DATATEC
connecting minds™

- *Results now stated in US$*
- *Revenue up 10% to $1,1 billion*
- *Breakeven headline earnings*
- *Net cash at August of $100 million*
- *Tangible net asset value per share of $1,94*

# *unaudited results for the six months ended 31 August 2003*

## *Consolidated income statements*

| (USD 000's) | **Unaudited six months to 31 August 2003** | Unaudited six months to 30 September 2002 | Audited period ended 28 February 2003 |
|---|---|---|---|
| **Revenue** | **1 130 071** | 1 025 461 | 2 062 541 |
| Continuing operations | **1 108 200** | 984 078 | 1 931 269 |
| Acquisitions | **–** | 25 656 | 103 468 |
| Revenue from ongoing operations | **1 108 200** | 1 009 734 | 2 034 737 |
| Discontinued operations | **21 871** | 15 727 | 27 804 |
| Cost of sales | **(987 838)** | (895 913) | (1 810 326) |
| **Gross margin** | **142 233** | 129 548 | 252 215 |
| Operating costs | **(129 915)** | (113 048) | (233 965) |
| **Operating profit before financing costs depreciation and amortisation ("EBITDA")** | **12 318** | 16 500 | 18 250 |
| Ongoing operations | **10 320** | 18 029 | 20 354 |
| Discontinued operations | **1 998** | (1 529) | (2 104) |
| Depreciation | **(12 238)** | (11 944) | (23 606) |
| **Operating profit/(loss)** | **80** | 4 556 | (5 356) |
| Interest income | **3 341** | 3 917 | 6 950 |
| AC133 Imputed interest on receivables | **5 901** | – | – |
| Financing costs | **(3 375)** | (5 042) | (8 994) |
| AC133 Imputed interest on payables | **(5 117)** | – | – |
| Share of associate company losses | **–** | (46) | 8 |
| **Profit/(loss) before exceptional items and goodwill** | **830** | 3 385 | (7 392) |
| Goodwill amortisation | **(6 218)** | (5 037) | (11 662) |
| Goodwill impairment | **–** | – | (14 883) |
| Exceptional items | **(5 160)** | (2 671) | 4 857 |
| **Loss before taxation** | **(10 548)** | (4 323) | (29 080) |
| Taxation | **(267)** | (883) | (2 603) |
| **Loss after taxation** | **(10 815)** | (5 206) | (31 683) |
| (Profit)/loss attributable to outside shareholders | **(290)** | (517) | 170 |
| **Attributable loss** | **(11 105)** | (5 723) | (31 513) |
| **KEY RATIOS** | | | |
| **Gross margin %** | **12,6** | 12,6 | 12,2 |
| **EBITDA% on ongoing operations** | **0,9** | 1,8 | 1,0 |
| **Normal tax rate before exceptional items and goodwill %** | **57,4** | 40,3 | 75,2 |
| **Exchange rates** | | | |
| Average Rand/US$ exchange rate | **7,5:1** | 10,3:1 | 9,7:1 |
| Closing Rand/US$ exchange rate | **7,3:1** | 10,5:1 | 8,1:1 |
| **SALIENT FINANCIAL FEATURES** | | | |
| **Headline earnings/(loss)** | **50** | 1 556 | (9 842) |
| **Number of shares (millions)** | | | |
| Issued | **138** | 138 | 138 |
| Weighted average | **138** | 138 | 138 |
| Diluted weighted average | **138** | 138 | 138 |
| **Earnings per share (cents)** | | | |
| Headline | **0,04** | 1,13 | (7,14) |
| Diluted headline | **0,04** | 1,13 | (7,14) |
| Basic | **(8,06)** | (4,15) | (22,84) |
| Diluted | **(8,06)** | (4,15) | (22,84) |
| Net asset value per share (cents) | **241** | 257 | 245 |

## *Consolidated balance sheets*

| (USD 000's) | **Unaudited 31 August 2003** | Unaudited 30 September 2002 | Audited 28 February 2003 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **121 325** | 139 552 | 144 326 |
| Property, plant and equipment | **29 822** | 43 503 | 45 400 |
| Capitalised development expenditure | **10 961** | 11 512 | 11 079 |
| Goodwill | **53 400** | 65 489 | 57 165 |
| Associated companies and investments | **667** | 2 155 | 2 022 |
| Deferred tax asset | **26 475** | 16 893 | 28 660 |
| **Current assets** | **782 100** | 764 435 | 747 351 |
| Inventories | **203 273** | 213 305 | 204 837 |
| Receivables | **401 577** | 385 459 | 346 848 |
| Cash and cash equivalents | **177 250** | 165 671 | 195 666 |
| **Total assets** | **903 425** | 903 987 | 891 677 |
| **EQUITY AND LIABILITIES** | | | |
| Ordinary shareholders' funds | **331 724** | 354 703 | 337 886 |
| Outside shareholders' interest | **18 377** | 19 508 | 18 782 |
| Total equity | **350 101** | 374 211 | 356 668 |
| Long-term liabilities | **1 187** | 6 220 | 14 168 |
| Deferred tax liability | **10 494** | 1 914 | 9 514 |
| **Current liabilities** | **541 643** | 521 642 | 511 327 |
| Payables | **455 231** | 419 463 | 420 103 |
| Amounts owing to vendors | **1 399** | 3 194 | 7 571 |
| Taxation | **7 422** | 2 058 | 3 591 |
| Bank overdrafts and trade finance advances | **77 591** | 96 927 | 80 062 |
| **Total equity and liabilities** | **903 425** | 903 987 | 891 677 |
| Capital expenditure incurred in current period | **4 273** | 9 580 | 14 243 |
| Capital commitments at end of period | **2 971** | 1 936 | 8 938 |
| Lease commitments at end of period | **95 376** | 96 222 | 94 989 |
| Payable within one year | **18 328** | 14 063 | 16 866 |
| Payable after one year | **77 048** | 82 159 | 78 123 |

## *Abridged consolidated cash flow statements*

| (USD 000's) | **Unaudited six months to 31 August 2003** | Unaudited six months to 30 September 2002 | Audited period ended 28 February 2003 |
|---|---|---|---|
| **EBITDA** | **12 318** | 16 500 | 18 250 |
| Loss on disposal of property, plant and equipment | **–** | – | 774 |
| Non-cash items – unrealised foreign exchange losses and AC133 imputed interest | **3 989** | 2 125 | 4 728 |
| **Cash generated before working capital changes** | **16 307** | 18 625 | 23 752 |
| Working capital changes | **(20 355)** | 66 370 | 119 706 |
| Decrease/(increase) in inventories | **1 240** | (277) | 7 464 |
| (Increase)/decrease in receivables | **(57 191)** | (17 300) | 30 699 |
| Increase in payables | **35 596** | 83 947 | 81 543 |
| **Cash (utilised)/generated from operations** | **(4 048)** | 84 995 | 143 458 |
| Net financing costs paid | **(34)** | (1 125) | (2 044) |
| Taxation refunded/(paid) | **3 410** | (12 436) | (14 802) |
| **Net cash (outflow)/inflow from operating activities** | **(672)** | 71 434 | 126 612 |
| Net cash outflow from investing activities | **(3 424)** | (19 740) | (32 594) |
| Net cash inflow/(outflow) from disposal of operations and investments | **2 363** | (1 897) | (1 911) |
| Net cash (outflow)/inflow from financing activities | **(16 908)** | (2 011) | 2 274 |
| **(Decrease)/increase in cash and cash equivalents** | **(18 641)** | 47 786 | 94 381 |
| Translation difference on opening cash position | **2 696** | 6 309 | 6 574 |
| Cash and cash equivalents at beginning of period | **115 604** | 14 649 | 14 649 |
| Cash and cash equivalents at end of period (*) | **99 659** | 68 744 | 115 604 |

## *Segmental analysis*

| (USD 000's) | **Unaudited six months to 31 August 2003** | Unaudited six months to 30 September 2002 | Audited period ended 28 February 2003 |
|---|---|---|---|
| **Revenue** | | | |
| Westcon | **859 724** | 795 302 | 1 626 437 |
| Logical | **186 919** | 164 676 | 307 501 |
| Mason | **13 783** | 13 277 | 25 161 |
| Other Holdings | **47 774** | 36 479 | 75 638 |
| Revenue from ongoing operations | **1 108 200** | 1 009 734 | 2 034 737 |
| Discontinued operations | **21 871** | 15 727 | 27 804 |
| | **1 130 071** | 1 025 461 | 2 062 541 |
| **EBITDA** | | | |
| Westcon | **17 815** | 19 596 | 33 666 |
| Logical | **2 645** | 2 292 | 993 |
| Mason | **895** | 1 515 | 2 716 |
| Other Holdings | **(7 112)** | (2 626) | (6 229) |
| Datatec foreign exchange losses | **(3 923)** | (2 748) | (10 792) |
| EBITDA from ongoing operations | **10 320** | 18 029 | 20 354 |
| Discontinued operations | **1 998** | (1 529) | (2 104) |
| | **12 318** | 16 500 | 18 250 |
| **Operating profit/(loss)** | | | |
| Westcon | **11 470** | 13 167 | 20 908 |
| Logical | **(812)** | (1 244) | (5 851) |
| Mason | **449** | 1 166 | 2 106 |
| Other Holdings | **(7 433)** | (2 898) | (6 768) |
| Datatec foreign exchange losses | **(3 923)** | (2 748) | (10 792) |
| Operating (loss)/profit from ongoing operations | **(249)** | 7 443 | (397) |
| Discontinued operations | **329** | (2 887) | (4 959) |
| | **80** | 4 556 | (5 356) |

## *Determination of headline earnings*

| | | | |
|---|---|---|---|
| Attributable loss per the consolidated income statements | **(11 105)** | (5 723) | (31 513) |
| **Headline earnings adjustments (net of taxation and outside shareholders):** | | | |
| Goodwill amortisation | **6 218** | 5 037 | 11 662 |
| Loss on disposal of property, plant and equipment | **–** | 84 | 542 |
| Exceptional items: | **4 937** | 2 158 | (5 416) |
| Loss on disposal and closure of discontinued operations | **4 951** | 1 839 | 529 |
| Write-down of carrying value of investments | **–** | 319 | 528 |
| Recoupment of goodwill and trademarks previously charged to equity | **–** | – | (6 391) |
| Other | **(14)** | – | (82) |
| Goodwill impairment | **–** | – | 14 883 |
| **Headline earnings** | **50** | 1 556 | (9 842) |

## *Statement of changes in ordinary shareholders' funds*

| | | | |
|---|---|---|---|
| Balance at beginning of period | **337 886** | 402 203 | 402 203 |
| Attributable loss | **(11 105)** | (5 723) | (31 513) |
| Shares issued | **–** | 544 | 524 |
| First time adoption of AC133 | **(1 303)** | – | – |
| Foreign exchange difference on equity loans net of tax | **(4 444)** | 873 | (14 978) |
| Translation of foreign subsidiaries | **10 690** | (43 194) | (18 350) |

| | | | |
|---|---|---|---|
| Diluted headline | **0,04** | 1,13 | (7,14) |
| Basic | **(8,06)** | (4,15) | (22,84) |
| Diluted | **(8,06)** | (4,15) | (22,84) |
| Net asset value per share (cents) | **241** | 257 | 245 |
| Net tangible asset value per share (cents) | **194** | 201 | 195 |

| | | | |
|---|---|---|---|
| **(Decrease)/increase in cash and cash equivalents** | **(18 641)** | 47 786 | 94 381 |
| Translation difference on opening cash position | **2 696** | 6 309 | 6 574 |
| Cash and cash equivalents at beginning of period | **115 604** | 14 649 | 14 649 |
| Cash and cash equivalents at end of period (*) | **99 659** | 68 744 | 115 604 |

*Comprises cash resources net of bank overdrafts and trade finance advances.

| | | | |
|---|---|---|---|
| First time adoption of AC133 | **(1 303)** | – | – |
| Foreign exchange difference on equity loans net of tax | **(4 444)** | 873 | (14 978) |
| Translation of foreign subsidiaries | **10 690** | (43 194) | (18 350) |
| Balance at end of period | **331 724** | 354 703 | 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"), professional services and IT network integration ("Logical") and strategic telecommunications consulting ("Mason"). The Group also has a number of other interests in South Africa ("SA"), which are included with the Group Head Office under Other Holdings. These interests include Westcon AME (operating in Africa and the Middle East) and an 84% interest in RangeGate (operating in SA and the United Kingdom ("UK")).

## 2. US DOLLAR 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 95% 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 will be consistently applied in future using the following method:

- 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 periods presented (including comparatives) have been translated at an average rate that approximates the actual exchange rates at the dates of the transactions.

## 3. COMMENTARY ON RESULTS

The Group's financial results for the period ended 31 August 2003 reflected revenue from ongoing operations of $1,1 billion compared with revenue in the previous period of $1,0 billion. Operating profit before financing costs, depreciation and amortisation ("EBITDA") from ongoing operations amounted to $10,3 million compared with EBITDA in the corresponding period of $18,0 million. This decline is largely as a result of lower margins in the industry as a consequence of difficult conditions in the sector, costs associated with consolidating operations and foreign exchange translation losses from the appreciation of the Rand.

Headline earnings per share for 2004 amounted to 0,04 cent compared to earnings of 1,13 cents for the previous period.

Financing costs decreased during the period due to the reduction in offshore interest rates.

Exceptional items of $5,2 million were incurred during the period, related to the net loss realised on the closure of Logical France and the sale of Datanet and Westcon Cabinet Manufacturing in SA.

The effective rate of taxation on profit before exceptional items and goodwill increased from 40,3% for the half-year in 2003 to 57,4% in 2004. The effective rate is disproportionate due to the fact that certain subsidiaries made losses which will be carried forward for tax purposes, 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.

Amounts owing to vendors in the balance sheet represent purchase considerations still outstanding in respect of acquisitions. At the end of the period, the Group reflected an amount of $1,4 million as owing to vendors.

Capitalised development costs in the balance sheet have remained relatively static at $11,0 million, with amortisation amounting to $1,5 million. Costs capitalised during the period were in respect of Westcon's internally developed enterprise resource planning system known as Compass.

At the end of August, the Group showed a net cash position of $99,7 million compared to prior comparable period of $68,7 million and at year-end a balance of $115,6 million.

In Rand terms, the Group's revenue for the period ended 31 August 2003 from ongoing operations mounted to R8,4 billion compared with revenue in the previous period of R10,6 billion. EBITDA from ongoing operations amounted to R78 million compared with EBITDA in the previous period of R189 million. Operating profit amounted to R1 million compared to the previous period of R49 million, after taking foreign exchange translation losses at the company level of R30 million (2003: R29 million) from the strengthening of the Rand.

Headline earnings per share for 2004 amounted to 1 cent compared to 12 cents for the previous period.

Ordinary shareholders' funds at the reporting date were R2,5 billion, which represents a net tangible asset value per share of R14,23 at an exchange rate of R7,3:$1. At 31 August 2003 the Group's net cash position was R731 million (September 2002: R723 million).

## 4. DIVISIONAL REVIEWS

### 4.1 Westcon

Westcon group generated revenue of $860 million, which exceeded revenue in 2003 by $65 million or 8%. Most of this revenue growth was generated by the newly acquired Landis subsidiaries while organic revenue growth was approximately 2,3% over the comparable prior period. The gross margin for the period was 8,9% versus 9,0% generated in the comparable period. Westcon's gross margin performance reflects continued pressure on global channel margins – particularly margins realised on sales of Cisco products, which comprise the largest percentage of Westcon's vendor sales. EBITDA margins decreased from 2,5% in 2003 to 2,1% for the first six months of 2004. This was partially due to the decrease in gross margin coupled with consolidation costs incurred to reduce selling, general and administrative costs in order to be in line with current operating levels.

At 31 August 2003 Westcon's net cash position was $70,6 million (September 2002: $25,6 million).

For the six-month period Cisco product made up 53% of Westcon group's revenue followed by Nortel (11%), Avaya (10%) and security and IP devices (26%). From a geographic perspective 57% of Westcon group revenue was generated in the Americas followed by Europe (37%) and Asia-Pacific (6%).

### 4.2 Logical

Logical achieved revenue from continuing operations of $187 million for the period under review compared to revenue of $165 million in 2003, an increase of 14%. This increase was primarily a result of $20 million of additional product sales by the operations in the United States and Australia producing strong performances. Annuity revenue from maintenance and managed services also improved on last year by 27%. Overall service revenue was down year-on-year by 15% with the improvement in product sales not driving additional professional and technical services.

The decline in demand for services resulted in a lower utilisation of staff and impacted overall gross margins from continuing operations which decreased from 24,4% in 2003 to 22,2% in 2004. Product margins remained under pressure in the six-month period and declined overall by 0,8%. The increase in revenue however improved total gross margin which increased by $1,3 million.

Management continued to maintain a concerted focus on controlling the operating expenses which increased by 2,4% or $0,9 million compared with the 14% increase in revenue. EBITDA from continuing operations amounted to $2,6 million for the period compared to $2,3 million for last year. Including discontinued operations the EBITDA was $2,5 million compared to $0,2 million last year. After charges for depreciation and amortisation the operating losses amounted to $0,9 million (2003: $1,3 million).

During the period Logical sold its French subsidiary, Logical France, removing a loss-making operation.

Significant emphasis also remained on the management of working capital. At 31 August 2003 Logical's net cash position was $18,1 million (September 2002: $16,9 million). Management continues to work to increase revenue and reduce operating expenses where possible in order to improve profitability in the current difficult trading environment in which visibility remains limited.

Logical's evolution into an integration solutions business will be marked by a shift to a better differentiated and more distinguishable name "Logicalis". It has the advantage of evolving from the current brand and, together with the new strap line 'integration solutions', it reflects the more distinctive repositioning (LOGICAL + IS). The Logicalis vision is to become the partner of choice for IT solutions, integrating best-in-class offerings from leading IT vendors.

### 4.3 Mason

Mason achieved revenue of $14 million (£8,6 million) during the period under review compared to $13 million (£8,7 million) in 2003. EBITDA decreased from $2 million (£0,9 million) in 2003 to $1 million (£0,6 million) for the current period and operating profit amounted to $0,5 million (£0,2 million) (2003: $1 million; £0,7 million).

The difficult market conditions experienced during 2003 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. The decline in Telecommunications and service providers sector revenue has stabilised and there are early signs of a recovery for this sector.

The current market conditions are likely to prevail for some time and any recovery is likely to be modest. However, Mason has proven its ability to rapidly respond to changing market conditions and is in an excellent position to continue its growth and geographic expansion when market conditions improve.

### 4.4 Other Holdings

**Westcon Africa Middle East ("Westcon AME ")**

Westcon AME's operations mirror those of the Westcon group. Revenue for the period amounted to $26 million (R197 million) (2003: $24million; R243 million), which was substantially below expectation, mainly attributable to the appreciation of the Rand, as well as weak market conditions. Operating losses amounted to $2 million (R17,0 million) (2003: profit of R1,6 million) after foreign exchange losses of R3,3 million, and re-organisation costs of R16,2 million. With effect from 31 July 2003, Westcon AME sold its interest in the Datanet and Westcon Cabinet Manufacturing and substantial reductions in costs have been, and are being, implemented under a new management team.

**Affinity Logic**

Affinity Logic's core business is the provision of consulting and outsource services for the delivery of computing infrastructure and application solutions to the retail and consumer goods sector. Affinity Logic reported an operating loss of $0,3 million (R2,3 million) (2003: R12,3 million) on revenue of $11 million (R82,7 million) (2003: R103,9 million).

Datatec sold its 55,2% shareholding in Affinity Logic to UCS Group Limited for R19,3 million and R43,7 million for shares and loan accounts, respectively, with effect from 31 August 2003.

**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 period amounted to $3 million (R24,5 million) (2003: R34,8 million) and operating losses amounted to $1 million (R8 million) (2003: R13 million). Difficult market conditions contributed to lower than expected revenue. By instituting pro-active cost control measures, the company was able to reduce losses whilst still investing in core product research and development.

## 5. REPORTING

This report has been prepared in accordance with 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 period, other than the introduction of AC133, which did not have a material effect on the Group's earnings. As a result of changing our year-end from March to February, the unaudited results presented are as at 31 August 2003. Both September 2002 and August 2003 are six month periods.

## 6. PROSPECTS

Despite signs that the industry seems to have stabilised, the Group remains vigilant to any potential weakening of economic conditions. So far increases in revenues and volumes have been made in tough market conditions where margins remain tight and pressure on operating margins intense. In addition to these uncertainties the effects of global currency movements make it difficult to forecast.

## 7. DIRECTORATE

Mendel Karpul has resigned from the Group board with effect from 31 August 2003, after seven years of service.

## 8. DIVIDENDS

Under current international market and business conditions, it is not considered prudent to declare a dividend at the present time.

On behalf of the Board

| | | |
|---|---|---|
| **L Boyd** | **J P Montanana** | **D B Pfaff** |
| *Chairman* | *Chief Executive Officer* | *Group Finance Director* |

4 November 2003

**Sponsor**

**RAND MERCHANT BANK**
A division of FirstRand Bank Limited
CORPORATE FINANCE

Directors: L Boyd* (Chairman), J P Montanana# (CEO), C B Brayshaw*, J F McCartney*®, D B Pfaff, C M L Savage*, C S Seabrooke*, A M Smith®, N J Temple*# #British ®American *Non-executive
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