



detailed planning – the key
to continued success

statement to shareholders



Bill Padfield Chief Executive Officer

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There is much about Datacraft's performance during FY2004 that we can look back on with satisfaction. Pleasing year-on-year improvements were achieved in the Group's operational earnings and balance sheet, and a significant increase in both employee and customer satisfaction served to validate our go-to-market model and solutions strategy.

With economic conditions strengthening across the region, the company was able to focus on execution, without having to contend with the disruptive effects of geopolitical conflict and region-wide threats to public health. Group revenues grew 10% to US\$362.3 million, while gross margins increased to 16.2% in FY2004. Pre-tax operating profit, before amortisation and exceptional items, was US\$9 million, a 158% surge over FY2003.

The pre-tax operating profit excludes US\$3.7 million of goodwill amortisation, and US\$13.4 million of exceptional charge largely due to the full write-down of goodwill related to the acquisition of Dasan in Korea in 2001. As at 30 September 2004, the Group reviewed the carrying amount of the goodwill and determined that the goodwill was impaired as there is uncertainty as to whether the Dasan business would return to profitability in the near future. Consequently, goodwill no longer appears as an intangible asset on the balance sheet.

The Group's financial strength and cash flow continued to improve in FY2004. For the year, the Group generated a positive operating cash flow of US\$39.0 million. The Group's balance sheet at 30 September 2004 was stronger than ever with US\$112.3 million in net cash and short-term investments, a 40% increase over the position at the end of FY2003. Receivables have been well managed with Days Sales Outstanding reduced to 79 days, compared with 99 days at the beginning of the year.

The all-round improvement in operational earnings stemmed from a welcome return to revenue growth. This was driven by a combination of strong market perception for the Group's new service and solution offerings and increased margins resulting from improved efficiency in the services business. The hard work put in during FY2003 to transform the business started to show results during FY2004 and will continue to have an impact on the business performance going forward.

In FY2003, the key focus had been on the three M's - Model, Measurement and Management, which was aimed at improving productivity with detailed measurements utilising key performance indicators and metrics. During FY2004, the focus has been on the three S's - Solutions, Services and the Standard Operating Environment, which saw the deepening and broadening of our portfolio of solutions and services, as well as the standardisation of business processes across our operations in 13 countries - encompassing everything from order processing to expense claims. This initiative has led to productivity gains and reduced cost, and will accelerate in FY2005, with a particular focus on systems and sales administration processes.

In FY2004, considerable time, effort and investment were put into upgrading employees' skills and strengthening the management team. Executives with strong track records were recruited to fill key sales, services and solutions positions.

A thorough review of Datacraft's brand was also undertaken and the results of this exercise were rolled out across the region in the fourth quarter. They can also be seen in the design of this report. The revamped corporate identity was specifically developed to project a younger, more agile and energetic image as the company makes its transition into a leading IT services and solutions specialist.

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Among the geographic markets in which Datacraft operates, India continued to be the biggest earner, driven by our growing business with customers in the domestic banking and off-shore services sectors. Our India operations have also taken on a pivotal role in the delivery of managed services across the region.

Singapore was another star performer, experiencing good growth from enterprise customers, particularly those in the banking and financial industries. Thailand and Indonesia also delivered strong results, signing a US\$12.1 million contract for the New Bangkok International Airport and multiple contracts from members of Indonesia's Telkom Group.

Elsewhere in ASEAN, business strengthened with Vietnam winning a prestigious US\$3.57 million project with Quang Trung Software City to set up their IT infrastructure. The New Zealand operation once again turned in solid results benefiting from several managed services annuity contracts.

In the Greater China region, our Hong Kong and Taiwan businesses grew steadily while China, led by the new management team since April 2004, has seen steady progress on its recovery programme. With a business plan focusing on multinational companies and selected service providers, we are confident that the China operation is on a steady recovery path.

In Korea, the management is making headway in its efforts to realign the team to the Group's solutions and services focus, and to diversify its revenue stream. While still tentative, current indications suggest that business prospects in Korea are improving.

Enterprise customers now account for 70% of Datacraft revenues with the market picking up after a weak, SARS-affected FY2003. Technology refresh, driven by IP Convergence and the demands of US Convergence regulatory compliance, was much in evidence with multinational customers across the region. The Service Provider business was stable overall but demand varied considerably across the region. As competition continued to put pressure on hardware margins, we avoided low margin commodity business and focused on higher-value solutions and services.

Security was a major focus for service providers and enterprise customers alike in FY2004. As a result, this segment was the strongest performer within the Solution Development Group (SDG). Our in-depth security expertise has enabled us to develop unique solutions that bring our own intellectual property to bear on security challenges.

The Storage solutions business, which started as a fresh focus for the company in early FY2003, is now one of our fastest growing areas. Vendor partnerships in the storage area now include Veritas as well as EMC, enabling the SDG to penetrate a broader market.

IP Convergence solutions also grew strongly in FY2004 on the back of strong demand for IP Telephony (IPT) systems, especially in the financial services sector. At the State Bank of India, for example, we installed an IPT system with more than 4,000 handsets and the bank now uses a number of in-house developed XML convergence applications such as directory listings and unified messaging.

After a refresh, the iBOSS solutions business is growing again and an experienced manager has been brought in to head the team. The iBOSS solutions portfolio now extends into new exciting growth areas such as MPLS operation management and VoIP operation management to optimise and accelerate our customers' infrastructure investments.

Overall, the strong market reception for the company's suite of value-enhancing solutions is another contributory factor to the revenue growth. The investments in broadening and deepening the Group's solutions portfolio comprising the core practices in Security, IPC, Storage, iBOSS, CIS and the newly launched Microsoft solutions have generated positive results. Solutions revenue reported strong year-on-year growth to account for 19% of revenue, up from 12% last financial year. We expect this growth to continue through FY2005 as the pipeline of new solutions incorporating in-house intellectual property gains momentum.

FY2004 was something of a watershed year for Managed Services. Significant progress was made against our strategic focus of building up the annuity revenue stream. In addition to large multi-year contracts signed early in the year by Citigroup and State Bank of India, the company also secured a 7-year, US\$4.2 million Uptime maintenance contract with a multinational food and beverage company in New Zealand.

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Managed Services gross margins improved significantly, thanks to cost management and productivity gains. This was a key contributor to the year-on-year margin improvement at the Group level. To further improve productivity, cost-efficiency and service delivery, we consolidated our call centres and help desks across the region into a new Global Services Centre (GSC) in Bangalore, India.

Professional Services developed into a substantial business in FY2004, from its start in FY2003. A significant number of pure consultancy projects were won during the year, particularly in the area of security assessment. The successful deployment of the Traffic Auditing & Provisioning Solution, a collaborative effort between the Professional Services and iBOSS teams, was one of the year's highlights.

In FY2005, we will focus on improving the contribution from Professional Services. Rate erosion remains a problem across the region and there are skills gaps that we are addressing through recruitment and training.

Datacraft's Training Services - Training Partners - staged a strong turnaround after the SARS-impacted FY2003, with both revenues and margins recovering. India, Korea and Taiwan all enjoyed good growth, and China in particular, picked up quickly. Demand for training focused on advanced technology solutions, rather than IT certification, which reinforced the drive to broaden Training Partners' curriculum.

Training Partners continues to expand into new markets, including Sri Lanka, Fiji and Cebu in the Philippines, whilst following up on new partnership opportunities through resellers. The company is currently creating a Course Development Methodology to assess an organisation's training requirements and deliver a full solution that addresses any gap in the skills base.

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Headcount across the Group increased moderately to 1,192 during FY2004 with modest growth in the Solutions Development Group (SDG) and Professional Services business areas off-setting some downsizing in Managed Services. With the company growing and increasingly profitable, spirits are high amongst Datacraft employees. The conclusion reached by the Singapore Commercial Affairs Department (CAD) following its two-year investigation into the company was another piece of welcome news which removed any lingering market uncertainty and boosted employee morale further.

The company's health and vigour is reflected in its key partner relationships. Datacraft remains Cisco's number one partner across Asia Pacific (excluding Japan), and the storage business has also grown well, with EMC as our key vendor. In addition, our new Microsoft business secured some good early wins, auguring well for the future.

Thanks to the establishment of a rolling three-year planning process, the road ahead is clearly mapped out going into the new financial year. Migration to IP will remain the driver in both enterprise and service provider segments, and we expect enterprise mobility to be the next big growth area.

Overall, Datacraft turned in a respectable performance against our FY2004 objectives - namely delivering on the business plan and returning to operational profitability. In FY2005, our key objective is to accelerate business growth and improve operational profitability. With a stable business environment and a now proven business model, we are confident of achieving our goal.