



A RICH ASIAN HERITAGE

Chairman's Statement



We operate as a seasoned multinational while leveraging the rich Asian heritage of the Li & Fung Group

It gives me great pleasure to report the first year-end results of Integrated Distribution Services Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the fiscal year ended 31 December 2004, subsequent to its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the year we witnessed the efforts and investments we have made in the past five years to redefine and reposition the business beginning to bear fruit. We now have three full-fledged business streams, namely IDS Marketing, IDS Logistics and IDS Manufacturing, that enable us to provide integrated services in the economies of Greater China and ASEAN. We believe the Group has now built a solid foundation on the basis of a strong Asia-wide logistics and technology infrastructure and is well positioned to redefine the traditional distribution industry, capitalizing on the strong resurgence of the Asian economy.

In 2004 the Group's profit attributable to shareholders amounted to US\$10.5 million, representing a 26.0% increase over the US\$8.4 million of 2003 and was 9.9% above the profit forecast stated in the Company's prospectus dated 24 November 2004 ("Prospectus"). Among the three core businesses, we see strong growth in Logistics and Manufacturing, mainly attributable to the successful conclusion of a number of new contracts and addition of new production lines respectively. Growth in Marketing was slightly held back due to portfolio rationalization in Thailand and Singapore as part of our efforts to ensure that our contracts have a balanced risk/reward structure. Otherwise all countries showed good growth.

INITIAL PUBLIC OFFERING

Shares of the Company were successfully listed on the main board of the Stock Exchange on 7 December 2004, becoming the third publicly listed vehicle within the Li & Fung Group. We are very pleased that both the public offer shares and international placing shares received a very enthusiastic response from the market with substantial over-subscription recorded. It is a strong testament to investor confidence in the Group's business model and the operating strategies our senior management has outlined to drive business growth and deliver strong shareholder returns.

MARKET OVERVIEW

The overall economy in Asia continued to show a healthy rebound in 2004 as it recovered from the impact of SARS in the first half of 2003. Asia has regained its momentum as the fastest-growing region of the world, mainly driven by the strong and steady growth of the Chinese Mainland.

As Asian economies become more affluent, we are seeing stronger demand in consumer and healthcare products, thus triggering the proliferation of brands and the rise of consumerism. We also see the outsourcing trend in Asia continuing to thrive, as more and more multinational brands begin to outsource manufacturing and logistics and seek more sophisticated distributorships to sell and promote their products. Increasingly, brand owners are focusing their internal resources on product development and brand management. This has been accompanied by an increasing interest in regional solutions and demand for



"We see strong growth potential through our ability to customize local and regional service solutions and aggressively build our customer relationship on the two dimensions of scope of activities and geographical coverage."

Chairman's Statement



The IDS Group IPO press conference.



Listing ceremony of the IDS Group at the Stock Exchange on 7 December 2004.

more sophisticated supply chain management services such as regional hubbing and inventory management. These are all beneficial to the continued growth of the Group and support our optimism about the growth opportunities that are open to us in the region.

Our operations in the Chinese Mainland recently made an important achievement: In April 2004, a wholly-owned subsidiary of the Company was approved by the State Ministry of Commerce of the PRC to set up a wholly-owned entity under the Closer Economic Partnership Arrangement (CEPA) to engage in wholesaling and distribution, import and export on a nation-wide basis. We were among the first companies in the distribution industry to achieve this status. This places us in an advantageous position over other competitors as we are now able to provide full-scale distribution services directly and with full control.

FUTURE GROWTH STRATEGIES

The key to remaining competitive in the market is to consistently invest in our people and systems to ensure that we continue to deliver added value to our customers.

During the period under review, in line with customary practice within the Li & Fung Group, the senior management of the Group developed the Three-Year Strategic Plan for 2005–2007. This will be the blueprint we will follow as we steer the Group forward towards becoming the premier pan-Asian provider of Integrated-Distribution Services specializing in Marketing, Logistics and Manufacturing.

Integrated-Distribution is our competitive edge and by integrating our core businesses of Marketing, Logistics and Manufacturing we are able to provide end-to-end services along the value-chain on a regional basis. At the same time, our three core businesses can work independently with customers who only require a specific service out of the full spectrum. With this flexible business approach, we see strong growth potential through our ability to customize local and regional service solutions and aggressively build our customer relationship on the two dimensions of scope of activities and geographical coverage.

Another strategic imperative in 2005 is to further strengthen our presence in the Chinese Mainland. We expect the strong growth of export and consumption in the Chinese Mainland to continue and brand owners gathering pace to solidify their foothold in the market, as a result of which we see increasing demand for professional logistics and marketing services. With our CEPA status in conducting wholesaling and distribution, import and export businesses, we can establish closer partnership with both international and local brands to bring products into and out of the Chinese Mainland.

We will continue to adopt an asset-light strategy of minimizing investment in properties and operating on optimal levels of working capital thereby improving returns on investment. By tight measures in managing our working capital and reducing fixed assets, we can free up capital to invest in technology applications and staff development that create more value for our customers.

On behalf of the Directors, I would like to take this opportunity to express my gratitude to the Group's management team and staff for their unrelenting efforts and invaluable contributions to our successful public listing and the continued success of the Group.

Victor FUNG Kwok King
Chairman

Hong Kong, 7 April 2005



The headquarters of the IDS Group in Hong Kong.