



WINNING TOGETHER

# Operations Review



We are committed to making a difference by delivering operational excellence and business results for our customers

# **IDS** Logistics

IDS places Logistics at the heart of almost every facet of its operations, driving an uninterrupted flow of goods at maximum efficiency for the lowest cost.



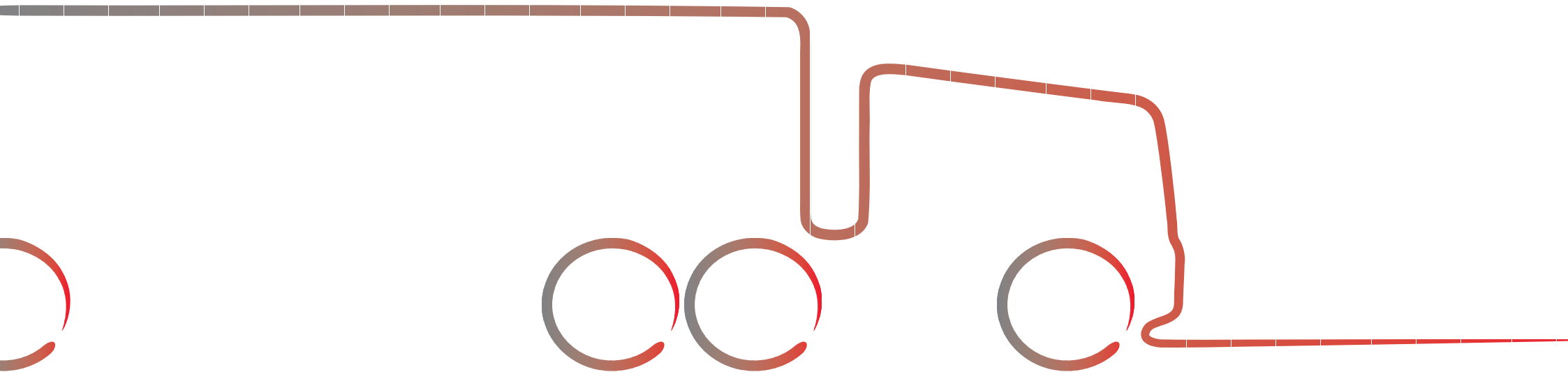
marketing



logistics



manufacturing



## Operations Review



Our distribution center in Taiwan dedicated for the Unilever operations.



We provide regional hubbing service from our advanced ASRS (Automated Storage and Retrieval System) facility in Singapore.

- Operating profit surged 85.2% to US\$6.6 million with substantial improvement in operating margin from 4.5% in 2003 to 7.0% in 2004.
- Over 30 new contracts signed and all major contracts renewed.
- Focus on regional client relationship gained momentum. New country wins with Watsons, Carrefour, Nike, Unilever and regional hubbing projects with Gillette, Beiersdorf and Sara Lee.
- Strong Logistics Asian outsourcing trend playing to our in-country Logistics strength and our regional supply chain and technology infrastructure.

IDS Logistics enjoyed remarkable success in 2004 with revenue increasing by 19.7% to US\$94.3 million. Operating margin during the year improved from 4.5% in 2003 to 7.0%, resulting in an 85.2% increase in operating profit to US\$6.6 million in 2004. Since the business was transformed from a back-end support function to a front-end core business in 1999, IDS Logistics has evolved to become a respected Asian logistics company in the region.

With a strong focus on operational excellence, the business has successfully retained all its major customers in 2004. The business development effort was equally outstanding with over 30 new contracts signed during the year, many of which are extensions of existing relationships into other countries. Examples include Nike and Unilever in Taiwan, and New Zealand Milk in Malaysia.

Earlier investments in expanding our service offerings to adjacent sectors have recorded tremendous growth in 2004. In the area of retail logistics, we built on the success of our relationship with Watsons in the Philippines, which

was started in 2003, by extending the partnership to Malaysia, Hong Kong and Thailand in 2004. Our relationship with Carrefour in Thailand has also been extended to Malaysia since January 2005.

Regional hubbing and export logistics services, mainly provided by IDS Logistics International, proved to be well received by multinational brands with sophisticated supply chains. Revenue of this division doubled in 2004. During the year, IDS Logistics International commenced and strengthened hubbing services for various FMCG, Wine & Spirits and Personal Care brands like Gillette, Beiersdorf and Sara Lee.

In order to manage the strong growth of business in the Chinese Mainland, a new Nike footwear distribution center was opened in August 2004 in Shanghai. The 12,000-square meter distribution center runs our standard EXceed 4000 warehouse management system and is equipped with a conveyor system to facilitate the pick-and-pack process. A feasibility study on the installation of an automatic and

intelligent-sorting conveyor system is currently being undertaken to further enhance the replenishment process.

Construction is underway in Malaysia for a new 4,500-square meter leased facility dedicated to the storage and distribution of pharmaceutical and healthcare products. Expected to be operational in May 2005, the new facility will be fully GMP compliant and will further support the growth of IDS' healthcare business in Malaysia.

Looking into 2005, our focus will be on aggressive organic growth and flawless execution to ensure the smooth implementation of new contracts. As the trend of outsourcing logistics continues to increase among leading brand owners and retail chains, we expect enormous opportunities for both in-country as well as regional logistics services. Logistics will continue to be our fundamental enabler that connects the other core businesses of Marketing and Manufacturing to provide

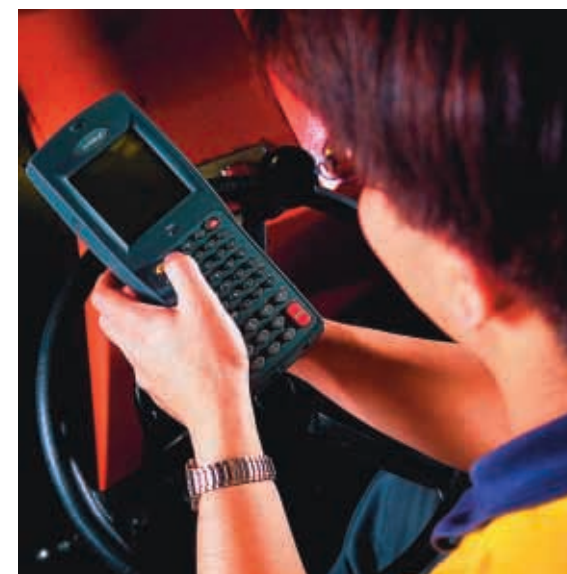
end-to-end Integrated-Distribution Services along the complete value chain.

We will continue to expand our service offerings to adjacent sectors to leverage our core competencies and diversify our client base. Our operation in Thailand has successfully made an entry into the automotive parts sector through establishing partnerships with Michelin and General Motors in 2004. We will aggressively pursue opportunities in this sector regionally.

A wholly owned subsidiary is being incorporated in Indonesia with a view to commencing the logistics business in the near future. Our strategy will be to build the business on the back of an anchor customer. Additionally, our initial studies in Vietnam have shown that it is a fast-growing market that presents interesting prospects, and we will continue to monitor this market closely.



We continuously strive to optimize transportation cost while ensuring on-time and accurate deliveries.



One of our competitive advantages is the effective adoption of new technology to support our operations and derive value for customers.

# **IDS** Marketing

IDS has an intimate knowledge of the complexities of the retail and healthcare industries in Asia and an in-depth understanding of local consumers.



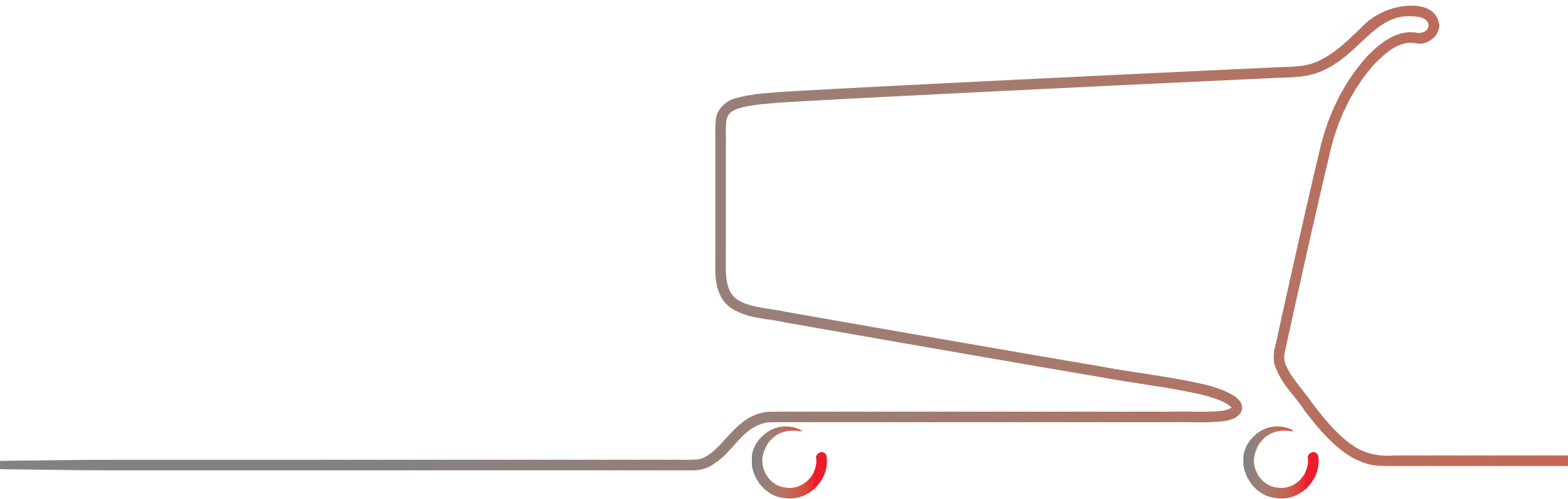
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- Steady progress in spite of intensive competition. Underlying revenue growth of 14.1%.
- Strong rebound in Hong Kong, firmly positioned as hub for growth in Southern China and Pearl River Delta.
- Progressive expansion in China upon CEPA approval with distribution network enhanced.
- Slumberland — Strong performance especially in the Chinese Mainland with retail outlets increasing from 79 in 2003 to 104 in 2004.

IDS Marketing made steady progress in spite of intensive competition from traditional distributors who appeal to customers based on price. Substantial investments have been made in enhancing our IT systems and service offerings to reinforce our competitive edge, as well as in developing the Chinese Mainland market to ride on the advantages to be gained through CEPA approval. As a consequence, revenue in 2004 was up 14.1% after eliminating the effect of a one-off item related to the transfer out of the significant distribution contract with revenue of US\$91.2 million in 2003. Year-on-year operating profit was down by 3.8% from US\$9.4 million in 2003 to US\$9.0 million in 2004.

The Hong Kong business rebounded strongly in 2004 following a management restructuring in 2003. A focus on value added services and effective cost control yielded better returns. Addition of new accounts aided top line growth along with the recovery from SARS. New services piloted during 2004 will be built upon in 2005.

Our development in the Chinese Mainland has been progressing as planned with key operations centered in Guangzhou, Shenzhen, Shanghai and Beijing. Under our

CEPA license, we transformed a former joint venture company into a wholly owned marketing subsidiary and solidified our distribution network covering 70 cities across the Chinese Mainland. We continued to enhance this distribution network and will progressively scale up our operations by serving more and more key accounts directly while strengthening our wholesaling relationships. In 2005 we will see the expansion of offices in Chengdu and Nanjing with many more cities to be added in 2006.

A key strategic priority for IDS Marketing in 2005 is to strengthen our operations in the Chinese Mainland through positioning Hong Kong as a hub for Southern China and the Pearl River Delta. By transferring our Marketing best practices and leveraging our strong customer base in Hong Kong, we can offer our customers the opportunity of extending first to Southern China and from this base gradually provide nation-wide coverage, thereby balancing risk and investments.

In August 2004 we established our first relationship with Nestle to distribute part of their snacks and beverage



Our Marketing business made steady progress in spite of intensive competition with strong rebound recorded in Hong Kong.



The rise of the modern trade, and the opening of the wholesale and retail sector in the Chinese Mainland under CEPA and WTO, plays to the strength of IDS Marketing's extensive distribution network.

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Approval was granted in April 2004 to establish a wholly owned entity in the Chinese Mainland under CEPA.



Number of Slumberland outlets in the Chinese Mainland increased substantially in 2004.

products in Brunei. Like our other major customers, we will nurture this relationship and expand to other markets and core businesses.

Our Healthcare division registered commendable growth and continues to be a market leader in surgical and critical care equipment and supplies in Malaysia and Singapore. A new initiative was implemented in Hong Kong to manage the outsourcing of mature pharmaceutical products for brand owners on a performance based fee arrangement. The initiative was well accepted as it enables brand owners to focus their resources on promoting their new products. This has proven to be a win-win solution for both the brand owner and IDS Marketing.

To address the increasing needs of brand owners, we have launched Credit & Cash Management as a separate service encompassing credit control, billing & collection, and claims & return processes on behalf of brand owners. Leveraging our expertise and local knowledge, we can significantly improve the efficiency of the sales-to-cash conversion cycle for our customers, thus optimizing and reducing their use of working capital.

In line with our strategy stated in the Prospectus, we have entered into a conditional agreement on 9 March 2005 with JDH Philippines, a wholly owned subsidiary of our controlling shareholder, to purchase certain inventory, IT infrastructure and vehicles from JDH Philippines for the launch of our marketing business in the Philippines sometime in second quarter 2005.

The Slumberland bedding business continued to show steady growth in 2004. Growth in revenue was recorded in all markets, in particular the Chinese Mainland, where revenues in 2004 increased by 28% as compared to the previous year while number of retail stores has grown by 32% from 79 to 104 during the year 2004. The focus on brand extension and brand building, and the expansion of our Slumberland retail stores in the Chinese Mainland over the past few years has paid off. During the period under review, the Superbrand status was awarded to Slumberland and Vono in Thailand and Malaysia respectively, which further strengthened our brands.

A plant expansion project in Malaysia commenced in September 2004 to support future growth of the business. With a gross floor area of over 4,000 square meters, the extended facility is expected to begin operations in July 2005. Upon its completion, we will have enough floor space to increase our production capacity by more than half in Malaysia.

As in 2004, we foresee the upsurge of raw material prices, in particular that of steel and other oil-based products such as polyurethane foam, to be our biggest challenge in 2005. However, we also see tremendous opportunities in the Chinese Mainland as well as new markets covered by our brand rights, including India, Vietnam and South Korea. The focus of the year will be speeding up the expansion of our distribution network in the Chinese Mainland as well as exploring opportunities for new market entries through joint ventures, acquisitions or licensing.

# **IDS Manufacturing**

The IDS Manufacturing base is built on over 40 years of Asian in-market expertise churning out literally thousands of world renowned products.



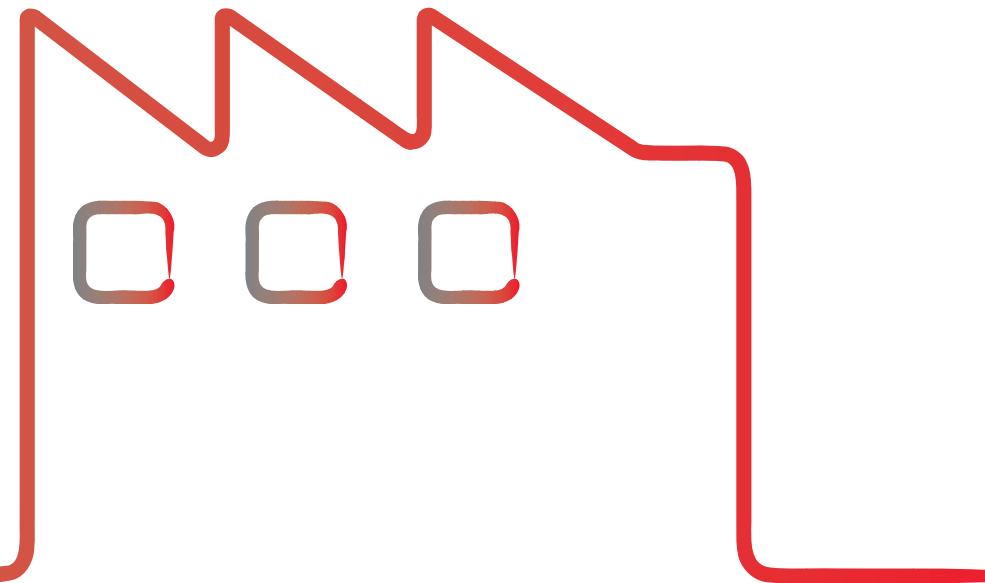
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## Operations Review



Artist impression of our facility in Thailand dedicated for the production of Listerine mouthwash for Pfizer. Construction work is expected to complete by mid-2005.

- Accelerated growth with revenue and operating profit increasing 22.1% and 77.3% respectively with the growth driven by our two centers of excellence – Malaysia and Thailand.
- Significant relationship established with Pfizer. Construction in progress for a dedicated plant in Thailand to produce Listerine mouth-wash.
- Repositioned Indonesia for growth with upgrade of plant, achievement of ISO9001:2000 certification.
- Explore opportunities in private labels for retail chains as well as export businesses to Europe, the Middle East and Australia.

IDS Manufacturing recorded accelerated growth in 2004 with revenue increasing by 22.1% to US\$123.8 million, which is mainly attributed to the installation of new production lines in Malaysia. As a result of effective cost saving and efficiency-enhancement measures across the business, operating profit surged 77.3% to US\$4.4 million in 2004. With our portfolio of customers and scale of operation, we are the largest independent contract manufacturer for FMCG products in the region.

As of 31 December 2004, IDS Manufacturing operated a total of 119 production lines, with an annual total production capacity of approximately 210,500 tons, compared to 118 lines and 189,500 tons at the end of 2003.

We saw encouraging results on the business development front in 2004. Nine new contracts were signed. We were generally successful in retaining contracts except for a few

that were terminated due to product rationalization or discontinuation. Our Thailand operation signed a contract with Pfizer in July 2004 to produce their Listerine mouthwash. A dedicated plant for this contract is now being constructed at the same site as our Thailand plant in Lamlukka, and production is expected to commence in July 2005.

Subsequent to the period under review, we concluded a contract with Nestle in January 2005 in Malaysia to produce a powdered beverage in sachets. Through outstanding team spirit and commitment, the production line was installed and commercial production began within a record-breaking timeframe of merely seven days. In February 2005, IDS Manufacturing Thailand has also concluded a contract with Procter & Gamble to produce their new hair care products for supply to ASEAN markets, Japan, Australia and New Zealand.

Since the introduction of the first Tetra Pak line in October 2001 in our Malaysia plant, demand for this packing option has been very encouraging as we became the only independent Tetra Pak co-packer in the country. In order to further capitalize on the market opportunity, a third Tetra Pak UHT line was installed in our Malaysia plant in May 2004. Demand remained strong and the machines are running at a very high utilization rate.

A Hot PET line was installed in Malaysia in August 2004 to further enhance our capability in beverage production. After a series of trial runs and fine-tuning, commercial production commenced in late March this year. Order status has been satisfactory, and we are confident that we will see increasing demand for this packing option in the market.

With our continuous efforts in achieving world-class quality standards, our plant in Indonesia was awarded the ISO9001:2000 certification in January 2004. As a consequence, all of our three manufacturing plants in the

region are both GMP and ISO9001 certified. With ISO and GMP status, our plant in Indonesia will become the manufacturing partner of choice by multinational brand owners. It will be one of our strategic priorities in 2005 to substantially expand our operations in Indonesia in the near future.

Initiatives have been undertaken in 2004 to enhance operational efficiency and productivity through exchanging best practices among our operations. Transfer of best practices from Malaysia to Thailand to achieve higher operational efficiency will be the focus for 2005.

Another area of focus for 2005 is to explore opportunities in private labels for retail chains as well as export businesses to Europe, the Middle East and Australia. Business Development personnel have been actively participating in exhibitions and trade fairs to promote the company and to collect market information.



There is strong demand for our Tetra Pak line in Malaysia.



New Hot PET Line in Malaysia.

# Partnerships

Over the years, IDS has established deep and long-standing partnerships with some of the world's most reputable brands. We currently work with over 350 brand owners and retailers and have successfully developed multi-country, multi-business relationships with many of our customers.



WE ARE HERE FOR OUR CUSTOMERS  
ALWAYS SERVE THEM WELL

