DATATEC
connecting minds™

- *Revenue up 14% to $2,3 billion*
- *EBITDA up 30% to $23,8 million*
- *Headline loss per share of 6,59 cents*
- *Net tangible asset value per share of $2,04*
- *Net cash at year-end of $88,7 million*

Audited results for the year ended 29 February 2004 and withdrawal of cautionary announcement

Group income statements

	Year ended 29 February 2004 USD 000's	Period ended 28 February 2003 USD 000's
Revenue	2 346 948	2 062 541
Continuing operations	2 230 692	1 863 335
Acquisitions	–	103 467
Ongoing operations	2 230 692	1 966 802
Discontinuing operations	116 256	95 739
Cost of sales	(2 071 528)	(1 810 326)
Gross margin	275 420	252 215
Operating costs	(251 632)	(233 965)
Operating profit before financing costs, depreciation and amortisation ("EBITDA")	23 788	18 250
Ongoing operations	18 668	20 024
Discontinuing operations	5 120	(1 774)
Depreciation and other amortisation	(22 727)	(23 606)
Operating profit/(loss) before goodwill amortisation	1 061	(5 356)
Goodwill amortisation	(12 091)	(11 662)
Goodwill impairment	(14 361)	(14 883)
Other income	81	127
Operating loss	(25 310)	(31 774)
Exceptional items	(6 438)	4 730
Interest received	5 150	6 950
Financing costs	(9 570)	(8 994)
Share of associate company earnings	–	8
Loss before taxation	(36 168)	(29 080)
Taxation	(5 336)	(2 603)
Loss after taxation	(41 504)	(31 683)
Loss attributable to outside shareholders	521	170
Attributable loss	(40 983)	(31 513)
Loss per share (cents)		
Headline	(6,59)	(7,14)
Diluted headline	(6,47)	(7,14)
Basic	(29,75)	(22,84)
Diluted	(29,22)	(22,84)
KEY RATIOS		
Gross margin %	11,7	12,2
EBITDA on ongoing operations %	0,8	1,0
Exchange rates		
Average Rand/US$ exchange rate	7,2:1	9,7:1
Closing Rand/US$ exchange rate	6,6:1	8,1:1
SALIENT FINANCIAL FEATURES		
Headline loss	(9 082)	(9 842)
Number of shares (millions)		
Issued	138	138
Weighted average	138	138
Diluted weighted average	140	138
Net asset value per share (cents)	241	245

Group balance sheets

	As at 29 February 2004 USD 000's	As at 28 February 2003 USD 000's
ASSETS		
Non-current assets	105 439	144 326
Property, plant and equipment	27 726	45 400
Capitalised development expenditure	11 769	11 079
Goodwill	38 923	57 165
Investments	920	2 022
Deferred tax asset	26 101	28 660
Current assets	860 956	747 351
Inventories	247 045	204 837
Receivables	428 810	346 848
Cash and cash equivalents	185 101	195 666
Total assets	966 395	891 677
EQUITY AND LIABILITIES		
Ordinary shareholders' funds	332 506	337 886
Outside shareholders' interest	18 464	18 782
Total equity	350 970	356 668
Long-term liabilities	3 656	14 168
Deferred tax liability	3 987	9 514
Current liabilities	607 782	511 327
Payables	497 342	420 103
Amounts owing to vendors	438	7 571
Taxation	13 604	3 591
Bank overdrafts	96 398	80 062
Total equity and liabilities	966 395	891 677
Capital expenditure incurred in current period	9 809	14 243
Capital commitments at end of period	9 267	8 939
Lease commitments at end of period	127 196	98 711
Payable within one year	22 355	16 866
Payable after one year	104 841	81 845

Abridged group cash flow statements

	Year ended 29 February 2004 USD 000's	Period ended 28 February 2003 USD 000's
EBITDA	23 788	18 250
Loss on disposal of property, plant and equipment	352	774
Non-cash items	5 833	4 728
Cash generated before working capital changes	29 973	23 752
Working capital changes	(58 995)	119 706
(Increase)/Decrease in inventories	(41 457)	7 464
(Increase)/Decrease in receivables	(84 494)	30 699
Increase in payables	66 956	81 543
Cash (utilised)/generated from operations	(29 022)	143 458
Net financing costs paid	(4 420)	(2 044)
Taxation refunded/(paid)	1 494	(14 802)
Net cash (outflow)/inflow from operating activities	(31 948)	126 612
Net cash outflow from investing activities	(8 243)	(32 594)
Net cash inflow/(outflow) from disposal of operations and investments	4 878	(1 911)
Net cash (outflow)/inflow from financing activities	(12 213)	2 274
(Decrease)/Increase in cash and cash equivalents	(47 526)	94 381
Translation difference on opening cash position	20 625	6 574
Cash and cash equivalents at beginning of period	115 604	14 649
Cash and cash equivalents at end of period (*)	88 703	115 604

Segmental analysis

	Year ended 29 February 2004 USD 000's	Period ended 28 February 2003 USD 000's
Revenue		
Westcon	1 840 500	1 626 437
Logicalis	263 663	238 826
Mason	27 352	25 161
Other Holdings	99 177	76 378
Revenue from ongoing operations	2 230 692	1 966 802
Discontinuing operations	116 256	95 739
	2 346 948	2 062 541
EBITDA		
Westcon	36 171	33 666
Logicalis	(382)	529
Mason	(723)	2 700
Other Holdings	(9 671)	(6 141)
Datatec Limited foreign exchange losses	(6 727)	(10 730)
EBITDA from ongoing operations	18 668	20 024
Discontinuing operations	5 120	(1 774)
	23 788	18 250
Operating profit/(loss) before goodwill amortisation		
Westcon	23 781	20 908
Logicalis	(5 803)	(4 784)
Mason	(1 400)	2 056
Other Holdings	(10 330)	(6 642)
Datatec Limited foreign exchange losses	(6 727)	(10 730)
Operating (loss)/profit from ongoing operations	(479)	808
Discontinuing operations	1 540	(6 164)
	1 061	(5 356)

Determination of headline loss

Attributable loss per the consolidated income statements	(40 983)	(31 513)
Headline loss adjustments (net of taxation and outside shareholders):		
Goodwill amortisation	10 949	11 662
Loss on disposal of plant and equipment	209	542
Exceptional items:	6 382	(5 416)
Loss on disposal and closure of discontinued operations	6 438	529
Write-down of carrying value of investments	–	528
Recoupment of goodwill and trademarks previously charged to equity	–	(6 392)
Other	(56)	(81)
Goodwill impairment	14 361	14 883
Headline loss	(9 082)	(9 842)

Statement of changes in ordinary shareholders' funds

Balance at beginning of period	337 886	353 737
Attributable loss for the period	(40 983)	(31 513)
Shares issued	341	524
Transitional adjustment – adoption of AC 133	(393)	–
Translation difference on equity loans	(26 258)	(14 449)
Tax effect of equity loans movement	(245)	(529)
Deferred tax on goodwill previously charged directly to equity	859	898
Translation difference arising on translation into USD	61 299	29 218

Number of shares (millions)		
Issued	**138**	138
Weighted average	**138**	138
Diluted weighted average	**140**	138
Net asset value per share (cents)	**241**	245
Net tangible asset value per share (cents)	**204**	195

Net cash (outflow)/inflow from financing activities	**(12 213)**	2 274
(Decrease)/Increase in cash and cash equivalents	**(47 526)**	94 381
Translation difference on opening cash position	**20 625**	6 574
Cash and cash equivalents at beginning of period	**115 604**	14 649
Cash and cash equivalents at end of period (*)	**88 703**	115 604

*Comprises cash resources net of bank overdrafts.

Transitional adjustment – adoption of AC 133	**(393)**	–
Translation difference on equity loans	**(26 258)**	(14 449)
Tax effect of equity loans movement	**(245)**	(529)
Deferred tax on goodwill previously charged directly to equity	**859**	898
Translation difference arising on translation into USD	**61 299**	29 218
Balance at end of period	**332 506**	337 886

1. PROFILE AND GROUP STRUCTURE

Datatec ("the Group") is an international IT networking and services group with operations in many of the world's leading economies. The Group's main lines of business comprise the global distribution of advanced networking and communications convergence products ("Westcon"), IT infrastructure solutions and network integration ("Logicalis") and strategic telecommunications consulting ("Mason"). The Group also has other interests which are included with the Group Head Office under Other Holdings. These interests include Westcon AME (operating in Africa), Online Distribution (operating in the Middle East) and an 84% interest in RangeGate (operating in South Africa ("SA") and the United Kingdom ("UK")).

2. US DOLLAR FINANCIAL REPORTING

The Group has changed its reporting currency from South African Rands to US Dollars with effect from the current financial year and restated comparative information accordingly. The parent company, Datatec Limited, will continue to report in South African Rands.

Our objective is to report financial information for the Group that is consistent with the economic substance of the underlying events and circumstances of the Group's businesses. The US Dollar is the functional currency in which the major part of the Group's trading is conducted as over 97% of the Group's revenue is earned offshore in hard currency. By reducing the distorting effects of changes in currency exchange rates this will simplify financial analysis and enhance the transparency of our financial results.

Presenting financial information in US Dollars will also be more meaningful to global investors and international benchmarking.

The policy of reporting in US Dollars has been and will be applied in future using the following bases:

- assets and liabilities for balance sheets (including comparatives) have been translated at the closing rate ruling at the date of each balance sheet; and
- income and expense items for all years presented (including comparatives) have been translated at an average rate that approximates the actual exchange rates at the dates of transactions.

3. COMMENTARY ON RESULTS

The Group's financial results for the year ended 29 February 2004 reflected revenue of $2,3 billion compared with revenue in the previous year of $2,1 billion, an increase of 14%. Operating profit before financing costs, depreciation and amortisation ("EBITDA") amounted to $23,8 million compared with the corresponding year of $18,2 million. Operating profit before goodwill amortisation amounted to $1,1 million compared to the previous year loss of $5,4 million.

Revenue from ongoing operations (which excludes the disposal of Logicalis Australia and New Zealand subsequent to year-end) amounted to $2,2 billion (2003: $1,9 billion) and EBITDA of $18,7 million (2003: $20,0 million). This comparative decline is largely as a result of continued margin pressure as the IT and networking sectors have been slow to recover, as well as costs associated with consolidating operations and foreign exchange translation losses from the appreciation of the Rand.

Headline loss per share for 2004 amounted to 6,59 cents compared to 7,14 cents for the previous year.

The Group reviewed the value of goodwill carried on its balance sheet at the end of the period. Goodwill mainly relating to the Catalyst subsidiary in the Mason group was considered to be impaired and an amount of $14,4 million has accordingly been written-off.

A net exceptional loss of $6,4 million was incurred during the year, relating to the net loss realised on the closure of Logical France, the sale of Datanet and Westcon Cabinet Manufacturers in SA and a profit on sale of Affinity Logic.

Taxation of $5,3 million increased from $2,6 million in 2003. The effective rate of taxation on profit before goodwill amortisation is disproportionate due to certain subsidiaries making losses in respect of which no deferred tax asset has been recognised due to uncertainty over their recoverability, while other subsidiaries made taxable profits in countries with tax rates equal to or higher than the South African tax rate. Management has taken a very prudent approach to recognising deferred tax assets for tax losses arising in 2004.

Subsequent to year-end, Logicalis disposed of its Australian and New Zealand operations to IBM for $66 million in cash, inclusive of working capital adjustments. The transaction comprises a cash consideration of $46 million for the shares and a repayment of inter-company loans and payables amounting to $20 million. These operations have been disclosed as discontinued in the 2004 results.

Capitalised development costs in the balance sheet have remained relatively static at $11,8 million, with amortisation amounting to $3,3 million. Costs capitalised during the year were in respect of Westcon's internally developed enterprise resource planning system known as Compass.

At the end of February 2004, the Group showed a net cash position of $88,7 million compared to prior comparable year of $115,6 million. This reduction is as a result of the increased trading in Westcon which required additional investment into working capital as revenues expanded.

In Rand terms, the Group's revenue for the year ended 29 February 2004 amounted to R16,8 billion. EBITDA amounted to R170,2 million and operating profit before goodwill amortisation amounted to R7,6 million, after taking foreign exchange translation losses at the company level of R49 million due to the strengthening of the Rand.

Headline loss per share for 2004 amounted to 46,86 cents. Ordinary shareholders' funds at the reporting date were R2,2 billion, which represents a net tangible asset value per share of R13,57 at an exchange rate of R6,65:$1. At 29 February 2004 the Group's net cash position was R589 million. The Rand comparative amounts are not provided due to the distorting effects of exchange translations.

4. DIVISIONAL REVIEWS

4.1 Westcon

Westcon group's revenue increased by $214,1 million or 13,2% to $1,8 million. This reflects a full 12-month contribution from the Landis acquired businesses. The gross margin for the year was 8,8% versus 8,9% generated in the comparable year. EBITDA margins decreased from 2,07% in 2003 to 1,97% for 2004. This was partially due to the decrease in gross margin coupled with higher costs incurred to reduce selling, general and administrative costs.

During the year, Westcon's operating activities used $32 million of cash as compared to providing cash in 2003 as its working capital levels increased due to both the increased revenue in 2004, as well as in anticipation of continued increased demand in the future. At 29 February 2004 Westcon's net cash position was $41,5 million (2003: $68,6 million).

For the year Cisco sales comprised 56% of Westcon group's revenues followed by Nortel (10%), Avaya (9%) and other IP devices (25%). From a geographic perspective 56% of Westcon group revenue was generated in the Americas followed by Europe (38%) and Asia – Pacific (6%).

4.2 Logicalis

Logicalis achieved total revenue of $362,9 million for the year under review compared to revenue of $313,5 million for the 11 months ended 28 February 2003, an overall increase of 16%. This increase is partially due to the current reporting period including an additional month of trading and partially the benefit of more favourable exchange rates. Product revenues grew by 19% (on the previous 11-month period). Annuity revenues from maintenance and managed services also improved by 32% on the previous period. However improved product sales did not generate additional demand for consulting and technical services and revenues from project-based services were down by 12%. The softer demand for these services resulted in a lower utilisation of staff and impacted adversely on overall gross margins, which decreased from 23,2% in 2003 to 22,4% in 2004.

Management continued to maintain a concerted focus on reducing operating expenses, which increased by only 7% compared with the 16% increase in revenue.

During the year Logicalis sold its French subsidiary, removing an operation which was sub-scale and loss-making. Subsequent to the year-end, the Australian and New Zealand businesses were sold to IBM for $66 million. The net proceeds have substantially strengthened the Logicalis group balance sheet, as well as providing funding for organic growth and potential acquisitions in North America and the UK. For the year under review the Australian and New Zealand businesses contributed $98,2 million of revenue and $2,9 million of EBITDA (after the allocation of certain group costs).

The EBITDA profit for the year was $2,4 million compared to a loss of $1,1 million incurred in the last period. After charges for depreciation and amortisation the operating loss (EBIT) amounted to $5,0 million (2003: $8,4 million). Continuing operations, excluding Australia, France and New Zealand, produced revenue of $263,7 million (2003: $238,8 million) and an EBITDA loss of $0,4 million for the year, compared with an EBITDA profit of $0,6 million for the prior period.

Significant emphasis has continued on the management of working capital, resulting in further improvement in the days sales outstanding for trade debtors, to 43 days (2003: 47 days). At 29 February 2004 Logicalis' net cash position was $25,8 million (2003: $16,2 million). This net cash amount does not include the proceeds from the sale of the Australian and New Zealand businesses.

4.3 Mason

Mason achieved revenue of $27,4 million during the year under review compared to $25,2 million in 2003. EBITDA decreased from a profit of $2,7 million in 2003 to a loss of $0,7 million for the current year and the operating loss amounted to $1,4 million compared to a profit of $2,1 million in 2003.

The difficult market conditions experienced in the prior year continued into 2004. Revenue remained flat and there was a reduction in margins caused by increased competition and lower consultancy rates. Work in the government sector continued to grow but this was offset by a decline in the enterprise sector, particularly financial services. Revenue decline in the telecommunications and service providers sector has stabilised.

4.4 Other Holdings

Westcon AME and Online Distribution

Westcon AME and Online Distribution are value added networking equipment distributors whose operations mirror those of the Westcon group. Revenue amounted to $98,8 million (2003: $110,2 million) for the year, which was below expectation, mainly attributable to the appreciation of the Rand, weak market conditions and the exclusion of full year revenues on discontinued operations. The operating loss amounted to $1,2 million (2003: $0,5 million) after foreign exchange losses of $0,56 million and reorganisation costs of $2,8 million. With effect from 31 July 2003, Westcon AME sold its interest in the Datanet and Westcon Cabinet Manufacturers divisions for $2,5 million and substantial reductions in costs have been realised.

Continuing operations, excluding Datanet and Westcon Cabinet Manufacturers divisions, produced revenues of $92,7 million (2003: $70,5 million) and an EBITDA loss of $1,2 million for the year, compared to $0,1 million for the prior period.

Affinity Logic

Datatec sold its 55,2% shareholding in Affinity Logic to UCS Group Limited for $2,6 million with effect from 31 August 2003. In addition, Affinity Logic repaid loans to Datatec amounting to $5,8 million.

Affinity Logic reported an operating profit of $0,3 million (2003: loss of $2,5 million) on revenue of $11,0 million (2003: $11,0 million).

RangeGate

RangeGate, located in SA and the UK, represents the Group's mobile technology systems integration business, and provides mobile supply chain solutions to sectors such as retail, industrial, manufacturing and transport and logistics.

Revenue for the year amounted to $6,4 million (2003: $6,8 million) and operating losses amounted to $2,2 million (2003: $1,9 million). Difficult market conditions contributed to lower than expected revenue. By instituting pro-active cost control measures, the company was still able to invest in core product design and development.

5. PROSPECTS

The Group has seen a gradual improvement in market conditions in the first few months of this year which has been reflected by improvements in revenue, increasing order book and stablilising gross margins as well as other indicators that may signal signs of a more sustainable recovery. This should translate into improved results for the Group in the year ahead.

6. REPORTING

This report has been prepared in accordance with AC 127 and the Group's published accounting policies which comply with South African Statements of Generally Accepted Accounting Practice, and are consistent with those of the previous accounting year, other than the adoption of AC 133 of which the net effect on the Group's earnings was not material.

The financial information has been audited by Deloitte & Touche whose unqualified audit report is included in the Group annual financial statements which are available for inspection at the Group's registered office.

7. DIRECTORATE

Messrs. R Rindel and M Karpul resigned from the Board on 14 March 2003 and 31 August 2003, respectively, and Messrs. A Smith and J McCartney resigned with effect from 3 March 2004 in anticipation of the proposed initial public offering of common stock of Westcon in the US.

8. DIVIDENDS

It is not considered prudent to declare a dividend at the present time.

9. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcements dated 13 January 2004, 3 March 2004, 23 March 2004 and 13 May 2004 and are advised that the process of listing Westcon on the NASDAQ Stock Exchange is continuing. The listing is expected to take place in this year.

As all of the information applicable to the Westcon listing has been disclosed to shareholders and there is no price sensitive information that has not been released, the cautionary announcement is hereby withdrawn. Shareholders will be kept updated with all developments in the listing process.

On behalf of the Board

L Boyd
Chairman

J P Montanana
Chief Executive Officer

D B Pfaff
Group Finance Director

27 May 2004