

Income statement for the year ended 30 September 2005

	2005 R'000	Restated 2004 R'000	% change
Gross billings	542 375	486 292	11,5
Revenue – note 2	516 722	459 120	12,6
Profit from operations before interest, depreciation and amortisation and research and development expenditure	94 229	81 251	16,0
Research and development expenditure	(19 185)	(20 907)	(8,2)
Depreciation and amortisation	(35 621)	(35 106)	1,5
Profit before investment income and interest	39 423	25 238	56,2
Investment income excluding interest received	8 700	8 700	–
Interest received	1 704	4 767	(64,3)
Interest paid	(11 417)	(11 354)	0,6
Profit before taxation	38 410	27 351	40,4
Taxation	(2 839)	(2 127)	33,5
Profit after taxation	35 571	25 224	41,0
Minority shareholders portion of subsidiary earnings	(821)	(510)	61,0
Net profit for the year	34 750	24 714	40,6
Earnings per share (cents)	14,5	10,4	39,4
Adjusted for:			
Amortisation of goodwill	–	1,5	–
Headline earnings per share (cents)	14,5	11,9	21,9
Diluted earnings per share (cents)	13,2	9,3	41,9
Dividends per share (cents)	4,3	4,3	–
Net asset value per share (cents)	92,4	82,8	11,6
Ordinary shares in issue ('000)	241 857	239 453	1,0
Weighted average of ordinary shares in issue ('000)	239 975	237 909	0,5

Balance sheet at 30 September 2005

	2005 R'000	Restated 2004 R'000
ASSETS		
Non-current assets	217 887	182 281
Property, plant and equipment	153 073	142 494
Intangible assets	58 429	117 585
Investments and loans receivable	6 926	5 635
Deferred taxation	19 459	16 567
Current assets	134 478	137 797
Inventory	9 196	6 816
Trade and other receivables	83 297	79 474
Cash and cash equivalents	41 106	51 015
Taxation	879	492
Total assets	352 365	320 078
EQUITY AND LIABILITIES		
Capital and reserves		
Shareholder's interest	223 627	198 061
Minority interest	1 394	810
Non-current liabilities	24 639	25 050
Long- and medium-term loans	9 902	2 625
Revenue received in advance	14 737	22 425
Current liabilities	102 705	96 157
Trade and other payables	68 878	62 300
Provisions	18 652	17 609
Current portion of long-term loans	4 915	2 735
Revenue received in advance	8 784	12 341
Taxation	1 476	1 172
Total equity and liabilities	352 365	320 078

Statement of changes in equity for the year ended 30 September 2005

	Share capital R'000	Preference share capital R'000	Share premium R'000	Foreign currency translation reserve R'000	Distributable reserves R'000	Total R'000
Balance at 30 September 2004 – as previously reported	1 197	40	61 876	–	134 996	198 109
Prior year adjustment (note 1)					(48)	(48)
	1 197	40	61 876	–	134 948	198 061
Ordinary shares issued at a premium	8		995			1 003
Preference shares converted to ordinary shares	4	(4)				–
Preference shares repurchased		(1)	(40)			(41)
Net profit for the year					34 750	34 750
Dividend paid					(10 351)	(10 351)
Exchange differences arising on translation of foreign entity				205		205
Balance at 30 September 2005	1 209	35	62 831	205	159 347	223 627

Cash flow statement for the year ended 30 September 2005

	2005 R'000	Restated 2004 R'000	% change
Cash flow from operating activities	47 097	40 485	16,3
Cash generated from operations	75 167	60 209	24,8
Working capital changes	(10 471)	(6 681)	
Cash generated from operating activities	64 696	53 528	20,9
Investment income and net finance cost	(1 013)	2 113	
Dividend paid	(5 988)	(10 213)	
Taxation	(5 988)	(4 943)	
Cash applied to investing activities	(67 425)	(45 016)	49,8
Cash received from/(applied to) financing activities	10 419	(18 361)	
Cash and cash equivalents			
– Net decrease	(9 909)	(22 892)	
– At beginning of the year	51 015	73 907	
– At end of year	41 106	51 015	(19,4)

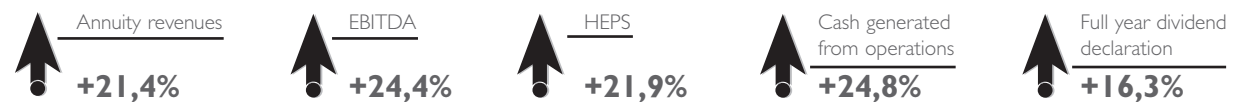
Segmental information for the year ended 30 September 2005

	2005 R'000	Restated* 2004 R'000	% change
Revenue	516 722	459 120	12,6
Software Division	289 930	264 201	9,7
Solutions & Services Division	226 792	194 919	16,4
Profit from operations before interest and depreciation and amortisation	75 044	60 344	24,4
Software Division	34 671	39 319	(11,8)
Solutions & Services Division	44 468	29 496	50,8
Corporate and eliminations	(4 095)	(8 471)	
Profit from operations before interest and taxation	39 423	25 238	56,2
Software Division	17 256	20 109	(14,2)
Solutions & Services Division	26 911	14 063	91,4
Corporate and eliminations	(4 744)	(8 934)	
Depreciation and amortisation	35 621	35 106	1,5
Software Division	17 416	19 211	(9,3)
Solutions & Services Division	17 556	15 432	13,8
Corporate and eliminations	649	463	
Research and development	19 185	20 907	(8,2)
Software Division	15 019	15 558	(3,5)
Solutions & Services Division	4 166	5 349	(22,1)

* Comparative figures are reclassified, where necessary, in accordance with current year classifications

Board of directors Richard Goodman, SC (Chairman)*, John Bright (CEO), Joseph Claassen*, Duncan Coles, Rebecca Elliot*, Bryan Hattingh*, Neil Michelson (COO), Mtshwaga Morogole*, Dean Sparrow (CFO), Peter Terblanche*.	UCS Group Limited Incorporated in the Republic of South Africa Reg no 1993/00253/06 EISN ZAE000016150 Share code UCS	Registered office 20th Floor 209 Smit Street Braamfontein 2001 PO Box 31266 Braamfontein 2017	Transfer secretaries Ultra Registrars (Pty) Limited 11 Diagonal Street Johannesburg 2001 PO Box 4844 Johannesburg 2000
		Company secretary Duncan Coles	

*Non-executive +British



Commentary

UCS Group has come a long way since listing in 1998, with revenues then of less than R50 million and just over 200 employees. Since then our revenues have grown by a compound rate of 34,5% to advance past the R500 million mark to R517 million this year. We now provide employment to over 1 600 people (following the CEB acquisition).

Good progress has been made in improving efficiencies and margins through active participation in our acquired businesses and merging certain units under the UCS brand.

The 2005 year was one of consolidation and positioning for the future. Six previously competitive retail software businesses have been successfully integrated into a single trading entity, UCS Software. The UCS Solutions business has continued to strengthen its position as the leading provider of IT solutions and services to the retail sector in South Africa. All of the other business units in the Group also traded profitably, with most having met or exceeded their objectives.

International

Progress on the international front for our software products has been mixed, with good growth recorded in the Middle East markets but less than expected penetration in the UK market. Our measured investment has yet to translate into meaningful levels of sales in the UK. We are reviewing our product and marketing strategy for this market. The UK is our most accessible developed market and represents a natural 'gateway' to the rest of the EU as well as other major markets. As such it is an essential component of our ambition to diversify our revenue base internationally. All costs associated with international market development continue to be expensed as incurred.

FINANCIAL OVERVIEW

Revenue figures for the Group have been restated historically to eliminate 'pass through' billings for recoveries of items paid on behalf of certain customers. On this basis, gross billings grew by 11,5% to R542 million (2004: R486 million) whilst revenues were up 12,6% to R517 million (2004: R459 million). Pure organic revenue growth (adjusted for prior year acquisitions) came in at 10,3%. Annuity revenues (also restated to eliminate 'pass through' billings) showed solid growth of 21,4% to R307 million (2004: R253 million). This growth in annuity revenues continues to be a focus area for management and it is pleasing to note that annuity revenues accounted for 59,4% (2004: 55,1%) of our total revenues.

Operating income before interest, research and development, depreciation and amortisation grew by 16% to R94 million (2004: R81 million). Excluding the impact of goodwill write-offs from last year, some progress was made in margin improvements, with PBIT coming in at 7,6% of revenues versus a comparable 6,3% in the previous year. EBITDA increased from 13,1% to 14,5% of revenue.

Headline earnings per share were up by 21,9% to 14,5 cents (2004: 11,9 cents) while earnings per share were up 39,4% also to 14,5 cents (2004: 10,4 cents). The higher growth in earnings per share is attributable to the change in accounting treatment of goodwill write-offs in terms of the revised AC140 (IFRS3). Notwithstanding this, the quality of the earnings growth is illustrated by the 23,7% increase in cash generated from operations per share to 31,3 cents (2004: 25,3 cents).

The Group continues to invest heavily in its future with a 49,8% increase in cash applied to investing activities (2005: R67,4 million 2004: R45,0 million). The increase was largely attributable to the refresh of the central hardware infrastructure at UCS Solutions and the roll-out of the satellite network. This resulted in a reduction of R9,9 million in the net cash position to R41,1 million at the end of the year, whilst debt increased by R9,5 million to R14,8 million or 6,6% of equity.

As a result of these investment activities, the current ratio of 1.3 (2004: 1.4) is still below the Group's minimum policy target of 1.5 and this will be a management priority in the coming year. Net asset value per share increased by 11,6% from 82,8 cents to 92,4 cents and tangible net asset value per share showed a similar improvement (2005: 37,4 cents 2004: 33,6 cents).

During the year, the Group issued 2 404 450 ordinary shares, which included 1 629 450 ordinary shares issued and listed to honour options exercised by certain of the beneficiaries of the UCS Group Limited Staff Share Trust Scheme I.

In July 2005, following a successful application to the court in terms of Section 97 of the Companies Act, the first 10%, 775 000 of the compulsory convertible par value redeemable preference shares that were issued in November 2003, in terms of the rules of the UCS Group Limited Share Scheme II, were converted into ordinary shares and listed.

No shares were bought back by the Group during the 2005 financial year. The board has the authority to buy back up to 20 percent of the shares in issue, representing 47 925 467 shares. Total net buy-backs to date amount to 30 412 839 shares.

OPERATIONAL OVERVIEW

Software division

Phase I of the software merger has been completed and the drive-for-efficiency project is starting to contribute to margin improvement. In addition, a number of large-scale customer projects have been successfully delivered in the year and this will contribute positively to annuity revenues into 2006.

UCS Software Manufacturing (UCSSM) obtained its Capability Maturity Model Integration ("CMMI") level 3 certification in September 2005. The UCSSM component-based product line development philosophy is considered to represent the only retail domain-specific software development environment of its type in the world. This coveted certification level, which has only been attained by 144 companies globally, allows UCSSM to ensure high reliability and predictability in delivering world-class mission-critical retail software to our customers.

UCSSM will be officially 'open for business' early in the new year. The successful 'commercialisation' of this unit is expected to have significant bottom-line benefits for the Group in the medium term as it changes from a 'cost centre' into a productive, revenue-generating business.

Revenue in the software division increased by 9,7%. The PBIT margin came in at 6% (2004: 7,6%).

Solutions and Services division

This division has extended its footprint of customers in the retail and consumer goods market sector. UCS Solutions, amongst a number of other successes, secured a significant SAP implementation contract with Pick 'n Pay. The division has seen a 16,4% increase in revenue over the year while the PBIT margin improved to 12% (2004: 7%).

BLACK ECONOMIC EMPOWERMENT

The strategy of the Group is to structure BEE equity deals at operating subsidiary level, with the focus on synergies and value add at that level.

During the year, we concluded a transaction in our UKS subsidiary where a consortium of staff acquired 38% of the equity in this business, with the BEE component amounting to an effective 30% stake.

In UCS Solutions we have invited proposals from selected interested parties. We are optimistic that we will succeed in achieving a transaction that meets our strategic objectives in the coming months.

We have not yet succeeded in identifying acquisition or merger opportunities with the right level of synergies for UCS Software.

The recently published Codes of Good Practice from the DTI contain sections that are not yet complete. Once the final version is promulgated, it is expected to have an effect on the current draft of the ICT Charter. It is therefore possible that UCS will need to refine its BEE strategy accordingly.

CEB MAINTENANCE ACQUISITION

The acquisition of CEB Maintenance was announced in July 2005 and became effective on 1 October 2005. CEB has been in operation since 1987 and is South Africa's largest specialist point-of-sale maintainer. The business has revenues of approximately R130 million, has a staff complement in excess of 530 and depots and branches throughout South Africa, Botswana and Namibia. The acquisition cost, which was based on warranted profits, amounts to R48 million of which R24 million was paid on 1 October 2005. It was financed by a medium-term debt facility provided by Nedbank Limited at two points below the prime rate of lending.

The remaining R24 million due to the vendors is currently represented (post balance sheet) by a vendor loan. R12 million will be required to be settled within 7 days of receipt of a profit certificate supporting the achievement of warranted profits at the end of year 1 and a further R12 million will be required to be settled at the end of year 2 based on the receipt of year 2's profit certificate.

To the extent that actual profits exceed warranted profits by more than R1 million for year 1 and year 2, or both periods in aggregate, the purchase consideration will be increased in accordance with an agreed methodology, but limited to a maximum aggregate purchase consideration of R60 million.

CONTINGENT LIABILITY

UCS Solutions (Pty) Limited reached an agreement with SARS regarding the re-assessment of the company's 1999, 2000 and 2001 tax years. As a result, the contingent liability disclosed in the results announcement and Annual Report for the year ended 30 September 2004 has been resolved with no direct cash cost to the Group.

DIVIDEND POLICY

The directors have decided to maintain a policy to pay dividends twice a year. Dividend cover may vary dependant on the Group's projected cash requirements. This policy will be reviewed regularly to ensure effective capital management.

RESEARCH AND DEVELOPMENT

The Group's ongoing commitment to research and development continues to provide a strong and differentiated platform for future growth. R&D spend for the year amounted to R19,2 million (2004: R20,9 million), a decrease of 8,2%. This decrease was largely attributable to the continued phasing out of certain older, legacy products and the efficiencies gained by merging certain product R&D in our software manufacturing facility. R&D expenditure going forward is expected to increase as more resource is applied to the products intended for international markets.

PROSPECTS

The UCS Software Manufacturing unit has completed its start-up phase and is being positioned to take on external, revenue-generating projects. The merged UCS Software business is beginning to reap the benefits of its drive-for-efficiency and the UCS Solutions business has a healthy order book and is well set for continued growth. The CEB Maintenance acquisition is expected to contribute meaningfully to Group results in the future. The other smaller businesses in the Group are all, without exception, positive in their outlook and forecasting another year of real growth.

Given this scenario, management is optimistic that the earnings growth for the year to September 2006 could exceed that achieved for the 2005 year.

The earnings for the first half of the 2006 financial year, which includes the traditional South African holiday periods, are forecast to be less than that for the second half of the 2005 financial year due to less billable time.

DIVIDEND DECLARATION

Notice is hereby given that the board of directors has declared a final dividend of 3 cents per ordinary share in respect of the year ended 30 September 2005. The dividend will be paid on Monday, 13 February 2006.

To comply with the procedures of STRATE, the last day to trade in the shares for the purpose of entitlement to the final dividend is Friday, 3 February 2006. The shares will commence trading ex dividend on Monday, 6 February 2006 and the record date will be Friday, 10 February 2006.

Share certificates may not be dematerialised or rematerialised between Monday, 6 February 2006 and Friday, 10 February 2006 both days inclusive.

AUDIT REPORT

These results have been audited by Kaplan & Kaplan and their unqualified audit report is available for inspection at the Group's registered office.

For and on behalf of the Board

Adv RG Goodman, SC **JD Bright**
(Chairman)* (CEO)

Notes to the financial statements

1 ACCOUNTING POLICY

The financial statements are prepared in accordance with South African Standards of Generally Accepted Accounting Practice. The financial results for the year ended 30 September 2005 have been prepared on a basis consistent with the prior year annual financial statements, with the exception of the adoption of the revised AC140: Business Combinations, and the implementation of circular 77/2005 issued by SAICA, clarifying the interpretation of AC105: Leases.

As a result of the adoption of the revised statement on business combinations, the Group no longer amortises goodwill, which is now subject to an annual impairment review. Goodwill of R3,9 million was amortised in the prior year. The revised statement is adopted prospectively and as a result there is no adjustment to the prior year.

The revised interpretation of the accounting policy with respect to leases, which requires minimum lease payments that are subject to fixed escalations to be spread over the life of the lease instead of as incurred, has had the following effect on the results of the Group:

	2005 R'000	2004 R'000	Opening retained earnings 2004 R'000
Gross	951	47	185
Tax	152	130	54
Net expense/(income)	799	(83)	131

2 REVENUE

During the previous financial year, billings which represent the recovery of direct costs incurred on behalf of certain customers and for which the Group has earned no margin, were accounted for as revenue. In this respect the Group has acted in an agency capacity and as a result the amounts reflected below have been reallocated from revenue to cost of sales. These restatements and reclassifications had no effect on net profit.

	2005 R'000	2004 R'000
Revenue – as previously disclosed	542 375	486 292
Restatement of direct cost recoveries	(25 653)	(27 172)
Revenue – as restated	516 722	459 120

3 INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

With effect from 1 October 2005, the Group will adopt IFRS and is currently quantifying the impact of this change on future and prior years' results. The effect of this transition will be disclosed in the interim results for the six months to 31 March 2005 and the 2006 Annual Report.

22 November 2005