



Gerhard Uys,
Group Managing Director

Datacentrix is a vibrant IT group that has achieved consistent success and stability through focus in a highly competitive market. The South African IT market growth continues to decline, resulting in companies showing considerable strain both in operational and financial performance. This is driving weaker competitors out of the market, either entirely or through consolidation. Many competitors have been slow to embrace the realities of the new South African business environment and are attempting to introduce BEE shareholders and management.

Datacentrix continues to show solid growth and has seen an impressive performance for 2002/3 from its four main regions, Johannesburg, Pretoria, Durban and particularly Cape Town. The group's strong delivery capacity, operational performance, balance sheet and empowerment profile has made it an ideal partner for vendors and clients looking for a long-term strategic partner. The group's core competencies are used to help clients leverage off their IT investments to gain competitive advantage for their businesses. The activities of the group are delivered through three focussed business divisions, namely Infrastructure, Solutions and Services all under the Datacentrix banner.

Infrastructure Division

The Infrastructure business division has shown tremendous progress, contributing to the establishment of the company as a serious player within the enterprise space. Datacentrix' strategic relationships with HP, Microsoft and IBM are integral to this development and have enjoyed further reinforcement during the year. The division has performed well in its traditional areas of infrastructure provisioning and integration, benefiting strongly from infrastructure refresh and growth programmes from both the private and public sectors.

A dedicated Microsoft licensing division was created in March 2003 within the Infrastructure division to ensure that the company has the support necessary for the multi-million Rand Microsoft projects secured within the enterprise customer base.

The acquisition of the business of Solution Management NetworX (Proprietary) Limited ("SM NetworX") in March 2002, as discussed

under Acquisitions and Disposals, not only strengthened the group's Johannesburg presence, but also contributed meaningfully to the skills base and management profile within Datacentrix. The acquisition has been successfully integrated with the group and performed admirably against challenging targets.

Solutions Division

The Solutions division has achieved Datacentrix' goal of becoming a dominant player in the Microsoft Great Plains arena. Our focus on Great Plains and the support from Microsoft Business Solutions has enabled Solutions to add increased value in terms of project responsibility, delivery capability and effective pricing.

Dezzo Trading (Proprietary) Limited ("Dezzo"), a Microsoft focused business, was acquired in March 2002 for the depth of understanding of the Microsoft product range and engineering skills and has already contributed significant value to the division's performance.

The ERP and Hosted Services business unit has continued to show growth by providing its anchor client, Premier Foods Limited, as well as a number of new business wins, sustained support, maintenance and management of their information technology facilities. In addition, the Solutions division has seen continuous success with its Infrastructure Optimisation business unit, which comprises the archiving and integration product offerings from the IXOS Software and Sterling Commerce product suites.

Services Division

The Services division was historically a cost centre for Datacentrix. It has now been successfully transformed into a profit centre, already beyond breakeven point and building up healthy deferred income from its long-term engagements. The division has been structured to grow the partial outsourcing business of skills provisioning as well as desktop and server support and maintenance. Another major focus area where the division has already met with promising success is in Microsoft rollout and migration. Datacentrix has merged the Johannesburg and Pretoria services capabilities, providing Gauteng clients with an increased seamless capacity.

Back Office Functions

Within the support functions, the group completed a substantial overhaul of the financial and human resources systems as well as other communications and customer support processes and controls, to cater for the significant growth of the last few years. These integrated systems and processes provide management with an improved and more immediate view of the operations. Datacentrix has recently installed the Microsoft Great Plains ERP system and upgraded the national help desk. The Johannesburg premises have been consolidated into one facility in Woodmead and the bulk of the group's technical resources for equipment configuration are situated in Centurion.

Financial Overview

Compared to the corresponding prior year results, revenue increased by 48% to R770,7 million, operational performance (EBITDA) increased by 48% to R58,3 million, headline earnings per share (HEPS) increased by 31% to 21.8 cents and earnings per share by 38% to 18.6 cents. Cash generated from operations of R62,2 million resulted in R117,8 million cash on hand, with no interest-bearing debt. The five-year HEPS and EPS compound annual growth rate has also shown strong growth of 36% and 32% respectively. Finally, net asset value increased by 38% to 88.2 cents per share and tangible net asset value by 26% to 68.9 cents per share.

Taxation has been provided for at the full rate and the group maintains its policy of no long-term borrowings.

Acquisitions and Disposals

Datacentrix does not acquire businesses often and never acquires unless the strategic rationale is exceptionally sound. When acquisitions are made, they are typically funded by a combination of shares and internal cash resources and the final purchase consideration is normally tied to multi-year specific financial achievements. During the year under review two acquisitions were finalised as well as a small disposal.

In March 2002, the business of Johannesburg-based S M NetworX, an organisation of 40 skilled people active in the IT infrastructure and services arena, was acquired. This acquisition enabled the group to bolster its' market presence in the Johannesburg market, a key target area for future growth opportunities. The compelling strategic fit has facilitated a full and immediate integration. Both companies boast a strong customer focus, tight operational and financial controls and a performance driven culture.

The March 2002 acquisition of Dezzo, a focused, highly skilled team of Microsoft development and integration engineers, has added customised software and software integration capabilities to the Solutions Division.

During the year under review, Datacentrix sold the performance management business to a former director, Leon Theron. This business represented the Landmark Agency within Southern Africa

and offered clients a performance management solution for mainframe systems. The disposal resulted in a surplus of R1.38 million and had no material impact on the results of the group.

As anticipated when our black empowerment share issue was conducted in February 2002, share issues relating to the above acquisitions resulted in the dilution of the group's black empowerment holding from 49% to 47%.

Industry Overview

Datacentrix' predictions over the past two years of the general shakeout and consolidation of the global and local IT industries have held true. For Datacentrix, the positive side of this volatility is that the group is in a good position for acquiring new business skills, agencies and customers.

The group's increased focus on the Microsoft and Intel platforms has also been rewarded with these platforms becoming more strategic for the data centres of enterprise customers. Additionally, Datacentrix' diligent working capital management has shielded the business from the shakeout of the local channel and its associated problems.

Future

Datacentrix' continued success is dependent on the support of our customers. We will ensure that our customer-centric approach is even further improved and that we have the relationships and processes to support our customers in their IT requirements.

The group invested heavily during the year in improving back office systems to support the growth that has been achieved and also to ensure Datacentrix can continue to support our customers with the expected future growth.

As a result of a consistent, focussed strategy and strong attention to the business basics, Datacentrix has achieved success since listing. Given the group's accomplishments within the infrastructure and enterprise sectors, Datacentrix will show continued focus on these market segments, while pursuing growth opportunities in Johannesburg. Other areas of strategic importance to Datacentrix include growing market share within the government sector and generating further successes using the Microsoft product suite.

We look forward to strengthening relationships with our partners, sustaining our positive financial track record and maintaining the quality and strength of our customer base.



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