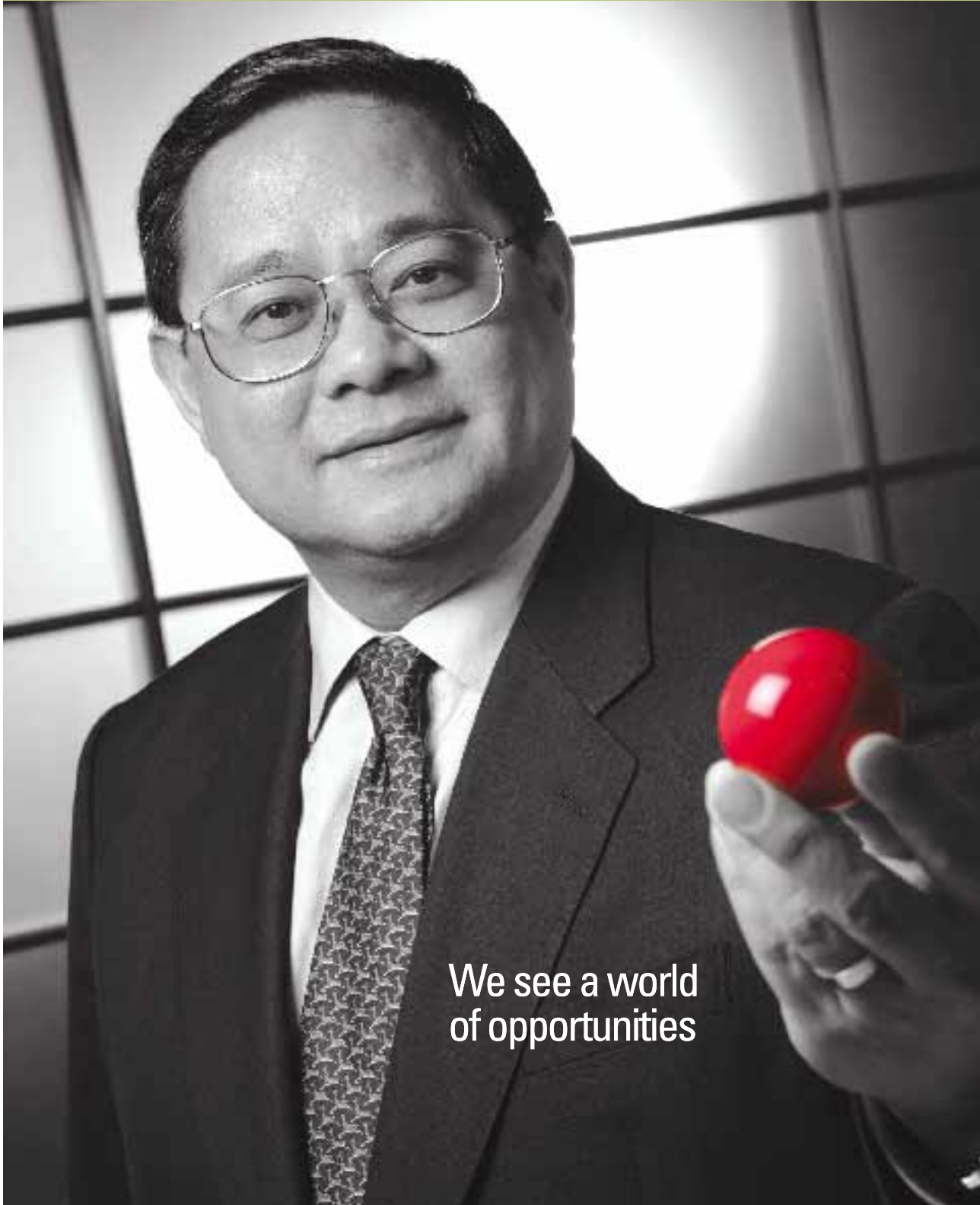


Chairman's Statement



We see a world
of opportunities

Dr. Victor Fung Kwok King
Chairman

Growing exactly how we planned

At IDS, we see a world of opportunities. We are confident of the growth prospects of the Group and will regularly review and refine our strategy and service offerings to ensure that we are keeping up with the constantly changing environment and customer needs.

Dear Shareholders,

I am pleased 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 2005. This past year was the beginning of the new Three-Year Strategic Planning cycle of 2005–2007 for the Group. Despite rising fuel prices leading to a slowdown in consumption in some Asian markets, the Group nevertheless delivered very solid growth in 2005, and is on track to achieve its Strategic Plan target of doubling 2004 profit to US\$21.2m by 2007.

The Group made substantial progress on various fronts during 2005, most notably our remarkable growth in China and the expansion of our Logistics business, which we consider the fundamental enabler of our business. We continued to build on the successful listing of the Company in late 2004 and saw increasing awareness of our Integrated-Distribution Services business model as it continued to gain traction. Overall, the Group has gained a firm foothold in the region as a leading provider of Marketing, Logistics and Manufacturing services.

Performance

The Group's profit attributable to shareholders of US\$13.3 million in 2005 reflected a 25.3% growth over the 2004 figure of US\$10.6 million. Earnings per share were US4.31 cents. The Board of Directors has proposed a final dividend of HK14 cents per share. Together with an interim dividend of HK6 cents per share, the total dividend for the whole year would amount to HK20 cents per share, equivalent to a payout ratio of approximately 60%.

Among our three core businesses, Logistics continued to deliver the strongest growth accompanied by improvement in margin, mainly attributable to the smooth implementation of the major contracts won in late 2004. Marketing also reported strong growth as a result of impressive performances in China and Brunei, as well as improvements in Singapore and Thailand subsequent to the portfolio rationalization program where we have exited from marginal or loss-making accounts. The commencement of Marketing operations in the Philippines made a substantial contribution to the top line, but the operation is still in its investment phase and hence impacted overall Marketing operating margin. The Manufacturing business was affected by the soft customer demand in Malaysia. Compared to the first half of the year, we experienced a stronger second half largely

Chairman's Statement

2005 Highlights

- Profit attributable to shareholders showed a solid 25.3% growth over 2004.
- A final dividend of HK14 cents per share proposed, bringing total dividend for the year to HK20 cents per share.
- Overall performance tracking well against the Group's Three-Year Strategic Plan 2005-2007 target.
- Strong growth maintained in Logistics business, complemented by impressive performance of Marketing in China.

2006 Prospects

- Continue to focus on expanding relationships with key customers.
- Aggressively grow our business in China.
- Pursue strategic M&A activities to build scale of existing business or gain entry into new markets.

brought about by the signing of several new contracts as well as the commencement of the production of Listerine mouthwash in Thailand for Pfizer.

Market Overview

The Asian economy in general maintained consistent and sustainable growth, which was underpinned by favorable macroeconomic conditions. The lowering of tariffs between ASEAN and China and the growing trend towards outsourcing fit well with our business model. Although rising oil prices and the possible outbreak of Avian Flu remain serious threats, we are confident of the long-term growth potential for the region.

We anticipate that the Chinese economy will continue to grow from strength to strength. Recently implemented policies have reflected a gradual shift in the government's emphasis from an "investment-led" to a "consumption-led" economy. One of the key highlights of the 11th Five-Year Plan is the pursuit of "common prosperity" which encourages the expansion of the middle class. We expect that supporting measures including tax reduction will be implemented to maintain a buoyant consumer market. Considering these factors, China is becoming increasingly attractive for global brand owners to leverage the country's rising consumption.

While we are excited about the vast opportunities in China, we will continue to consciously manage the risks, especially those related to accounts receivable, and contain our cost base to ensure sustainable and profitable growth.

Future Growth Strategies

At IDS, we see a world of opportunities. We are confident of the growth prospects of the Group, and will regularly review and refine our strategy and service offerings to ensure that we are keeping up with the constantly changing environment and customer needs. The Group has enjoyed a great start to its Three-Year Strategic Plan 2005-2007 and will stay focused towards achieving its target in the next two years.

One of the most valuable assets of the Group is our solid customer base. We have made good progress in 2005 establishing regional or cross-stream relationships with customers who originally engaged us only in one country or one business, including Nestlé, Carrefour, Maxxium, Hershey and others. We will continue to nurture our customer base and extend our partnerships through cross-stream selling and by offering customized solutions. Efforts in regional business development will be stepped up in 2006 to enhance our success rate in contract bidding, as well as to strategically identify opportunities to help us expand our relationships with our key customers.

China will continue to emerge and become our fastest-growing geography. With a comprehensive logistics and distribution network covering 100 cities and 6,000 outlets, including the majority of hypermarkets, supermarkets and department stores, the Group has become one of the largest wholly-owned non-local third-party distributors of consumer products in China. Our strategy of leveraging the customer base of Hong Kong and expanding our service to China has been successful. For the next phase, we will leverage our leadership position and proactively promote our China solution to potential customers in other parts of the region.

The Group is actively studying several opportunities for acquisitions across the three businesses, and we are hopeful that several will come to fruition in 2006. The purpose is not only to complement our organic growth, but more importantly to acquire the talent required to drive our business in the future. The targets we are focusing on are small-sized, profitable companies engaged in the same core businesses of marketing, logistics and manufacturing that may allow us to enhance the scale of an existing business or to gain a strategic entry into a new market.

2006 is a special year for the entire family of companies in the Li & Fung Group as we are celebrating the 100th Anniversary of Li & Fung. Whilst we are proud of our achievements over the past century, we are more focused on building the future and hence our centennial theme of "Building for the next 100 Years".

On behalf of the Directors, I would like to thank the management team and all colleagues within the IDS Group for their effort during the year and their determination to succeed.

Victor FUNG Kwok King
Chairman

Hong Kong, 20 April 2006



Celebrating the opening of the new Nike Distribution Center in Shanghai.



The opening of one of several new Marketing offices in China.



IDS and the entire Li & Fung family of companies kicked off our 100th Anniversary celebrations in Hong Kong early this year.

