

# Chairman's Statement

I am pleased to report the interim results of Integrated Distribution Services Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005.

General consumer sentiment in the Group's markets in the region remains buoyant, despite some signs of softness in Malaysia and Thailand. The Group's efforts in business development continue to deliver strong results. During the first half of 2005, over 30 new contracts were concluded, and the total number of customers has increased to 380 as of 30 June 2005, compared to 350 at the end of 2004.

The Group's operations in the Chinese Mainland thrived with the booming economy. The revenue from our Chinese Mainland operations quadrupled year-on-year and contributed 11.8% of the Group's revenue in the first half of 2005, up from 4.0% over the same period in 2004. Both Logistics and Slumberland operations in the Chinese Mainland delivered strong growth. The China Marketing business, which was started in April 2004, performed ahead of budget.

## PERFORMANCE

The Group's revenue rose by 37.4% to US\$370.3 million in the first six months of 2005. Profit attributable to shareholders was US\$7.4 million, representing a 11.0% increase compared to US\$6.6 million for the same period in 2004. Earnings per share were 2.39 US cents. The Board of Directors has resolved to declare an interim dividend of HK6.0 cents per share.

IDS Logistics maintained its fast pace of growth and a steadily improving operating margin. Efforts to move into adjacencies during the past few years, first the footwear and apparel sector and later in the areas of regional hubbing, export logistics, retail logistics and automotive parts, began to bear fruit. IDS Logistics is now considered a dominant service provider in not only the Fast Moving Consumer Goods (FMCG) and healthcare sector, but also in footwear and apparel.

IDS Marketing experienced steady performance in Hong Kong and South East Asia with strong growth recorded in Brunei and the Chinese Mainland. Significant growth in revenue was mainly attributed to the strong top line registered in the Philippines since commencement of operations in April 2005. New service offerings that included billing and collection and merchandising have met initial success in winning new businesses.

IDS Manufacturing got off to a slow start in 2005 due to lower-than-expected order volume in Malaysia especially in our new Hot PET line and the start-up of the new Pfizer plant in Thailand. However, the Group experienced some signs of improvement towards the end of second quarter. Buoyed by the commencement of the production of Listerine mouthwash for Pfizer in Thailand, the Manufacturing business is expected to make a strong comeback in the second half of 2005.

The Group experienced some margin dilution with operating margin dropping to 2.4% in the first half of 2005 compared to 2.7% during the same period of 2004. This was mainly due to the new IDS Marketing operations in the Philippines, which registered high revenues but has yet to achieve critical mass.

## PROSPECTS

The Group is cautiously optimistic about the second half of 2005. On the positive side, we see the overall Asian economy remaining strong and the trend of outsourcing continuing to gain traction. As brand owners' supply chains are becoming increasingly complex, they are focusing more on their core competencies of product development and brand marketing while outsourcing the logistics, marketing and manufacturing functions to third party professionals. This is a favorable trend that will benefit the overall business of the Group.

However, we also see some uncertainties on the horizon that may have an impact on our operating environment. Whilst rising oil prices and interest rates do not have material impact on our operations as the Group can pass on most of its costs, there is a possibility that such factors may dampen consumer spending and overall economic growth. Although we continue to see high levels of consumer confidence in markets such as the Chinese Mainland, Hong Kong and Singapore, some softness has been noted in places where government fuel subsidies have been cut, such as Thailand and Malaysia.

As part of its strategy to drive further growth, the Group continues to identify acquisition targets around the region. The Group is currently exploring a number of interesting opportunities that can provide us an entry into a new market or add scale to an existing operation.

## CONCLUSION

The Group's strong first half 2005 interim results continue to build on our successful December 2004 listing. It is an encouraging and solid start to our Three-Year Strategic Plan for 2005–2007 and I wish here to express my thanks to the Directors and to the hard work of management and all members of staff.

**Victor FUNG Kwok King**  
*Chairman*

Hong Kong, 18 August 2005