

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to what action to take in relation to this circular, please consult your Central Securities Depository Participant ("CSDP"), broker, banker, attorney, accountant or other professional advisor immediately.

**Action required**

1. If you have disposed of all your shares in UCS Group Limited, please forward this circular to the purchaser of such shares or to the CSDP, broker, banker or other agent through whom the disposal was effected.
2. UCS shareholders are referred to page 2 of this circular, which sets out the action required by them.



**UCS Group Limited**

**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 disposal by UCS Solutions Holdings (Proprietary) Limited, a wholly owned subsidiary of UCS, of its entire 60% shareholding in TSS Managed Services (Proprietary) Limited;**

and incorporating

- **a notice of general meeting of UCS shareholders; and**
- **a form of proxy in respect of the general meeting of UCS shareholders (for use by holders of certificated shares and holders of dematerialised shares with "own name" registration only (blue).**

All the directors, whose names are set out on page 7 of this document, collectively and individually, accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this document contains all information required by law and the Listings Requirements.

Barnard Jacobs Mellet Corporate Finance (Proprietary) Limited, which is regulated by the Listings Requirements in its capacity as sponsor to UCS, is acting for UCS and no one else in relation to the preparation of this document and will not be responsible to anyone other than UCS in relation to the preparation of this document.

**Sponsor**



Corporate Finance

**Independent Reporting Accountants  
to UCS, UCS Solutions Holdings and  
TSS Managed Services**



Deloitte & Touche  
Registered Auditors

**Transaction advisor to Tactical  
Software Systems (Pty) Ltd**

*Ian Dry*

**Attorneys**



In association with DentonWildeSapte...

**Independent Professional Expert**



**Date of issue: 19 October 2009**

This document is available in English only. Copies of this document may be obtained from the registered office of UCS and the office of the transfer secretaries, the addresses of which are set out in the "Corporate information" section of this document.

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## CORPORATE INFORMATION

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### Registered office

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

### Sponsor

Barnard Jacobs Mellet Corporate Finance  
(Proprietary) Limited  
(Registration number 2000/023249/07)  
24 Fricker Road  
Ground Floor, Illovo Corner  
Illovo, 2196  
(PO Box 62200, Marshalltown, 2107)

### Auditors and independent reporting accountants to UCS, UCS Solutions Holdings and TSS Managed Services

Deloitte & Touche  
Registered Auditors  
The Woodlands  
Woodlands Drive  
Woodmead  
Sandton, 2196  
(Private Bag X6, Gallo Manor, 2052)

### Transaction Advisor to Tactical Software Systems (Pty) Ltd and TSS Managed Services (Pty) Ltd

Ian Dry  
8 Glastonbury Drive  
Bishopscourt  
Cape Town, 7708

### Date of incorporation

29 April 1993

### Place of incorporation

South Africa

### Company secretary

Corporate Governance CC  
Chartered Secretaries  
(represented by Mr Clive Kneale)  
(Registration number 1994/023438/23)  
1 126 Colonial Way  
Eagle Canyon Golf Estate  
Honeydew, 2109  
(PO Box 279, Randpark Ridge, 2156)

### Attorneys

Glyn Marais Incorporated  
(Cape Town)  
5th Floor, The Foundry  
Prestwich Street  
Greenpoint, 8005  
(PO Box 884, Green Point, 8051)

### Independent professional expert

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

### Transfer secretaries

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

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## **ACTION REQUIRED BY SHAREHOLDERS**

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The definitions and interpretation commencing on page 4 of this document apply to this section.

This circular is important and requires your immediate attention. If you are in any doubt as to what action to take, please consult your broker, CSDP, banker, accountant, attorney or other financial adviser.

If you have disposed of your UCS shares, this circular should be handed to the purchaser of such UCS shares or the broker, CSDP or other agent who disposed of your UCS shares for you.

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

### **1. VOTING AND ATTENDANCE AT THE GENERAL MEETING**

A general meeting of UCS shareholders will be held at 10:00 on Tuesday, 3 November 2009 at the registered office of UCS, being 20th Floor, 209 Smit Street, Braamfontein, Johannesburg, 2001, to vote on the resolutions set out in the notice of general meeting attached to this circular.

#### **1.1 If you have dematerialised your UCS shares other than with "own-name" registration**

##### *1.1.1 Voting at the general meeting*

Your broker or CSDP should contact you to ascertain how you wish to cast your vote at the general meeting and thereafter will cast your vote in accordance with your instructions.

If you have not been contacted by your broker or CSDP, it would be advisable for you to contact your broker or CSDP and furnish it with your voting instructions.

If your broker or CSDP does not obtain voting instructions from you, it will be obliged to vote in accordance with the instructions contained in the custody agreement concluded between you and your broker or CSDP.

You must not complete the attached form of proxy for the general meeting (blue).

##### *1.1.2 Attendance and representation at the general meeting*

In accordance with the mandate between you and your broker or CSDP, you must advise your broker or CSDP if you wish to attend the general meeting and your broker or CSDP will issue the necessary letter of representation to you to attend the general meeting.

#### **1.2 If you have not dematerialised your UCS shares or if you have dematerialised your UCS shares with "own-name" registration**

##### *1.2.1 Voting and attendance at the general meeting*

You may attend the general meeting in person and may vote at the general meeting.

Alternatively, you may appoint a proxy to represent you at the general meeting by completing the attached form of proxy for the general meeting (blue) in accordance with the instructions it contains and return it to the transfer secretaries of UCS at Link Market Services South Africa (Proprietary) Limited, 11 Diagonal Street, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000) to be received by no later than 10:00 on Friday, 30 October 2009.

##### *1.2.2 If you hold certificated shares and wish to dematerialise such shares, please contact your broker or CSDP.*

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## **SALIENT DATES AND TIMES**

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**2009**

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Circular posted to UCS shareholders on	Monday, 19 October
Last day to lodge forms of proxies in respect of the general meeting by 10h00 on	Friday, 30 October
General meeting of UCS shareholders to be held at 10h00 on	Tuesday, 3 November
Results of the general meeting released on SENS on	Tuesday, 3 November
Results of the general meeting published in the press on	Wednesday, 4 November

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**Notes:**

1. These dates and times are subject to change. Any such change will be published on SENS and in the press. Any reference to time is a reference to South African time.
2. If the general meeting is adjourned or postponed, forms of proxy must be received by no later than 48 hours prior to the time of the adjourned or postponed general meeting, provided that, for the purpose of calculating the latest time by which forms of proxy must be received, Saturdays, Sundays and gazetted public holidays in South Africa will be excluded.

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## DEFINITIONS AND INTERPRETATION

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In this circular, unless the context indicates otherwise, reference to the singular shall include the plural and *vice versa*, words denoting one gender include the others, words and expressions denoting natural persons include juristic persons and associations of persons and the words and expressions in the first column have the meanings stated opposite to them in the second column.

<b>“BEE”</b>	Black Economic Empowerment as envisaged by the Broad-based Black Economic Empowerment Act, 2003 (Act 53 of 2003), as amended, and the Codes of Good Practice issued in terms of such Act from time to time and for the time being;
<b>“board of directors” or “directors”</b>	board of directors of UCS from time to time and for the time being;
<b>“business day”</b>	any day other than a Saturday, Sunday or gazetted public holiday in South Africa;
<b>“certificated shareholders”</b>	shareholders who hold UCS shares that have not been dematerialised, title to which is represented by a share certificate or other physical document of title;
<b>“this circular” or “this document”</b>	this bound document, dated on or about Monday, 19 October 2009, including the attached Annexures, notice of general meeting and form of proxy;
<b>“the closing date”</b>	the first business day following the fulfilment and/or waiver of the last of the suspensive conditions as set out in paragraph 2.6 of this circular;
<b>“Companies Act”</b>	Companies Act, 1973 (Act 61 of 1973), as amended;
<b>“CSDP”</b>	Central Securities Depository Participant, being a “participant” as defined in section 1 of the Securities Services Act, 2004 (Act 36 of 2004), as amended;
<b>“dematerialise” or “dematerialisation”</b>	the process whereby physical share certificates or other documents of title have been validated and cancelled by the transfer secretaries and captured onto the Strate system by the selected broker or CSDP and the shareholding is recorded electronically;
<b>“dematerialised shareholders”</b>	shareholders who hold UCS shares which have been dematerialised in terms of the requirements of Strate;
<b>“documents of title”</b>	share certificates, certified transfer deeds, balance receipts or any other documents of title to UCS shares;
<b>“effective date”</b>	effective date of the Transaction, which is expected to be on or about Thursday, 1 October 2009;
<b>“form of proxy”</b>	form of proxy (blue) attached to and forming part of this circular (for use only by certificated shareholders and dematerialised shareholders with “own name” registration);
<b>“general meeting”</b>	general meeting of UCS shareholders to be held at 10:00 on Tuesday, 3 November 2009 at the registered office of UCS, being 20th Floor, 209 Smit Street, Braamfontein, Johannesburg, 2001;

<b>“the Group” or “the UCS Group”</b>	UCS and its subsidiaries from time to time and for the time being;
<b>“the HCL Axon Transaction”</b>	the disposal by UCS Solutions (Proprietary) Limited, a wholly owned subsidiary of UCS Solutions Holdings, of its Enterprise Solutions Business to HCL Axon (Proprietary) Limited of which details were set out in the announcement released on SENS on 16 July 2009. In terms of the Listings Requirements, the transaction was categorised as a Category 2 transaction and accordingly, approval by shareholders of UCS was not required;
<b>“the JSE”</b>	JSE Limited (Registration number 2005/022939/06), a public company duly registered and incorporated in accordance with the laws of South Africa, which is licensed as an exchange under the Securities Services Act, 2004 (Act 36 of 2004), as amended;
<b>“last practicable date”</b>	Wednesday, 14 October 2009 being the last practicable date prior to the finalisation of this circular;
<b>“Listings Requirements”</b>	Listings Requirements of the JSE as at the date of this circular;
<b>“the parties”</b>	TSS, TSS Managed Services, UCS and UCS Solutions Holdings;
<b>“the preference shares”</b>	900 redeemable preference shares in the share capital of TSS with a par value of R1.00 each;
<b>“Prime Rate”</b>	the nominal, annual, compounded monthly in arrear, rate of interest from time to time properly quoted as such by Nedbank Limited on overdraft facility to its most favoured corporate customers and generally known as Nedbank Limited’s prime rate, calculated on a 365 day factor irrespective of whether or not the year is a leap year and certified by any manager of that bank, whose appointment, authority or designation as such it shall not be necessary to prove and which certificate shall be <i>prima facie</i> proof of the Prime Rate;
<b>“the Redemption Price”</b>	a redemption consideration equal to the subscription price per preference share (comprising its par value plus share premium) plus any accrued preference dividend, any additional preference dividends and any preference dividend interest;
<b>“the repurchase shares”</b>	19 ordinary shares in the issued ordinary share capital of TSS Managed Services with a par value of R1.00 each, currently owned by UCS Solutions Holdings and constituting 19% of the entire issued share capital of TSS Managed Services;
<b>“the sale shares”</b>	41 ordinary shares in the issued share capital of TSS Managed Services with a par value of R1.00 each, currently owned by UCS Solutions Holdings and constituting 41% of the entire issued share capital of TSS Managed Services;
<b>“SENS”</b>	Securities Exchange News Service of the JSE;
<b>“the Share Purchase and Repurchase Agreement”</b>	the share purchase and repurchase agreement dated 22 September 2009 entered into between UCS Solutions Holdings, TSS, TSS Managed Services and UCS as amended;
<b>“the share sale”</b>	the disposal by UCS Solutions Holdings of the sale shares to TSS;
<b>“South Africa”</b>	Republic of South Africa;
<b>“STC”</b>	Secondary Tax on Companies;

<b>“Strate”</b>	Strate Limited (Registration number 1998/022242/06), a public company duly registered and incorporated in South Africa, which is a registered CSDP in terms of the Security Services Act, 2004 (Act 36 of 2004), as amended;
<b>“the Subscription Agreement”</b>	the preference share subscription agreement entered into on 22 September 2009 between UCS Solutions Holdings, TSS and TSS Managed Services in terms of which TSS will allot and issue to UCS Solutions Holdings, who will subscribe for, 900 redeemable preference shares in TSS as amended;
<b>“the subscription price”</b>	a total amount of R45 000 000, comprising the par value of R1.00 per preference share plus a premium of R49 999 per preference share;
<b>“TSS”</b>	Tactical Software Systems (Proprietary) Limited (Registration number 1997/004051/07), a private company duly registered and incorporated in South Africa, the entire issued ordinary share capital of which company is owned by the trustees for the time being of the Kopane ke Matla Trust, which trust has Messrs D C K Mackay and J Mackay as its trustees;
<b>“the Transaction”</b>	collectively, the TSS Managed Services share repurchase and the share sale and all transactions related thereto as provided for in the Share Purchase and Repurchase Agreement and the Subscription Agreement;
<b>“transfer secretaries”</b>	Link Market Services South Africa (Proprietary) Limited (Registration number 2000/007239/07), a private company duly registered and incorporated in South Africa, being the transfer secretaries of UCS;
<b>“TSS Managed Services”</b>	TSS Managed Services (Proprietary) Limited (Registration number 2000/008680/07), a private company duly registered and incorporated in South Africa, the issued ordinary share capital of which company is currently owned by UCS Solutions Holdings (as to 60%) and TSS (as to 40%) and which company will, following the implementation of the Transaction, become a wholly-owned subsidiary of TSS;
<b>“the TSS Managed Services repurchase”</b>	the repurchase by TSS Managed Services of the repurchase shares from UCS Solutions Holdings and the subsequent cancellation thereof in accordance with section 85 of the Companies Act;
<b>“UCS” or “the Company”</b>	UCS Group Limited (Registration number 1993/002253/06), a public company duly registered and incorporated in South Africa, the shares of which are listed on the JSE;
<b>“UCS shares” or “shares”</b>	ordinary shares having a nominal value of 0,5 cents each in the issued ordinary share capital of UCS;
<b>“UCS shareholders” or “shareholders”</b>	holders of UCS shares; and
<b>“UCS Solutions Holdings”</b>	UCS Solutions Holdings (Proprietary) Limited (Registration number 1997/010424/07), a private company duly registered and incorporated in South Africa and a wholly owned subsidiary of UCS.



UCS Group Limited

## UCS Group Limited

(Incorporated in the Republic of South Africa)

(Registration number 1993/002253/06)

JSE code: UCS ISIN: ZAE000016150

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### UCS Directors

Duncan Coles	Chairman
John Bright	Chief Executive Officer
Dean Sparrow	Deputy Chief Executive Officer
Josephine Fortuin	Chief Financial Officer
Neil Michelson	Group Commercial Director
Vani Chetty	Non-executive
Joseph Claassen	Non-executive
Adv Richard Goodman	Non-executive
Bryan Hattingh	Non-executive
Mtungwa Morojele	Non-executive
Peter Terblanche	Non-executive

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## CIRCULAR TO UCS SHAREHOLDERS

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### 1. INTRODUCTION

- 1.1** Shareholders are referred to the announcement dated 23 September 2009 wherein the board of UCS announced that in terms of the Share Purchase and Repurchase Agreement, UCS Solutions Holdings will dispose of its entire 60% shareholding in TSS Managed Services by way of the TSS Managed Services repurchase and the share sale, in one composite transaction. The total potential transaction consideration (inclusive of a potential upside capped at a maximum further R45 000 000) could be R125 000 000 (excluding interest and dividends).
- 1.2** The Transaction is classified as a Category 1 and a related party transaction in terms of the Listings Requirements. Accordingly, UCS is required to obtain shareholder approval for the Transaction at a general meeting of UCS shareholders as well as a fairness opinion from an independent expert acceptable to the JSE.
- 1.3** The purpose of this circular is to:
- provide UCS shareholders with information regarding the Transaction;
  - advise UCS shareholders of the UCS board's recommendations in respect of the Transaction (supported by the independent experts' fairness opinion); and
  - convene a general meeting of shareholders to consider and, if deemed fit, approve the ordinary resolutions necessary to approve the Transaction as required in terms of the Listings Requirements.

## **2. THE TRANSACTION**

### **2.1 Introduction and rationale**

As set out in the announcement dated 23 September 2009, the parties have entered into an agreement in terms of which UCS Solutions Holdings will dispose of its entire 60% interest in TSS Managed Services, subject to the fulfilment of certain suspensive conditions as set out in paragraph 2.6 below.

The rationale for the Transaction is that UCS intends focusing on its core competence of providing software, solutions and services in the retail value chain. The TSS Managed Services business unit focuses on providing information technology services specifically into the public sector and is the largest unit within the UCS portfolio without a retail focus.

The acquisition of TSS Managed Services in July 2006 was part of the UCS Group strategy of introducing BEE at a subsidiary company level on an earnings enhancing basis, which was effectively executed. The original acquisition was also successful in creating an unencumbered and non dilutive BEE equity shareholder at UCS level through the subsequent share-for-share transaction which resulted in the roll-up of the TSS equity ownership from the level of UCS Solutions Holdings to the level of UCS, with effect from 1 March 2007.

The TSS shareholding in UCS and therefore the UCS empowerment status remains unchanged as a consequence of the Transaction.

On a business level, the TSS Managed Services business provides similar information technology infrastructure deployment and ongoing support and maintenance services to that of CEB Maintenance Africa (Proprietary) Limited, another wholly owned subsidiary company of UCS which provides such services specifically to the retail market. It was considered at the time of the initial TSS Managed Services acquisition that there was the possibility of extracting substantial synergies through merging the two operations once their respective warranties and/or earn outs were concluded. However, the requirement for the TSS Managed Services business to remain "black owned" as opposed to empowered together with the substantial differences in the respective go-to-market business models and the subtle variations in services provided by the two entities, has led UCS management to conclude that such merger is not possible and therefore, having achieved the original BEE objectives, the proposed disposal and exit from TSS Managed Services is in the best strategic and operational interest of both businesses.

The sale proceeds will be applied partly towards meeting current and future financial and operational obligations of the UCS Group and where appropriate, the UCS board of directors will determine the optimal utilisation of the proceeds for acquisitive and organic growth initiatives.

### **2.2 Nature of business of TSS and TSS Managed Services**

TSS has been operating in South Africa since 1997. They have developed into a multi-faceted, multi-disciplined ICT Company in response to the diverse and changing demands of the market place.

It is a true BEE organisation with its shareholding 100% owned indirectly by black entrepreneurs. Messrs D C K Mackay and J Mackay are the Trustees of the Kopane ke Matla Trust, which is the sole shareholder of TSS. TSS ensures its long-term business success by focusing on client satisfaction, skills and knowledge transfer and the empowerment of its employees and previously disadvantaged partners.

During the past 12 years, TSS has diversified its operations into three core lines of business, focusing on ICT infrastructure solutions, E-procurement and digital entertainment.

TSS Managed Services, of which TSS currently owns 40%, provides IT infrastructure solutions and such company will, following the implementation of the Transaction, become a wholly-owned subsidiary of TSS.

## 2.3 Transaction consideration

The total potential transaction consideration (inclusive of a potential upside capped at a maximum further R45 000 000) could be R125 000 000 (excluding interest and dividends) which is comprised as follows:

### 2.3.1 *The TSS Managed Services repurchase*

In terms of the Share Purchase and Repurchase Agreement, TSS Managed Services will repurchase the repurchase shares from UCS Solutions Holdings for the following consideration:

- 2.3.1.1 an upfront cash amount of R25 000 000 which shall accrue interest at the Prime Rate from the effective date up to (but excluding) the date of payment thereof by TSS Managed Services to UCS Solutions Holdings; plus
- 2.3.1.2 if applicable, a further amount to be determined with reference to the achievement by TSS Managed Services of certain revenue or profits after tax thresholds ("the Adjustment Amount"), which shall not be less than Rnil and shall be limited to a maximum amount of R45 000 000.

For purposes of determining the Adjustment Amount, if any, TSS Managed Services shall prepare, and TSS shall procure the preparation of, audited financial accounts in respect of TSS Managed Services ("AFS") for the three financial years preceding and leading up to 30 September 2014 ("Adjustment Date"), which AFS shall be prepared on a basis consistent with the International Financial Reporting Standards ("IFRS") and the accounting practices applied by TSS Managed Services in the financial year immediately preceding the effective date, as soon reasonably practicable after, but in any event by no later than, 45 five days after the Adjustment Date, and shall deliver copies of the same to UCS Solutions Holdings.

As soon as reasonably possible after, but in any event by no later than five business days after, the finalisation of the AFS, the parties' representatives shall meet in order to determine and thereafter record in writing, the Adjustment Amount in accordance with the following two formulae ("Formulae"), it being agreed that the Adjustment Amount shall be equal to the higher of the amounts derived at by applying the Formulae:

$$A = (B - C) \times D \times E$$

Where:

A = the Adjustment Amount;

B = average actual annual profit after tax achieved by TSS Managed Services for the years ending 30 September 2012, 30 September 2013 and 30 September 2014 as determined with reference to the AFS of TSS Managed Services for such financial periods ("Adjustment PAT") on a basis consistent with IFRS and the accounting policies that applied in the financial year of TSS Managed Services immediately preceding the effective date, but specifically excluding any management fees paid or to be paid in respect of TSS Managed Services;

C = R27 600 000;

D = a multiple of 5;

E = 60%;

**AND**

$$A = (B - C) \times D \times E$$

Where:

A = the Adjustment Amount.

B = average actual annual revenue achieved by TSS Managed Services for the years ending 30 September 2012, 30 September 2013 and 30 September 2014 as determined with reference to the AFS of TSS Managed Services for such financial periods ("Adjustment Revenue") on a basis consistent with IFRS and the accounting policies applied in the financial year of TSS Managed Services immediately preceding the effective date;

C = R230 000 000;

D = multiple of 0.4;

E = 60%.

For the avoidance of doubt and notwithstanding anything to the contrary contained in the Share Purchase and Repurchase Agreement, the Adjustment Amount as determined in accordance with the Formulae shall not be less than Rnil and shall be limited to a maximum amount of R45 000 000.

Should the parties fail to determine and record in writing the Adjustment Amount within fifteen business days from the Adjustment Date or should TSS Managed Services and TSS fail to prepare and deliver the AFS within the specified time frame, the matter shall be referred, at the written request of any Party, to an Independent Expert, appointed as such in terms of the Share Purchase and Repurchase Agreement, for determination, who shall act as an expert and not as an arbitrator or quasi-arbitrator and whose decision and determination (save in respect of manifest error) shall be final and binding on and be given effect to by the parties.

Following the implementation of the TSS Managed Services repurchase, the repurchase shares will be cancelled as issued shares and restored to the status of authorised shares of TSS Managed Services.

#### **Payment and delivery**

The cash consideration (together with accrued interest) shall be paid by TSS Managed Services to UCS Solutions Holdings on the closing date, against which payment UCS Solutions Holdings will deliver the relevant documents of title in respect of the repurchase shares to TSS Managed Services.

The Adjustment Amount, if any, shall be paid by TSS Managed Services to UCS Solutions Holdings on the seventh business day following its determination and written recordal or certification by the Independent Expert (as the case may be).

#### *2.3.2 The share sale*

In terms of the Share Purchase and Repurchase Agreement, TSS will purchase the sale shares from UCS Solutions Holdings for the following consideration:

2.3.2.1 an upfront cash amount of R10 000 000 in respect of eight of the sale shares which amount shall accrue interest at the Prime Rate from the effective date up to (but excluding) the date of payment thereof by TSS to UCS Solutions Holdings; plus

2.3.2.2 a further amount of R45 000 000 ("the Remaining Consideration") in respect of the thirty three remaining sale shares, which amount will be settled by TSS allotting and issuing the preference shares to UCS Solutions Holdings for a total subscription price equal to the Remaining Consideration in accordance with the terms and conditions of the Subscription Agreement.

#### **Payment and delivery**

The share sale cash consideration (together with accrued interest) shall be paid by TSS to UCS Solutions Holdings on the closing date, against which TSS will deliver the relevant documents of title in respect of the sale shares to TSS.

The obligation of TSS to pay the Remaining Consideration to UCS shall, on the closing date, be set-off against UCS Solutions Holdings' obligation to pay the subscription price for the preference shares in terms of the Subscription Agreement, being in the aggregate, an amount equal to the Remaining Consideration.

## 2.4 Terms of preference shares

2.4.1 The preference shares will have the following dividend rights:

- a) TSS shall pay to UCS Solutions Holdings an annual dividend calculated in respect of each preference share equal to an amount calculated daily, on the basis of a 365 day year, at a dividend rate on the subscription price calculated in accordance with the following formula:

$$A = B \times (1 - C)$$

Where:

A = the dividend rate (expressed as a percentage);

B = the average Prime Rate during the relevant period; and

C = the corporate tax rate (expressed as a percentage) applicable to companies in South Africa during the relevant period (inclusive of secondary tax on companies or dividend withholding tax (as such terms are described in the Income Tax Act, No. 58 of 1962 ("Tax Act")), as the case may be);

- b) the dividend will be due and payable on 30 September of each year following the subscription date ("Dividend Date"), unless at 30 September of the applicable year it is apparent that the performance thresholds ("Dividend Performance Threshold") as stipulated below have not been achieved or exceeded by TSS Managed Services in which case no dividend will accrue. The achievement, or not, by TSS Managed Services of each Dividend Performance Threshold shall be determined by the parties on or before each Dividend Date and in any event by no later than the end of the month of October following each such Dividend Date. Should a dispute arise between the parties in this regard, such dispute shall, at the written instance of any of the parties, be referred for determination by the Independent Expert;

- c) the dividend will only accrue in respect of each 12 month period leading up to the relevant Dividend Date should TSS Managed Services achieve or exceed the following Dividend Performance Thresholds:

- in respect of the 12 months leading up to September 2010 – actual revenue ("Revenue") of R178 130 000 or actual profits after tax ("PAT") of R29 580 000;
- in respect of the 12 months leading up to September 2011 – Revenue of R178 130 000 or PAT of R29 580 000;
- in respect of the 12 months leading up to September 2012 – Revenue of R138 889 000 or PAT of R16 667 000;
- in respect of the 12 months leading up to September 2013 – Average# Revenue of R159 722 000 or Average# PAT of R19 167 000;
- in respect of the 12 months leading up to September 2014 – Average\* Revenue of R180 556 000 or Average\* PAT of R21 667 000;
- in respect of the 12 months leading up to September 2015 – Average& Revenue of R180 556 000 or Average& PAT of R21 667 000; and
- in respect of the 12 months leading up to September 2016 – Average\$ Revenue of R180 556 000 or Average\$ PAT of R21 667 000.

Where:

# = annual average calculated over 12 months to September 2012 and 12 months to September 2013;

- \* = annual average calculated over 12 months to September 2012 and 12 months to September 2013 and 12 months to September 2014;
- & = annual average calculated over 12 months to September 2012 and 12 months to September 2013 and 12 months to September 2014 and 12 months to September 2015; and
- \$ = annual average calculated over 12 months to September 2012 and 12 months to September 2013 and 12 months to September 2014 and 12 months to September 2015 and 12 months to September 2016.

2.4.2 The preference shares are redeemable according to the following terms:

- a) 300 preference shares in cash at the subscription price within 30 days from the later of 30 September 2012 and the date falling on the expiry of a period 3 years and 1 day from the subscription date, if either of the following performance thresholds have been achieved by TSS Managed Services:
  - PAT for September 2012 is greater than R16 667 000; or
  - Revenue for September 2012 is greater than R138 889 000;
- b) 300 preference in cash at the subscription price within 30 days after 30 September 2013 if either of the following performance thresholds have been achieved by TSS Managed Services:
  - average annual PAT for September 2012 and September 2013 is greater than R19 167 000; or
  - average annual Revenue for September 2012 and September 2013 is greater than R159 722 000; and
- c) 300 preference shares in cash at the subscription price within 30 days after 30 September 2014 if either of the following performance thresholds have been achieved by TSS Managed Services:
  - average annual PAT for September 2012 and September 2013 and September 2014 is greater than R21 667 000; or
  - average annual Revenue for September 2012 and September 2013 and September 2014 is greater than R180 556 000,
 (hereinafter referred to as the "Performance Redemption Thresholds").
- d) Should any one of the Performance Redemption Thresholds in the relevant financial year referred to above not be achieved by TSS Managed Services, but then TSS Managed Services subsequently achieves a threshold equivalent to or better than such earlier Performance Redemption Threshold in any of the following financial years referred to above (i.e. up to 30 September 2014), then the relevant preference shares shall become redeemable upon such earlier Performance Redemption Threshold being achieved during such following financial year, irrespective of whether the Performance Redemption Threshold applicable to such following financial year has been achieved or not.
- e) Should any preference shares remain unredeemed as at September 2014, then such preference shares will remain in issue and TSS shall be obliged to redeem all of the remaining preference shares at their subscription price (plus any overdue but unpaid amounts) in the event that the following performance targets are achieved by TSS Managed Services:
  - for the financial years up to September 2012, September 2013, September 2014 and September 2015 average annual PAT greater than R21 667 000 or average annual Revenue greater than R180 556 000; or
  - failing which, for the financial years up to September 2012, September 2013, September 2014, September 2015 and September 2016 average annual PAT greater than R21 667 000 or average annual Revenue greater than R180 556.

- f) Should any of the preference shares remain unredeemed after 31 October 2016, TSS will be obliged to redeem such preference shares at an amount equal to the par value thereof, i.e. R1.00 per preference share.
- 2.4.3 TSS agreed that, should it at any time fail to comply with any of its obligations under the Subscription Agreement and if so requested by UCS Solutions Holdings in writing at any time following such non-compliance, it will pledge and cede, *in securitatem debiti*, to and in favour of UCS Solutions Holdings any and all UCS shares then held by it and all of its rights, title and interest in and to any and all shares then held by it in TSS Managed Services, as security for the due, proper and timeous fulfilment of all such obligations. In addition, TSS Managed Services will grant a suretyship in favour of UCS Solutions Holdings in terms whereof it will bind itself as surety and co-principal debtor with TSS, for all of the obligations of TSS under the preference shares.
- 2.4.4 The preference share are not convertible into ordinary shares and, in line with standard practice for instruments of this nature, the holder/s thereof will receive notice of and be entitled to attend all general meetings of TSS, but will only be entitled to vote at such general meetings in certain limited circumstances, being:
- a) if any accrued preference dividend remains in arrears and unpaid for more than 5 business days;
  - b) in respect of a resolution which directly affects any of the rights attached to the preference shares, including a resolution for the reduction of the share capital of TSS or the modification of any rights attached to the preference shares or the ordinary shares of TSS;
  - c) a resolution for the disposal or encumbrance of the whole or the greater part of the assets or undertaking of TSS;
  - d) a resolution for the cessation of the business of TSS;
  - e) a resolution placing the company in winding-up or judicial management (whether voluntarily or not and whether provisionally or finally); or
  - f) if any redemption amount is in arrears and unpaid.
- 2.4.5 For the duration that the preference shares remain unredeemed UCS Solutions Holdings will retain a seat on the TSS Managed Services board of directors and TSS Managed Services will be obliged to maintain the scope and nature of business as has been applicable up to and including the effective date of this transaction.

## **2.5 Sale of TSS Managed Services or its Business**

- a) TSS and/or TSS Managed Services shall not, from the closing date until the last day of September 2014, without the prior written consent of UCS Solutions Holdings, in the case of TSS dispose of a majority of its shares in the issued share capital of TSS Managed Services and/or, in the case of TSS Managed Services dispose of the entire or the greater part of the business of TSS Managed Services (collectively, the "Transaction/s").
- b) In terms of the Subscription Agreement, the parties have agreed that in the event of a Transaction taking place, then, TSS shall be obliged to redeem the remaining preference shares on the later of ("Disposal Redemption Date"):
  - (i) 3 years and 1 day from the Subscription Date; and
  - (ii) the effective date of either of the Transactions,
 with reference to the transaction amount ("Transaction Amount") applicable to such Transaction, which amount shall be:
  - (i) in the event that the Transaction is a sale of shares by TSS, the actual net proceeds receivable by TSS from such Transaction, divided by the percentage of the shares sold in terms of such Transaction; or
  - (ii) in the event that the Transaction is a sale of business by TSS Managed Services, the actual net proceeds receivable by TSS (as the sole shareholder of TSS Managed

Services) after deduction of all taxes applicable to such Transaction (including capital gains tax and STC or dividend withholding tax, as may be applicable).

c) In this regard, the parties have agreed that:

- (i) should the Transaction Amount be less than R58 333 000, TSS shall become obliged to redeem all of the remaining preference shares on the Disposal Redemption Date at a redemption price, per preference share, equal to the par value per preference share plus any overdue but unpaid amounts applicable to such preference share;
- (ii) should the Transaction Amount be more than R133 333 000, TSS shall become obliged to redeem all of the remaining preference shares on the Disposal Redemption Date at a redemption price, per preference share, equal to the subscription price (i.e. par value plus premium) plus any overdue but unpaid amounts applicable to such preference share; or
- (iii) should the Transaction Amount be between (or equal to) R58 333 000 and R133 333 000, TSS shall be obliged to redeem all of the remaining preference shares on the Disposal Redemption Date at a redemption price to be determined in accordance with the following formula:

$$A = (B \times C) - D - E$$

Where:

A = the aggregate redemption price, which amount shall, save for overdue but unpaid amounts (which will then become due), never exceed R45 000 000;

B = the Transaction Amount;

C = 60%;

D = R35 000 000;

E = the aggregate redemption amount, if any, received by UCS Solutions Holdings pursuant to a redemption of any of the preference shares prior to the Disposal Redemption Date,

on the basis that should the result of A be a positive figure, the redemption price per preference share shall be determined by a *pro rata* reduction in the share premium component of the redemption price payable in respect of each remaining preference share so as to result in an aggregate redemption price equal to A (plus any overdue but unpaid amounts relating to such preference shares) or, should the result of A be a negative figure, the redemption price per preference share shall be equal to its par value (plus any overdue but unpaid amounts relating to such preference share).

d) In terms of the Share Purchase and Repurchase Agreement, the parties have agreed that:

- (i) should the Transaction be a sale of business by TSS Managed Services, TSS Managed Services shall be obliged, within 7 days from the receipt by it of the Transaction Amount, to pay to UCS Solutions Holdings, by way of an increase of the purchase price payable in respect of the TSS Managed Services repurchase, an amount equal to 60% of the Transaction Amount less an amount of R80 000 000 (in which event the Adjustment Amount referred to in paragraph 2.3.1.2 shall no longer apply); or
- (ii) should the Transaction be a sale of share by TSS, TSS shall be obliged, within 7 days from the receipt by it of the Transaction Amount, to pay to UCS Solutions Holdings, by way of an increase of the purchase price payable in respect of the share sale, an amount equal to 60% of the Transaction Amount less an amount of R80 000 000,

provided that any amount to become due pursuant to (i) or (ii) above shall be limited to a maximum of R45 000 000.

## **2.6 Suspensive conditions**

The implementation of the Transaction is subject to the fulfilment of the following suspensive conditions by no later than **13 November 2009** or such later date as may be agreed between the parties in writing:

- 2.6.1 The Subscription Agreement being concluded and becoming unconditional in accordance with its terms;
- 2.6.2 TSS Managed Services and TSS releasing or procuring the release of UCS Solutions Holdings and the UCS Group, with effect from the effective date, from all suretyships, guarantees and/or other commitments made or provided by UCS Solutions Holdings and/or UCS Group on behalf of TSS Managed Services and/or TSS;
- 2.6.3 The registering of duly adopted special resolutions by the shareholder of TSS Managed Services approving and/or ratifying the TSS Managed Services Repurchase in accordance with section 85 of the Companies Act and article 32.7 of its articles of association and the financial assistance contemplated by the security to be granted by TSS Managed Services for purposes of the Subscription Agreement;
- 2.6.4 TSS Managed Services providing UCS Solutions Holdings with written proof that it has obtained the requisite funding to enable it to comply with its payment obligations as set out in paragraph 2.3.1.1 above;
- 2.6.5 TSS providing UCS Solutions Holdings with written proof that it has obtained the requisite funding to enable it to comply with its payment obligations as set out in paragraph 2.3.2.1 above;
- 2.6.6 the shareholders of UCS approving the Transaction by way of a general meeting;
- 2.6.7 UCS obtaining a fairness opinion from an independent professional expert acceptable to the JSE;
- 2.6.8 TSS Managed Services and UCS Solutions Holdings concluding a suretyship agreement in terms whereof TSS Managed Services agrees to become bound, as surety and co-principal debtor, with TSS for all of TSS's obligations under the Subscription Agreement and the preference shares and such suretyship agreement becoming unconditional in accordance with its terms; and
- 2.6.9 UCS obtaining written confirmation from Nedbank Limited that the entering into by it and/or UCS Solutions Holdings of the Transaction shall not constitute a breach of any of the covenants contained in the UCS banking facility with Nedbank Limited.

## **2.8 Warranties**

Warranties usual to transactions of the nature contemplated in the Transaction have been provided by UCS Solutions Holdings and by TSS and TSS Managed Services, respectively.

## **2.9 Promoters**

No cash or securities were paid nor any benefit given within the three years preceding the date of this circular, or are proposed to be paid or given, to any promoter, not being a director of UCS.

## **2.10 Related party**

TSS is a major shareholder in UCS and as a consequence UCS Solutions Holdings.

Messrs D C K Mackay and J Mackay are the Trustees of the Kopane ke Matla Trust, which is the sole shareholder to TSS.

Messrs D C K Mackay and J Mackay are both also directors of UCS Solutions Holdings and TSS.

In terms of the Listings Requirements, the Transaction is classified as a related party transaction and, accordingly, shareholder approval for the Transaction and an independent opinion relating to the fairness thereof is required.

KPMG Services (Proprietary) Limited was appointed by the directors to provide an independent opinion on the Transaction, which opinion is reproduced in Annexure 1 to this circular.

To the best of the directors' knowledge and belief, other than the parties disclosed above, there are no other related parties to this Transaction.

The related parties and any of their associates will be taken into account in determining a quorum for the general meeting but the votes by the related parties and their associates, if any, will not be taken into account in determining the results of the voting on the resolutions relating to the Transaction at the general meeting.

## **3. OPINIONS AND RECOMMENDATIONS**

### **3.1 Opinion of the independent professional expert**

As required in terms of section 10.4(f) of the Listings Requirements, the UCS board appointed KPMG Services (Proprietary) Limited to provide a fairness opinion as to whether the terms and conditions of the Transaction is fair to UCS shareholders. UCS shareholders are referred to the independent opinion letter contained in Annexure 1 to this circular and are encouraged to read it in its entirety.

### **3.2 Opinion of the UCS board**

The UCS board has considered the terms and conditions of the Transaction and, taking into account the opinion furnished by KPMG Services (Proprietary) Limited, is of the unanimous opinion that the terms and conditions thereof are fair to shareholders and intend voting in favour of the Transaction, and furthermore recommend that shareholders vote in favour of the Transaction at the general meeting.

Irrevocable undertakings have been obtained from UCS shareholders holding 133 282 374 UCS ordinary shares of which the 27 911 196 shares held by TSS have been excluded. Accordingly, shareholders representing 50.99% of the total number of UCS shares and entitled to vote, have indicated that they intend voting in favour of the Transaction.

## **4. FINANCIAL INFORMATION**

### **4.1 Financial information of TSS Managed Services**

The historical financial information of TSS Managed Services, comprising the audited financial statements for the three months ended 30 September 2006 and for the two financial years ended 30 September 2007 and 30 September 2008 and the reviewed financial information for the six months ended 31 March 2009 is set out in Annexure 2 to this circular.

The independent reporting accountants' report on the historical financial information is set out in Annexure 3 to this circular.

## 4.2 Pro forma financial effects of the Transaction

The table below sets out the *pro forma* financial effects of the Transaction on the earnings, headline earnings, net asset value and net tangible asset value per UCS share.

The unaudited *pro forma* financial effects are prepared for illustrative purposes only, and due to their nature, may not fairly present UCS's financial position. The *pro forma* financial effects are the responsibility of the directors of UCS and should be read in conjunction with the *pro forma* financial information, including the consolidated *pro forma* balance sheet and income statement of UCS that are contained in Annexure 4 to this circular.

Per UCS share	Published <sup>1</sup> reviewed interim results 31 March 2009 (cents)	Effects of the HCL Axon Transaction (cents)	After the HCL Axon Transaction and Before this Transaction <sup>2</sup> (cents)	Change (cents)	After <sup>3</sup> (cents)	Change (%)
Earnings	0.1	9.1	9.2	(1.3)	7.9	(14.1)
Headline earnings	5.2	–	5.2	(2.0)	3.2	(38.5)
Net asset value	161.1	9.3	170.4	(2.2)	168.2	(1.3)
Tangible net asset value	19.7	16.8	36.5	16.6	53.1	45.5
Ordinary shares in issue net of treasury shares held ('000)	292 080	–	292 080	–	292 080	–
Weighted average number of ordinary shares in issue ('000)	290 734	–	290 734	–	290 734	–

### Notes and assumptions:

- Based on the published reviewed interim results for the six months ended 31 March 2009.
- Based on the figures as set out in the "After the Transaction" column in terms of the announcement released on SENS on 16 July 2009 regarding the HCL Axon Transaction. For purposes of the calculations, the weighted average number of shares, the diluted weighted average number of shares and the actual number of UCS shares in issue (net of treasury shares) at 31 March 2009 are 290.7 million, 296.1 million and 292.1 million, respectively.

The *pro forma* financial effects in respect of the HCL Axon Transaction are based on the following assumptions:

- The reversal of the Enterprise Solutions Business contribution to earnings and headline earnings for the six months ended 31 March 2009 of R0.3 million;
  - R56.8 million net purchase consideration comprising the upfront purchase consideration of R62.1 million assuming no upward adjustments, on the basis the Enterprise Solutions Business does not achieve or exceed the defined growth revenue targets, after funding the settlement of working capital of R5 million and share incentive obligations of R0.34 million;
  - The realisation of the applicable profit on sale of the going concern business which amounts to R34.7 million pre-tax and transaction costs;
  - The inclusion of a once-off license fee of R2.5 million for the perpetual license to use the pre-configured SAP template;
  - Restructuring costs associated with lease premises and other infrastructure related commitments post the transaction amounting to R1.8 million;
  - Transaction costs of R0.8 million incurred in relation to the HCL Axon Transaction; and
  - The net tax effect of the preceding adjustments totals R7.9 million of which the once off component specific to the profit on sale of the going concern business amounts to R8.4 million. This includes the realisation of estimated tax losses, on which deferred tax assets have historically been realised, in UCS Solutions which amounts to R24.7 million at 1 October 2008. UCS Solutions will now as a consequence be in a fully taxable position moving forward.
- Based on the assumption that the Transaction was effected on 1 October 2008 for income statement purposes and on 31 March 2009 for balance sheet purposes.
  - Included in the "After" earnings and headline earnings are the following adjustments and related assumptions:
    - The reversal of the TSS Managed Services contribution to earnings and headline earnings for the six months ended 31 March 2009 of R8.2 million comprising:
      - earnings from TSS Managed Services of R7.2 million of which minorities allocation is R3.3 million;
      - earnings contribution of R5.8 million as a consequence of the accounting for the management fee payable to TSS as deferred purchase consideration;

- reversal of amortisation of intangible assets associated with the acquisition of TSS Managed Services in June 2006 of R2 million net of deferred tax and minorities interest; and
  - earnings of R0.5 million on the reversal of intercompany transactions.
  - Estimated R65 million transaction proceeds comprising:
    - upfront R25 million cash consideration for the repurchase of the repurchase shares;
    - upfront R10 million cash consideration in respect of the disposal of a portion of the sale shares; and
    - deferred R30 million in respect of the balance of the sale shares representing the assumed redemption of 600 redemption shares on the achievement of the performance criteria defined for the financial years 2012 and 2013 respectively. Consequently, the remaining number of preference shares with a face value of R15 million is assumed redeemed at the amount equal to their par value of R1 while the R45 million Adjustment Amount has also been excluded for the purposes of the *pro forma* financial effects on the assumption the performance criteria defined in respect of this amount is not achieved.
  - After the realisation of R45.2 million goodwill and intangible assets of R6 million (net of deferred taxation and minorities interest), the applicable profit on sale of the 60% interest in TSS Managed Services by UCS Solutions Holdings amounting to R5.8 million pre tax;
  - Investment income on the upfront cash consideration of R1.1 million at an average call deposit rate of 6%;
  - Estimated transaction costs of R0.8 million;
  - Dividend income on the redeemable preference shares at the annual coupon rate, currently 7.6%; and
  - The net tax effect of the preceding adjustments of R4.1 million.
5. The net asset value per share and tangible net asset value per share were calculated to demonstrate the effect of the Transaction as if it had taken place on 31 March 2009. Consequently, due the growth in TSS Managed Services net asset value and the growth in goodwill associated with the deferred purchase consideration in respect of the acquisition of TSS Managed Services in June 2006, the applicable loss on the sale of the 60% interest in TSS Managed Services by UCS Solutions Holdings net of tax amounts to R6.5 million.
6. The net asset value per share and tangible net asset value per share in terms of the announcement released on SENS on 16 July 2009 regarding the HCL Axon Transaction has been restated however the effects of the Transaction as disclosed on 23 September 2009 has as a consequence not significantly been changed.

### 4.3 *Pro forma consolidated income statement and balance sheet*

The consolidated *pro forma* income statement and balance sheet of UCS are contained in Annexure 4 to this circular. The independent reporting accountants' report on the *pro forma* financial information of UCS is contained in Annexure 5 to this circular.

## 5. MAJOR SHAREHOLDERS

Insofar as is known to the directors of UCS, the following UCS shareholders (excluding directors and management) beneficially held, directly or indirectly, an interest of 5% or more of the UCS shares in issue at the last practicable date:

Shareholder	Number of shares	Shareholding (%)
Rand Merchant Bank	33 858 006	11.91
Oasis Funds	30 894 534	10.86
Tactical Software Systems (Proprietary) Limited	27 011 196	9.50
Total	91 763 736	32.27

There has been no change in the controlling shareholders and trading objects of the Company in the last five years.

## 6. MATERIAL CHANGES

Save for the Transaction, there have been no material changes in the financial or trading position of the UCS Group since the announcement of its reviewed interim results for the six months ended 31 March 2009, released on SENS on 19 May 2009, other than the effect of the disposal by UCS Solutions (Proprietary) Limited, a wholly owned subsidiary of UCS Solutions Holdings, of its Enterprise Solutions Business to HCL Axon (Proprietary) Limited of which details were set out in the announcement released on SENS on 16 July 2009. In terms of the Listings Requirements, the transaction was categorized as a Category 2 transaction and accordingly, approval by shareholders of UCS was not required.

## 7. DIRECTORS

### 7.1 Information on directors

The names, position, business addresses and principal activities of the executive and non-executive directors of UCS as at the last practicable date were as follows:

<b>Executives</b>	<b>Position</b>	<b>Business address</b>	<b>Principal activities</b>
Duncan Coles (60)	Chairman	20th Floor 209 Smit Street Braamfontein, 2001	Chairman
John Bright (62)	Chief Executive Officer	20th Floor 209 Smit Street, Braamfontein, 2001	Chief Executive Officer
Dean Sparrow (34)	Deputy Chief Executive Officer	20th Floor 209 Smit Street Braamfontein, 2001	Deputy Chief Executive Officer
Neil Michelson (50)	Commercial Director	20th Floor 209 Smit Street Braamfontein, 2001	Commercial Director
Josephine Fortuin (28)	Chief Financial Officer	20th Floor 209 Smit Street Braamfontein, 2001	Chief Financial Officer
<b>Non-executives</b>	<b>Position</b>	<b>Business address</b>	<b>Principal activities</b>
Vani Chetty (39)	Independent Non-executive director	20th Floor 209 Smit Street Braamfontein, 2001	
Joseph Claassen (49)	Independent Non-executive director	20th Floor 209 Smit Street Braamfontein, 2001	Member Remuneration Committee
Adv Richard Goodman (51)	Independent Non-executive director	20th Floor 209 Smit Street Braamfontein, 2001	Member Audit Committee
Bryan Hattingh (53)	Non-executive director	20th Floor 209 Smit Street Braamfontein, 2001	Member Remuneration Committee
Mtungwa Morojele (50)	Independent Non-executive director	20th Floor 209 Smit Street Braamfontein, 2001	Chairman Audit Committee
Peter Terblanche (65)	Non-executive director	20th Floor 209 Smit Street Braamfontein, 2001	Chairman Remuneration Committee Member Audit Committee

### 7.2 Directors' service contracts

There are no service contracts between UCS and the non-executive directors of UCS. The employment contracts with the executive directors of UCS contain normal terms and conditions of employment and have not been entered into or amended during the period beginning six months prior to the date of this circular.

The employment contracts, which are available for inspection, contain, *inter alia*, the following salient terms and conditions:

- the address, location and role of the individual;
- the duties of the executive;
- the remuneration of the individual;
- normal notice period of a minimum of one month;
- the conditions of early termination by UCS in an event of a director acting against its best interest of the Company;
- the conditions of suspension of employment and due process to be followed in case of a suspension; and
- provision for leave allowances and out-of-pocket expenses.

At the last practicable date, there is no person that has been identified or nominated as a proposed director of UCS. Accordingly, no service contracts with any proposed directors have been entered into.

### 7.3 Directors' emoluments

The following table sets out the emoluments of UCS's board for the financial year ended 30 September 2008:

#### Executive directors

	Salary R'000	Bonus R'000	Allowances R'000	Pension R'000	Gains on exercise of share options R'000	Total R'000
J D Bright	1 256	300	–	111	–	1 667
D F Coles	911	195	92	89	–	1 287
N A Michelson	1 684	430	78	149	–	2 341
D C Sparrow	1 173	300	90	104	–	1 667
	<b>5 024</b>	<b>1 225</b>	<b>260</b>	<b>453</b>	<b>–</b>	<b>6 962</b>

**Note:** Ms J Fortuin, currently a director of UCS, was appointed with effect from 31 March 2009 and therefore did not earn remuneration as a director in the financial year ended 30 September 2008.

#### Non-executive directors

	Fees R'000	Total R'000
V Chetty	77	77
J R Claassen	90	90
R G Goodman	128	128
B P Hattingh	90	90
M P R Morojele	154	154
P Terblanche	154	154
	<b>693</b>	<b>693</b>

No other benefits or bonuses were paid to any UCS director during the 2008 financial year.

### 7.4 Directors' interests in UCS ordinary shares

As at the last practicable date, the directors of UCS had the following interests in UCS ordinary shares:

Name	Direct beneficial ('000)	Indirect beneficial ('000)	Total ('000)	Percentage of issued share capital (%)
<b>Executive directors</b>				
J D Bright	6 537	46 426	52 963	18.62
D F Coles	4 945	29 770	34 715	12.21
J P Fortuin	80	–	80	0.03
N A Michelson	–	4 684	4 684	1.65
D C Sparrow	500	1 676	2 176	0.77
<b>Total executive directors</b>	<b>12 062</b>	<b>82 556</b>	<b>94 618</b>	<b>33.28</b>
<b>Non-executive directors</b>				
V Chetty	59	–	59	0.02
J R Claassen	50	–	50	0.02
R G Goodman	80	–	80	0.03
B P Hattingh	–	75	75	0.03
<b>Total non-executive directors</b>	<b>189</b>	<b>75</b>	<b>264</b>	<b>0.10</b>
<b>Total</b>	<b>12 251</b>	<b>82 631</b>	<b>94 882</b>	<b>33.36</b>

Since the end of the preceding financial year and the date of the issue of this circular, the following changes have occurred:

1. During January 2009, N Michelson and D Sparrow obtained 120 000 and 75 000 UCS shares, respectively, on the conversion of preference shares linked to the achievement of predefined growth targets for the financial year ended 30 September 2008.
2. As announced on 31 July 2009, agreements were entered into regarding the following disposals of shares by directors on 31 August 2009 relating to the full and final settlement of outstanding obligations regarding an original transaction executed with the Estate of a former chairman and director of the Company, E B Levenstein:  
Disposal by D C Sparrow of 3 123 631 ordinary shares; and  
Disposal by N A Michelson of 1 967 469 ordinary shares.
3. Purchase by J D Bright of 14 461 993 ordinary shares on 1 September 2009.
4. Purchase by J D Bright of 591 903 ordinary shares on 29 September 2009.

## 7.5 Directors' share options in UCS

Future entitlements under share option schemes

Market priced options	Grant date of options	Strike price (cents)	Total ('000)
R G Goodman	27 February 2004	109	25
J R Claassen	27 February 2004	109	50
B P Hattingh	27 February 2004	109	25
P Terblanche	27 February 2004	109	100
J P Fortuin	18 November 2005	134	200
M P R Morojele	18 November 2005	134	100
V Chetty	31 August 2007	451	100
<b>Zero cost options</b>			
J P Fortuin	29 August 2008	–	93
J P Fortuin	21 November 2008	–	138
			<b>831</b>

The market priced 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.

The zero cost options are exercisable over a period of 5 years from the date of issue in tranches of 10%, 15%, 20%, 25% and 30%.

Other than the award of zero cost options to Ms JP Fortuin on 21 November 2008, there has been no change in the number of share options held by directors between 30 September 2008 and at the last practicable date.

#### **7.6 Directors' interests in the Transaction**

None of the directors had any material beneficial interests in any transaction which is or was unusual in its nature or conditions, or material to the business of the Company, and that was effected during the current or immediately preceding financial year, which remains in any respect outstanding or unperformed.

#### **7.7 Interests of UCS and their directors in TSS Managed Services and dealings in TSS Managed Services shares**

None of the directors of UCS hold any shares in TSS and TSS Managed Services prior to this Transaction.

### **8. PROSPECTS**

The disposal of TSS Managed Services substantially removes the UCS Group's provision of Information technology services in the public sector and enables management to concentrate its focus on our core competence of providing software, solutions and services within the retail value chain.

The adverse trading conditions experienced throughout the 2009 financial year, the uncertainty that resides in the international market and the apparent lag in the domestic market recovery leads management to be cautious as we commence the new financial year.

Management will continue to actively monitor the Group's operating environments to enable quick responses to changing market dynamics and although longer term visibility remains limited, management is confident that the Group's strong balance sheet and growing annuity revenue base positions UCS well to navigate the current volatile market conditions and maintain our growth momentum albeit off an adjusted base post recent corporate activity.

### **9. VENDORS**

The UCS Group has acquired the following material assets during the three years preceding the date of publication of this circular:

<b>Details</b>	<b>Amount paid</b>
The acquisition of the 25.1% shareholding in UCS Solutions Holdings (already a subsidiary of UCS) held by TSS as announced on 25 January 2007 from the management of such company. In terms of the Listings Requirements, the transaction was deemed a related party transaction and was approved by shareholders of UCS on 27 February 2007.	R72 651 000
The acquisition of the business of Computer Software Consultants (Proprietary) Limited ("CSC") as announced on 14 August 2008 by Destiny Electronic Commerce (Proprietary) Limited ("Destiny") (a wholly owned subsidiary company of Computerkit Holdings (Proprietary) Limited which in turn is a wholly owned subsidiary company of UCS). As set out in the announcement, two key management members of CSC co-invested with UCS whereby UCS acquired 70% of the business and the two management members acquired the remaining 30% of the business (in equal portions). In terms of the Listings Requirements of the JSE, the transaction was deemed a Category 2 transaction.	R98 100 000

Normal warranties were provided by the vendors in terms of the transactions as set out above.

## 10. WORKING CAPITAL STATEMENT

The directors have considered the effect of the Transaction and are of the opinion that for a period of 12 months after the date of issue of this circular:

- UCS and the UCS Group will be able, in the ordinary course of business, to pay its debts;
- the assets of UCS and the UCS Group will be in excess of the liabilities of UCS and the UCS Group;
- UCS and the UCS Group will have adequate ordinary share capital and reserves for ordinary business purposes; and
- UCS and the UCS Group will have adequate working capital for ordinary business purposes.

## 11. LITIGATION STATEMENT

As far as the directors of UCS are aware, there are no legal or arbitration proceedings against UCS and its subsidiaries or TSS Managed Services or its subsidiaries nor, are there any legal or arbitration proceedings pending or threatened against UCS and its subsidiaries or TSS Managed Services or its subsidiaries which may have, or have had, in the past 12 months preceding the date of this circular, a material effect on the Group's financial position, other than a claim that has been presented to a subsidiary company and as disclosed in note 25 of the annual financial statements of UCS for the year ended 30 September 2008. A provision of R1 000 000 was raised at the 2008 financial year-end which represents management's assessment of the likely outcome of the dispute which may differ to the final outcome.

## 12. DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are given in paragraph 7 above, collectively and individually, accept full responsibility for the accuracy of the information given relating to the UCS group and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this circular contains all information required by the Listings Requirements.

## 13. MATERIAL CONTRACTS

Other than as set out below, the UCS Group or TSS Managed Services has not entered into, verbally or in writing, any material contract, either:

- within the last two years; or
- at any time which contains an obligation or settlement that is material to the UCS group at the date of this circular.

<b>Details</b>	<b>Date of agreement</b>
The acquisition of the business of Computer Software Consultants (Proprietary) Limited as a going concern by Destiny Electronics Commerce (Proprietary) Limited (a wholly owned subsidiary company of Computerkit Holdings (Proprietary) Limited (a wholly owned subsidiary of UCS), as announced on 14 August 2008 and effective from 1 June 2008.	23 July 2008
The disposal by UCS Solutions (Proprietary) Limited (a wholly owned subsidiary of UCS Solutions Holdings) of its Enterprise Solutions Business to HCL Axon (Proprietary) Limited as announced on 16 July 2009 and effective from 1 August 2009.	16 July 2009

No royalties or items of a similar nature are payable in respect of UCS and any of its subsidiaries.

#### 14. MATERIAL LOANS AND BORROWINGS

Details of material loans and borrowings of the Company and TSS Managed Services are set out in Annexure 6 to this circular.

#### 15. EXPENSES

The estimated costs of implementing the Transaction from the date of issue of this circular are approximately R805 000.00 (costs are exclusive of VAT) and include the following:

	<b>Rand</b>
Sponsor – Barnard Jacobs Mellet Corporate Finance (Pty) Limited	175 000
Independent professional expert – KPMG Services (Pty) Limited	250 000
Reporting accountants – Deloitte & Touche, Registered Auditors	100 000
Attorneys – Glyn Marais Incorporated (Cape Town)	150 000
JSE documentation fees	30 000
Printing and publishing	100 000
<b>Total</b>	<b>805 000</b>

No preliminary expenses were incurred by UCS or TSS Managed Services within the three years preceding the date of this circular.

#### 16. CONSENTS

Each of the sponsor, attorneys, independent reporting accountants and auditors and independent professional expert have consented in writing to act in the capacity stated and to their names being stated in this circular and have not withdrawn their consent prior to the publication of this circular.

The independent reporting accountants and independent professional expert have consented in writing to the inclusion of their reports and/or opinions in this circular in the form and context in which they appear and have not withdrawn such consents prior to the publication of this circular.

#### 17. NOTICE OF UCS GENERAL MEETING

A general meeting of UCS shareholders has been convened and will be held at 10:00 at the registered offices of the Company being 20<sup>th</sup> Floor, 209 Smit Street, Johannesburg, 2001, on Tuesday, 3 November 2009 for the purpose of considering and, if deemed fit, passing, with or without modification, the requisite ordinary resolutions which are contained in the notice of the general meeting, attached to this circular.

Any certificated shareholder or "own name" dematerialised shareholder who is unable to attend the general meeting, but wishes to vote by proxy at the UCS general meeting, is required to complete and return the attached form of proxy in accordance with the instructions contained therein. Duly completed forms of proxy must be received by the transfer secretaries by no later than 10:00 on Friday, 30 October 2009.

Dematerialised shareholders, other than "own name" dematerialised shareholders, who wish to attend the general meeting, must inform their CSDP or broker of their intention to attend the general meeting and obtain the necessary Letter of Representation from their CSDP or broker to permit them to attend the general meeting. Alternatively, they may provide their CSDP or broker with their voting instructions should they not be able to attend the general meeting, but wish to be represented thereat.

## **18. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents, or copies thereof, will be available for inspection during normal business hours at the registered offices of UCS from Monday, 19 October 2009 to and including Tuesday, 3 November 2009:

- 18.1** the memorandum and articles of association of UCS;
- 18.2** the signed Transaction Agreements;
- 18.3** the material contracts entered into by UCS outlined in paragraph 13 above;
- 18.4** copies of employment agreements with directors, managers or secretary entered into during the last three years;
- 18.5** the published audited financial statements of UCS for the two financial years ended 30 September 2007 and 30 September 2008 and the published reviewed results of UCS for the six months ended 31 March 2009;
- 18.6** the independent expert's fairness opinion as reproduced in Annexure 1 hereto;
- 18.7** the historical financial information of TSS Managed Services for the three months ended 30 September 2006 and for the two financial years ended 20 September 2008 and the reviewed financial information for the six months ended 31 March 2009 is set out in Annexure 2 hereto;
- 18.8** the independent reporting accountants' reports on the historical financial information of the TSS Managed Services as set out in Annexure 3 hereto;
- 18.9** the *pro forma* consolidated income statement and balance sheet of UCS as set out in Annexure 4 hereto;
- 18.10** the independent reporting accountants' report on the *pro forma* financial effects of the Transaction and the *pro forma* consolidated income statement and balance sheet of UCS as set out in Annexure 5 hereto;
- 18.11** the irrevocable undertakings outlined in paragraph 3 above; and
- 18.12** the consent letters received from the various parties outlined in paragraph 16 above.

Signed in Johannesburg on **Friday, 16 October 2009** on behalf of the directors in terms of a directors' resolution.

### **UCS GROUP LIMITED**

**Duncan Coles**  
Chairman

**John Bright**  
Chief Executive Officer

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## FAIRNESS OPINION BY INDEPENDENT PROFESSIONAL EXPERT

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"The Directors  
UCS Group Limited  
Postnet Suite 345  
PO Box 31266  
Braamfontein  
2017

14 October 2009

Dear Sirs

### **Report of the independent professional expert in respect of the proposed disposal by UCS Group Limited of its share shareholding in TSS Managed Services (Proprietary) Limited**

#### **Introduction**

Shareholders are referred to an announcement published by UCS Group Limited ("UCS") on 23 September 2009, wherein the board of UCS announced that, in terms of the Share Purchase and Repurchase Agreement, UCS Solutions Holdings (Proprietary) Limited ("UCS Solutions") will dispose of its entire shareholding (60 shares or 60% of the issued share capital) in TSS Managed Services ("TSS MS") ("the transaction").

The transaction will be effected as follows:

- the repurchase by TSS MS of 19 shares, or 19% of the shares in issue; and
- the purchase by Tactical Software Systems ("TSS") of 41 shares, or 41% of the shares in issue,

for a potential total consideration (inclusive of a potential upside capped at a maximum further R45 000 000) of R125 000 000 (excluding interest and dividends).

Full details of the transaction are contained in the circular to UCS shareholders ("the circular") to be dated on or about 15 October 2009, which will include a copy of this letter.

#### **Scope**

The transaction is a related party transaction as TSS is a major shareholder in UCS and, as a consequence, UCS Solutions Holdings. Messrs D C K Mackay and J Mackay are the Trustees of the Kopane ke Matla Trust, which is the sole shareholder of TSS. Messrs D C K Mackay and J Mackay are also both directors of UCS Solutions Holdings and TSS.

In terms of Section 10.4(f) of the JSE Listings Requirements, as UCS is entering into a related party transaction, it must include a statement by the board of directors confirming whether the transaction is fair insofar as the shareholders of the issuer (UCS) are concerned, and that the board of directors have been so advised by an independent expert acceptable to the JSE.

The board of directors of UCS has thus requested an independent fairness opinion, which is to be included in the circular, and prepared in accordance with Schedule 5 of the JSE Listing Requirements with regard to the above transaction.

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

#### **Responsibility**

The compliance with the JSE Listing Requirements is the responsibility of UCS board of directors. Our responsibility is to report on the terms and conditions of the transaction.

## **Definition of the term “fair”**

A transaction will generally be considered fair to a company’s shareholders if the benefits received by the shareholders, as a result of the transaction, are equal to or greater than the value surrendered by the shareholders.

The assessment of fairness is primarily based on quantitative issues. In this case, the transaction may be considered fair if the consideration envisaged to be received by UCS is considered to be equal to or greater than the fair value of the TSS MS shareholding surrendered in terms of the transaction.

Our opinion relates only to the fairness of the transaction.

## **Information utilised and procedures performed**

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

- obtained an understanding of the rationale, structure, terms and conditions of the transaction. In this regard we particularly considered the following:
  - the discussions and negotiations between UCS, TSS and TSS MS in arriving at the transaction value and terms;
  - the purchase consideration in respect of the acquisition of 60% of TSS MS by UCS Solutions in 2006;
  - the level of the performance thresholds set out in the Share Purchase and Repurchase Agreement and the Preference Share Subscription Agreement, as well as the use of revenue targets to moderate the risk of earnings volatility;
  - the security provided in respect of TSS’s obligations under the Preference Share Subscription Agreement;
  - the provisions in respect of the preference share obligations in the event of a sale of the majority of the issued share capital of TSS MS or the sale of the entire or greater part of the business of TSS MS prior to 30 September 2014; and
  - the provision for a potential upside consideration of R45m over and above the upfront cash payments and the preference shares to be issued by TSS;
- considered the audited financial statements of TSS MS for the financial periods ended 30 June 2006, 30 September 2007 and 30 September 2008;
- considered the unaudited management accounts of TSS MS for the eleven months ended 31 August 2009;
- held discussions with the directors and management of TSS MS to establish its strategy, business outlook and considered such other matters as we consider necessary, including contract renewals and pipeline;
- evaluated the risks and expected returns associated with TSS MS;
- reviewed the management forecast financial models (“the financial models”) in respect of TSS MS and the basis of the assumptions therein including the prospects of the business. This review included an assessment of the recent historical performance to date as well as the reasonableness of the outlook assumed based on discussions with management;
- reviewed the reasonableness of material assumptions in the financial models relating to contract wins, extensions and terminations;
- adjusted the financial models to extend the explicit forecast period to 2016 in line with the performance targets set out in the terms and conditions of the transaction. The extensions were based on KPMG’s discussions with TSS MS management in respect of annual business growth rates and probable contract terms;
- based on the above, performed a valuation of TSS MS and the preference shares to be issued to UCS by TSS. The discounted cash flow methodology was the primary valuation methodology employed in respect of the TSS MS valuation. Additionally, sensitivity analyses were performed

considering key assumptions in arriving at a valuation range. Key value drivers to the valuation included the discount rate and operating margins. As the business of TSS MS is highly dependent on key client contracts, the contract terms (e.g. duration and renewal provisions) of current contracts and the contract pipeline (i.e. contracts that are in the process of being negotiated and/or concluded) were also considered to be key value drivers;

- considered whether the terms of the transaction fairly reflect the risk profile of the contracts' outlook for TSS MS in so far as value is concerned; and
- considered any other anticipated effects of the scheme to the extent that they represent additional net quantifiable benefits to the shareholders.

## **Opinion**

KPMG has considered the terms and conditions of the transaction and, based upon and subject to the conditions set out herein, is of the opinion that the terms and conditions of the transaction are fair to UCS shareholders.

Our opinion is necessarily based upon the information available to us up to 9 October 2009, 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 proposed transaction have been or will be timeously fulfilled and/or 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 opinion is provided to board of directors and shareholders of UCS in connection with and for the purposes of the proposed transaction. This opinion is prepared solely for the UCS board of directors and therefore should not be regarded as suitable for use by any other party or give rise to third party rights. This opinion does not purport to cater for each individual shareholder's perspective, but rather that of the general body of UCS shareholders. Should a shareholder be in doubt as to what action to take, he or she should consult an independent adviser.

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

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 TSS MS and 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, the forecasts of TSS MS relate to future events and are based on assumptions that may or may not remain valid for the whole of the forecast 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 TSS MS will correspond to those projected. Where practicable, we compared the forecast financial information to past trends as well as discussing the assumptions inherent therein with the management of TSS MS and UCS. On the basis of these enquiries and such other procedures we consider appropriate to the circumstances, we believe that the forecasts have been prepared with due care and consideration.

We have also assumed that the transaction 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 respect of the transaction will be legally enforceable.

**Independence**

We have no direct or indirect interest in shares of both UCS and TSS MS.

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

**Neeraj Shah**

*Director – Corporate Finance*  
KPMG Services (Pty) Ltd

KPMG Crescent  
85 Empire Road  
Parktown  
2193"

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## HISTORICAL FINANCIAL INFORMATION OF TSS MANAGED SERVICES

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The financial statements for the 3 months ended 30 September 2006, the years ended 30 September 2007 and 2008 have been prepared in accordance with International Financial Reporting Standards applicable to the respective reporting periods. The reviewed financial information for the six months ended 31 March 2009 has been prepared using accounting policies that comply with International Financial Reporting Standards and presented in accordance with IAS 34. The financial statements have been prepared on the historical cost basis except for certain financial instruments that are carried at fair value.

### 1. INTRODUCTION

The financial statements for the 3 months ended 30 September 2006, the years ended 30 September 2007 and 2008 have been prepared in accordance with International Financial Reporting Standards applicable to the respective reporting periods. The reviewed financial information for the six months ended 31 March 2009 has been prepared using accounting policies that comply with International Financial Reporting Standards and presented in accordance with IAS 34. The accounting policies are consistent with those of UCS.

The report on this historical financial information is the responsibility of the directors of TSS Managed Services.

There has been no material change in the nature of business of TSS Managed Services during the three years.

No material fact or circumstance has occurred between the latest financial year-end of TSS Managed Services and the date of the circular.

No adjustments concerning the correction of fundamental errors or application of changes in accounting policies have been made in preparing the report of historical financial information.

Non-material adjustments have been made for comparative purposes only.

There have been no subsidiaries, foreign subsidiaries included, whose financial reports were not completed according to IFRS.

TSS Managed Services changed its financial year-end from 30 June to 30 September to align with UCS year end after acquisition in June 2006.

### 2. COMMENTARY

#### 2006

The 2006 historical information was prepared based on IFRS applicable at the reporting period. Accordingly limited disclosures have not been presented in accordance with current IFRS disclosure requirements.

The company contributed ahead of expectations for the 3 months ended 30 September 2006 after implementation of the transaction which saw UCS Solutions Holdings acquire 60% equity position in the business. As a consequence of being awarded the desktop deployment and support contract for the Department of Justice ("DOJ"), the business was focused on aligning its internal business processes to support the growth it experienced as a consequence of the contract.

Revenue for the reporting period amounted to R42.3 million while operating profit, before depreciation and amortization was R6.6 million after management fees payable to TSS in accordance with the management fee agreement concluded at the time of the acquisition, of R9.1 million. Profit before taxation was R6.3 million after negligible depreciation and amortisation and net finance costs of R0.2 million and R0.1 million, respectively.

The effective income tax rate of 32% was higher than the statutory effective tax of 29% due to secondary tax on companies on dividend distributions for the period.

Profit for the period was R4.3 million of which R1.5 million was paid to shareholders by way of dividend distribution.

Property, plant and equipment was R1.1 million after capital expenditure of R0.2 million while the net investment in working capital of R3.4 million, as presented in the cash flow statement, was reflective in the balance sheet with trade and other receivables of R12.6 million, R1.5 million higher than the previous reporting period 3 months before.

Current liabilities totaled R19.7 million inclusive of current taxation liabilities of R3.7 million. The company's current ratio at 30 September 2006 was 1.3:1.

Net cash generated by operations amounted to R3.1 million however after taxation and dividends paid, cash from operating activities totaled 0.7 million for the period. Cash reserves of R8.7 million were therefore largely underpinned by the R8 million increase in loans from TSS.

## **2007**

2007 performance exceeded expectations while the successful formalisation and therefore validation of the awarding of the DOJ contract underpinned the material increase in annuity revenues to be derived from the contract.

Revenue for the year amounted to R152.9 million while operating profit, before depreciation and amortisation was R18.3 million after management fees payable to TSS in accordance with the management fee agreement with the management shareholders, of R17 million. Profit before taxation was R19.4 million for the year after depreciation and amortisation and net investment revenues on cash reserves of R0.9 million and R2 million, respectively.

Cash generation was positive at R9.6 million after taking into account a material reduction in trade and other payables of R8.8 million. Accounts receivable was flat compared with September 2006. The current portion of long term loans represents the balance of the management fee payable to TSS on audit certification of earnings for the period.

## **2008**

Revenue for the year was comparatively flat with the prior year at R152.4 million however trading profit (before depreciation and amortization) was 33% higher than the previous year indicative of material margin and efficiency improvements. Profit from operations before depreciation, amortisation and interest totaled R24.3 million for the year. In this period, the management fees payable to TSS in terms of the agreement to manage TSS Managed Services accumulated to R14.3 million.

After taxation of R9.1 million, profit attributable to shareholders totaled R17.2 million. R20 million from current and prior year reserves was distributed by way of ordinary dividend to shareholders.

Trade and other receivables was substantially increased at 30 September 2008 due to the timing around deferred collections of approximately R20 million received early in October 2008. Taking into account the trade payables increase on the balance sheet date, the net investment in working capital despite the substantial increase in trade receivables as presented in the cash flow statement, was R8.8 million.

## **2009**

The 6 months' trading period to 31 March 2009 was marked by a weaker than expected level of government business in the run-up to the general elections held in April 2009. New contracts within the public sector, namely the South African Social Security's Agency ("SASSA") were at advanced stages of transitioning with significant investment being made in overhead capacity ahead of the new business growth.

Revenue for the period came it at R84.4 million while margin pressure as a consequence of capacity and systems investments ahead of revenues was reflected in profit from operations before write offs of R9.5 million.

Capital expenditure for the period was significantly higher amounting to R6 million due to once-off vehicle and office premises investments.

Trade and other receivables includes R20 million trade receivable collected in April 2009 as well as R10 million prepaid expenditure from goods delivered in the following month.

Cash generated by operations of R10.8 million illustrates the quality of the earnings for the period after a release in working capital investments for the period.

## **TSS Managed Services (Proprietary) Limited**

### **INCOME STATEMENTS**

for the three months ended 30 September 2006, the two financial years ended 30 September 2007 and 30 September 2008 and 6 months ended 31 March 2009:

	<b>Reviewed 6 months 31 March 2009 R</b>	<b>Audited 12 months 30 September 2008 R</b>	<b>Audited 12 months 30 September 2007 R</b>	<b>Audited 3 months 30 September 2006 R</b>
<b>Revenue</b>	84 388 579	152 420 203	152 885 318	42 341 242
Cost of sales	(36 368 750)	(74 093 249)	(93 519 167)	(8 361 024)
<b>Gross profit</b>	48 019 829	78 326 954	59 366 151	33 980 218
Operating costs	(38 915 933)	(54 506 847)	(41 968 350)	(27 653 700)
<b>Operating profit</b>	9 103 896	23 820 107	17 397 801	6 326 518
Interest received	1 031 693	2 526 373	2 060 744	142
Interest paid	(93 911)	(72 201)	(79 497)	(60 660)
<b>Profit before taxation</b>	10 041 678	26 274 279	19 379 048	6 266 000
Taxation	(2 814 154)	(9 063 555)	(6 056 549)	(2 001 953)
<b>Net profit for the year</b>	7 227 524	17 210 724	13 322 499	4 264 047
Earnings per ordinary share attributable to equity holders:				
Earnings per ordinary share (Rand)	72 275	172 107	133 225	42 640
Headline earnings per ordinary share (Rand)	72 275	172 252	133 320	42 640

**TSS Managed Services (Proprietary) Limited**

**BALANCE SHEETS**

at 30 September 2006, 30 September 2007 and 30 September 2008 and 31 March 2009:

	<b>Reviewed 31 March 2009 R</b>	<b>Audited 30 September 2008 R</b>	<b>Audited 30 September 2007 R</b>	<b>Audited 30 September 2006 R</b>
<b>ASSETS</b>				
<b>Non-current assets</b>	7 513 171	3 118 174	1 542 638	1 913 209
Property, plant and equipment (including rental equipment)	6 520 829	988 990	762 294	1 084 239
Intangible assets	10	10	94 075	553 835
Loans receivable	301 679	1 475 000	–	–
Deferred tax assets	690 653	654 174	686 269	275 135
<b>Current assets</b>	59 020 156	45 940 052	44 676 885	25 795 191
Inventory	402 346	503 626	–	–
Trade and other receivables	40 011 580	31 260 681	12 578 298	12 630 664
Intercompany loans	–	–	–	4 475 787
Cash and cash equivalents	18 606 230	14 175 745	32 098 587	8 688 740
<b>Total assets</b>	<b>66 533 327</b>	<b>49 058 226</b>	<b>46 219 523</b>	<b>27 708 400</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>	25 790 400	18 562 876	21 352 152	8 029 653
Share capital	100	100	100	100
Accumulated profits	25 790 300	18 562 776	21 352 052	8 029 553
<b>Non-current liabilities</b>				
Long and medium term loans	1 971 444	–	–	–
<b>Current liabilities</b>	38 771 483	30 495 350	24 867 371	19 678 747
Trade and other payables	27 424 160	17 523 491	7 158 788	15 962 673
Current portion of long-term loans	10 679 308	9 477 844	10 791 199	–
Taxation	668 015	3 494 015	6 917 384	3 716 074
<b>Total equity and liabilities</b>	<b>66 533 327</b>	<b>49 058 226</b>	<b>46 219 523</b>	<b>27 708 400</b>
Net asset value per ordinary share (Rand)	257 904	185 629	213 522	80 297
Net tangible asset value per ordinary share (Rand)	257 904	185 629	212 581	74 758

## TSS Managed Services (Proprietary) Limited

### CASH FLOW STATEMENT

for the three months ended 30 September 2006, the two financial years ended 30 September 2007 and 30 September 2008 and 6 months ended 31 March 2009

	<b>Reviewed 6 months 31 March 2009 R</b>	<b>Audited 12 months 30 September 2008 R</b>	<b>Audited 12 months 30 September 2007 R</b>	<b>Audited 3 months 30 September 2006 R</b>
<b>Cash flow from operating activities</b>	6 050 020	(14 473 669)	8 251 628	691 984
Cash receipts from customers	75 637 680	133 737 820	152 937 684	40 810 647
Cash paid to suppliers and employees	(64 848 810)	(118 210 832)	(143 400 930)	(37 682 130)
Cash generated from operations	10 788 870	15 526 988	9 536 754	3 128 517
Investment income	1 031 693	2 526 373	2 060 744	142
Finance cost	(93 911)	(72 201)	(79 497)	(60 660)
Dividends paid	–	(20 000 000)	–	(1 483 147)
Taxation paid	(5 676 632)	(12 454 829)	(3 266 373)	(892 868)
<b>Cash applied to investing activities</b>	(4 792 443)	(2 135 818)	(108 767)	(166 853)
Additions to property, plant and equipment	(5 972 990)	(729 748)	(108 767)	–
Additions to intangible assets	–	–	–	(166 853)
Loans (advanced)/repaid	1 173 321	(1 475 000)	–	–
Proceeds on sale of property, plant and equipment	7 226	68 930	–	–
<b>Cash received from/ (utilised in) financing activities</b>				
Increase/(Decrease) in inter-company loan	3 172 908	(1 313 355)	15 266 986	7 995 831
<b>Cash and cash equivalents</b>				
– Net increase	4 430 485	(17 922 842)	23 409 847	8 520 962
– At beginning of the period	14 175 745	32 098 587	8 688 740	167 778
– At end of period	18 606 230	14 175 745	32 098 587	8 688 740

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the three months ended 30 September 2006, the two financial years ended 30 September 2007 and 30 September 2008 and 6 months ended 31 March 2009:

	<b>Ordinary share capital R'000</b>	<b>Accumulated profit R'000</b>	<b>Total equity R'000</b>
<b>Balance at 1 July 2006</b>	100	5 248 653	5 248 753
Net profit for the period		4 264 047	4 264 047
Dividends paid		(1 483 147)	(1 483 147)
<b>Audited balance at 30 September 2006</b>	100	8 029 553	8 029 653
Net profit for the year		13 322 499	13 322 499
Dividends paid		–	–
<b>Audited balance at 30 September 2007</b>	100	21 352 052	21 352 152
Net profit for the year		17 210 724	17 210 724
Dividends paid		(20 000 000)	(20 000 000)
<b>Audited balance at 30 September 2008</b>	100	18 562 776	18 562 876
Net profit for the period		7 227 524	7 227 524
Dividends paid		–	–
<b>Reviewed balance at 31 March 2009</b>	100	25 790 300	25 790 400

**TSS Managed Services (Proprietary) Limited****NOTES TO THE CASH FLOW STATEMENTS**

for the three months ended 30 September 2006, the two financial years ended 30 September 2007 and 30 September 2008 and 6 months ended 31 March 2009:

	<b>Reviewed 6 months 31 March 2009 R</b>	<b>Audited 12 months 30 September 2008 R</b>	<b>Audited 12 months 30 September 2007 R</b>	<b>Audited 3 months 30 September 2006 R</b>
<b>Reconciliation of operating profit before interest to cash generated by operation</b>				
Operating profit	9 103 896	23 820 107	17 397 801	6 326 518
<i>Adjusted for:</i>				
Amortisation of intangible assets	–	94 065	459 760	91 465
Depreciation of property, plant and equipment	433 924	419 636	421 207	146 209
Loss on disposal of equipment	–	14 486	9 505	–
<b>Operating profit before working capital changes</b>	<b>9 537 820</b>	<b>24 348 294</b>	<b>18 288 273</b>	<b>6 564 192</b>
Increase in trade and other receivables	(8 750 899)	(18 682 383)	52 366	(1 530 595)
(Decrease)/Increase trade and other payables	9 900 669	10 364 703	(8 803 885)	(1 905 080)
Decrease/(Increase) in inventory	101 280	(503 626)	–	–
<b>Cash generated by operations</b>	<b>10 788 870</b>	<b>15 526 988</b>	<b>9 536 754</b>	<b>3 128 517</b>
<b>Taxation paid</b>				
Opening balance	3 494 015	6 917 384	3 716 074	2 472 722
Charge to the income statement	2 850 632	9 031 460	6 467 683	2 136 220
Closing balance	668 015	3 494 015	6 917 384	3 716 074
	<b>5 676 632</b>	<b>12 454 829</b>	<b>3 266 373</b>	<b>892 868</b>

## **TSS Managed Services (Proprietary) Limited**

### **NOTES TO THE FINANCIAL STATEMENTS**

for the three months ended 30 September 2006, the two financial years ended 30 September 2007 and 30 September 2008 and 6 months ended 31 March 2009

#### **1. GENERAL INFORMATION**

TSS Managed Services (Proprietary) Limited is a limited company incorporated in South Africa. The addresses of the registered office and principal place of business are The Crescent East, 3 Eglin Road, Sunninghill, 2157 and Suite 186, Private Bag X26, Sunninghill, 2157, respectively.

The company's major activity is enterprise management services including server management, operating systems management, server application management, desktop management, software metering, asset management and network monitoring.

#### **2. ADOPTION OF NEW AND REVISED STANDARDS**

For the respective financial periods, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for the respective annual reporting periods. Prior to the 30 September 2006 financial period the company presented its financial statements in accordance with South African Statements of Generally Accepted Accounting Practice. The adoption of these new and revised Standards and Interpretations for the respective periods has not resulted in a change to the company's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Hedges of Net Investments in a Foreign Operation
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRS 2 Share-Based Payment: Vesting Conditions and Cancellations Amendment (Effective for periods beginning on or after 1 January 2009)
- IAS 32 and IAS 1 Amendments for Puttable Instruments and Obligations Arising on Liquidation (Effective for periods beginning on or after 1 January 2009)
- IFRS 1 and IAS 27 Amendments for Cost of Investments in Subsidiaries, Associates and Joint Ventures (Effective for periods beginning on or after 1 January 2009)
- Improvements to International Financial Reporting Standards in May 2008, March 2009, April and June 2009. (Effective for various periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010).

The directors anticipate that the above Standards and Interpretations will be adopted in the financial statements at their effective dates and the adoption of those Interpretations will have no material impact on the financial statements of the company in the period of initial application.

#### **3. ACCOUNTING POLICIES**

The financial statements for the 3 months ended 30 September 2006, the years ended 30 September 2007 and 2008 have been prepared in accordance with International Financial Reporting Standards applicable to the respective reporting periods. The reviewed financial information for the six months ended 31 March 2009 has been prepared using accounting policies that comply with International Financial Reporting Standards and presented in accordance with IAS 34. The financial statements have been prepared on the historical cost basis except for certain financial instruments that are carried at fair value.

The financial statements are presented in South African rands as the reporting currency, which is the same as its functional currency. The principal accounting policies adopted are set out below.

### 3.1 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of rebates, discounts, VAT and other sales related taxes.

#### *Revenue arising from the rendering of services*

Revenue arising from the rendering of services, is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

#### *Finance income*

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

### 3.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of property, plant and equipment, other than land, to their estimated residual values over their estimated useful lives. Where significant parts of an item have different useful lives to the item itself, these parts are depreciated over their own estimated useful lives. Useful lives, residual values and methods of depreciation are reviewed annually.

The estimated useful lives are as follows:

Leasehold improvements	20%
Furniture and fitting	16.67%

The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income in the period in which the sale took place.

### 3.3 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over the estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The company holds intangible assets of computer software which are amortised at a rate of 50% per annum.

### 3.4 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### *The company as lessee*

Assets held under finance leases are initially recognised as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **3.5 Taxation**

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed.

Temporary differences between the carrying amount of assets and liabilities in the financial statements and corresponding tax basis used in the computation of assessable tax profit. In general, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill or from the initial recognition of other assets and liabilities which affects neither the tax profit nor the accounting profit at the time of the transaction.

### **3.6 Borrowing costs**

Borrowing costs for qualifying assets are capitalised (refer to the above notes and any other borrowing costs are expensed as and when incurred).

### **3.7 Dividends paid**

Dividends to shareholder are accounted for once they have been approved by the board of directors.

### **3.8 Financial Instruments**

Financial assets and liabilities are recognised on the company's balance sheet when the company becomes party to a contractual agreement.

#### *Trade receivables*

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

#### *Bank and cash balances*

Cash and cash equivalents comprise cash on hand and demand deposits which are subject to insignificant risk of changes in value.

#### *Financial liabilities and equity instruments*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

#### *Trade and other payables*

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### *Equity instruments*

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

### **3.9 Provisions**

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the directors' best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect is material.

### **3.10 Inventories**

Inventories are stated at the lower of cost, calculated using the weighted average method on a first-in first-out basis, and net realisable value after making allowances for redundant items. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### **3.11 Impairment of intangible assets and tangible assets**

At each balance sheet date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

### **3.12 Related parties**

Parties are considered to be related to the company if the company has the ability, directly or indirectly, to control the party, jointly control or exercise significant influence over the party in making financial and operating decisions, or *vice versa*, or where the company

and the party are subject to common control or common significant influence. Related parties also include key management personnel which are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

#### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates of assets lives, depreciation and residual values

Plant and equipment are depreciated to their residual values over their expected useful lives. Residual values and assets lives are assessed annually based on management's judgment of relevant factors and conditions. At the balance sheet date management considered the useful lives and residual values as determined during the "at acquisition revaluation exercise" to still be appropriate. Accordingly useful lives and residual values have not been revised.

	<b>Reviewed 6 months 31 March 2009</b>	<b>Audited 12 months 30 September 2008</b>	<b>Audited 12 months 30 September 2007</b>	<b>Audited 3 months 30 September 2006</b>
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#### 5. REVENUE

An analysis of the company's revenue for the period (excluding interest income) is as follows:

Revenue from the sale of goods	5 770 482	27 022 168	28 109 966	–
Revenue from rendering services	78 618 097	125 398 035	124 775 352	42 341 242
	<b>84 388 579</b>	<b>152 420 203</b>	<b>152 885 318</b>	<b>42 341 242</b>

#### 6. OPERATING PROFIT

Operating profit is stated after the following:

Auditors' remuneration – current year	166 105	344 193	256 042	30 000
Consulting fees	1 399 650	4 087 756	1 161 612	240 012
Amortisation and Depreciation	433 924	513 701	880 967	237 674
Management fees paid to Tactical Software Systems (Pty) Limited	10 709 966	14 332 920	16 951 015	9 141 009
Operating lease – premises	1 595 718	2 104 703	1 254 992	318 081
Operating lease – equipment	2 874	61 351	–	7 410
Pension fund contributions	47 955	233 610	120 308	–
Loss on disposal of equipment	–	14 486	9 505	–
Staff costs	18 139 051	20 222 852	13 623 207	15 987 101
Number of employees at period end	352	318	309	311

#### 7. INTEREST RECEIVED

Interest received from financial institutions	<b>1 031 693</b>	<b>2 526 373</b>	<b>2 060 744</b>	<b>142</b>
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	<b>Reviewed 6 months 31 March 2009</b>	<b>Audited 12 months 30 September 2008</b>	<b>Audited 12 months 30 September 2007</b>	<b>Reviewed 3 months 30 September 2006</b>
<b>8. INTEREST PAID</b>				
Interest received to financial institutions	<b>93 911</b>	<b>72 201</b>	<b>79 497</b>	<b>60 660</b>
<b>9. TAXATION</b>				
<i>South African</i>				
Current taxation – current year	2 850 632	7 031 460	6 467 683	1 950 827
Deferred taxation – current year	(36 478)	32 095	(411 134)	(134 267)
Secondary Taxation on Companies		2 000 000		185 393
	<b>2 814 154</b>	<b>9 063 555</b>	<b>6 056 549</b>	<b>2 001 953</b>
<b>Reconciliation of rate of taxation</b>				
South African rate of taxation	28%	28%	29%	29%
Disallowed expenditure		(1%)	1%	–
Secondary tax on companies		8%	1%	3%
	<b>28%</b>	<b>35%</b>	<b>31%</b>	<b>32%</b>

	Cost	Accumulated depreciation	Net book value
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>			
<b>2009</b>			
Office and computer equipment	1 658 199	(692 089)	966 110
Furniture and fittings	1 534 875	(74 851)	1 460 024
Motor vehicles	1 100 000	(34 959)	1 065 041
Leasehold improvements	3 155 615	(125 961)	3 029 654
	<b>7 448 689</b>	<b>927 860</b>	<b>6 520 829</b>
<b>2008</b>			
Office and computer equipment	1 354 751	(486 709)	868 042
Leasehold improvements	158 594	(37 646)	120 948
	<b>1 513 345</b>	<b>(524 355)</b>	<b>988 990</b>
<b>2007</b>			
Office and computer equipment	1 389 204	(704 097)	685 107
Leasehold improvements	79 848	(2 661)	77 187
	<b>1 469 052</b>	<b>(706 758)</b>	<b>762 294</b>
<b>2006</b>			
Office and computer equipment	<b>1 369 790</b>	<b>(285 551)</b>	<b>1 084 239</b>
<i>Movement in property, plant and equipment</i>			
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>2006</b>		
Office and computer equipment			
– Net book value at beginning of period	868 042	685 107	1 084 239
– Additions	303 448	651 002	28 919
– Disposals	(7 227)	(83 416)	(9 505)
– Depreciation	(198 153)	(384 651)	(418 546)
Net book value at end of period	<b>966 110</b>	<b>868 042</b>	<b>685 107</b>
Furniture and Fittings			
– Net book value at beginning of period	–	–	–
– Additions	1 534 875	–	–
– Disposals	–	–	–
– Depreciation	(74 851)	–	–
Net book value at end of period	<b>1 460 024</b>	<b>–</b>	<b>–</b>
Motor vehicles			
– Net book value at beginning of period	–	–	–
– Additions	1 100 000	–	–
– Disposals	–	–	–
– Depreciation	(34 959)	–	–
Net book value at end of period	<b>1 065 041</b>	<b>–</b>	<b>–</b>

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Leasehold improvement				
– Net book value at beginning of period	120 948	77 187	–	–
– Additions	3 034 667	78 746	79 848	–
– Depreciation	(125 961)	(34 985)	(2 661)	–
Net book value at end of period	<b>3 029 654</b>	<b>120 948</b>	<b>77 187</b>	<b>–</b>
	<b>6 520 829</b>	<b>988 990</b>	<b>762 294</b>	<b>1 084 239</b>

	<b>Cost</b>	<b>Accumulated Amortisation</b>	<b>Net book value</b>	
<b>11. INTANGIBLE ASSETS</b>				
<b>2009</b>				
Computer software	645 300	645 290	10	
<b>2008</b>				
Computer software	645 300	645 290	10	
<b>2007</b>				
Computer software	645 300	551 255	94 075	
<b>2006</b>				
Computer software	645 300	(91 465)	553 835	
Movement in Intangible Assets				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
– Net book value at beginning of period	10	94 075	553 835	478 447
– Additions	–	–	–	166 853
– Disposals	–	–	–	–
– Depreciation	–	(94 065)	(459 760)	(91 465)
Net book value at end of period	<b>10</b>	<b>10</b>	<b>94 075</b>	<b>553 835</b>

## 12. DEFERRED TAXATION

Balance at beginning of period	654 174	686 269	275 135	140 868
Deferred tax (credit)/charge	36 479	(32 095)	411 134	134 267
Balance at end of period	<b>690 653</b>	<b>654 174</b>	<b>686 269</b>	<b>275 135</b>
Analysis of deferred taxation				
Lease expenditure	–	22 699	7 124	–
Provisions	1 069 809	1 310 553	635 195	275 135
Payments in advance	2 521 258	619 922	43 950	–
Prepayments	(2 900 414)	(1 299 000)	–	–
Balance at end of period	<b>690 653</b>	<b>654 174</b>	<b>686 269</b>	<b>275 135</b>

	2009	2008	2007	2006
<b>13. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	30 558 210	27 942 173	13 990 603	11 060 150
Provision for doubtful debt	(1 391 523)	(2 817 901)	(1 719 274)	(171 658)
	29 166 687	25 124 272	12 271 329	10 888 492
Deposits	174 296	146 809	41 467	7 018
Staff loans	177 134	1 291 289	65 000	–
Amounts due from customers under service contracts	–	1 232 349	–	–
Value added taxation	–	–	200 502	–
Prepaid expenses	10 358 619	3 164 284	–	1 735 154
Sundry debtors	134 844	301 678	–	–
	<b>40 011 580</b>	<b>31 260 681</b>	<b>12 578 298</b>	<b>12 630 664</b>

#### 14. INVENTORIES

Finished goods	402 346	503 626	–	–
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#### 15. SHARE CAPITAL

Authorised				
1 000 ordinary shares of R1 each	1 000	1 000	1 000	1 000
Issued				
100 ordinary shares of R1 each	100	1 00	1 00	100

The directors of the company do not have the right to issue shares.

#### 16. TRADE AND OTHER PAYABLES

Trade payables	9 698 169	8 802 134	1 563 869	7 924 469
Provisions	1 394 224	1 862 248	2 077 134	1 188 743
Accruals	4 812 088	5 877 459	3 366 235	2 692 100
Dividends payable	–	–	–	1 668 540
Value added tax payable	2 515 187	–	–	2 488 821
Income received in advance	9 004 492	981 650	151 550	–
	<b>27 424 160</b>	<b>17 523 491</b>	<b>7 158 788</b>	<b>15 962 673</b>

Provisions	Leave pay provision	Incentive provision	Total
Opening balance at 1 July 2006	485 750	550 000	1 035 750
Movements during the period	462 993	(310 000)	152 993
Closing balance at 30 September 2006	948 743	240 000	1 188 743
Movements during the year	728 391	160 000	888 391
Closing balance at 30 September 2007	1 677 134	400 000	2 077 134
Movements during the year	185 514	(400 000)	(214 486)
Closing balance at 30 September 2008	1 862 648	–	1 862 648
Movements during the period	(468 424)	–	(468 424)
Closing balance at 31 March 2009	<b>1 394 224</b>	<b>–</b>	<b>1 394 224</b>

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>17. INTER-COMPANY LOAN</b>				
Tactical Software Systems (Proprietary) Limited	12 650 752	9 477 844	10 791 199	–

The inter-company loan is an unsecured loan, payable on demand and attracts interest at rates linked to the prime rate.

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>18. RELATED PARTIES</b>				
<b>Identity of related parties</b>				
The shareholding of TSS Managed Services (Pty) Ltd is as follows:				
Tactical Software Systems (Pty) Ltd	46%	46%	40%	40%
UCS Solutions Holdings (Pty) Ltd	54%	54%	60%	60%

**Material related party transactions**

During the year, the company, in the ordinary course of business, entered into various transactions with related parties and other companies within the UCS Group, who are considered to be related parties. These transactions were completed at market value.

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Material transactions with related parties:				
Services purchased from Tactical Software Systems (Pty) Ltd	3 112 668	17 780 933	3 967 454	8 880 169
Services purchased from UCS Solutions (Pty) Ltd	810 430	1 243 748	330 000	–
Services rendered to UCS Solutions (Pty) Ltd	6 206	34 256	189 043	–
Interest received from Tactical Software Systems (Pty) Ltd	10 709 966	14 322 920	16 951 015	9 141 009
Management fee paid to Tactical Software Systems (Pty) Ltd	–	14 322 920	26 092 024	–
Trade accounts payable balance to UCS Solutions (Pty) Ltd	725 787	700 352	376 200	–

**Compensation of key management personnel**

The remuneration of directors and other members of key management during the periods were as follows:

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<i>Salary and allowances</i>				
Jehan Mackay	1 219 120	1 181 460	1 200 000	300 000
Danny Mackay	616 915	–	–	–
<b>Total</b>	<b>1 836 035</b>	<b>1 181 460</b>	<b>1 200 000</b>	<b>300 000</b>

## 19. LEASE COMMITMENTS

Premises

The company rents its premises under operating leases. The lease agreement as at 31 March 2009 expires in May 2010. The future minimum lease payments under the rental agreement are as follows:

	2009	2008	2007	2006
Due within one year	2 967 431	1 093 730	1 009 539	1 272 324
Due within two to five years	8 408 407		1 904 992	
	11 375 838	1 093 730	2 914 531	1 272 324

  

	2009	2008	2007	2006
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## 20. FINANCIAL INSTRUMENTS

Financial instruments are stated at their carrying amounts:

*Loans and receivables at amortised cost*

Trade and other receivables	40 011 580	31 260 681	12 578 298	12 630 664
Loans to related parties				4 475 787

*Financial Liabilities at amortised cost*

Trade and other payables	27 424 160	17 523 491	7 158 788	15 962 673
Loans from related parties	12 650 752	9 477 844	10 791 199	–

### Capital risk management

The company manages its capital to ensure the company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the company comprises cash and cash equivalents and equity attributable to the parent comprising share capital, reserves and retained earnings. The directors review the capital structure on an annual basis taking into consideration the requirements for working capital, capital expenditure and shareholder dividends. Where applicable, overdraft facilities are utilised to fund short-term deficits in cash and cash equivalents and deferring the declaration of any dividends until such time that the company has returned to a positive cash position.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3.8 to the financial statements.

### Categories of financial instruments

Financial assets include trade and other receivables, loans to related parties, and cash and cash equivalents. Financial liabilities include trade and other payables and loans from related parties. The category to which each financial asset and financial liability belongs has been disclosed above. The carrying amounts of the financial assets and financial liabilities approximate their fair values.

### Financial risk management objectives

The company seeks to minimise the effect of these risks through the development, regular review and implementation of internal policies governing the company's exposure to foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity.

## Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the company. The company has a policy of dealing with creditworthy customers as a means of mitigating such loss. The company's exposure to credit risk from customers is continually monitored and is controlled by credit limits established for each customer which are reviewed and approved annually and before any new customer is accepted. The company does not make use of credit guarantee insurance cover.

Government Institution clients represent R27 958 152 (31 March 2009), R27 942 173 (30 September 2008), R13 990 603 (30 September 2007) and R11 060 150 (31 March 2009) of the trade receivables balance at each period end. The credit exposure on these customers is represented 83% (2009) 64% (2008), 36% (2007) and 100% (2006) by amounts that are neither past due nor impaired. The company only regards counterparties as having similar characteristics if they are related entities.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

	2009	2008	2007	2006
Trade receivables (net of provisions)	29 166 687	25 124 272	12 271 329	10 888 492
Other receivables	10 844 893	6 136 409	306 969	1 742 172
	40 011 580	31 260 681	12 578 298	12 630 664

	Government Institutions	Other	Total
<b>2009</b>			
<b>Neither past due, nor impaired</b>	23 171 094	971 176	24 142 270
Low	23 171 094	971 176	24 142 270
Medium	–	–	–
High	–	–	–
<b>Renegotiated</b>	4 840 989	512 528	5 353 517
30 to 60 days	1 740 219	512 528	2 252 747
60 – 120 days	3 100 770	–	3 100 770
<b>Impaired</b>	(53 931)	1 116 354	1 062 423
120 days	224 202	–	224 202
> 120 days	(278 133)	1 116 354	838 221
<b>Total</b>	27 958 152	2 600 058	30 558 210

	Government Institutions	Other	Total
<b>2008</b>			
<b>Neither past due, nor impaired</b>	17 972 019	–	17 972 019
Low	17 972 019		17 972 019
Medium			
High			
<b>Renegotiated</b>	7 152 252	–	7 152 252
30 to 60 days	4 563 143		4 563 143
60 – 120 days	2 589 109		2 589 109
<b>Impaired</b>	2 817 902	–	2 817 902
120 days	166 373		166 373
> 120 days	2 651 529		2 651 529
<b>Total</b>	27 942 173	–	27 942 173

	<b>Government Institutions</b>	<b>Other</b>	<b>Total</b>
<b>2007</b>			
<b>Neither past due, nor impaired</b>	5 034 206	–	5 034 206
Low	5 034 206		5 034 206
Medium			
High			
<b>Renegotiated</b>	7 237 123	–	7 237 123
30 to 60 days	6 596 190		6 596 190
60 –120 days	640 933		640 933
<b>Impaired</b>	1 719 274	–	1 719 274
120 days	365 447		365 447
> 120 days	1 353 827		1 353 827
<b>Total</b>	13 990 603	–	13 990 603

	<b>Government Institutions</b>	<b>Other</b>	<b>Total</b>
<b>2006</b>			
<b>Neither past due, nor impaired</b>	11 060 150	–	11 060 150
Low	11 060 150		11 060 150
<b>Total</b>	11 060 150		11 060 150

#### **Liquidity risk management**

The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained.

Trade and other payables are paid within 90 day terms and the carrying amounts of R27 424 160 (2009), R17 523 491 (2008), R7 158 788 (2007) and R15 962 673 (2006) are equivalent to the physical cash outflows of these payments when made.

#### **Fair value of financial instruments**

Financial assets include trade and other receivables, loans to related parties, and cash and cash equivalents. Financial liabilities include trade and other payables and loans from related parties. The directors are of the opinion that the carrying amounts of the financial assets and financial liabilities approximate their fair values.

#### **Interest rate risk management**

The company is exposed to interest rate risk as it has positive cash holdings at the respective period ends, which are linked to movements in the prime interest rate. The sensitivity analysis below has been determined on the exposure to interest rates for cash and cash equivalents at period end.

If interest rates had been 200 basis points higher and all other variables were held constant (such as the quantum of cash and cash equivalents on hand), the company's profit would increase after tax by R114 280 for the six months ended 31 March 2009, R283 515 for the year ended 30 September 2008, R641 972 for the year ended 30 September 2007 and R26 for the 3 months ended 30 September 2006.

If interest rates had been 200 basis points lower and all other variables were held constant (such as the quantum of cash and cash equivalents on hand), the company's profit would decrease after tax by R114 280 for the six months ended 31 March 2009, R283 515 for the year ended 30 September 2008, R641 972 for the year ended 30 September 2007 and R26 for the 3 months ended 30 September 2006.

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**REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF TSS MANAGED SERVICES**

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14 October 2009

The Directors  
UCS Group Limited  
28th Floor  
209 Smit Street  
Braamfontein  
2001

Dear Sirs

**REPORT OF THE INDEPENDENT REPORTING ACCOUNTANTS ON THE HISTORICAL FINANCIAL INFORMATION OF TSS MANAGED SERVICES (PROPRIETARY) LIMITED**

**Introduction**

At your request and for the purposes of the circular to the UCS Group Limited shareholders, to be dated on or about 19 October 2009, we present our report on the historical financial information in respect of the disposal by UCS Solutions Holdings (Proprietary) Limited of its shareholding in TSS Managed Services (Proprietary) Limited ("TSSMS"), as set out in Annexure 2 of this circular, in compliance with the Listings Requirements of the JSE Limited ("JSE").

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards for the 3 months ended 30 September 2006 and the years ended 30 September 2007 and 2008, and the reviewed financial information for the six months ended 31 March 2009 in accordance with International Accounting Standard applicable to interim financial reporting. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the historical financial information included as Annexure 2 of this circular.

**Scope**

We have audited the financial information of TSSMS for the 3 months ended 30 September 2006, the years ended 30 September 2007 and 2008, and reviewed the financial information for the six months ended 31 March 2009.

## **Basis of opinion**

### **Audit opinion**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Review conclusion**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Opinion**

### **Audit opinion**

In our opinion, the historical financial information of TSSMS for the 3 months ended 30 September 2006, the years ended 30 September 2007 and 2008 fairly present, in all material respects, the financial position at those dates, and the results of the operations and cash flows for the periods then ended in accordance with International Financial Reporting Standards applicable to the respective reporting periods and the JSE Listings Requirements.

### **Review conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the historical financial information of TSSMS for the six months ended 31 March 2009, does not present fairly, in all material respects, the financial position of TSSMS and its financial performance and its cashflows for the period then ended in accordance with International Accounting Standard applicable to interim financial reporting (IAS 34) and the JSE Listings Requirements.

## **Consent**

We consent to the inclusion of this report, which will form part of the circular to shareholders of UCS Group Limited, to be issued on or about 15 October 2009, in the form and context in which it appears.

Yours faithfully

### **Deloitte & Touche**

*Registered Auditors*

Per B W Smith

Partner

Deloitte & Touche

Deloitte Place

The Woodlands

Woodlands Drive

Woodmead

2196

14 October 2009

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock  
Audit DL Kennedy Tax & Legal and Risk Advisory L Geeringh Consulting L Bam Corporate Finance  
CR Beukman Finance TJ Brown Clients & Markets NT Mtoba Chairman of the Board

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

## PRO FORMA CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET OF UCS

The unaudited *pro forma* income statement and balance sheet of UCS have been prepared for illustrative purposes only to provide information on how the disposal may have impacted on the results and financial position of UCS. Preparation of the unaudited *pro forma* income statement and balance sheet of UCS is the responsibility of the directors. Because of their nature, the unaudited *pro forma* income statement and balance sheet of UCS may not fairly present UCS's results and financial position after the disposal.

### CONDENSED CONSOLIDATED INCOME STATEMENT

for the period ended 31 March 2009

	Published interim results 31 March 2009 <sup>1</sup>	Effects of the HCL Axon Transaction	After the HCL Axon Transaction and Before this Transaction <sup>2</sup>	TSSMS contribution to earnings <sup>3&amp;4</sup>	Pro forma adjustments <sup>5</sup>	"After"
	2009/03/31 R'000	R'000	2009/03/31 R'000	R'000	R'000	2009/03/31 R'000
<b>Revenue</b>	724 882	2 500	727 382	(84 389)	6	642 999
<b>Profit from operations before interest, depreciation, amortisation and research and development</b>	95 487	34 894	130 381	(9 538)	(1 855)	118 988
Depreciation of property, plant and equipment (including rental equipment)	(20 821)	–	(20 821)	434	–	(20 387)
Amortisation of intangible assets	(20 622)	–	(20 622)	–	5 017	(15 605)
Impairment of intangible assets including goodwill	(15 398)	–	(15 398)	–	–	(15 398)
Research and development expenditure	(4 098)	–	(4 098)	–	–	(4 098)
<b>Profit before finance charges investment revenues and taxation</b>	34 548	34 894	69 442	(9 104)	3 162	63 500
Net interest paid	(9 279)	–	(9 279)	(938)	–	(10 217)
Finance charges	(13 406)	–	(13 406)	94	–	(13 312)
Investment revenues	4 127	–	4 127	(1 032)	–	3 095
<b>Profit before taxation</b>	25 269	34 894	60 163	(10 042)	3 162	53 283
Taxation	(20 234)	(8 442)	(28 676)	2 814	(1 404)	(27 266)
<b>Profit for the period</b>	5 035	26 452	31 487	(7 228)	1 758	26 017
Attributable to:						
Equity holders of the parent	279	26 452	26 731	(3 903)	96	22 924
Minority interest	4 756	–	4 756	(3 325)	1 662	3 093
	5 035	26 452	31 487	(7 228)	1 758	26 017
Earnings per share (cents)	0.1	9.1	9.2			7.9
Headline earnings per share (cents)	5.2	–	5.2			3.2
Ordinary shares in issue net of treasury shares held ('000)	292 080	–	292 080			292 080
Weighted average number of ordinary shares in issue ('000)	290 734	–	290 734			290 734
Diluted number of ordinary shares ('000)	296 067	–	296 067			296 067

## CONDENSED CONSOLIDATED BALANCE SHEET

at 31 March 2009

	Published interim results 31 March 2009 <sup>1</sup> R'000	Effects of the HCL Axon Transaction R'000	After the HCL Axon Transaction and Before this Transaction <sup>2</sup> R'000	TSSMS deconsolidation <sup>4</sup> R'000	Pro forma adjustments <sup>5</sup> R'000	"After" R'000
<b>ASSETS</b>						
<b>Non-current assets</b>	574 197	(29 285)	544 912	(7 514)	(29 243)	508 155
Property, plant and equipment (including rental equipment)	97 312	(286)	97 026	(6 521)		90 505
Intangible assets	103 129	(1 311)	101 818		(8 861)	92 957
Goodwill	314 321	(20 937)	293 384		(50 035)	243 349
Investments and loans receivable	14 162	–	14 162	(302)	27 172	41 032
Finance lease receivables	3 219	–	3 219		–	3 219
Deferred tax assets	42 054	(6 751)	35 302	(691)	2 481	37 093
<b>Current assets</b>	426 811	55 230	482 041	(59 019)	34 274	457 296
Inventories	56 154	–	56 154	(402)		55 752
Trade and other receivables	249 888	(6 098)	243 790	(40 011)	(726)	203 053
Finance lease receivables	3 025	–	3 025		–	3 025
Current taxation receivable	1 901	–	1 901	–	–	1 901
Cash and cash equivalents	115 843	62 328	177 171	(18 606)	35 000	193 565
<b>Total assets</b>	<b>1 001 008</b>	<b>25 945</b>	<b>1 026 953</b>	<b>(66 533)</b>	<b>5 032</b>	<b>965 452</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Capital and reserves</b>	501 446	26 982	528 428	(25 790)	4 063	506 701
Equity attributable to equity holders of the parent	470 611	26 982	497 593	(25 790)	25 790	497 593
Group profit on disposal (equity)	–	–	–	–	(6 452)	(6 452)
Minority interest	30 835	–	30 835		(15 275)	15 560
<b>Non-current liabilities</b>	148 561	–	148 561	(1 971)		146 590
Long term loans	132 556	–	132 556	(1 971)		130 585
Deferred tax liabilities	16 005	–	16 005		–	16 005
<b>Current liabilities</b>	351 001	(1 037)	349 964	(38 772)	969	312 161
Trade and other payables and provisions	252 654	(3 197)	249 457	(18 421)	80	231 116
Current portion of long-term loans	76 393	–	76 393	(10 679)	(2 934)	62 780
Revenue received in advance	15 527	–	15 527	(9 004)		6 523
Current taxation payable	6 427	2 160	8 587	(668)	3 823	11 742
<b>Total equity and liabilities</b>	<b>1 001 008</b>	<b>25 945</b>	<b>1 026 953</b>	<b>(66 533)</b>	<b>5 032</b>	<b>965 452</b>
Net asset value per share (cents)	161.1	9.3	170.4			168.2
Tangible net asset value per share (cents)	19.7	16.8	36.5			53.1

### Notes and assumptions:

- Based on the published reviewed interim results for the six months ended 31 March 2009.
- Based on the figures as set out in the "After the Transaction" column in terms of the announcement released on SENS on 16 July 2009 regarding the HCL Axon Transaction.

The *pro forma* financial effects in respect of the HCL Axon Transaction are based on the following assumptions:

- The reversal of the Enterprise Solutions Business contribution to earnings and headline earnings for the six months ended 31 March 2009 of R0.3 million;
- R56.8 million net purchase consideration comprising the upfront purchase consideration of R62.1 million assuming no upward adjustments, on the basis the Enterprise Solutions Business does not achieve or exceed the defined growth revenue targets, after funding the settlement of working capital of R5 million and share incentive obligations of R0.34 million;

- The realisation of the applicable profit on sale of the going concern business which amounts to R34.7 million pre tax and transaction costs;
  - The inclusion of a once-off license fee of R2.5 million for the perpetual license to use the pre-configured SAP template;
  - Restructuring costs associated with lease premises and other infrastructure related commitments post the transaction amounting to R1.8 million;
  - Transaction costs of R0.8 million incurred in relation to the disposal; and
  - The net tax effect of the preceding adjustments totals R7.9 million of which the once off component specific to the profit on sale of the going concern business amounts to R8.4 million. This includes the realisation of estimated tax losses, on which deferred tax assets have historically been realised, in UCS Solutions which amounts to R24.7 million at 1 October 2008. UCS Solutions will now as a consequence be in a fully taxable position moving forward.
3. Based on the assumption that the Transaction was effected on 1 October 2008 for income statement purposes and on 31 March 2009 for balance sheet purposes.
  4. TSS Managed Services income statement for the 6 months period ended 31 March 2009 and balance sheet as at 31 March 2009.
  5. Included in the *pro forma* adjustments are the following:
    - a. reversal of earnings totaling R5.8 million as a consequence of the accounting for the management fee payable to TSS as deferred purchase consideration;
    - b. reversal of amortisation of intangible assets associated with the acquisition of TSS Managed Services in June 2006 of R2 million net of deferred tax and minorities interest;
    - c. earnings of R0.5 million derecognised representing intercompany transactions reversed on the de-consolidating TSS Managed Services;
    - d. R4.4 million profit on disposal of TSS Managed Services as at 1 October 2008 comprising:
      - i. Estimated R65 million transaction proceeds comprising:
        1. upfront R25 million cash consideration for the repurchase of the Repurchase Shares;
        2. upfront R10 million cash consideration in respect of the disposal of a portion of the Sale Shares;
        3. deferred R30 million consideration in respect of the balance of the Sale Shares representing the assumed redemption of 600 redemption shares on the achievement of the performance criteria defined for the financial years 2012 and 2013 respectively. Consequently, the remaining number of preference shares with a face value of R15 million is assumed redeemed at the amount equal to their par value of R1 while the R45 million Adjustment Amount has also been excluded for the purposes of the *pro forma* financial effects on the assumption the performance criteria defined in respect of this amount is not achieved;
      - ii. Profit on sale of the 60% interest in TSS Managed Services by UCS Solutions Holdings amounting to R5.8 million pre-tax after the realisation of R45.2 million goodwill and intangible assets of R6 million (net of deferred taxation and minorities interest);
      - iii. Estimated transaction costs of R0.8 million;
      - iv. Dividend income on the redeemable preference shares at the annual coupon rate, currently 7.6%;
      - v. R4.1 million net tax effect of the preceding adjustments.
    - e. R6.5 million loss on disposal of as at 31 March 2009 comprising;
    - f. Estimated R65 million transaction proceeds as summarized above;
    - g. Loss on sale of the 60% interest in TSS Managed Services by UCS Solutions Holdings amounting to R1.8 million pre tax and transaction costs After the realisation of R50.0 million goodwill and intangible assets of R3.8 million (net of deferred taxation and outside shareholders interest);
    - h. Estimated transaction costs of R0.8 million;
    - i. R3.8 million net tax effect of the preceding adjustments.
  6. The net asset value and tangible net asset value per share in terms of the announcement released on SENS on 16 July 2009 regarding the HCL Axon Transaction has been restated however the effects of the Transaction as disclosed on 23 September 2009 has as a consequence not significantly been changed.

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

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"The Directors  
UCS Group Limited  
28th Floor  
209 Smit Street  
Braamfontein  
2001

Dear Sirs

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

We have performed our limited assurance engagement in respect of the *pro forma* financial information set out in paragraph 4 of the circular dated 19 October 2009 issued in connection with the disposal of the entire shareholding in TSSMS that is the subject of this circular of UCS Group Limited. 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 disposal of entire shareholding in TSSMS 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' responsibility**

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 Group Limited; and the *pro forma* adjustments are appropriate for the purposes of the *pro forma* financial information disclosed in terms of the JSE Listings Requirements.

**Reporting accountants' responsibility**

Our responsibility is to express our limited assurance conclusion on the *pro forma* financial information included in the circular to UCS Group Limited 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 work performed**

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 Group Limited the issuer, 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 Group Limited 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 Sections 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 this report, which will form part of the circular, to be issued on or about 19 October 2009, in the form and context in which it will appear.

**Deloitte & Touche**  
*Registered Auditors*  
Per B L Escott  
Partner

Deloitte & Touche  
Deloitte Place  
The Woodlands  
Woodlands Drive  
Woodmead  
2196

15 October 2009

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock  
Audit DL Kennedy Tax & Legal and Risk Advisory L Geeringh Consulting L Bam Corporate Finance  
CR Beukman Finance TJ Brown Clients & Markets, NT Mtoba Chairman of the Board CR Qually Deputy  
Chairman of the Board

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

## MATERIAL LOANS AND BORROWINGS

As at the last practicable date, the details of material loans, including issued debentures (if applicable) made to UCS and any of its subsidiaries are as follows:

Name of lenders	Secured or Unsecured	Date on which loan was made	Period of the loan	Amount	Terms and conditions of repayment or renewal	Interest rate	Details of security provided (if any)	Conversion or redemption rights	If repayable within 12 months, how the repayments are to be financed
Nedbank Limited	Secured	1 September 2008	60 months	R45 382 642	Repayable monthly over 60 instalments, the final instalment payable on 1 September 2013	Prime less 2%	Secured by cession of debtors and limited UCS suretyships of R52 million in favour of Nedbank Limited	N/a	Internal cash reserves
Nedbank Limited	Secured	1 March 2008	60 months	R39 220 500	Repayable monthly over 60 instalments, the final instalment payable on 1 September 2013	Prime less 2%	Secured by cession of debtors and limited UCS suretyships of R50 million in favour of Nedbank Limited	N/a	Internal cash reserves
Nedbank Limited	Secured	Last loan provided in December 2007	60 months	R30 407 658	Repayable monthly, the final instalment payable on 1 January 2013	Prime less 2%	Secured by cession of debtors and limited UCS suretyships of R52 million in favour of Nedbank Limited	N/a	Internal cash reserves
IBM Global	Secured	Various asset based finance loans	36 months	R20 673 463	Repayable quarterly	Variable between 10.39% and 15.56%	Secured by computer and other equipment	N/a	Internal cash reserves
Vendors of Computer Software Consultants (Pty) Ltd	Unsecured*	1 September 2008	Performance based and if achieved payment in May 2010	R17 700 000	Repayable in May 2010 on the achievement of predefined growth profit target	Imputed interest at 9.72%	N/a	N/a	Internal cash reserves

\* Represents the deferred purchase consideration which only becomes due and payable if the business acquired achieves or exceeds the warranted profit. Not a third party/bank loan that would ordinarily require security.

As at the last practicable date, the details of material loans, including issued debentures (if applicable) made to TSS Managed Services and any of its subsidiaries are as follows:

Name of lenders	Secured or Unsecured	Date on which loan was made	Period of the loan	Amount	Terms and conditions of repayment or renewal	Interest rate	Details of security provided (if any)	Conversion or redemption rights	If repayable within 12 months, how the repayments are to be financed
Tactical Software Systems (Pty) Ltd	Unsecured*	1 July 2006	90% repayable on receipt of audited results for the 9 month period ended 30 June 2009 (expected to be by 25 October 2009) and the balance i.e. 10% on the sign off of financial statements (anticipated around March 2010 if part of UCS Group as subject to Group Audit Committee review and approval)	R13 951 218	Repayable on audit verification of the financial results for the period ended 30 June 2009	Non-interest bearing	N/a	N/a	Internal cash reserves

\* As a consequence of the management agreement whereby profits achieved in excess of warranted profits represents a management fee. Essentially also a deferred purchase consideration which only becomes due and payable once audit financial results confirm an achievement in excess of the warranted profit.



**UCS Group Limited**

## **UCS Group Limited**

(Incorporated in the Republic of South Africa)

(Registration number 1993/002253/06)

JSE code: UCS ISIN: ZAE000016150

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### **NOTICE OF GENERAL MEETING**

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Notice is hereby given that a general meeting of shareholders of UCS will be held at 10:00 on Tuesday, 3 November 2009 at the registered offices of UCS being 20<sup>th</sup> Floor, 209 Smit Street, Braamfontein, Johannesburg 2001 for the purpose of considering, and if deemed fit, passing, with or without modification, the following ordinary resolutions:

#### **ORDINARY RESOLUTION NUMBER 1**

"Resolved that, as required by the provisions of the JSE Listings Requirements, the shareholders of the Company hereby approve, as a Category 1 transaction and a related party transaction, the disposal by UCS Solutions Holdings (Proprietary) Limited, being a wholly-owned subsidiary of the Company, of its entire 60% (sixty per cent) shareholding in TSS Managed Services (Proprietary) Limited ("**TSSMS**") to Tactical Software Services (Proprietary) Limited, by way of a share purchase, and TSSMS by way of a share repurchase in accordance with the terms and conditions summarised in more detail in the circular to shareholders to which this notice of general meeting is attached."

The votes of the related parties and their associates will be taken into account in determining the quorum at the general meeting, but will not be taken into account in determining the results of the voting at such meeting in relation to ordinary resolution number 1 as contained in this circular.

#### **ORDINARY RESOLUTION NUMBER 2**

"Resolved that any and all directors of the Company be and are hereby authorised to take all such steps and sign all such documents as are necessary to give effect to ordinary resolution number 1 above and that all such steps and signature of documents by any director of the Company as have already taken place pertaining to the matters contemplated in such ordinary resolution is hereby ratified and approved."

#### **VOTING AND PROXIES**

On a show of hands, each shareholder of the Company who, being a natural person, is present in person or by proxy or, being a company (or other juristic person), is represented by a duly authorised representative at the general meeting, is entitled to one vote on a show of hands, irrespective of the number of UCS shares he/she holds or represents, provided that a proxy shall, irrespective of the number of shareholders he/she represents, have only one vote. On a poll, a shareholder who is present in person or represented by proxy (if a natural person) or represented (if a juristic person) at the general meeting shall be entitled to that number of votes which is equal to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the UCS shares held by him/her bears to the aggregate amount of the nominal value of all the shares issued by the Company.

Each ordinary shareholder of the Company who is entitled to attend and vote at the general meeting may appoint one or more proxies as alternates (none of whom needs to be a shareholder of The Company), to attend, speak and vote in his/her stead. The completion and lodging of forms of proxy will not preclude a shareholder from attending, speaking and voting to the exclusion of the proxy so appointed.

A form of proxy is attached for use by certificated shareholders and "own name" dematerialised shareholders who are unable to attend the UCS general meeting but who wish to be represented thereat. Duly completed forms of proxy must be received by the transfer secretaries of the Company (Link Market Services South Africa (Proprietary) Limited, 11 Diagonal Street, Johannesburg, 2001, (PO Box 4844, Johannesburg, 2000) by no later than 10:00 on Friday, 30 October 2009.

Dematerialised shareholders, other than "own name" dematerialised shareholders, who wish to attend the general meeting, must instruct their Central Securities Depository Participant ("CSDP") or broker to issue them with the necessary Letter of Representative to attend. Should dematerialised shareholders, other than "own name" dematerialised shareholders, be unable to attend the general meeting in person, but wish to vote by proxy, they must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between them and their CSDP or broker.

By order of the board of directors

**Corporate Governance CC**

*Chartered Secretaries*

Company Secretary to UCS Group Limited

Johannesburg  
19 October 2009





UCS Group Limited

# UCS Group Limited

(Incorporated in the Republic of South Africa)

(Registration number 1993/002253/06)

JSE code: UCS ISIN: ZAE000016150

## FORM OF PROXY

### FOR USE BY CERTIFICATED AND "OWN NAME" DEMATERIALISED ORDINARY SHAREHOLDERS ONLY

A certificated or own name dematerialised UCS ordinary shareholder entitled to attend and vote at the general meeting to be held at the registered offices of UCS on Tuesday, 3 November 2009 is entitled to appoint a proxy, or proxies, to attend, speak and vote thereat in his/her stead. A proxy need not be a shareholder of the Company. All forms of proxy must be lodged with the transfer secretaries of the Company (Link Market Services South Africa (Proprietary) Limited, 11 Diagonal Street, Johannesburg, 2001, (PO Box 4844, Johannesburg, 2000) by no later than 10:00 on Friday, 30 October 2009.

Dematerialised shareholders who wish to attend the general meeting or vote by way of proxy must contact their Central Securities Depository Participant ("CSDP") or broker who will provide them with the necessary Letter of Representation to vote or carry out their instructions. This must be effected in terms of the custody agreement entered into between the shareholder and the CSDP or broker.

I/We (NAME IN FULL – IN BLOCK LETTERS)  
of (address)

being the holder(s) of:  ordinary shares in the Company, hereby appoint (see note 1):

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 on my/our behalf at the general meeting which will be held for the purpose 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 vote for or against the said resolutions or to abstain from voting in respect of the shares in the issued capital of the Company registered in my/our name(s), in accordance with the following instructions (see note 2):

	For	Against	Abstain
<b>Ordinary resolution number 1</b> Approve the Transaction, deemed a Category 1 and Related Party Transaction			
<b>Ordinary resolution number 2</b> Allowing any or all of the directors to do all such things and to sign all such documents as may be necessary to implement ordinary resolution number 1			

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of ordinary shares held in respect of which you desire to vote (see note 2).

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2009

Signature \_\_\_\_\_

Assisted by me (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, on a poll, vote in place of that member at the general meeting.

**Please read the notes on the reverse side of this form of proxy.**

**Notes:**

1. A shareholder is entitled to appoint one or more proxies to attend, speak and vote in the place of that shareholder at the general meeting. A proxy need not be a shareholder of UCS. A shareholder may therefore 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 chairman of UCS, or failing him, the chairperson of the general meeting". 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.
2. A shareholder's instructions to the proxy must be indicated by the insertion of an "X" in the appropriate box provided. Failure to comply with the above will be deemed to authorise the chairperson of the general meeting, if the chairperson is the authorised proxy, to vote in favour of the ordinary resolutions at the general meeting, or any other proxy to vote or abstain from voting at the general meeting as he/she deems fit, in respect of the shareholder's total holding.
3. 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.
4. Every shareholder present in person or by proxy and entitled to vote shall, on a show of hands, have only one vote and, upon a poll, every shareholder shall have one vote for every ordinary share held.
5. The chairperson of the general meeting may accept or reject any form of proxy not completed and/or received in accordance with these notes or with the articles of association of UCS.
6. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity (e.g. for a company, close corporation, trust, pension fund deceased estate, etc.) must be attached to this form of proxy, unless previously recorded by UCS or its transfer secretaries or waived by the chairperson of the general meeting.
8. Where this form of proxy is signed under power of attorney, such power of attorney must accompany this form of proxy, unless it has been registered by UCS or its transfer secretaries or waived by the chairperson of the general meeting.
9. Where shares are held jointly, all joint holders are required to sign this form of proxy.
10. His/Her parent or guardian must assist a minor, unless the relevant documents establishing his/her legal capacity are produced or have been registered by UCS or its transfer secretaries.
11. Completed forms of proxy and the authority (if any) under which they are signed must be lodged with or posted to the transfer secretaries of UCS at Link Market Services South Africa (Proprietary) Limited, 11 Diagonal Street, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000) to be received by no later than 10:00 on Friday, 30 October 2009.