

- **94% growth in cashflow from operating activities**
- **75% growth in annuity revenue**
- **43% growth in headline earnings per share**

UCS Group Limited



Interim Report for the 6 months ended 31 March 2004

Comments

The UCS Group completed a successful six-month period during which operational performance exceeded budget and solid progress was recorded in meeting strategic objectives.

The Group has continued to increase its footprint in its chosen markets and the extremely harsh trading conditions for ITC companies of the past few reporting periods are showing signs of improvement. The period under review was also the first full six months of trading since the acquisition of the Affinity Logic business (renamed UCS Solutions (Proprietary) Limited as from 1 April 2004), which performed well. However, the full synergistic benefits of this strategic acquisition are only expected to be achieved over the next two to three years.

Turnover grew strongly by 75% to R246-m (2003 - R140-m). 54% growth was due to acquisitions and the balance of 21% through organic growth. Annuity revenues grew by 75% to R142-m (2003 - R81-m), representing 58% of total revenues (2003 - 58%).

Growth in R & D expenditure was limited to 7% as the Group made no further software acquisitions and began to benefit from synergies through the merging of four previously separate retail software businesses into a single operating entity. Again, the full benefits of consolidation in the retail software businesses are only expected to be realised in the medium to long term. R & D costs continue to be fully expensed as incurred.

EBITDA growth of 83% to R33.6-m (2003 - R18.4-m) was partially offset by a 113% growth in depreciation and amortisation to R18.9-m (2003 - R8.9-m) largely as a result of the Affinity Logic acquisition. The Affinity Logic business model has been adjusted to substantially reduce future requirements for large-scale replacement of fixed assets.

Net interest and investment income has decreased (2004 - R0.8-m, 2003 - R3-m) as the Group utilised mainly cash resources for the Affinity Logic acquisition and interest rates achieved were significantly lower than for the same period last year. Material interest-bearing debt within Affinity Logic was repaid on 31 March 2004 but attracted an interest expense during the period under review.

These factors contributed to the overall increase of 25% in profit before tax to R15.5-m (2003 - R12.4-m).

Net profit for the period came in 34% higher at R13.9-m (2003 - R10.4-m) and earnings per share grew by 31% to 5.9c (2003 - 4.5c). Headline earnings per share increased by 43% to 6.7c (2003 - 4.7c).

Cash generated from operating activities improved by 94% to R27.5-m (2003 -R14.2-m).

The Group's commitment to the sale of its own technology and services remains strong. Although sales of third-party products and services grew by 47% to R43.4-m (2003 - R30.2-m), this only accounted for 18% of total revenues (2003 - 22%). Margins from third-party sales accounted for less than 7% (2003 - 10.3%) of total Group margin.

Headcount at the end of March 2004 was 1006 (March 2003 - 741), a growth of 36%.

Contingent liability

In the results announcement and the annual report for the financial year ended 30 September 2003 it was disclosed that there was a potential contingent liability of R 15-million in respect of tax that was reassessed for the Affinity Logic 1999, 2000 and 2001 financial years. Affinity Logic submitted an objection in respect of these reassessments in November 2003 and in January 2004 the company was notified by SARS that the objections had been rejected. Documentation has been submitted to progress this issue to an alternate dispute resolution (ADR) process. The Group will continue to disclose this as a contingent liability until the ADR has been concluded. This amount does not include potential interest that could be levied if the ADR process is unsuccessful.

Staff Share Trust

The Group has consolidated the UCS Group Limited Staff Share Trust for the first time in the period under review and a retrospective adjustment has been made to bring the prior year comparatives into line.

Prospects

As stated in our annual report, the Group has a healthy order book and continues to grow its market share in its chosen business sectors. Prospects for the second half of the year remain promising although not without challenges.

The Group's focus on the generation of sustainable annuity revenue streams means that overhead structures grow in advance of new business billings and any delays on installations can have a short-term negative impact on margins. In addition, the synergistic benefits of the various restructuring programmes currently under way are only expected to flow through to the bottom line over the next two to three years. Given these factors, management is cautiously optimistic that the group should achieve satisfactory growth in the headline EPS for the full year.

Dividend declaration

Notice is hereby given that the board of directors has declared an interim dividend of 2.3 cents per ordinary share in respect of the 6 months ended 31 March 2004. The dividend will be paid on Monday 7 June 2004.

To comply with the procedures of STRATE, the last day to trade in the shares for the purpose of entitlement to the interim dividend is Friday 28 May 2004. The shares will commence trading ex dividend on Monday 31 May 2004 and the record date will be Friday 4 June 2004.

Share certificates may not be dematerialised or rematerialised between Monday 31 May 2004 and Friday 4 June 2004, both days inclusive.

Accounting policies

The interim results for the period ended 31 March 2004 have been reviewed by the auditors, Kaplan and Kaplan, and have been prepared on a basis consistent with the prior year annual financial statement accounting policies, with the exception of the consolidation of the UCS Group Limited Staff Share Trust, and in compliance with South African Statements of Generally Accepted Accounting Practice. The review opinion is available for inspection at the company's offices.

In line with the recommendations by the JSE Securities Exchange South Africa to consolidate the employee share incentive scheme, the current year net profit increased by R 0.1-m as a result of an increase in net interest received. The prior year comparative period has been restated with a net decrease in headline earnings of R 0.6-m which consists of a net increase in interest paid of R 0.6-m. The net decrease to headline earnings for the year ended 30 September 2003 was R 1.2-m due to the cancellation of interest on the loan accounts to beneficiaries of the trust. The actual and weighted average number of shares in issue for the comparative periods remained unchanged after consolidation of the trust. As a result of these amendments, the headline earnings per share have been restated for the six months ended 31 March 2003 from 4.9 cents to 4.7 cents and for the year ended 30 September 2003 from 10.3 cents to 9.8 cents.

For and on behalf of the board

Adv RG Goodman SC (Chairman)*
JD Bright (Chief Executive Officer)

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

UCS Group Limited

Incorporated in the Republic of South Africa
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Share Code: UCS

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Transfer secretaries

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2000

Income statement

for the period ended 31 March 2004

	Reviewed 6 months 31/03/2004 R'000	Restated 6 months 31/03/2003 R'000	Percentage change	Restated 12 months 30/09/2003 R'000
Revenue	245,855	140,372	75.2%	306,218
Profit from operations before interest, depreciation and research and development	46,515	30,411	53.0%	63,481
Research and development expenditure	(12,887)	(12,055)	6.9%	(24,239)
Depreciation and amortisation	(18,902)	(8,895)	112.5%	(20,461)
Profit before interest and investment income	14,726	9,461	55.7%	18,781
Net interest and investment income	790	2,967	-73.4%	5,126
Dividend and investment income	4,350	5,262		8,700
Interest received	2,713	2,825		929
Interest paid	(6,273)	(5,120)		(4,503)
Profit before taxation	15,516	12,428	24.9%	23,907
Taxation	(1,445)	(1,973)	-26.8%	(4,380)
Profit after taxation	14,071	10,455	34.6%	19,527
Minority share of subsidiary earnings	(157)	(30)	423.3%	(294)
Net profit for the period	13,914	10,425	33.5%	19,233
Earnings per share (cents)	5.9	4.5	31.1%	8.6
Adjusted for:				
Amortisation of goodwill	0.8	0.2	300.0%	0.6
Deficit on defined benefit fund	-	-	-	0.6
Headline earnings per share (cents)	6.7	4.7	42.6%	9.8
Fully diluted earnings per share (cents)	5.1	4.0	27.5%	7.3
Fully diluted headline earnings per share (cents)	5.8	4.2	38.1%	8.3
Dividend per share (cents)	2.0	1.8	11.1%	3.8
Net asset value per share (cents)	80.7	81.1	-0.5%	77.5
Ordinary shares in issue (excl shares held in treasury) ('000)	237,497	211,205	12.5%	221,973
Weighted average of ordinary shares in issue ('000)	237,497	233,733	1.6%	223,366

Balance sheet

at 31 March 2004

	Reviewed 6 months 31/03/2004 R'000	Restated 6 months 31/03/2003 R'000	Restated 12 months 30/09/2003 R'000
ASSETS			
Non current assets	169,929	97,136	163,860
Property, plant and equipment	47,220	20,619	53,570
Goodwill and trademarks	102,172	58,082	90,305
Investments and loans	6,186	8,731	7,784
Deferred taxation	14,351	9,704	12,201
Current assets	128,770	132,263	148,561
Inventories	6,780	5,593	5,325
Receivables	59,331	71,344	66,257
Cash	62,659	52,746	73,908
Taxation	-	2,580	3,071
Total assets	298,699	229,399	312,421
EQUITY AND LIABILITIES			
Capital and reserves			
Shareholders' interests	191,764	171,241	171,944
Non current liabilities	30,631	19,894	34,266
Minority shareholders in subsidiaries	2,894	2,414	2,677
Long and medium term loans	1,467	17,480	1,475
Revenue in advance	26,270	-	30,114
Current liabilities	76,304	38,264	106,211
Payables	62,283	34,301	69,529
Revenue in advance	12,300	-	10,191
Current portion of long term loans	1,475	-	24,237
Taxation	246	3,963	2,254
Total equity and liabilities	298,699	229,399	312,421

Statement of changes in equity

for the period ended 31 March 2004

	Share capital R'000	Preference Share capital R'000	Share premium R'000	Distributable reserves R'000	Total R'000
Balance at 30 September 2003 as previously reported	1,110	-	50,256	120,573	171,939
Prior year adjustment for staff share trust consolidation				5	5
Balance at 30 September 2003 restated	1,110	-	50,256	120,578	171,944
Shares issued	78	43	10,535		10,656
Attributable earnings for the period				13,914	13,914
Cash dividend paid				(4,750)	(4,750)
Balance at 31 March 2004	1,188	43	60,791	129,742	191,764

Segmental information

for the period ended 31 March 2004

	Reviewed 6 months 31/03/2004 R'000	Restated 6 months 31/03/2003 R'000	Percentage change	Restated 12 months 30/09/2003 R'000
Business segments				
Revenue	245,855	140,372	75.1%	306,218
Software	118,496	106,535	11.2%	224,928
Solutions	127,359	33,837	276.4%	81,290
Profit from operations before interest, depreciation and research and development	46,515	30,411	53.0%	63,481
Software	25,822	22,958	12.5%	51,975
Solutions	24,037	8,361	187.5%	19,547
Corporate & eliminations	(3,344)	(908)	268.3%	(8,041)

Cashflow statement

for the period ended 31 March 2004

	Reviewed 6 months 31/03/2004 R'000	Restated 6 months 31/03/2003 R'000	Percentage change	Restated 12 months 30/09/2003 R'000
Cash flow from operating activities	27,475	14,171	93.9%	40,088
Cash generated from operations	33,628	18,356	83.2%	41,479
Working capital changes	339	100		9,869
Cash generated from operating activities	33,967	18,456		51,348
Investment income and net finance cost	790	2,967		5,126
Taxation	(2,532)	(3,057)		(7,967)
Dividend paid	(4,750)	(4,195)		(8,419)
Cash applied to investing activities	(22,821)	(5,670)	302.5%	11,851
Cash applied to financing activities	(15,903)	(18,855)	-15.7%	(41,131)
Cash and cash equivalents				
- Net change	(11,249)	(10,354)	8.6%	10,808
- At beginning of period	73,908	63,100	17.1%	63,100
- At end of period	62,659	52,746	18.8%	73,908