

chief executive officer's report



Sbu Shabalala

Introduction

Adapt IT showed a resilient financial performance in the financial year, as it continued to implement its sustainable growth and diversification strategy of organic and acquisitive growth, albeit in challenging market conditions, whilst maximising earnings attributable to its ordinary shareholders going forward through acquiring all non-controlling interests in subsidiaries during the period.

Strategic achievements in the review period included:

- Successfully introduced new products in the main operations;
- Built capacity in strategic areas of the organisation;
- Improved Sales and Marketing approach to increase visibility;
- Consolidated KwaZulu-Natal operations to La Lucia Ridge;
- Expanded into Geographies, outside of the African continent (USA and Australia);
- Increased the Group's interest in ITS Holdings to 100% by acquiring the 49% non-controlling interest on 31 December 2010 and fully integrating the ITS business;
- Increased the group's interest in ApplyIT to 100% by acquiring the 23% non-controlling interest on 1 December 2010 and fully integrating the ApplyIT business;
- Reviewed the group's governance in line with the recommendations of King III;
- Improved the level 3 B-BBEE rating, to become the most empowered ICT company listed on the JSE.

Change in financial year-end

Pursuant to the change in financial year-end, the June 2010 annual report reflected results in respect of a 16-month period. Accordingly, to make meaningful comparisons, the results of the comparative period are presented on an annualised basis in the commentary below. (The annualised figures are set out in the five-year review on page 6).

Financial performance

Revenue for the year increased 4% to R180,9 million with annuity revenue representing a healthy 45% of total revenues.

Operating profit declined by 4%, earnings per share grew by 4% while headline earnings per share grew by 21% on the annual equivalent of the prior year.

Operating profit was affected by the lower than usual demand for projects in the Sugar industry, coupled with high foreign currency exchange losses (due to the weak US Dollar) on new sales secured offshore. Added to this was the non-recurring acquisition transaction costs of R1,7 million fully expensed in the period. Cost management was a key focus, particularly in units that were hardest hit by the recession, to mitigate the negative factors affecting earnings.

The growth in annualised headline earnings is due to a once-off credit to income in the prior year, relating to a discount on the initial 51% acquisition in ITS (refer to note 5.1, page 52).

The group borrowed R20 million to acquire the non-controlling interests in ITS and was able to settle the borrowings during the course of the financial year utilising group cash resources. Since the non-controlling interests are consolidated for six months in the 2011 financial year, and all costs are fully expensed, these

transactions will be more accretive in the 2012 financial year.

Cash and working capital management are still key focus areas for the business and the cash generated from operations was R17,7 million, an increase of 1% on the annual equivalent of the previous period.

The group will continue to generate cash, prudently manage its financial position, and continuously acts to reduce costs, improve operating efficiencies and streamline operational processes going forward.

Review of operations

The group conducts its business through three subsidiaries which provide a variety of specialised IT solutions and services across a range of business environments, explained in more detail in the group profile (see page 2).

Adapt IT Solutions

Adapt IT Solutions performed below expectations, reporting a profit before tax of R6,4 million for the year from an annual equivalent of R9,1 million, mainly due to the lower sales in the traditional sugar market, hard hit by weather conditions and exchange rates and tough sales environments in the new markets, coupled with exchange losses on foreign contracts due to the weak US Dollar.

Continued investment in diversification initiatives to introduce new products was supported by building organisational capacity and this is expected to yield results going forward.

ITS

ITS outperformed expectations, delivering an increased profit before tax of R14,7 million for the year from R10,3 million. ITS has successfully aligned with the group both strategically and from a governance perspective.

Entry into the further education and training sector has been the catalyst for the increased performance, and is envisaged to continue.

ApplyIT

ApplyIT recorded a profit before tax of R0,8 million from R0,1 million, a significant improvement on the previous year.

The mining sector has improved since the recent recession and new business including an offshore contract was won. Cost management also improved.

Positioned for success

Adapt IT enjoys a leading position within the differentiated market verticals we service. We have progressed in gaining market share and continue to attract new customers. The management team's focus is on delivering sustainable organic growth and introducing new products, which will continue to drive future growth and enhance the value-proposition into new markets.

The group seeks further earnings enhancing acquisitions, of a sizeable nature, that will complement existing businesses and improve customer and product diversity.

Importantly, we enjoy the benefits of a strong financial position, a recurring revenue model and low capital expenditure requirements, which position our company for long-term success.

We constantly strive to build a culture of accountability and execution and continue to look to strengthen our brand in the market and to increase our loyal customer base; customers who, themselves, want to see Adapt IT win. We make every effort to actively live our commitment to our valued customers, shareholders, partners, employees and stakeholders.

Our long-term objective for our investors is clear: we aim to enhance shareholder value through growing profit sustainably.

Future prospects

The recovery in the ICT industry has begun as we have seen a marked improvement in the sectors within which we operate. Our group made significant progress in line with its strategy to consolidate and grow our business in the sectors where we currently operate and to improve the service offering and readiness to take advantage of the expected economic recovery.

We believe that the group is well placed to show a marked improvement on its performance in the 2012 financial year. We will continue expanding into new IT growth markets where we believe we have a competitive advantage and the requisite competence to succeed.

Appreciation

On behalf of the group, I take this opportunity to thank members of the board of directors for their leadership and those of the groups' subsidiaries for their dedication. I take a moment to remember the late Mr September's contribution to Adapt IT, may his soul rest in peace.

I extend my most grateful thanks to Adapt IT's staff without whose dedication, hard work, enthusiasm, team spirit, skills, as well as an appetite for growth and change, our company would not be the industry leader it is. My sincere thanks go to each and every one of you and to your families for their support of your efforts, and to our customers, suppliers, service providers and partners, for their continued support of our business.



Sbu Shabalala

Chief Executive Officer