholders.

Regardless of whether the Product Co shares are distributed as a dividend or not, the base cost of the Product Co shares will be the market value of such shares on the date of the unbundling and shareholders will be regarded as having acquired the Product Co shares on that date.

12.2 Stamp duties, uncertificated securities tax or marketable securities tax

The registration of the Product Co distribution shares in the names of the UCS shareholders will be subject to the payment of any stamp duties, uncertificated securities tax or marketable securities tax.

12.3 Non-resident shareholders

UCS shareholders who are non-resident for tax purposes in South Africa are advised to consult their professional advisers as regards the tax treatment of the unbundling of the Product Co shares in light of the tax laws in their respective jurisdictions and any tax treaties between South Africa and their countries of residence.

13. EXCHANGE CONTROL CONSIDERATIONS

The following guidelines are not a comprehensive statement of the Exchange Control Regulations. UCS ordinary shareholders who have any doubt as to the action they must take, should consult their professional advisors.

In the case of UCS ordinary shareholders whose registered addresses in the register are outside the common monetary area, the following will apply in respect of the unbundling:

13.1 Emigrants from the common monetary area

Share certificates in respect of Product Co distribution shares issued to any emigrant UCS ordinary shareholder in terms of the unbundling will be restrictively endorsed and deposited with the authorised dealer controlling such emigrant's blocked assets. In terms of the Exchange Control Regulations, such Product Co distribution shares are not freely transferable from the common monetary area. The CSDP or broker will ensure that all requirements of Exchange Control are adhered to in respect of their clients falling into this category of investor.

13.2 All other non-residents of the common monetary area

UCS ordinary shareholders who are not resident in the common monetary area whose documents of title are endorsed "non-resident" will receive share certificates in respect of Product Co distribution shares similarly endorsed. The CSDP or broker will ensure that all requirements of Exchange Control are adhered to in respect of their clients falling into this category of investor.

14. LITIGATION STATEMENT

There are no legal or arbitration proceedings, including proceedings which are pending or threatened of which the UCS directors are aware, which may have or have had in the recent past, being at least twelve months preceding the date of this circular, a material effect on the company and the Group's financial position.

15. MATERIAL CHANGES

As at the last practicable date, there has been no material change in the financial or trading position of the UCS group since the six-month period ended 31 March 2007.

16. EXPENSES RELATING TO THE UNBUNDLING

The costs of the unbundling are estimated at approximately R1 326 000 and consists of the following:

Expense	R'000 (excluding VAT)
BJM Corporate Finance (Corporate Advisor and Sponsor)	375
Jowell Glyn & Marais Incorporated (Joint legal advisors)	200
Edward Nathan Sonnenbergs (Joint legal advisors)	140
Deloitte & Touche, Registered Auditors (Reporting accountants)	65
Deloitte & Touche Tax (Tax advisors)	106
KPMG Services (Proprietary) Limited (Independent professional expert)	300
Printing and publication costs	133
JSE inspection fees	7
Total	1 326

17. WORKING CAPITAL STATEMENT

The UCS directors, having considered the terms and conditions of the unbundling are of the opinion that:

- 17.1 the company and the Group will be able, in the ordinary course of business, to pay its debts for a period of 12 months from the date of issue of this circular;
- 17.2 the assets of the company and the group will be in excess of the liabilities of the company and the Group for a period of 12 months from the date of this document, measured in accordance with the accounting policies used in the audited annual financial statements for the year ended 30 September 2006;
- 17.3 the ordinary share capital and consolidated reserves of the company and the group will be adequate for a period of 12 months from the date of this document; and
- 17.4 the working capital of the company and the group will be adequate for a period of 12 months from the date of this document.

18. OPINIONS AND RECOMMENDATIONS

The Corporate Finance division of KPMG Services (Proprietary) Limited has been appointed by the UCS board to prepare the indicative valuation of the products and associated IP being sold by the Group to Product Co and to express an opinion on the fairness and reasonableness of this value. Their opinion is included in Annexure 4 of this circular.

The UCS board has considered the terms and conditions of the unbundling and the opinion of KPMG Services (Proprietary) Limited and is of the opinion that the unbundling will be advantageous to UCS shareholders.

Accordingly, the UCS board members who hold shares in UCS intend to vote in favour, in respect of the UCS shares held by them, of the resolutions necessary to implement the unbundling and the UCS Board recommend that UCS shareholders also vote in favour of such resolutions.

19. DIRECTORS' RESPONSIBILITY STATEMENT

With respect to the information in this circular, the directors whose names are given in paragraph 9.1 above:

- have considered all statements of fact and opinion in this circular;
- collectively and individually accept full responsibility for the accuracy of the information given;
- certify that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement false or misleading;
- confirm that they have made all reasonable enquiries in this regard; and
- confirm that this circular contains all information required by law and the Listings Requirements.

20. CONSENTS

The written consents of the corporate advisor and sponsor, independent professional expert, reporting accountants, joint legal advisors, tax advisors and transfer secretaries to act in the capacities stated, and to their names being stated where appropriate, in this document have been given and have not been withdrawn prior to the issue of this document.

21. NOTICE OF GENERAL MEETING

A general meeting of UCS shareholders has been convened to be held at 09:30 on Wednesday, 12 September 2007 at the registered office of UCS, in order to consider and, if deemed fit, pass, with or without modification, the requisite resolutions.

The notice of the general meeting and a form of proxy (*yellow*) are attached to and form part of this document for use by UCS certificated shareholders and dematerialised own name shareholders who are unable to attend the general meeting. Duly completed forms of proxy must be lodged with the transfer secretaries by no later than 09:30 on Monday, 10 September 2007.

22. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of UCS from Tuesday, 28 August 2007 until Wednesday, 12 September 2007:

- a signed copy of this circular;
- the Memorandum and Articles of Association of UCS;
- the Memorandum and Articles of Association of Product Co;
- the UCS share incentive scheme;
- the written consents of the appointed professional advisers, namely the corporate advisor and sponsor, professional independent expert, reporting accountants, joint legal advisors, tax advisors and transfer secretaries;
- the signed independent reporting accountants' report on the *pro forma* financial information contained in this circular;
- the audited consolidated annual financial statements of UCS for each of the three financial years ended 30 September 2006 and the published reviewed financial results for the six-month period ended 31 March 2007; and
- copies of the facility agreement, loan agreement, subscription agreement and assignment agreements.

Signed in Johannesburg on 24 August 2007 on behalf of the board of directors in terms of a directors' resolution by:



D F Coles
Chairman



J D Bright
Chief Executive Officer

TABLE OF ENTITLEMENT

The following table sets out the number of Product Co distribution shares which UCS ordinary shareholders will receive in terms of the unbundling:

Number of UCS ordinary shares held	Total entitlement to Product Co shares	Number of Product Co shares received	Number of UCS ordinary shares held	Total entitlement to Product Co shares	Number of Product Co shares received
1	0.1	–	53	5.3	5
2	0.2	–	54	5.4	5
3	0.3	–	55	5.5	6
4	0.4	–	56	5.6	6
5	0.5	–	57	5.7	6
6	0.6	–	58	5.8	6
7	0.7	–	59	5.9	6
8	0.8	–	60	6.0	6
9	0.9	–	61	6.1	6
10	1.0	1	62	6.2	6
11	1.1	1	63	6.3	6
12	1.2	1	64	6.4	6
13	1.3	1	65	6.5	7
14	1.4	1	66	6.6	7
15	1.5	2	67	6.7	7
16	1.6	2	68	6.8	7
17	1.7	2	69	6.9	7
18	1.8	2	70	7.0	7
19	1.9	2	71	7.1	7
20	2.0	2	72	7.2	7
21	2.1	2	73	7.3	7
22	2.2	2	74	7.4	7
23	2.3	2	75	7.5	8
24	2.4	2	76	7.6	8
25	2.5	3	77	7.7	8
26	2.6	3	78	7.8	8
27	2.7	3	79	7.9	8
28	2.8	3	80	8.0	8
29	2.9	3	81	8.1	8
30	3.0	3	82	8.2	8
31	3.1	3	83	8.3	8
32	3.2	3	84	8.4	8
33	3.3	3	85	8.5	9
34	3.4	3	86	8.6	9
35	3.5	4	87	8.7	9
36	3.6	4	88	8.8	9
37	3.7	4	89	8.9	9
38	3.8	4	90	9.0	9
39	3.9	4	91	9.1	9
40	4.0	4	92	9.2	9
41	4.1	4	93	9.3	9
42	4.2	4	94	9.4	9
43	4.3	4	95	9.5	10
44	4.4	4	96	9.6	10
45	4.5	5	97	9.7	10
46	4.6	5	98	9.8	10
47	4.7	5	99	9.9	10
48	4.8	5	100	10.0	10
49	4.9	5	1 000	100.0	100
50	5.0	5	10 000	1 000.0	1 000
51	5.1	5	100 000	10 000.0	10 000
52	5.2	5	1 000 000	100 000.0	100 000

PRO FORMA INCOME STATEMENT AND BALANCE SHEET FOR UCS

A *pro forma* income statement and balance sheet ("the *pro forma* financial information") for UCS are set out below to illustrate the effects of the unbundling on UCS' reviewed results for the six months ended 31 March 2007.

The *pro forma* financial information has been prepared to illustrate the impact of the unbundling on the reported financial information of UCS for the six months ended 31 March 2007, had the unbundling occurred on 1 October 2006 for income statement purposes and on 31 March 2007 for balance sheet purposes.

The *pro forma* financial information has been prepared using accounting policies that comply with International Financial Reporting Standards and are consistent with those applied in the interim results for the six months ended 31 March 2007.

The *pro forma* financial information is the responsibility of the directors and has been prepared for illustrative purposes only and because of its nature may not fairly present the financial position, changes in equity, results of operations or cash flows of UCS after the unbundling.

PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT

for the period ended 31 March 2007

	Before the unbundling	Adjustments	Notes	After the unbundling	
	Reviewed Six months 31/3/2007 R'000	R'000		Six months 31/3/2007 R'000	Percentage change
Revenue	510 529	11 250	2(a - b)	521 779	2.2
Profit from operations before interest, depreciation, amortisation and research and development	106 883	76 376	2(a - f)	183 259	71.5
Depreciation of property, plant and equipment (including rental equipment)	(17 882)	-		(17 882)	0.0
Amortisation of intangible assets	(13 332)	1 911	2(g)	(11 421)	(14.3)
Research and development expenditure	(14 886)	-		(14 886)	0.0
Profit before net interest paid and taxation	60 783	78 287		139 070	128.8
Net interest paid	(2 123)	(2 250)		(4 373)	106.0
Interest paid	(3 811)	(2 250)	2(h)	(6 061)	59.0
Investment revenues	1 688	-		1 688	0.0
Profit before taxation	58 660	76 037		134 697	129.6
Taxation	(8 269)	(9 715)	2(i - j)	(17 984)	117.5
Profit for the period	50 391	66 322		116 713	131.6
<i>Attributable to:</i>					
Equity holders' of the parent	42 383	66 322		108 705	156.5
Minority interest	8 008	-		8 008	0.0
	50 391	66 322		116 713	131.6
Basic earnings per share (cents)	17.1			43.8	156.1
Headline earnings per share (cents)	14.5			14.8	2.1
Weighted number of ordinary shares in issue ('000)	248 112	-		248 112	0.0

Notes to the pro forma income statement**R'000**

The following adjustments have been made in the calculation of the *pro forma* income statement and the effect on earnings per share and headline earnings per share in the financial effects calculations in paragraphs 5:

1. The <i>pro forma</i> income statement takes into account the reviewed interim income statement for UCS for the six months ended 31 March 2007.	
2. The calculations take into account:	
(a) six months contribution to revenue relating to the outsourced product development contract between Product Co and UCSSM (annual contract revenue is R20 million)	10 000
(b) the inclusion of an outsourced finance, administration and treasury fee payable by Product Co (R2.5 million annually)	1 250
Total adjustment to revenue	11 250
(c) the reversal of the development costs capitalised related to the products sold for the 6 months interim period	(6 576)
(d) the inclusion of cost of sales related to the licence fees now payable to Product Co for the period under review (i.e. 50% of the end user licence fee on the products that would be payable)	(3 600)
(e) the realisation of the applicable profit on sale of the products and associated IP being the difference between the sale proceeds of R113.7 million and the book value of the products and associated IP of R38.9 million	74 764
(f) Associated sundry costs to be assumed by Product Co	538
Total adjustment to profit from operations before interest, depreciation, amortisation and research and development expenditure	76 376
(g) the reversal of the amortisation of the development costs capitalised related to the products sold for the six months interim period	1 911
(h) the inclusion of the interest expense related to the R50 million loan payable to Product Co, based on the agreed variable interest rate which is calculated herein at 9%, for the period under review	(2 250)
(i) the net tax effect of the preceding adjustments totals R9.7 million of which the once-off component specific to the profit on sale and subsequent unbundling amounts to R9.3 million	(9 715)
(j) the assumption that R155 million of the R163.7 million distribution value will be sheltered by the company's share premium for Secondary Tax on Companies purposes.	
Total adjustment to profit for the period	66 322

Reconciliation of earnings per share to headline earnings per share	Before the unbundling Reviewed 6 months 31/3/2007	Adjustments	After the unbundling 6 months 31/3/2007
Basic earnings per share	17,1	26,7	43,8
Profit on sale of network infrastructure division	(2,4)	–	(2,4)
Profit on disposal of property, plant and equipment	(0,2)	–	(0,2)
Profit on the sale of products and the associated IP to Product Co	–	(26,4)	(26,4)
Basic headline earnings per share	14,5	0,3	14,8

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

at 31 March 2007

	Before the unbundling	Adjustments	Notes	After the unbundling
	Reviewed 31/3/2007 R'000	R'000		31/3/2007 R'000
ASSETS				
Non-current assets	456 890	(49 090)		407 800
Property, plant and equipment (including rental equipment)	59 237	–		59 237
Intangible assets	116 115	(43 690)	2(a)	72 425
Goodwill	246 965	–		246 965
Investments and loans receivable	7 888	–		7 888
Deferred tax assets	26 685	(5 400)	2(b)	21 285
Current assets	295 677	–		295 677
Inventory	27 063	–		27 063
Trade and other receivables	167 238	–		167 238
Taxation	1 018	–		1 018
Cash and cash equivalents	100 358	–		100 358
Total assets	752 567	(49 090)		703 477
EQUITY AND LIABILITIES				
Capital and reserves	460 048	(103 036)		357 012
Equity attributable to equity holders of the parent	441 649	(103 036)	2(c)	338 613
Minority interest	18 399	–		18 399
Non-current liabilities	52 214	15 602		67 816
Long and medium-term loans	39 196	15 602	2(d)	54 798
Revenue in advance	3 204	–		3 204
Deferred tax liabilities	9 814	–		9 814
Current liabilities	240 305	38 344		278 649
Trade and other payables	164 182	15 914	2(e)	180 096
Current portion of long-term loans	58 097	18 484	2(f)	76 581
Revenue in advance	8 881	–		8 881
Taxation	9 145	3 946	2(g)	13 091
Total equity and liabilities	752 567	(49 090)		703 477
Net asset value per share (cents)	159.3			122.1
Tangible net asset value per share (cents)	42.9			21.5
Number of ordinary shares in issue ('000)	277 254			277 254

Notes to the pro forma balance sheet:

The following adjustments have been made in the calculation of the *pro forma* balance sheet and the net asset value and net tangible asset value in the calculations in paragraph 5:

1. The *pro forma* balance sheet takes into account the reviewed interim balance sheet for UCS at 31 March 2007.
2. The calculations take into account:
 - (a) the reduction of intangible assets with the book value of the ActiveRetail and DolFin product suites and associated IP totalling R43.7 million (being the book value of the assets as at 31 March 2007) sold for R113.7 million;
 - (b) the once off deferred tax adjustment of R5.4 million relating to the reversal of the taxable temporary differences on the intangible assets sold as well as the reversal of deferred tax assets on assessed losses utilised;

R'000

- (c) the net effect on equity attributable to equity holders' of the parent is reconciled as follows:
- | | |
|--|-----------|
| - realisation of the applicable profit on sale of the products and associated IP net of normal and deferred taxation | 61 720 |
| - the distribution, <i>in specie</i> of the Product Co shares held by UCS | (16 672) |
| - Secondary Tax on Companies on the distribution value R163 672 which exceeds the companies share premium account | (1 084) |
| | <hr/> |
| | (103 036) |
- (d) the R50 million share subscription by UCS in Product Co and the re-investment of the subscription proceeds with UCS net of VAT receivable on the sale proceeds of the products and associated IP which amounts to R15.9 million;
- (e) Vat payable on the sale proceeds of the products and associated IP;
- (f) Normal tax, capital gains tax and secondary tax on companies payable as a consequence of the sale of products and associated IP and subsequent unbundling transaction.

INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE *PRO FORMA* FINANCIAL INFORMATION FOR UCS

"The Directors
UCS Group Limited
PO Box 31266
Braamfontein
2017

24 August 2007

Dear Sirs

INDEPENDENT REPORTING ACCOUNTANTS' LIMITED ASSURANCE REPORT ON THE *PRO FORMA* FINANCIAL INFORMATION OF UCS GROUP LIMITED ("UCS")

INTRODUCTION

We have performed our limited assurance engagement in respect of the *pro forma* financial effects as set out in paragraph 7 and the *pro forma* income statement and balance sheet as set out in Annexure 2 of the circular to shareholders dated on or about 27 August 2007 (collectively "the *pro forma* financial information") issued in connection with the proposed unbundling of the shares in Product Company ("Product Co") by way of a distribution *in specie* in terms of section 90 of the Companies Act, 1973 (Act 61 of 1973), as amended ("the unbundling") that is the subject of this circular of UCS. The *pro forma* financial information has been prepared in accordance with the requirements of the JSE Limited ("JSE") Listings Requirements, for illustrative purposes only, to provide information about how the unbundling might have affected the reported historical financial information presented, had the corporate action been undertaken at the commencement of the period or at the date of the *pro forma* balance sheet being reported on.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for the compilation, contents and presentation of the *pro forma* financial information contained in the circular and for the financial information from which it has been prepared. Their responsibility includes determining that: the *pro forma* financial information has been properly compiled on the basis stated; the basis is consistent with the accounting policies of UCS, and the *pro forma* adjustments are appropriate for the purposes of the *pro forma* financial information disclosed in terms of the JSE Listings Requirements.

INDEPENDENT REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express our limited assurance conclusion on the *pro forma* financial information included in the circular to UCS shareholders. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements applicable to Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and the Guide on *Pro Forma* Financial Information issued by SAICA. This standard requires us to obtain sufficient appropriate evidence on which to base our conclusion.

We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the *pro forma* financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

SOURCES OF INFORMATION AND SCOPE OF WORK

Our procedures consisted primarily of comparing the unadjusted financial information with the source documents, considering the *pro forma* adjustments in light of the accounting policies of UCS, considering the evidence supporting the *pro forma* adjustments and discussing the adjusted *pro forma* financial information with the directors of the company in respect of the corporate actions that are the subject of this circular.

In arriving at our conclusion, we have relied upon financial information prepared by the directors of UCS and other information from various public, financial and industry sources.

While our work performed has involved an analysis of the historical published audited financial information and other information provided to us, our assurance engagement does not constitute an audit or review of any of the underlying financial information conducted in accordance with International Standards on Auditing or International Standards on Review Engagements and accordingly, we do not express an audit or review opinion.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

CONCLUSION

Based on our examination of the evidence obtained, nothing has come to our attention, which causes us to believe that, in terms of the section 8.17 and 8.30 of the JSE Listings Requirements:

- the *pro forma* financial information has not been properly compiled on the basis stated;
- such basis is inconsistent with the accounting policies of the issuer; and
- the adjustments are not appropriate for the purposes of the *pro forma* financial information as disclosed.

CONSENT

We consent to the inclusion of our report, which will form part of the circular to be issued on or about 27 August 2007, in the form and context in which it will appear.

Yours faithfully

Deloitte & Touche
Registered Auditors

Per B L Escott
Partner

Buildings 1 and 2
Deloitte Place
The Woodlands Office Park
Woodlands Drive
Woodmead
Sandton

National Executive: G G Gelink *Chief Executive*, A E Swiegers *Chief Operating Officer*, G M Pinnock *Audit*, D L Kennedy *Tax*, L Geeringh *Consulting*, M G Crisp *Financial Advisory*, L Bam *Strategy*, C R Beukman *Finance*, T J Brown *Clients and Markets*, S J C Sibisi *Public Sector and Corporate Social Responsibility*, N T Mtoba *Chairman of the Board*, J Rhynes *Deputy Chairman of the Board*

A full list of partners and directors is available on request."

OPINION FROM INDEPENDENT PROFESSIONAL EXPERT

“UCS Group Limited
20th Floor
209 Smit Street
Braamfontein
2001

For the attention of the Board of Directors

24 August 2007

Dear Sirs

Independent fair and reasonable opinion in respect of the proposed unbundling of the shares in Rendalyn Trading Limited (“Product Co”) by way of a distribution *in specie* in terms of section 90 of the Companies Act, 1973

Introduction

In an announcement published by UCS Group Limited (“UCS”) on 2 August 2007, UCS shareholders are advised that the board of directors of UCS has resolved, subject to the fulfilment of the conditions precedent, to distribute Product Co shares (“Product Co distribution shares”) to UCS shareholders (“the unbundling”).

The unbundling will be effected by way of a distribution *in specie* (“the distribution”) and a reduction in the share premium account of UCS in terms of section 90 of the Act, 1973.

Full details of the unbundling are contained in the circular to UCS ordinary shareholders (“the circular”) to be dated on or about 28 August 2007, which will include a copy of this letter.

Scope

In the announcement dated 15 May 2007, the board of directors of UCS undertook to provide the UCS shareholders with an independent opinion on the fairness and reasonableness of the unbundling.

A fair and reasonable opinion is not required in terms of the JSE Limited (“JSE”) Listings Requirements; however the JSE has requested that the independent opinion obtained by the board of directors of UCS comply with Schedule 5 of the JSE Listings Requirements.

KPMG Services (Proprietary) Limited (“KPMG”) has been appointed by the board of directors of UCS as the independent professional expert to advise the board of directors on whether the terms and conditions of the unbundling are fair and reasonable to the shareholders of UCS.

Responsibility

The circular and compliance with any of the JSE Listings Requirements are the responsibility of the directors of UCS. Our responsibility is to report on the terms and conditions of the unbundling.

Definition of the terms “fair” and “reasonable”

The assessment of fairness is primarily based on quantitative issues. The unbundling may be considered fair if the quantifiable value received by UCS shareholders as a result of the unbundling, being the unbundled shares in Product Co as well as the additional benefits accruing to UCS from the contractual arrangements between UCS and Product Co, is considered to be greater or equal to the value of Product Co.

The assessment of reasonableness is generally based on qualitative considerations surrounding the unbundling. Hence, even though the consideration paid may be higher than the value of the equity acquired, the entire unbundling may still be reasonable in certain circumstances after considering other significant qualitative factors.

Information and sources of information

In arriving at our opinion we have relied upon the following principal sources of information:

- audited annual financial statements for UCS for the financial years ended 30 September 2005 and 30 September 2006;
- the Independent Market Research Report on introducing Product Co's products to the UK market, as commissioned by UCS management;
- UCS management revenue and profitability information in respect of the IP, brands, trademarks and software products to be sold to Product Co for the year ended 30 September 2006 and the period ended 31 March 2007, assuming the IP, brands, trademarks and software products remain within UCS;
- projected financial information in respect of the IP, brands, trademarks and software products to be sold to Product Co for the period ending 30 September 2007 and the financial years ending 30 September 2008, 30 September 2009 and 30 September 2010, assuming the IP, brands, trademarks and software products remain within UCS, as prepared by the management of UCS;
- projected financial information for Product Co assuming the IP, brands, trademarks and software products have been sold to Product Co, as prepared by UCS management, for the years ended 31 March 2008 till 31 March 2014;
- discussions with the directors and management of UCS on prevailing market, economic, legal and other conditions which may affect underlying value;
- discussions with the directors and management of UCS on:
 - the rationale for the unbundling; and
 - the actual and perceived benefits to be obtained from the unbundling;
- publicly available information relating to UCS that we deemed to be relevant, including company announcements;
- the draft Subscription Agreement dated 27 July 2007 and the draft Outsourced Product Development Agreement dated 30 July 2007;
- the announcement dated 2 August 2007 regarding the unbundling;
- the circular to UCS shareholders to be dated on or about 28 August 2007; and
- the *pro forma* financial information on the unbundling as set out in the announcement and circular.

Procedures performed

Key fairness considerations

In arriving at our opinion we have undertaken the following procedures in evaluating the fairness of the unbundling:

- considered the draft Subscription Agreement and the draft Outsourced Product Development Agreement referred to above;
- reviewed the management revenue and profitability information in respect of the IP, brands, trademarks and software products to be sold to Product Co, assuming it remains within UCS, for the financial year ended 30 September 2006 and the period ended 31 March 2007, as well as the projected financial information for the period ending 30 September 2007 and for the years ending 30 September 2008, 2009 and 2010;
- considered the prospects of the IP, brands, trademarks and software products to be sold to Product Co as outlined by management and assessed the reasonableness of the key assumptions set out in the financial information obtained by reference to publicly available or independently obtained information as appropriate;
- assessed the prevailing economic and market conditions in the industry in which UCS operates in and that of its major clients;
- obtained an understanding as to the nature of the potential synergies and cash flows that could be realised by UCS as a result of the unbundling;
- evaluated the relative risks and upsides associated with UCS and Product Co;
- based on the above, reviewed the projected financial information of the IP, brands, trademarks and software products if sold to Product Co for the financial years ending 31 March 2008 to 31 March 2014;
- based on the above, performed a valuation of the IP, brands, trademarks and software products to be sold to Product Co under two scenarios:
 - the IP, brands, trademarks and software products to be sold to Product Co, if remaining within UCS; and
 - the IP, brands, trademarks and software products, if sold to Product Co.

The discounted cash flow approach was the primary valuation methodology employed. The key value drivers identified were:

- growth in revenue, earnings margins and discount rates applicable;
- performed sensitivity analyses on the key assumptions and value drivers identified above;
- considered the *pro forma* financial information on the unbundling as set out in the announcement and circular, which indicates that the headline earnings per share is enhanced by 2.1% per share; and
- considered any further material adjustments to value, if applicable, based on matters arising in the period from when the projections were prepared to the date of this opinion.

Key qualitative considerations

In arriving at our opinion, we have also considered the following key qualitative considerations in evaluating the reasonableness of the unbundling:

- consideration of the rationale and potential benefits of the unbundling to UCS as set out in the circular and based on discussions with the directors of UCS;
- consideration of the implications of Product Co becoming an independent unlisted public company; and
- our understanding of the extent and arm's length nature of the process in respect of the unbundling.

Opinion

KPMG has considered the terms and conditions of the unbundling and, based upon and subject to the conditions set out herein and the limitation set out in the next two paragraphs below, is of the opinion that the terms and conditions of the unbundling are fair and reasonable to UCS shareholders.

BJM Corporate Finance (Proprietary) Limited will conduct a book building exercise on behalf of Product Co on the distribution of the Product Co shares. The book building exercise will undertake to identify potential sellers of Product Co shares and match them with identified buyers. This will provide an exit mechanism for those UCS shareholders who are restricted in owning shares in unlisted vehicles. The liquidity of this mechanism is uncertain as is the price per Product Co share resulting from this process. Due to this uncertainty we are unable to express a view in respect of the fairness of the potential exit price. However, based on the procedures performed above, we are of the view that the minimum price per Product Co share should be approximately R5.81.

Being akin to a new start-up operation, Product Co is a relatively riskier proposition and needs to be viewed in that context. In addition, this value is dependent on the validity of the assumptions on which the Product Co business plan is based.

Our opinion is necessarily based upon the information available to us up to 20 August 2007, including in respect of the financial, regulatory, securities market and other conditions and circumstances existing and disclosed to us at the date thereof. We have furthermore assumed that all conditions precedent, including any material regulatory, other approvals and consents required in connection with the unbundling have been fulfilled/obtained.

Accordingly, it should be understood that subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

Limiting conditions

This report and opinion is provided to the board of directors and shareholders of UCS in connection with and for the purposes of the unbundling. The opinion does not purport to cater for each individual shareholder's perspective, but rather that of the general body of UCS shareholders. Should a UCS shareholder be in doubt as to what action to take, he or she should consult an independent advisor.

An individual shareholder's decision as to whether to vote in favour of the unbundling may be influenced by his or her particular circumstances. The assessment as to whether or not the directors of UCS decide to recommend the unbundling is a decision that can only be taken by the directors of UCS.

We have relied upon and assumed the accuracy of the information used by us in deriving our opinion. Where practical, we have corroborated the reasonability of the information provided to us for the purpose of our opinion, whether in writing or obtained in discussion with management of UCS, by reference to publicly available or independently obtained information. While our work has involved an analysis of, *inter alia*, the annual financial statements, and other information provided to us, our engagement does not constitute, nor does it include, an audit conducted in accordance with generally accepted auditing standards.

Where relevant, forward-looking information on UCS and Product Co relates to future events and is based on assumptions that may or may not remain valid for the whole of the projected period. Consequently, such information cannot be relied upon to the same extent as that derived from audited financial statements for

completed accounting periods. We express no opinion as to how closely the actual future results of UCS and Product Co will correspond to those projected. Where practicable, we compared the projected financial information to past trends and third party estimates as well as discussing the assumptions inherent therein with the management of UCS. On the basis of these enquiries and such other procedures we consider appropriate to the circumstances, we believe that the projections have been prepared with due care and consideration.

We have also assumed that the unbundling will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by, representatives and advisors of UCS and we express no opinion on such consequences. We have assumed that all agreements that will be entered into in the unbundling will be legally enforceable.

Independence

In terms of Schedule 5.1(a) of the JSE Listings Requirements, we confirm that we have no direct or indirect interest in the shares of UCS or the unbundling.

Furthermore, we confirm that our professional fees are not contingent upon the success of the proposed transaction.

Consent

We consent to the inclusion of this letter and the reference to our opinion in the circular to be issued to the shareholders of UCS in the form and context in which it appears.

Yours faithfully

Per Neeraj Shah
Director

Per Mooketsi Motsisi
Director

KPMG Services (Proprietary) Limited

KPMG Crescent
85 Empire Road
Parktown
2193"



UCS Group Limited

(Incorporated in the Republic of South Africa)

(Registration number 1993/002253/06)

JSE code: UCS ISIN: ZAE000016150

("UCS" or "the company")

NOTICE OF GENERAL MEETING

Notice is hereby given that a general meeting of UCS shareholders will be held at the registered office of UCS, 20th Floor, 209 Smit Street, Braamfontein, Johannesburg at 09:30 on Wednesday, 12 September 2007, for the purposes of considering and, if deemed fit, passing with or without modification the following ordinary resolutions:

ORDINARY RESOLUTION NUMBER 1

"Resolved that all the shares in Rendalyn Trading Limited (Registration number 2007/010401/06) ("Product Co") held by the company as at Friday, 21 September 2007 ("the record date") be distributed in accordance with the provisions of section 90 of the Companies Act, 61 of 1973, as amended, by way of a distribution *in specie*, to the holders of the company's issued ordinary shares recorded as such in the register at the close of business on the record date in the ratio of one Product Co share for every holding of ten UCS shares held, which distribution is to be effected in part by way of a reduction of the company's share premium account and as regards the remaining balance of such distribution from the company's reserves."

ORDINARY RESOLUTION NUMBER 2

"Resolved that any director of the company be and is hereby authorised to do all such things and sign all such documents as are necessary to give effect to the ordinary resolution set out in this notice."

VOTING

All holders of ordinary shares will be entitled to attend and vote at the general meeting. In terms of the Listings Requirements of the JSE Limited, shares held by the UCS share incentive scheme will not have their votes taken into account at the general meeting.

Each UCS shareholder present in person or, in the case of a body corporate represented by an authorised representative, has only one vote on a show of hands, irrespective of the number of UCS shares held by the UCS shareholder, provided that a proxy shall, irrespective of the number of members he represents, have only one vote, but on a poll each such UCS shareholder or duly appointed proxy has one vote for each UCS share held or represented, as the case may be.

PROXIES

Each member entitled to attend and vote at the general meeting is entitled to appoint one or more proxies (none of whom need be a member of UCS) to attend, speak and vote in his/her/its stead.

The form of proxy (*yellow*) for the general meeting, which sets out the relevant instructions for its completion, accompanies this notice and may also be obtained on request from the transfer secretaries of UCS. In order to be effective, duly completed forms of proxy must be received by the transfer secretaries by no later than 09:30 on Monday, 10 September 2007.

By order of the Board

Corporate Governance CC

Chartered Secretaries

Company Secretary to UCS Group Limited

28 August 2007

Registered office

20th Floor
209 Smit Street
Braamfontein
Johannesburg, 2001
(PO Box 31266, Braamfontein, 2017)

Transfer secretaries

Link Market Services South Africa (Proprietary) Limited
11 Diagonal Street
Johannesburg, 2001
(PO Box 4844, Johannesburg, 2000)



UCS Group Limited

(Incorporated in the Republic of South Africa)
(Registration number 1993/002253/06)
JSE code: UCS ISIN: ZAE000016150
("UCS" or "the company")

FORM OF PROXY

For use by certificated shareholders and "own name" dematerialised shareholders at the general meeting of shareholders of the company to be held at the company's registered office 20th Floor, 209 Smit Street, Braamfontein, Johannesburg at 09:30 on Wednesday, 12 September 2007.

Dematerialised shareholders, who are not own-name shareholders, must inform their CSDP or broker of their intention to attend the general meeting personally or by proxy and request their CSDP or broker to issue them with the necessary authorisation to attend the general meeting in person or by proxy and vote or provide their CSDP or broker with their voting instructions should they not wish to attend the general meeting in person or by proxy. These shareholders must not use this form of proxy.

I/We

(Full name/s in BLOCK LETTERS)

of

(address)

being the holders of ordinary shares in the capital of the company, do hereby appoint (see note):

1. _____ or failing him/her,

2. _____ or failing him/her,

3. the Chairperson of the general meeting,

as my/our proxy to act for me/us at the general meeting for purposes of considering and, if deemed fit, passing, with or without modification, the ordinary resolutions to be proposed thereat and at each adjournment thereof; and to abstain from voting for and/or against such resolutions in respect of the shares registered in my/our name in accordance with the following instructions:

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – approval of the unbundling of shares in Product Co			
Ordinary resolution number 2 – approval of authorisation to directors to implement the resolutions to effect the unbundling			

Signed at _____ on _____ 2007

Signature _____

Assisted by (where applicable) _____

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, speak and vote in place of that shareholder at the general meeting.

Please read the notes on the reverse hereof.

Notes:

1. This form of proxy should only be used by shareholders who hold shares that are not dematerialised or shareholders who hold dematerialised shares in their own name.
2. A shareholder entitled to attend and vote may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "the Chairperson of the general meeting". A proxy need not be a shareholder of the company. The person whose name stands first on this form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each ordinary share held. A shareholder's instructions to the proxy must be indicated by inserting the relevant number of votes exercisable by the shareholder in the appropriate box. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the general meeting as he/she deems fit in respect of all the shareholder's votes.
4. A vote given in terms of an instrument of proxy shall be valid in relation to the general meeting, notwithstanding the death of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the vote is given, unless an intimation in writing of such death, revocation or transfer is received by the transfer secretaries not less than 48 hours before the commencement of the general meeting.
5. If a shareholder does not indicate on this form that his/her proxy is to vote in favour of or against any ordinary resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the general meeting be proposed, the proxy shall be entitled to vote as he/she thinks fit.
6. The Chairperson of the general meeting may reject or accept any form of proxy which is completed and/or received, other than in compliance with these notes.
7. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
8. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company or unless this requirement is waived by the Chairperson of the general meeting.
9. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the company.
10. Where there are joint holders of shares:
 - any one holder may sign this form of proxy;
 - the vote(s) of the senior shareholders (for that purpose seniority will be determined by the order in which the names of shareholders appear in the company's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).

