

Experiencing Growth Across All Dimensions

2006 Highlights

- Profit attributable to shareholders registered strong growth of 73.9% against last year at US\$23.19 million.
- Proposed final dividend of HK28 cents per share. Total dividend for the year would amount to HK35 cents per share compared to HK20 cents per share in 2005.
- Strong across-the-board organic growth, core operating profit up 26.1% to US\$20.11 million.
- Continued to ride on the strong growth of the economy in China and its favorable policy of encouraging domestic consumption.
- Completed acquisitions in Malaysia and the US that will strengthen our logistics operations and extend our presence beyond Asia for the first time.

2007 Prospects

- Continue our focus on organic growth to ensure we finish our current Strategic Plan 2005-2007 strongly.
- Ensure we strengthen our leading position in China to spearhead business growth.
- Enhance current menu of services and explore new services in accordance with customer demand.
- Step up our efforts in pursuing M&A activities and ensure smooth integration of newly acquired businesses to derive synergies with current operations.
- Commence planning process for the next Three-Year Strategic Plan 2008 – 2010 to formulate the future growth strategy of the Group.

Dear Shareholders,

It gives me great pleasure to report the year-end results of Integrated Distribution Services Group Limited (the "Company") and its subsidiaries (collectively the "Group" or "IDS") for the fiscal year ended 31 December 2006. Despite the challenges of dampened consumption and political uncertainty in several Southeast Asian markets, the Group delivered outstanding profit growth of 73.9% to US\$23.19 million in 2006.

In 2006, the Group continued to pursue the two-pronged strategy of strong organic growth and strategic mergers and acquisitions. During the year, all our core businesses, namely Logistics, Marketing and Manufacturing, registered solid organic growth. Core operating profit grew 26.1% to US\$20.11 million. Our efforts in identifying suitable M&A targets have resulted in the completion of two strategic logistics acquisitions. The first one was in Malaysia, which would double the current scale of our local logistics operations. This was followed shortly by a deal in the US that gave us an entry into garment logistics and allowed us to establish our local presence in the biggest market of the world.

Since its inception, IDS has been determined to tackle and dominate the traditional distribution business with an innovative business model. Through on-going improvements and refinements, our unique proposition of offering a menu of services along the value chain that can be customized according to customer needs has now been crystallized. By combining our extensive global logistics network with our Asia-wide distribution capability, we can take full control of the end-to-end supply chain and help customers move their products efficiently into, out of and around Asia.

Performance

The Group's profit attributable to shareholders in 2006 increased 73.9% to US\$23.19 million, compared to US\$13.33 million in 2005. This outstanding growth in earnings was mainly attributable to all-around solid organic growth and the profit recorded from the progressive divestment of Slumberland Asia Pacific shares. Earnings per share were US7.50 cents. The Board of Directors has proposed a final

dividend of HK28 cents. Together with an interim dividend of HK7 cents per share, the total dividend for the whole year would amount to HK35 cents per share, or an increase of 75% against HK20 cents per share in 2005.

Our Logistics operations continued to deliver solid double-digit growth, while Manufacturing showed a strong rebound through vigilant cost control and improved operational efficiency. The Marketing operations were championed by the Group's solid growth in China. Riding the wave of buoyant consumption and increased affluence, the Group's operating profit in China grew by 102.4%



Dr. Victor FUNG Kwok King
Chairman

Chairman's Statement

against 2005. China has become our second largest market in terms of profit contribution. Both our Logistics and Marketing operations expanded their infrastructure network aggressively in 2006. We now manage 14 distribution centers, transport hubs and depots, and operate 17 branch offices, fully capable of selling directly and issuing invoices to key retail chains, in major cities across China.

In November 2006, we reached an agreement to progressively divest half of our 80% shareholding in Slumberland Asia Pacific to Hilding Anders, the market leader in the European mattress and bedding business. This transaction brings substantial benefits to IDS. Firstly, it enables us to extract value from the Slumberland operations and invest in developing our core business of integrated-distribution and logistics, including the funding of future M&A activities. Secondly, we can tap into Hilding Anders' cutting-edge technology, manufacturing know-how and customer relationships to drive the strong growth of Slumberland in Asia. The divestment will take place in three tranches, and will be completed by July 2008. The first tranche of 12.5% shares were divested at US\$9.69 million in December 2006, and the Group has recorded a US\$8.00 million gain.

Our efforts in securing new businesses and expanding partnerships with existing customers continued to be very successful. Over 70 new contracts were secured during the year, with an estimated business size that was substantially larger than those gained in 2005. New regional partnerships established in 2006 included Diageo, Elizabeth Arden, Pacific Brands, Avon, Monde Nissin, Ecco, to name a few.



Flag raising ceremony in Malaysia to celebrate the completion of our first acquisition.



Social event for the Board of Directors during a meeting in Malaysia.

As a whole, 2006 was a momentous year for IDS. We grew across all dimensions of our business.

Market Overview

Despite the impact of escalating oil and commodity prices, as well as threats of rising interest rates, Asia as a whole maintained a strong pace of growth in 2006. However, much of this growth was driven by the burgeoning economy in China and strong exports across the region. If we focus on consumer spending in individual markets, which has a direct impact on our business, a number of economies including Malaysia, Thailand and Taiwan have actually shown signs of deterioration.

Recent forecasts have predicted slightly slower growth in the region in 2007 compared to 2006, particularly in Thailand and Malaysia. Political uncertainty and regulations on foreign investment are likely to create a further drag on growth in Thailand, while domestic consumption in Malaysia is expected to remain sluggish.

On a more positive note, oil prices have stabilized in recent months and inflation pressures are expected to ease slightly. The economy in China is expected to remain buoyant, supported by the enthusiasm associated with 2008 Beijing Olympics and increased consumer spending amidst a bullish stock market.

Avian flu remains the most unpredictable risk within the region due to its potentially severe consequences. In 2006, the threat of avian flu intensified with an increased death toll. The fact that there were several suspected cases of the virus transferring from birds to pigs is alarming. It is relatively easier for the virus to be transmitted from pigs to humans than directly from birds to humans. The Group will ensure adequate preparation and contingency plans are in place to minimize business disruption.

Future Growth Strategies

2007 will be the final year of our current Three-Year Strategic Plan. We will continue our focus on organic growth to ensure we finish the plan period strongly. The planning process for the next Strategic Plan cycle for 2008 – 2010 will commence in the first quarter. This will be an iterative exercise with full involvement of the management team and extensive consultation across all levels of the Group.

China will continue to be the main driver of our strong growth. While we shall continue to leverage our market knowledge and strengthen our leadership position, it is of equal importance that we develop our talent base and create a robust structure at the back end to support long-term, sustainable growth.

Following the establishment of our foothold in the US, we will continue to expand our logistics network on a global basis. This will enable us to have full control of the end-to-end supply chain and offer comprehensive logistics services dealing with both the import and export movements, thus further strengthening customer relationships. Once the integration of our US operations is complete, we will leverage our existing relationships with our customers in the US to offer them export logistics services and approach other potential customers to provide full-scale logistics solutions.

Our ability to offer a comprehensive menu of services with distinctive added value is our competitive edge. We will continue to enrich this menu by enhancing our existing services and providing new services as demanded by customers.



Our infrastructure in China continued to expand according to plan. The Group now runs 17 branch offices throughout China.

In 2007 we will also step up our efforts in pursuing suitable M&A deals. Our targets remain the small- to medium-sized businesses with profitable operations that can add to the scale of our current operations or enable us to gain entry into new markets.



Our International business gained many new customers in 2006, including running an off-shore logistics hub for Pacific Brands in Suzhou, China.

During the year, the IDS Group, together with other members under the Li & Fung Group, celebrated the Centenary of Li & Fung. The yearlong celebration culminated in an evening of celebration in Hong Kong joined by 1,500 customers, business associates and colleagues. I would like to express my sincere gratitude to all colleagues who were involved in making our 100th Anniversary a most memorable one.

On behalf of the Directors, I would like to thank the management team and all our colleagues at IDS for their contributions to our success in 2006. I look forward to working closely with them as they prepare for the next level of growth and development.

Victor FUNG Kwok King

Chairman

Hong Kong, 20 March 2007