

## **UCS GROUP LIMITED**

(Incorporated in the Republic of South Africa)

(Registration number 1993/002253/06)

Share code: UCS

ISIN: ZAE000016150

("UCS" )

## **ANNOUNCEMENT REGARDING THE PROPOSED DISPOSAL BY UCS OF ALL THE SHARES IN AND CLAIMS HELD BY UCS AGAINST CERTAIN OF ITS SUBSIDIARIES TO BUSINESS CONNEXION GROUP LIMITED ("BCG") AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT**

### **1. Introduction**

UCS shareholders ("Shareholders") are referred to the cautionary announcements published by UCS on 30 September 2010 and 11 November 2010 respectively and are advised that BCG and UCS have entered into a sale of shares and claims agreement ("the Agreement") dated 14 December 2010 ("the Signature Date"), in terms of which UCS will, subject to the fulfillment and/or waiver of certain conditions precedent, dispose of all the shares owned by UCS in Accsys (Proprietary) Limited ("Accsys"), CEB Maintenance Africa (Proprietary) Limited ("CEB Maintenance"), Destiny Electronic Commerce (Proprietary) Limited ("Destiny E-Commerce"), UCS Solutions (Proprietary) Limited ("UCS Solutions") and UCS Technology Services (Proprietary) Limited ("UCS Technology Services") (collectively "the Disposal Entities") together with all claims held by UCS against the Disposal Entities, save for the claims against Destiny E-Commerce, to BCG ("the Disposal").

The Disposal Entities are wholly owned subsidiaries of UCS (whether directly or indirectly) ("UCS Group"), save for Destiny E-Commerce, which is 70% owned by the UCS Group.

The Disposal will become effective on the third business day after the date on which the last of the conditions precedent referred to in paragraph 6 below have been fulfilled ("the Effective Date").

### **2. Rationale for the Disposal**

The sale of the Disposal Entities to BCG represents an opportunity for UCS to execute against its stated strategy of separating its service businesses from its software businesses, and in the process unlocking value for the shareholders of UCS. On allotment and issue of the BCG shares in settlement of the guaranteed purchase consideration (as described in paragraph 3 below), UCS will become the largest single shareholder in BCG.

By placing the service businesses into BCG, through essentially an equity swap mechanism, there will be opportunities for such businesses to leverage the BCG group's critical mass, strategic African continental positioning, stronger BBBEE rating and well positioned data centre and cloud computing platforms.

UCS shareholders have the opportunity to remain invested in these assets through the BCG shares to be allotted and issued in settlement of the guaranteed purchase consideration. UCS Group will be required to change its name and will continue to operate as an investment holding company for selected assets including Software and Value Added Services.

The businesses of the Disposal Entities will continue to operate with their existing management structures who are appropriately incentivised to ensure a smooth transition albeit the target companies will continue to operate in their current form under the UCS brand.

### 3. Consideration for the Disposal

The purchase consideration pertaining to the Disposal is up to R614 172 791 ("the Purchase Consideration") and will be settled by a combination of new BCG shares and cash.

A portion of the Purchase Consideration will be discharged through the allotment and issue of 101 243 118 new BCG shares ("the Consideration Shares") to UCS, which will represent 25% plus one share in the issued share capital of BCG at the Effective Date resulting in an aggregate issue price of R584 172 791 based on the volume weighted average traded price ("VWAP") of the BCG shares on the JSE Limited ("JSE") for the 30 trading days ended 30 September 2010, being R5.77.

The balance of the Purchase Consideration of up to R30 000 000 ("the Purchase Consideration Balance") will be paid in cash to UCS on the 5th business day after receipt of the audited management accounts of the Disposal Entities for the financial year ending 30 September 2011 ("the Earn-out Period"), if and to the extent that the agreed net profit after tax ("NPAT") targets of the Disposal Entities are met. Up to R20 000 000 will be deducted from the total Purchase Consideration Balance to meet the costs associated with the achievement of the agreed NPAT targets by the Disposal Entities. To the extent that the aggregated NPAT target is not met, then the Purchase Consideration Balance will be reduced on a sliding scale basis.

Further to the above Purchase Consideration, should BCG dispose of any one or more of the Disposal Entities within 12 months of the Effective Date to an independent third party, UCS shall have the right to elect that in respect of any one of such disposals, BCG and UCS shall share in the net proceeds (in the ratio 30:70) of such disposal where the net proceeds are in excess of the market value of the BCG shares issued to UCS in respect of the acquisition of such Disposal Entity.

Based on the current BCG 30-day VWAP, up to and including Monday, 13 December 2010, being R6.68, the potential purchase consideration including the Purchase Consideration Balance of R30 000 000 is R706 304 028 (excluding any net proceeds as contemplated in the paragraph above).

It is intended that the Consideration Shares will be unbundled to UCS shareholders within six months from when the Disposal becomes effective ("the Unbundling"). From the Signature Date to the date of the Unbundling, the Consideration Shares shall not constitute less than 25% of the entire issued share capital of BCG, plus one BCG share ("the UCS' Minimum Shareholding"). If such minimum threshold is not maintained BCG shall be obliged to allot and issue so many additional BCG Shares so as to ensure that UCS will hold the UCS Minimum Shareholding on the date on which UCS implements the Unbundling, provided that the Unbundling occurs prior to the end of the Earn-out Period.

UCS has undertaken not to complete the Unbundling prior to the expiry of the period commencing on the Effective Date and ending three months thereafter ("UCS Unbundling Period") but as soon as reasonably possible thereafter. UCS shall not itself be entitled to vote the Consideration Shares if the Unbundling has not occurred before the expiry of a period of six months after the expiry of the UCS Unbundling Period. To the extent that UCS is not entitled to vote the Consideration Shares, UCS shall then take instruction from its shareholders on the same basis that a Central Securities Depository Participant (CSDP) takes instructions from the beneficial holders on whose behalf it holds listed shares, and UCS shall vote on the Consideration Shares on the instructions so received from the Shareholders. If any Shareholder fails to direct UCS to vote the Consideration Shares as aforesaid, then such *pro rata* number of Consideration Shares shall not be counted for the purposes of any vote by the shareholders of BCG and any meeting of the shareholders of BCG until the Unbundling has occurred.

The Disposal and Unbundling will further collectively be referred to as “the Transaction” in this announcement.

#### **4. Nature of business of the Disposal Entities**

##### **Accsys**

Accsys is an award winning South African company which develops, markets and supports a comprehensive suite of integrated people management software, Accsys PeopleWare. The business provides high level training, professional consultancy and technical expertise supporting industry leading solutions, including Payroll, ESS, Time & Attendance, Biometric Access Control and Human Resources as well as offering Recruitment and Outsourcing.

##### **CEB Maintenance**

CEB Maintenance specialises in ‘man-in-van’ IT services for large-scale retail operators and has an enviable list of blue chip retail customers.

##### **Destiny E-Commerce**

The business known as CSC is an authorised VeriFone International Partner for VeriFone payment systems into Sub Saharan Africa and has sale and distribution rights for such terminals into the territory. CSC further provides software payment solutions and field support services for use with and in relation to the payment devices and/or systems.

##### **UCS Solutions**

UCS Solutions is a leading business and IT solutions provider to clients in the retail and consumer goods industries. The company harnesses its industry knowledge to help clients achieve better business performance, offering end-to-end consulting, business systems outsourcing and technology services across the full range of IT operations.

##### **UCS Technology Services**

UCS Technology Services renders services relating to the "in-store" point of sale providing software on behalf of third party software vendors, solutions and services required to install, operate and support point-of-sale information technology elements.

#### **5. Application of the Securities Regulation Code on Takeovers and Mergers and the Rules of the SRP (“the SRP Code”) and the JSE Listings Requirements (“Listings Requirements”) to the Transaction**

The Disposal and the subsequent Unbundling will each result in UCS selling or distributing the greater part of its assets as contemplated in section 228 of the Companies Act, No.61 of 1973, as amended (“the Act”), and will, therefore, be deemed to be affected transactions in terms of the SRP Code. The Disposal is a Category 1 transaction for UCS in terms of the Listings Requirements. The Unbundling will be effected by way of a distribution to shareholders as contemplated in Section 90 of the Act and section 5.85 of the Listings Requirements.

Further to the above, UCS shareholder approval will be required to effect the Transaction and a circular setting out details as required by the SRP Code and the Listings Requirements and incorporating a notice convening a general meeting to approve the Transaction will be posted to UCS shareholders in due course (“the Circular”).

In terms of the Code, the UCS Board is required to obtain appropriate external advice on the Transaction as to how it affects Shareholders. Accordingly, the UCS Board will appoint an

independent adviser to provide such advice and their fairness report as well as the UCS Board's recommendation with regard to the Transaction will be included in the Circular.

## 6. Conditions precedent

The Transaction is subject to the fulfillment and/or waiver of, *inter alia*, the following conditions precedent by no later than 29 April 2011 (or such later date as UCS and BCG may agree in writing):

- the approval by the requisite majority of UCS shareholders of the resolutions to be proposed at the general meeting to approve the Disposal and any other matters relating to the Transaction;
- the obtaining by each of UCS and BCG of any regulatory approvals as may be required for the Transaction in terms of the Listings Requirements and the SRP Code;
- the approval by the requisite majority of BCG shareholders in general meeting of the acquisition of the Disposal Entities and any other matters relating to the Transaction;
- the approval of the Competition Authorities of the Disposal;
- a written undertaking from UCS' current BEE shareholders in terms of which they agree not to dispose of so many BCG shares distributed to them pursuant to the Unbundling, or written undertakings from Shareholders in terms of which they agree to sell to BCG so many BCG shares distributed to them pursuant to the Unbundling, or a combination of the above, as is required in order for BCG to retain a BEE ownership status of at least 25% plus 1 BCG share after the Unbundling and until 31 December 2011;
- the approval of the Disposal and all agreements and transactions contemplated therein by Nedbank Limited, to the extent required; and
- the waiver by the 30% minority management shareholders in Destiny E-Commerce of their pre-emptive and related rights under and in terms of the shareholders agreement entered into in respect of Destiny E-Commerce.

## 7. The *pro forma* financial effects of the Disposal and Unbundling

The table below sets out the unaudited *pro forma* financial effects of the Disposal and Unbundling based on the published audited results of UCS for the year ended 30 September 2010. The unaudited *pro forma* financial effects have been prepared for illustrative purposes only, in order to provide information about how the Transaction might have affected Shareholders had the Transaction been implemented on the dates indicated in the notes below. Due to their nature, the unaudited *pro forma* financial effects may not fairly present the financial position or the effect on future earnings of UCS after the Transaction. The preparation of the unaudited *pro forma* financial effects is the responsibility of the directors.

	Before the Transaction (1)	After the Disposal and before the Unbundling (2)	Change %	After the Disposal and after the Unbundling (2)	Change %
Earnings per share (cents)	13.9	157.5	1 033.1	157.5	1 033.1
Diluted earnings per share (cents)	13.7	154.8	1 029.9	154.8	1 029.9
Headline earnings per share (cents)	16.2	(5.3)	(132.7)	(5.3)	(132.7)
Diluted headline earnings per share (cents)	16.0	(5.2)	(132.5)	(5.2)	(132.5)
Net asset value per share (cents)	170.3	314.2	84.5	77.2	(54.7)
Net tangible asset value per share (cents)	31.8	265.5	734.9	28.5	(10.4)
Weighted average number of shares in issue ('000)	284 653	284 653	-	284 653	-
Diluted weighted average number of shares in	289 731	289 731	-	289 731	-

issue ('000)					
Number of shares in issue ('000)	285 356	285 356	-	285 356	-

Notes and assumptions:

1. Based on the published consolidated audited results of UCS for the year ended 30 September 2010.
2. On the assumption that the Disposal and Unbundling took place on 1 October 2009 for consolidated income statement purposes and on 30 September 2010 for statement of financial position purposes.
3. Included in the "After the Disposal and before the Unbundling" earnings and headline earnings are the following adjustments and related assumptions:
  - a. The reversal of the Disposal Entities' contribution to earnings and headline earnings for the twelve months ended 30 September 2010 totaling R62.4 million, net of non-controlling interests of R7.1 million. The reversal excludes the profit realised in the period on the disposal by UCS Solutions of the Enterprise Solutions Division of R12.4 million and related taxation effect of R1.7 million.
  - b. To take into account the Secondary Tax on Companies of R0.7 million relating to a pre -Effective Date dividend paid by Destiny E-Commerce;
  - c. To take into account a total purchase consideration of R706.3 million comprising:
    - i. 101 243 118 new BCG ordinary shares valued at the volume weighted average traded price of BCG on the JSE Limited for the 30 trading days ended Monday, 13 December 2010 being R6.68 per BCG share.
    - ii. The receipt of the Purchase Consideration Balance assuming the NPAT targets are met, before the costs associated with the execution of the Transaction and the delivery of the NPAT targets.
  - d. The re-instatement of R0.8 million, relating to inter-company eliminations reversed between the Disposal Entities and a subsidiary of UCS on consolidation.
4. After the realisation of R104.7 million goodwill, the applicable profit on sale of the Disposal Entities totaling R493.5 million pre-tax and the estimated transaction costs of R3.3 million included in earnings per share, which are once-off in nature.
5. On the basis the provisions of section 42 of the Income Tax Act 58 of 1962 ("the Tax Act") are met, no capital gains tax or securities transfer tax shall be payable by UCS relating to the receipt of the Consideration Shares.
6. To take into account the provision of the estimated capital gains tax amounting to R19.0 million, payable by UCS, due to the de-grouping provision of section 45 of the Tax Act applicable in UCS Technology Services.
7. To take into account income tax at a statutory rate of 28%.
8. The application of section 46 of the Act whereby UCS shall unbundle all of the BCG equity consideration received on the Disposal Transaction. Accordingly no capital gains tax or securities transfer tax will be payable by UCS on the Unbundling Transaction.
9. For statement of financial position purposes, 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 30 September 2010. Consequently, due to the growth in the Disposal Entities net asset value, the applicable profit on sale amounts to R430.3 million net of estimated transaction costs and tax.

## 8. The Agreement

The Agreement contains provisions usually provided for in transactions of this nature including, without limitation, warranties, rights to terminate in the event of a material adverse event and limitation of liability, the details of which shall be described in more detail in the Circular to be posted to Shareholders in due course.

## 9. BCG announcement

Shareholders are also referred to the separate announcement that has been made by BCG on SENS today, 15 December 2010, relating to the Transaction.

## 10. Withdrawal of cautionary announcement

Further to the above, Shareholders are no longer required to exercise caution when dealing in their UCS securities.

Johannesburg  
15 December 2010

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