

Chairman's Review

Datacentrix is pleased to present its sixth set of annual results since listing on the JSE Securities Exchange ("JSE") in September 1998. Datacentrix operates as a technology reseller and solutions provider. Its major activities comprise the supply, integration and optimisation of IT infrastructure, solutions and related services to corporate South Africa.

Gary Morolo
Executive Chairman



Review

Overview

Financial year 2003/4 has been unusual for Datacentrix. For the first time since listing the company is not able to reflect in its results the steady annual growth in excess of 30% that the market has become accustomed to. Ironically, while it has been a challenging business environment for IT companies, for Datacentrix it has been no more challenging than it has been for the last three to four years since the post Y2K slump.

Specifically, the performance of the company, its competitive profile, delivery capacity, business performance, and its prospects has not changed materially, if not for the better, during the financial year under review. The only change has been a dramatic and sustained change in the dollar exchange rate of the Rand between the two reporting periods. Given a constant Rand in dollar terms at whatever exchange level, Datacentrix would have been presenting another pleasing set of results.

The business has met its key strategic objectives for the year, as well as improving its operational efficiencies. The management team has been strengthened with new appointments as well as structurally aligning with the market. Significant multiple year contracts and tenders have been won and/or renewed. Employment equity credentials continue to improve as the company grows.

The year has seen a number of companies take enormous strain. Typically, the impairment of the balance sheet of some of the companies has made them extremely vulnerable, fuelling the consolidation of the sector. Datacentrix has reason to be thankful

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for the conservative, prudent approach it adopted right at the outset to build and maintain a strong balance sheet. The company intends to continue conserving and building the balance sheet and enhancing shareholder wealth.

Empowerment

Datacentrix has approached empowerment as a strategic business imperative. The company's dedicated implementation of this strategy has been recognised through its "A" rating awarded by Empowerdex, an independent rating agency. Datacentrix is one of three listed companies to obtain this level of ranking.

The process towards the finalisation of the ICT Charter is well advanced. Datacentrix' approach has always been to position the company such that it is ahead of regulatory requirements and that it effects the necessary transformation at its own pace and not be susceptible to interventions forced externally on the company. The effect of the charter will be to contribute towards the levelling of the black economic empowerment ("BEE") landscape among suppliers, as companies are obliged to do the necessary to meet the charter requirements.

From Datacentrix' perspective this is extremely welcome for a number of reasons, including: it will provide greater consistency and coherence among all customers, government and private sector, with regards to the requirements and the evaluation of BEE credentials; it will force all suppliers to make the necessary investment in the full balanced score-card approach to empowerment that companies like Datacentrix have already made; it is contributing to the consolidation of the industry, as we

have observed to date, where the larger, more successful black SMMEs sell and integrate themselves into the large listed companies in return for shareholding and operational involvement in the larger companies.

As a mid-size company, Datacentrix has traditionally had to compete both against the large listed companies on one side, and on the other side, the larger, maturing, black SMMEs, who by their nature, inevitably boasted superior empowerment credentials. This consolidation has the effect of removing these relatively successful maturing SMMEs as a competitive front.

Corporate Governance

The affairs of the company are managed by a management team that is substantially invested in the company and is overseen by a holdings board that represents substantial shareholder interest. Therefore the interests of those running the company are substantially aligned with those of shareholders. Two of the directors are independent. The members of the Remuneration Committee are all non-executive directors, chaired by one of the two independent non-executive directors on this committee. The Audit Committee is dominated by non-executives. The company also has a Corporate Governance Committee chaired by an independent non-executive director.

The members of the holdings board are very active in the affairs of the company, attending a very high proportion of the six scheduled board meetings, committee meetings, as well as additional special board meetings called for issues such as budget and results approvals.



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Corporate Governance (continued)

For all its virtue, supported fully by Datacentrix, the administration, efficiency and cost burden of the structure and process requirements of corporate governance are often at odds with empowerment imperatives and the practicality of running a small to mid-cap company.

The board is satisfied that the highest standards of business ethics are being upheld and that all of the company's business reflects the letter and also the spirit of corporate governance. We are encouraged and honoured in this effort by being one of twelve nominees for the Board Effectiveness category of the Good Governance Awards sponsored by Deloitte & Touche and MoneyWeb.

Prospects

In line with market expectations, Datacentrix expects significant improvement in IT spend. Demand for infrastructure should be entering a growth cycle as companies look to refresh IT infrastructure investments last made during the Y2K cycle. Microsoft has also released its operating software upgrades, which will require hardware upgrades for most companies. The upgrade and migration to this new operating software will in and of itself provide significant earnings opportunities.

In the past year or so, government departments have not been able to spend their IT procurement budgets because SITA had not been able to establish the IT procurement process. The prognosis for SITA under new management already looks promising with the approach and processes likely to gain favour from its government customers and suppliers alike.

More specific to Datacentrix itself, the company has set the groundwork to see Johannesburg emerge as its biggest market, with a largely blue-chip customer base; Datacentrix Solutions has a healthy project pipeline; the company has won the government server term contract and believes it has reasonable prospects to be one of the successful suppliers for the SMS desktop/notebook/peripherals contract; and Datacentrix is anticipating making significant inroads into the selective outsource markets and has already signed up new outsourcing customers.

The long-awaited revival of the sector is beginning to be felt, and Datacentrix, as does most of the sector, is looking forward to the year ahead with great confidence. Optimism about Datacentrix' prospects however must be tempered by the possibility, likely or not, of another dramatic and fairly sustained strengthening in the value of the Rand similar to that spanning the period under review.

Acquisitions

Having spent the last three years or so actively looking for acquisitions and having had a look at most opportunities, the company has decided that attractive opportunities are few and far between. The available deals either did not fit Datacentrix' strategy or value expectation, or would have required significant turnaround. Henceforth the company is no longer actively on an acquisition campaign but will continue to focus on opportunistic bolt-on acquisition opportunities. This approach has the added advantage that the company is unlikely to indulge its corporate ego with reckless bets or acquisitions too large and too complex to integrate effectively.

Capital Distribution

Datacentrix has on its balance sheet cash in excess of its requirements, and the board believes the responsible action is to start returning the excess cash to its shareholders. The board therefore is proud to announce the proposal for a capital distribution of 6.9 cents per share. It is the board's intention to maintain a three times HEPs cover dividend policy.

Composition of the Board

In the period under review, Natanya Kuper has resigned as a board member. The board wishes to acknowledge the enormous contribution Natanya made and to thank her.

Corporate governance and the new rules of the JSE require listed companies to separate the roles of chairman and chief executive officer ("CEO"). In line with this requirement, as at the beginning of this financial year, Gary Morolo has relinquished the position of chief executive and Gerhard Uys is now the CEO. Gary Morolo will retain the position of executive chairman. The board is also actively looking to improve its independent non-executive director component.

Gary Morolo

Executive Chairman

Partner of choice
Investment in people
Customer approach

