# POISED FOR GROWTH

# Group Managing Director's Report

iDS Group

We have sown the seeds for healthy, sustainable growth

2004 has been an outstanding year for the Group. We first saw the full-scale launch of the IDS brand name, then we solidified our business value-proposition by taking an Asia-wide "Integrated-Distribution" strategy to aggressively expand our three core business streams of Marketing, Logistics and Manufacturing. Most importantly we successfully debuted on the Stock Exchange on 7 December to provide the perfect finale to the year. Fittingly by going public, we also accomplished the ultimate goal of our most recent Three-Year 2002–2004 Strategic Plan.

We have developed a clear strategy to tackle the age-old challenges of Asia's consumer and healthcare distribution industry by championing Logistics as the fundamental enabler to enhance efficiency and optimize value along the supply chain. When Logistics connects with our other two businesses of Marketing and Manufacturing, the three form a complete value chain that covers the entire process from procurement of raw materials to sale and delivery of finished goods to the end consumer. Each of our core businesses offers a distinct menu of services and is built from the ground up with the aim of becoming best-in-class service provider in its own field. We are therefore able to offer cost-effective, one-stop integrated solutions, customized to meet the unique requirements of our customers.

We have also successfully built up a competitive advantage by employing IT solutions to provide regional visibility and access to critical business data, reflecting our effective adoption of new technology to derive further value for customers. On top of our regional integrated technology infrastructure and standardized application systems in each of our core businesses, in 2004 we launched several proprietary business applications designed to enhance our customers' efficiency, all of which received positive response.

The key elements behind our success are our uncompromising commitment and focus on service quality and operations excellence on the ground. This has allowed us to emphasize the importance of extending our customer relationships with major customers across business streams and across countries. In 2004, we continued to leverage on our regional presence and our ability to provide local, regional and integrated solutions. As of the end of the year, over 60 customers are partnering with us on a cross-stream and/or cross-country basis. We see enormous opportunities in converting single-business, single-market customers into regional, multi-stream businesses, as well as further expanding our relationships with customers who are already working with us regionally. Our growing customer base of over 350 brand owners and retail chains provides a huge captive reservoir for our continued growth in 2005 and beyond.

"We have developed a clear strategy to tackle the age-old challenges of distribution by championing Logistics as the fundamental enabler to enhance efficiency and optimize value along the supply chain."

The IDS brand was introduced to customers and business associates during a regional launch ceremony held in February 2004.

IDS successfully debuted on the Stock Exchange.

## FINANCIAL OVERVIEW

| | 2004 US$ million | 2003 US$ million | % Change |
|---|---|---|---|
| Revenue | **584.9** | 591.8 | -1.2% |
| Operating profit excluding other (expenses)/income | **13.4** | 7.8 | 72.9% |
| Operating profit | **13.2** | 13.1 | 0.8% |
| Profit attributable to shareholders | **10.5** | 8.4 | 26.0% |

### Revenue

The Group reported revenue of US$584.9 million for 2004, a decrease of 1.2% compared with 2003. The decrease in revenue was primarily due to a one-off item related to the transfer out of a significant distribution contract in the Philippines with effect from 1 January 2004 (please refer to the "Financial Information" section of the Prospectus). The revenue generated from the contract was approximately US$91.2 million in 2003. Excluding this impact, all the three core businesses showed strong underlying revenue growth.

### Gross Profit

Gross profit increased by 15.5% in 2004 to US$165.4 million. Gross profit margin increased from 24.2% in 2003 to 28.3% in 2004. The reason for the increase was the transfer out of the above-mentioned distribution contract in the Philippines in 2004 which had a low gross profit margin. Excluding the above impact, the Group has successfully maintained its margin in a very competitive environment.

### Expenses

Marketing and logistics expenses increased by 15.6% in 2004 to US$121.3 million. This was primarily due to an increase in logistics expenses reflecting the strong growth in our Logistics business. The remaining increase is explained by the consolidation of the results of Nanjing IDS Marketing which became a wholly-owned subsidiary of the Company in April 2004. Administrative expenses decreased by 1.2% in 2004 to US$31.0 million reflecting success in our cost control measures.

### Operating profit excluding other (expenses)/income

As a result of the increase in gross profit coupled with operating leverage and effective control on expenses, operating profit excluding other (expenses)/income increased by 72.9% in 2004 to US$13.4 million.

### Other (Expenses)/Income

We had other expenses of US$0.2 million in 2004 compared to other income of US$5.3 million in 2003 which comprised primarily a reversal of an impairment provision made in 2001 on a property in Singapore and gain on disposal of subsidiaries.

## Net Profit

With the improvement of net cash position and lower interest rates, net finance cost decreased by 48.5% to US$0.7 million. The taxation charge decreased from US$2.9 million to US$1.1 million, primarily due to the write back of deferred tax liabilities arising from the disposal of a property in Singapore.

Taking the above into account, profit attributable to shareholders grew 26.0% to US$10.5 million.

## Segmental Analysis

*Logistics*

The Group's Logistics business continued its growth momentum. Revenue and operating profit increased by 19.7% and 85.2% to US$94.3 million and US$6.6 million respectively in 2004. The revenue growth was driven mainly by winning new contracts as well as growing existing business.

*Marketing*

As a result of the transfer out of the above-mentioned distribution contract in the Philippines, revenue and operating profit of Marketing business decreased by 10.4% and 3.8% to US$380 million and US$9.0 million respectively in 2004. The effect was partially offset by the growth of revenue from the rest of the economies and the increase in the shareholding of Nanjing IDS Marketing which became a wholly-owned subsidiary of the Company in April 2004 following the securing of the CEPA license.

*Manufacturing*

Revenue and operating profit increased by 22.1% and 77.3% to US$123.8 million and US$4.4 million respectively in 2004. The growth was mainly due to the full year impact of the additional Tetra Pak packaging line in Malaysia and increase in orders from existing clients in Thailand.

Geographically, Hong Kong is still the Group's largest market, accounting for 37.9% of revenue. Due to the transfer out of the above-mentioned distribution contract in the Philippines, the revenue from Philippines declined by 86%. Most of the economies where we operate recorded double-digit growth in revenue. The revenue from the PRC jumped by 112% to US$39.9 million resulting from the eight months impact of our acquisition of Nanjing IDS Marketing Company Limited in April 2004.

## Acquisitions

To further capitalize on the Chinese Mainland's growing economy, we obtained CEPA status for IDS Marketing in the Chinese Mainland in April 2004. IDS Marketing increased its shareholding in Nanjing IDS Marketing from 49% to 100% for a consideration of US$5.1 million. We are one of the first Hong Kong distribution companies to get approval from the State Ministry of Commerce of the PRC to set up a wholly owned company in the Chinese Mainland under CEPA, which enables us to conduct distribution and import and export of consumer products on a nation-wide basis.

In December 2004, IDS Logistics further strengthened its position in the Chinese Mainland by increasing its shareholding in Shanghai IDS Shen Hong Logistics Co., Ltd. from 65% to 80% at a consideration of US$750,000.

Leadership Council Meeting in Malaysia.

Senior Managers' Meeting in Hong Kong.

With the securing of CEPA status for IDS Marketing and our comprehensive logistics-related licenses, we believe that we are well positioned to serve the demand for distribution services from brand owners who are attracted by the growing economy in the Chinese Mainland.

### Liquidity and Financial Resources

On 7 December 2004, the Company's shares were listed on the Main Board of the Stock Exchange. The Group raised approximately US$27.9 million, net of direct listing expenses from the issue of 69 million new ordinary shares in the Company. The listing enlarged the base of shareholders and has provided additional funds for the Group's future development.

The gearing ratio is defined as net debt (represented by borrowings net of time deposits and bank balances and cash) divided by shareholders' equity. As at 31 December 2004, the Group is in a strong financial position with a net cash position amounting to US$7.5 million. Hence, no gearing ratio is presented. In addition, the Group has available bank loans and overdraft facilities of US$175 million of which only US$45.4 million have been utilized.

During the year, the Group borrowed a three-year long-term bank loan amounting to US$30.1 million and repaid certain short-term bank loans.

### Charges on Group Assets

As at 31 December 2004, there were no charges on the Group's assets.

### Foreign Exchange Risk Management

The Group operates under the nine economies in Asia and is thus exposed to foreign exchange risk. Fluctuations in exchange rates in these economies can affect the earnings and net assets of the Group.

In addition, certain purchase transactions are not conducted in the respective local currencies of our operations. The foreign currencies involved in these transactions include mainly U.S. Dollars, Euro, Japanese Yen and Pounds Sterling. The Group purchases foreign currency contracts to protect against the adverse effect of such exchange fluctuations on the foreign currency. Our group policy is to hedge all material purchases transacted on foreign currencies and restrict from engaging in speculative foreign exchange contracts.

### Contingent Liabilities

As at 31 December 2004, the Group has the following outstanding bank guarantees issued by banks in the ordinary course of its business:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **US$'000** | US$'000 |
| As security in favor of local tax and customs authorities in accordance with local regulations | **9,201** | 29,445 |
| For purchase of goods in favor of suppliers | **7,756** | 6,408 |
| Performance bonds and others | **155** | 273 |
| For rental payment in favor of the landlords | **3,456** | — |
| | **20,568** | 36,126 |

### Human Resources

As at 31 December 2004, the Group had a total workforce of approximately 4,380, of which approximately 750 were based in Hong Kong and approximately 3,630 were located throughout our overseas operations in the eight economies in Asia, namely Taiwan, Thailand, Malaysia, Singapore, the Philippines, Indonesia, the Chinese Mainland and Brunei.

The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options are granted to eligible staff based on individual and Group performance. The Group is committed to nurturing a learning culture in the organization. Total staff costs for 2004 amounted to US$74.4 million against US$57.1 million in 2003.

### Use of Proceeds

The Group raised approximately US$27.9 million, net of direct listing expenses from the issue of 69 million new ordinary shares in the Company in December 2004.

The proceeds will be applied in the coming years in accordance with the proposed applications set out in the Prospectus as follows:

- approximately US$4.6 million for strengthening of our logistics and marketing business in the Chinese Mainland, including facilities, infrastructure and resources;

- approximately US$3.5 million for investing and enhancing our three core businesses in economies that we currently operate;

- approximately US$3.5 million for regional expansion in new economies, including logistics and manufacturing operations in Vietnam and logistics operations in Indonesia;

- approximately US$3.5 million for investment in information technology systems for the Chinese Mainland, enhancement of existing application (including SSA WMS EXceed and PeopleSoft EnterpriseOne) and new implementation, and new business and financial system's application for regional distribution, manufacturing and financial management and upgrading of existing system;

- approximately US$6.7 million for strategic mergers and/or acquisitions or investments, joint ventures and/or alliances in the three core businesses in the Asian region; and

- the remaining amount to be used as general working capital.

As at 31 December 2004, the net funds raised of approximately US$27.9 million were placed on short-term deposits with licensed banks in Hong Kong. They will be applied in the coming years for their intended uses.

## INFORMATION TECHNOLOGY & BUSINESS APPLICATIONS

We believe our single, integrated regional IT infrastructure is the enabler for managing our businesses efficiently and providing customers with improved visibility. To support the rapid growth of our businesses, we increased our network bandwidth in 2004 and stepped up security control measures against viruses to minimize risk of system interruptions.

Implementation of PeopleSoft EnterpriseOne, our common distribution and financial management system, in Singapore and Malaysia was successfully completed in September 2004. Implementation in the Chinese Mainland is currently underway and is expected to be completed by August 2005. By then, all our major Marketing operations, namely Hong Kong, Thailand, Singapore, Malaysia and the Chinese Mainland, will be using a common system. Our warehouse management system, SSA WMS EXceed, will be further enhanced in 2005 by extending use of our RF (Radio Frequency) modules. This project is expected to significantly improve the operational efficiency of our distribution centers.

Our proprietary customer-focused business application projects in 2004 were well received by customers. The logistics module of Trigantic including our online portal for KPI and operations status monitoring was further expanded in terms of customer uptake and application enhancements. Additionally the sales module of Trigantic was launched in Hong Kong in mid-2004 for our Marketing customers. A full-scale rollout plan is in place for the region in 2005.

The Road Warrior project had a successful debut in 2004. The Sales Automation module of the project was launched in Thailand and Malaysia to fully automate the order-taking process by field staff. Implementation is now scheduled for Hong Kong in 2005. The product was customized to offer stock and consignment sales order management solutions for a major customer in Thailand with pilot program conducted in early 2005. We are currently reviewing the potential of further promoting the product to other potential customers. The Field Data Automation module, designed to expedite collection of field data, was launched in Hong Kong in the second half of 2004 and resulted in instant success.

## BUSINESS STRATEGY & FUTURE PROSPECTS

The management is confident that the Group has developed a unique business proposition based on our ability to provide end-to-end Integrated-Distribution Services and our focus on IT excellence. It places us in a position to take advantage of Asia's outsourcing trend especially in logistics and contract manufacturing. Just as timely is the rise of Asian consumerism, which will result in an increased demand for professional marketing services to bring brands to Asia.

We expect solid growth in Logistics in 2005 as major new contracts commenced in late 2004 will have full-year impact on results. We also foresee an increase in demand for regional hubbing services as IDS Logistics International has made substantial inroads in managing cross border supply chain services. Prospects of Manufacturing also look positive as we see major consumer brands beginning to outsource manufacturing processes that used to be performed in-house, and the newly installed Hot PET line in Malaysia will provide an extra stream of income. IDS Marketing is likely to see stronger revenue growth with the commencement of business in the Philippines and the gathering pace of development in the Chinese Mainland. We also anticipate an improvement in quality of profit as we strive for a balanced risk/reward structure for new contracts and renewal of existing contracts.

The Group follows a three-year planning cycle, and Year 2005 is the beginning of a new cycle. In 2004 the management team developed the Strategic Plan for 2005–2007. Key goals with specific targets have been set under the areas of Market Leadership, Operations & Technology, People & Organization and Financial Performance. Quarterly reviews will be held to measure our progress against the plan.

In order to strengthen our resources to support the fast growth of business and to ensure flawless implementation of new contracts, regional Business Development & Execution (BDE) teams will be formed under each core business. The BDE teams will play a key role in regional business development, project management, contract management and contract execution, thereby ensuring that best practices are applied regionally and that dedicated resources are available for executing major new contracts.

We will continue to pursue opportunities to enter new markets such as Vietnam and expand aggressively in South East Asia, especially Indonesia. The management team in Indonesia has been strengthened towards the end of 2004 to ensure that we have the right resources to drive the expansion of business there. We will be prudent in entering a new market and will commit to substantial investments only if we can make a back-to-back arrangement with a key customer to justify our investment.

We are constantly looking for suitable targets in Asia for strategic mergers and/or acquisitions to strengthen our existing operations. Such targets must be engaged in the same industry as we do and must either be able to provide us with strategic entry into a new market or to augment our existing operations to help us achieve critical mass and generate incremental profit from the outset.

**Benedict CHANG Yew Teck**
*Group Managing Director*

Hong Kong, 7 April 2005