


10 STATEMENT TO SHAREHOLDERS

ADAPTABLE AND RESILIENT.
UNDERSTANDING OUR ENVIRONMENT
ALLOWS ADVERSITY TO BE TURNED
INTO ADVANTAGE.





FY2003 has been a year of change in which Datacraft executed a broad-ranging transformation process that was launched in late FY2002 and which has delivered on a number of key initiatives. The objective was to both help the company weather the market downturn and more importantly, to reinforce its position as a leading and resilient player in a fast changing market place.

Efforts during the year were directed on two fronts. Internally, there has been a relentless focus on boosting productivity, improving operating efficiency, tightening financial control and strengthening the balance sheet. Meanwhile externally, we have also been maintaining an absolute focus on customer satisfaction coupled with a determined push into new high-value businesses to address new opportunities.



Patrick Quarmby
NON-EXECUTIVE CHAIRMAN



Bill Padfield
CHIEF EXECUTIVE OFFICER

These efforts have resulted in the enhancement of the company's core networking business, a broader and deeper service offering to customers, a simpler and unified corporate structure, improved processes and financial controls, and continuing improvements to the company's balance sheet and liquidity. Our keen customer focus has also been rewarded. We not only beat our FY2002 customer satisfaction ratings but also over-achieved against an aggressive goal we set for ourselves for FY2003.

Reflecting the generally challenging trading conditions, exacerbated by economic uncertainties and the SARS outbreak, the Group achieved a pre-tax operating profit of US\$3.5 million for the 12 months ended 30 September 2003 compared to US\$16.2 million for the previous corresponding period. This figure excluded a US\$3.8 million amortisation of goodwill charge and US\$11.9 million exceptional charges relating to restructuring and asset impairment. The Group recorded revenues of US\$328.7 million for the full year, compared to US\$404.9 million for the same period last year. For the second half of FY2003, pre-tax operating profit increased to US\$3.1 million from US\$0.4 million in the first half despite flat revenues, due to the stringent cost controls implemented and the impact of the restructuring exercise undertaken.

The company continues to make good progress in strengthening the balance sheet with record cash generated during the period. All-round improvements were also registered in the key areas of inventory and trade

debtors. For the 12 months ended 30 September 2003, the Group generated positive cash flow of US\$39.6 million, the highest level in the Group's history. Net cash consequently surged 65% year-on-year from US\$39.8 million to US\$65.7 million. Net accounts receivables from external customers were reduced by 23% year-on-year to US\$99.8 million, while inventory declined further by 18% to US\$14.0 million.

From a geographic perspective, India had another outstanding year with Datacraft's business benefiting from the robust demand for call centre integration and the rapid build-out of banking infrastructure. Most notably, the company clinched a second phase contract from the State Bank of India valued at US\$29 million to expand its backbone network and connect it with seven associate banks. The company successfully completed the US\$18 million first phase project in May 2003.

Performance in the other regional markets was mixed. Hong Kong, Taiwan and Singapore put in a creditable performance against the backdrop of sluggish economies, while Japan successfully staged a return to profitability in the second half of the year. New Zealand had a good year of sustainable profitability, while ASEAN's performance in general came off from the high base of last year due to the completion of several large infrastructure projects. In Korea, the restructuring exercise enabled the Group to substantially reduce its losses year-on-year, while China's recovery process was slower than expected but losses had narrowed over the last three quarters.

THE COMPANY CONTINUES TO MAKE GOOD PROGRESS IN STRENGTHENING THE BALANCE SHEET WITH RECORD CASH GENERATED DURING THE PERIOD... FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2003, THE GROUP GENERATED POSITIVE CASH FLOW OF US\$39.6 MILLION, THE HIGHEST LEVEL IN THE GROUP'S HISTORY.

To sharpen our business focus and enhance profitability, considerable efforts were also spent on rationalising and optimising the organisational structure. As a result, the company divested its two cabling companies in Singapore and the Philippines. The eCommerce business also underwent a process of downsizing and restructuring, and is now fully integrated within the Group's core networking business.

As a result of restructuring, the overall headcount has been reduced from 1502 at the start of FY2003 to 1141 as at 30 September 2003. This is the net outcome of a headcount reduction of 605 in areas where we have downsized or disposed of, and an addition of 244 new staff in growth areas such as storage, professional services and India. The company has also been investing in management skills, bringing in a number of senior executives from world-class IT companies to bolster the management team.

The changes within Datacraft are largely driven by what we see as a fundamental shift in the customer mindsets on IT investment decisions. Today's customers are attuned to the needs of the business they serve and they demand innovative, integrated solutions that yield a demonstrable return on investment in a short timeframe, which help them gain that competitive edge in their industry and create lasting relationships with their clients.

Mounting competitive pressure and regulatory changes are pushing customers toward IT infrastructure that fully

leverages the integration benefits of the Internet Protocol (IP), making it easier for them to streamline business processes and comply with new reporting requirements.

The need for IP convergence is precisely the reason why Datacraft is aggressively launching service and solution offerings that plan, build and support IT infrastructure based on its Application Network* framework. By re-architecting their IT infrastructure using the Application Network framework and delivering innovative solutions that leverage IP convergence, Datacraft is helping its customers comply with regulatory requirements, become more competitive through enhanced flexibility, lower capital expenditure, decreased operational cost, improved resource utilisation and increased productivity.

During the year, the company was able to make significant headway in delivering solutions and services that apply the Application Network framework. New solutions include Network Storage; Customer Interactive Solutions for contact centre migration; as well as Surveyor Secure service for security assessment and risk management. As a result of its Application Network approach, Datacraft is now receiving appreciable recognition in the marketplace as a leader and specialist. To differentiate Datacraft in the market place and

*** Application Network**

The convergence of two previously separate areas of IT: application integration and network infrastructure. Application Networks leverage a range of open communication standards based on Internet Protocol (IP), XML and web services to make IT infrastructures more collaborative, intelligent and functional.

THE GROUP ACHIEVED A PRE-TAX OPERATING PROFIT OF US\$3.5 MILLION FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2003 AND RECORDED REVENUES OF US\$328.7 MILLION FOR THE FULL YEAR.



underpin its solutions and service offerings, the company is putting increased focus on its core relationship with three key global partners who are the respective leaders in their fields: Cisco Systems, EMC Corporation and Microsoft.

Our relationship with Cisco has been extremely successful, stretching back to the early '90s when we were instrumental in establishing their business in Asia. Datacraft is Cisco's number one partner across Asia Pacific. Dimension Data is also one of Cisco's top partners worldwide. In recognising the strategic importance of this relationship, both companies are strongly committed to working together even more closely, particularly in the areas of Advanced Technologies such as IP convergence.

The partnership with EMC Corporation, the worldwide leader in information storage solutions, was initiated in December 2002 and has become a global strategic alliance for the Dimension Data Group. Network storage is at the foundation of all applications and is therefore a fundamental element of our Application Networks vision of integrated network and application infrastructure. As its only integration partner in Asia-Pacific, Datacraft is now incorporating EMC's network storage platforms and open storage management software into its solutions and has assumed an important regional training role for EMC.

As with Cisco and EMC, the relationship with Microsoft has a global dimension through our parent company.

Through its North American subsidiary, Dimension Data has extensive solution-integration experience on Microsoft platforms and this is being extended to Asia Pacific with good results already achieved in the Australian market. During FY2004, Datacraft will increase its Professional and Managed Services focus and start to offer new services and solutions based around Microsoft's .Net platform, which provides a key component of the Application Network framework.

In refocusing itself on services and solutions and ensuring it can respond rapidly to market opportunities, the company has spared no effort in implementing wide-ranging internal changes over the past year. These include a single go-to-market model to ensure that multinational and national customers experience the same consistent level of service; a focus on productivity with detailed performance measurement metrics; a new Professional Services organisation; a leaner and more efficient Managed Services organisation; a more integrated and efficient Training Services team; and a newly created Solutions Development Group. Even the financial reporting system was restructured to match the new model for the business, and this is particularly critical as the company implements quarterly results reporting in the new financial year.

To ensure that Datacraft has the right mix of skills to successfully execute the business plan, we have put in place a web-based skills assessment system, which tracks the skills of our technical and sales people across

CLEARLY, FY2003 HAS BEEN A YEAR OF CHANGE AS WE UNDERTOOK CONSIDERABLE RESTRUCTURING EFFORTS TO LAY THE FOUNDATION FOR FUTURE GROWTH. FY2004 WILL BE A YEAR OF EXECUTION RATHER THAN FURTHER RESTRUCTURING.

the company. By matching these with the skills required by our solutions group, we can identify areas for training and/or hiring new personnel. We are also taking steps to enhance knowledge collaboration across the company and to fully capture Datacraft's intellectual capital.

As always, the company's achievements over the last financial year have come about as a result of contributions from a broad constituency of stakeholders. Customers, employees, partners, shareholders and the board have all played a role in our success.

Exemplified by the likes of the Citigroup, which signed a US\$8 million multi-year, region-wide support contract, and State Bank of India which awarded Datacraft more than US\$40 million of infrastructure development and service contracts in the last year, customers have continued to entrust us with their business-critical systems. Institutional shareholders have maintained their faith in the company and its management throughout these uncertain times, while our partners have stepped in with increased commitment and support.

Datacraft employees across the region have demonstrated hard work, professionalism and passion in overcoming the challenges faced by the company and their considerable forbearance has made our transition possible. Our board of directors has been highly supportive of the executive team's efforts to revive the company's fortunes, contributing their wisdom to guide the management team.

Last but not least, thanks to Ron Cattell for a professional and well-managed handover when he stepped down as CEO in August 2003. Ron has been a driving force at Datacraft since its founding, and his valuable contribution over the last 15 years has led the company through many years of record-breaking growth, and steered it steadfastly through the period of economic uncertainty. Fortunately Ron's experience will not be lost as he continues his involvement as a non-executive director on the Datacraft Board.

Clearly, FY2003 has been a year of change as we undertook considerable restructuring efforts to lay the foundation for future growth. FY2004 will be a year of execution rather than further restructuring. The company will continue to build on the core focus of Cisco, EMC and Microsoft and deliver value enhancing and innovative solutions to our customers.

The key market indicators are currently predicting that Asian economies will benefit the most from a sustained upturn in the global economy. As a result, both IDC and Gartner are predicting a pickup in demand for IT services across the region with single digit growth projected for 2004.

With our strong organisational structure, improving productivity and continued leading position in the 13 markets in which we operate, we are confident that Datacraft is well positioned to take advantage of this recovery and return the Group to sustainable profitability.

THE COMPANY'S ACHIEVEMENTS HAVE COME ABOUT AS A RESULT OF CONTRIBUTIONS FROM CUSTOMERS, EMPLOYEES, PARTNERS, SHAREHOLDERS AND THE BOARD.