



| | |
|----------------------------------|-------|
| • Revenue | + 42% |
| • Annuity revenue | + 40% |
| • Cash generated from operations | + 35% |
| • Earnings per share | + 32% |
| • Headline earnings per share | + 13% |

UCS Group Limited

Audited financial results for the year ended 30 September 2003



Comments

Overview

The year to September 2003 was both challenging and rewarding for the Group. Financial results for the period with regard to overall revenue growth and the increase in annuity revenue are considered to be good, with earnings per share performance at an acceptable level. Solid progress in executing against the Group's strategic objectives was also achieved.

As expected, the continuation of harsh trading conditions hampered organic growth and kept trading margins under pressure. For the third successive year prices for IT products and services were governed by a buyer's market, with intense competition for the limited business available.

The historic commitment by the Group to the generation of sustainable annuity revenue streams has enabled it to aggressively grow its market share while certain other players have had to focus on survival. These circumstances enabled the Group to continue its progress in growing its footprint in Southern Africa through strategic acquisitions at realistic prices.

On the international front the Group's award-winning Active Retail product, marketed through distributors in various regions, made good progress. This included a large installation of 160 stores in Dubai and the first sale and installation in Vietnam. In the United Kingdom, the Group secured its first order for the Java-based retail solutions with the deployment of some 160 clothing outlets scheduled for the second half of our new financial year. All costs associated with international business development continue to be expensed as incurred.

Overview of financial results

Revenues grew by 42 percent to R306-million, with organic growth at 12 percent and the balance through current and prior year acquisitions. Annuity revenues grew by 40 percent to R175-million, representing 57 percent of total turnover. Operating income (before interest, research and development, depreciation, amortisation and exceptional items) grew by 40 percent to R66-million. Earnings per share were up by 32 percent to 8.7 cents while headline earnings per share were up 13 percent to 10.3 cents. The quality of these earnings is highlighted by the 35% growth in cash generated from operations.

Following the predominantly cash-based acquisition of Affinity Logic with effect from September 2003, the balance sheet for the first time reflects material borrowings of some R26-million, representing 15% of equity. Although our cash position has improved by R21-million since the interim stage, to close at R74-million, we have acquired some R24-million in short term debt which will be repaid at the end of Q1 in 2004. Our current ratio of 1.4:1 is below our minimum target of 1.5:1 and we will pay close attention to this going forward. Net asset value per share increased by 7 percent from 72.3c to 77.5c, while tangible net asset value per share decreased sharply from 52.6c to 36.8c, mainly due to the goodwill involved in the Affinity Logic acquisition.

During the year, the Group purchased and cancelled 28.888m shares of which 25.155m were acquired through the specific repurchase from the UCS Group Limited Staff Share Trust. The specific repurchase was authorised by the special resolution passed at the general meeting of shareholders on 26 March 2003. On 14 February 2003 the 26,529m shares held by Universal Computer Services (Pty) Ltd, a 100% held subsidiary company in the Group, were transferred to UCS Group and cancelled. Thus the Group at present holds no treasury shares. The board has authority to buy back up to 20 percent of the shares in issue, representing a further 44,285,288 shares.

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 over R24-million (2002 - R17-million), an increase of over 41%. All R&D costs continue to be expensed as incurred.

Acquisitions during the year

During the year the Group successfully concluded two strategic acquisitions with both designed to broaden and enhance service capabilities.

The Affinity Logic acquisition, the largest acquisition yet undertaken by the Group, provides significant critical mass as a platform on which to base an increased range of services to all software customers.

The acquisition of 100% of the equity of Affinity Logic Holdings (Pty) Ltd for a total consideration of R41.7-million, effective 1 September 2003, was settled through the issue of 10 768 000 UCS ordinary shares at 60 cents per share and the payment of R35.2-million in cash. Affinity Logic's core business is the provision of consulting and outsourcing services for the delivery of computing infrastructure and application solutions to the retail and consumer goods manufacturing sector.

Effective 1 February 2003 the Group acquired 51% of the equity and shareholder loan accounts in Ferridge Consulting (Pty) Ltd for R1-million. This purchase price could be adjusted based on performance over the next two years with a maximum additional payment of R1.5-million.

Ferridge Consulting provides sophisticated sales optimisation services using aerial photography, spatial modelling techniques and high-level database integration, predominantly in the retail environment.

Post balance sheet event

Effective 1 October 2003 the Group acquired the minority shareholders' interests in CCS Software (Pty) Ltd and UCS Software (Pty) Ltd. The 37.24% minority shareholding in CCS was acquired for R6-million settled through the issue of 8 524 954 shares at 60 cents per share and the payment of R 800 000 in cash. The 7% minority shareholder in UCS Software and the related shareholder loan account was acquired for R1.2-million through the issue of 1 999 238 shares at 60 cents per share. The ownership of 100% of both UCS Software as well as CCS Software was the first stage in merging the retail software focused portion of the Group.

A final payment of R9.25-million was paid to the vendors of Computerkit Holdings (Pty) Limited as the company achieved its profit warranty in terms of the acquisition agreement for the year under review.

In addition to the purchase consideration for 100% of the equity of Affinity Logic Holdings (Pty) Ltd and in terms of the authorisation obtained from shareholders in the general meeting held on 19 September 2003, 5 000 000 ordinary shares were issued at 60 cents per share to certain previous as well as current members of the Affinity Logic Holdings (Pty) Ltd management team on 6 October 2003. The cash supporting the subscription for these shares was, however, received on 29 September 2003 and is included in the year end cash balance.

Prospects

The strengthening of the Rand against most major currencies over the past year will make our export initiatives less profitable than previously projected. However, we remain convinced that our products are competitively positioned in our chosen international markets.

The extremely challenging IT market conditions experienced over the past three years are expected to start improving during the coming year. In particular, the prolonged effects of the pre-Y2K IT spending spree and subsequent post-Y2K IT spending trough are expected to start easing. While this is evidenced in our healthiest order book since 1999, it is not expected that IT spend will "normalise" in our traditional markets for another year or two.

Given this scenario, management has again adopted a conservative view for new sales prospects in the year to September 2004, although our current order books and recent acquisition of Affinity Logic should ensure turnover growth in excess of that achieved this year. The pressure on margins is forecast to continue and we expect the first half of our new financial year to be very challenging in this regard as our overhead structure increases in advance of the annuity revenue streams contained in our order books.

Dividend declaration

Notice is hereby given that the board has declared a final dividend of 2.0 cents per ordinary share in respect of the year ended 30 September 2003. The dividend will be paid on 12 January 2004. 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 2 January 2004. The shares will commence trading ex dividend on 5 January 2004 and the record date will be 9 January 2004.

Share certificates may not be dematerialised or rematerialised between 5 January 2004 and 9 January 2004, 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 (Chairman)*
JD Bright (Chief Executive Officer)

UCS Group Limited

Incorporated in the Republic of South Africa
Reg No: 1993/02253/06
ISIN: ZAE0016150
Share Code: UCS

Board of directors

Richard Goodman, SC (Chairman)*, John Bright (Chief Executive Officer), Joseph Claasen*, Duncan Coles, Rebecca Eliot*, Patrick Fitzgerald, Bryan Hattingh*, E.B. (Bert) Levenstein*, Neil Michelson (Chief Operating Officer), Dean Sparrow (Chief Financial Officer), Peter Terblanche*.

* Non-executive + British

Company secretary

Verity Mary-Ann Broadrick

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2017

Transfer secretaries

Computershare Limited
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Marshalltown
Johannesburg
2001

Income statement

for the year ended 30 September 2003

| | 2003 R'000 | 2002 R'000 | % change |
|---|----------------|----------------|--------------|
| Revenue | 306,218 | 216,271 | 41.6% |
| Profit from operations before interest, depreciation, research and development and exceptional items | 66,191 | 47,283 | 40.0% |
| Research and development expenditure | (24,239) | (16,626) | 44.1% |
| Depreciation and amortisation | (20,462) | (12,936) | 58.2% |
| Impairment of loan to staff share trust | (1,204) | (8,115) | -85.2% |
| Provision for deficit on defined benefit fund to be terminated | (1,910) | - | 100% |
| Profit before investment income and interest | 18,376 | 9,406 | 95.4% |
| Investment income excluding interest received | 9,927 | 13,056 | -24.0% |
| Interest received | 4,739 | 2,946 | 60.9% |
| Interest paid | (9,036) | (8,370) | 8.0% |
| Profit before taxation | 24,006 | 17,038 | 40.9% |
| Taxation | (4,381) | (599) | 631.4% |
| Profit after taxation | 19,625 | 16,439 | 19.4% |
| Minority shareholders portion of subsidiary (earnings) loss | (293) | 132 | -322.0% |
| Net profit for the period | 19,332 | 16,571 | 16.7% |
| Earnings per share (cents) | 8.7 | 6.6 | 31.8% |
| Adjusted for: (net of taxation) | | | |
| Amortisation of intangible assets | 2.8 | 1.4 | |
| Impairment of loan to staff share trust | 0.5 | 2.3 | |
| Provision for deficit on pension fund to be terminated | 0.6 | - | |
| (Gain) loss on disposal of property, plant and equipment | (0.1) | - | |
| Headline earnings per share as previously calculated (cents) | 12.5 | 10.3 | 21.4% |
| Adjustment required in terms of circular 7/2002 as issued by SAICA | | | |
| Amortisation of intangible assets (excl goodwill) | (2.2) | (1.2) | |
| Headline earnings per share in terms of circular 7/2002 | 10.3 | 9.1 | 13.2% |
| Diluted earnings per share (cents) | 7.3 | 6.5 | 12.3% |
| Dividends per share (cents) | 3.8 | 1.8 | 111.1% |
| Net asset value per share (cents) | 77.5 | 72.3 | 7.2% |
| Ordinary shares in issue (excl shares held in treasury), (000) | 221,973 | 240,093 | -7.5% |
| Weighted average of ordinary shares in issue (000) | 223,366 | 251,478 | -11.2% |

Balance sheet

At 30 September 2003

| | 2003 R'000 | 2002 R'000 |
|-------------------------------------|----------------|----------------|
| ASSETS | | |
| Non current assets | 165,651 | 98,884 |
| Property, plant and equipment | 53,570 | 19,357 |
| Intangible assets | 90,305 | 47,294 |
| Investments and loans receivable | 9,575 | 24,108 |
| Deferred taxation | 12,201 | 8,125 |
| Current assets | 146,729 | 107,804 |
| Inventory | 5,325 | 4,711 |
| Trade and other receivables | 64,426 | 37,450 |
| Cash and cash equivalents | 73,907 | 63,081 |
| Taxation | 3,071 | 2,562 |
| Total assets | 312,380 | 206,688 |
| EQUITY AND LIABILITIES | | |
| Capital and reserves | | |
| Shareholder's interest | 171,940 | 173,670 |
| Minority interest | 352 | - |
| Non current liabilities | 33,913 | 3,713 |
| Long and medium term loans | 3,799 | 3,713 |
| Revenue received in advance | 30,114 | - |
| Current liabilities | 106,175 | 29,305 |
| Trade and other payables | 49,766 | 21,783 |
| Provisions | 19,727 | 5,037 |
| Current portion of long term loans | 24,238 | 16 |
| Revenue received in advance | 10,190 | 1,748 |
| Taxation | 2,254 | 721 |
| Total equity and liabilities | 312,380 | 206,688 |

Statement of changes in equity

for the year ended 30 September 2003

| | Share capital R'000 | Preference share capital R'000 | Share premium R'000 | Distributable reserves R'000 | Total R'000 |
|---|------------------------|-----------------------------------|------------------------|---------------------------------|----------------|
| Balance at 30 September 2002 | 1,201 | 20 | 62,685 | 114,753 | 178,659 |
| Change in accounting policy (refer to note 1) | | | | (4,989) | (4,989) |
| Restated balance at 30 September 2002 | 1,201 | 20 | 62,685 | 109,764 | 173,670 |
| Shares bought back and cancelled | (145) | | (17,311) | | (17,276) |
| Shares issued at a premium | 54 | | 6,407 | | 6,461 |
| Preference shares redeemed | | (20) | (1,600) | | (1,620) |
| Share issue expenses | | | (104) | | (104) |
| Dividend paid | | | | (8,523) | (8,523) |
| Net profit for the year | | | | 19,332 | 19,332 |
| Balance at 30 September 2003 | 1,110 | - | 50,257 | 120,573 | 171,940 |

Cashflow statement

for the year ended 30 September 2003

| | 2003 R'000 | 2002 R'000 | %age |
|--|-----------------|-----------------|----------------|
| Cash flow from operating activities | 40,395 | 24,862 | 62.5% |
| Cash generated from operations | 41,260 | 30,675 | 34.5% |
| Working capital changes | 9,995 | 718 | |
| Cash generated from operating activities | 51,255 | 31,393 | |
| Investment income and net finance cost | 5,630 | 7,631 | |
| Dividend paid | (8,523) | (4,478) | |
| Taxation | (7,967) | (9,684) | |
| Cash from (applied to) investing activities | 11,510 | (36,647) | -131.4% |
| Cash applied to financing activities | (41,079) | (13,330) | 208.2% |
| Cash and cash equivalents | | | |
| - Net increase (decrease) | 10,826 | (25,115) | |
| - At beginning of the year | 63,081 | 88,196 | |
| - At end of year | 73,907 | 63,081 | 17.2% |

Notes to the financial statements

Accounting policy

The financial statements have been prepared on the historical cost basis. Accounting policies used in preparing these financial statements comply with South African Statements of Generally Accepted Accounting Practice and are consistent with the accounting policies applied in the previous year with the exception of revenue recognition in certain subsidiary companies.

1. Change in accounting policy

Certain subsidiaries within the Group differed in their recognition of revenue in comparison to the Group's policy. A change in accounting policy in the relevant subsidiaries has been adopted retrospectively and comparative figures have been restated.

The effects of this change are as follows:

| | 2003 R'000 | 2002 R'000 |
|-----------------------------------|---------------|---------------|
| Increase (decrease) in revenue | 893 | (2,476) |
| Decrease in cost of sales | 144 | 51 |
| (Increase) decrease in tax charge | (311) | 877 |
| Increase (decrease) in net profit | 726 | (1,548) |

The cumulative decrease in Group retained earnings at 30 September 2001 amounts to R3.4-million as a result of the change in accounting policy.

2. Contingent tax liability

Affinity Logic (Proprietary) Limited a wholly owned subsidiary company of Affinity Logic Holdings (Proprietary) Limited has been re-assessed on the 1999 to 2001 tax years. At present a contingent liability of R 15,027,061 exists in terms of this re-assessment. The company has lodged an objection against this re-assessment and is awaiting a reply.

