GMD's Report

Ben Chang Yew Teck
Group Managing Director

An unwavering focus

Our success in 2005 is a tribute to our people. Their single-minded focus on service excellence makes the difference. By partnering with IDS, our customers know they are dealing with a safe pair of hands.

The first year of our Three-Year Strategic Plan 2005 –2007 finished strongly driven by all round organic growth. Our results demonstrate our ability to sustain the trend of solid profitable growth while living up to our asset light model. Yet what is even more exciting is the crystallization of our business model to remake the traditional distribution industry. By championing Logistics as our fundamental enabler and connecting our Marketing and Manufacturing businesses to form an end-to-end value chain, IDS now has a unique offering of integrated-distribution services, from procurement of raw materials to delivery of finished goods to the end consumer. With our deep and extensive infrastructure network supported by a robust regional technology platform, we are beginning to unveil the potential of Integrated-Distribution through driving visibility, velocity and value along the value chain.

Overall, revenues grew by 40.5% to US$821.5 million compared to last year. Core operating profit increased by 25.7% to US$16.0 million and operating profit at US$19.0 million was higher by 42.4% benefiting from other gains. Profit attributable to shareholders rose to US$13.3 million, growing 25.3% over last year. Cash flow generated from operations was a healthy US$19.7 million which was in line with last year.

Performance in China was stellar in 2005, primarily driven by the impressive growth of the Marketing business following its inception in April 2004. Compared with 6.8% Group share in 2004, revenue from our China operations contributed 12.2% in 2005. Operating profit increased by 80.4% during the period. By leveraging on our CEPA status, our distribution network expanded quickly to cover over 100 cities, thus becoming the first wholly-owned non-local distributor of consumer products to establish a major nation-wide presence.

The Group enjoyed remarkable success in business development in 2005. We won 77 new contracts, about half of which were through service or geographical extension with existing customers. As of the end of 2005, our customer base has grown to over 390 brand owners and retail chains, about 20% of which are regional customers engaging with us in more than one country or business. We will continue to expand the number of regional customers as well as the scope of services with them.

As a result of closer collaboration among our core businesses, we see an increasing awareness of our proposition of integrated-distribution services. A case in point is Philip Morris. Initially a Logistics customer in Singapore and the Philippines, Philip Morris has started to engage us in sales and distribution in the Philippines and Brunei. Other examples include Nestlé and Pfizer. Both began commissioning us for the first time to manufacture some of their core products for domestic as well as export markets, on top of their existing relationships with our Marketing business.

The Group continued to enhance its "Menu of Services" through the unbundling of clearly defined, distinct and tangible value-added offerings along the value chain. This differentiates us from the "one-size-fits-all" traditional distribution approach, and appeals to customers who want to control their sales and marketing functions by

GMD's Report

2005 Highlights

- The Group's strategy of Value-Chain Logistics to reinvent traditional distribution continues to gain momentum.
- Stellar performance in China helps establish IDS as a leading wholly-owned non-local distributor of consumer products.
- The Group achieved strong organic growth with 77 new contracts in 2005, about half with existing customers.
- Unbundling of distinctive new services enhances the Group's ability to provide customized solutions.

2006 Prospects

- The Group will continue to extract value from investments made in technology and expanded infrastructure.
- We will continue to add value through new service offerings.
- Newly formed Regional Business Development team will drive expansion of customer base.
- Our Country Resource Team (CRT) structure will enhance in-country cooperation and help build a scalable organization.
- The Group will step up its efforts to secure M&A targets to complement our strong organic growth.

selectively outsourcing certain parts of the distribution process like Credit & Cash Management or Merchandising. Customers can pick and choose the services they require according to their needs and strategy. Our flexible and responsive "Plug & Play" approach was instrumental in winning Wyeth in Hong Kong and Ferrero in Singapore.

Financial Overview

	2005 US$ million	2004 US$ million	Change %
Revenue	821.5	584.9	40.5%
Core operating profit	16.0	12.7	25.7%
Operating profit	19.0	13.3	42.4%
Profit attributable to shareholders	13.3	10.6	25.3%

Revenue

The Group reported revenue of US$821.5 million for 2005, an increase of 40.5% compared with 2004. The increase in revenue was driven by both Logistics and Marketing. Logistics grew by 34.8% on the back of new contracts won from both existing as well as new customers. Marketing business grew by 51.6%. This was mainly attributed to the commencement of Marketing business in the Philippines in April 2005 and the rapid expansion of the China Marketing business since its inception in April 2004.

Gross profit

Gross profit increased by 31.5% in 2005 to US$217.0 million. The increase in gross profit was in line with the strong growth in revenue. Gross profit margin decreased from 28.2% in 2004 to 26.4% in 2005. The reason for the decrease was the change in revenue mix with a higher proportion of new Marketing business delivering lower gross profit margin compared to the overall gross margin of the Group.

Expenses

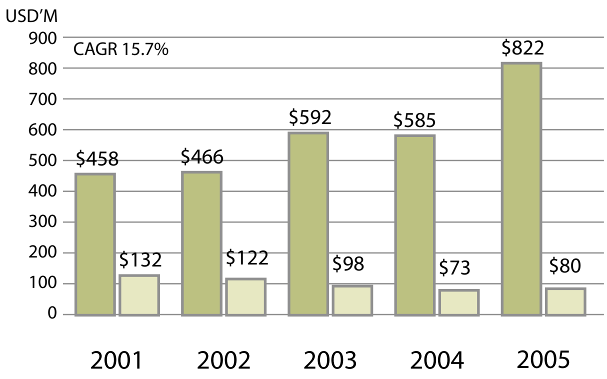
The combined marketing and logistics expenses increased by 37.8% in 2005 to US$168.3 million. The former was largely attributed to the expansion of our distribution network in China and the entry into the Philippines. The latter was primarily due to the strong growth of our Logistics business. Due to our scalable business model, administrative expenses increased by only 8.1% in 2005 to US$32.7 million.

Core operating profit

As a result of increase in gross profit from higher revenues and benefit of operating leverage, core operating profit increased by 25.7% in 2005 to US$16.0 million.

Operating profit

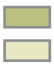
With the growth in core operating profit and other gains arising mainly from sale of surplus properties in Indonesia, operating profit increased by 42.4% in 2005 to US$19.0 million.

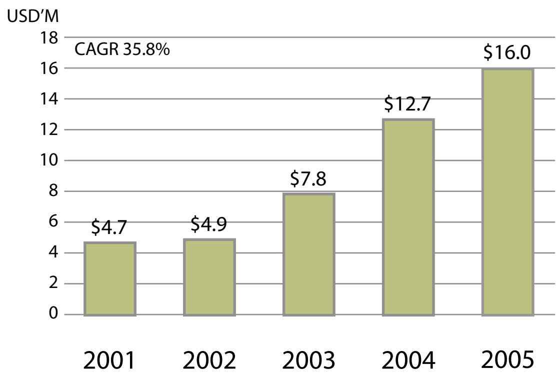


Revenue Growth

An Asset Light Business Model

Business Assets represents the sum of trade working capital, tangible assets, intangible assets and rental deposits.





Core Operating Profit

Strong Operating Leverage

Core Operating Profit represents Operating Profit excluding other material gains and expenses of a capital or non-recurring nature.

Net profit

Taxation increased from US$1.1 million in 2004 to US$3.8 million in 2005 primarily due to the write back of deferred tax liabilities arising from disposal of a property in the previous year. Taking the above into account, profit attributable to shareholders grew 25.3% to US$13.3 million.

Segmental Analysis

Logistics

The Group's Logistics business continued its growth momentum in 2005. Revenue and segment results increased by 34.8% and 55.9% respectively, compared with last year. These were driven mainly by new contract wins as well as growth in existing business in all economies.

Marketing

As a result of the expansion of distribution network in China, the strategic entry into the Philippines as well as strong revenue growth driven by new contracts from other economies, revenue and segment results of Marketing business increased by 51.6% and 30.2% to US$575.9 million and US$11.9 million in 2005, respectively.

Manufacturing

Revenue increased by 8.5% to US$134.3 million in 2005 but segment results decreased by 10.6% to US$3.9 million in 2005. The decrease in segment result is primary attributable to soft demand in Malaysia due to poor retail sentiment combined with start-up costs related to investment in a new plant in Thailand for Pfizer.

Geographical Analysis

Geographically, Hong Kong is still the Group's largest market, accounting for 27.9% of revenue. All economies continued their growth momentum in 2005. As a result of the launch of our Marketing business in the Philippines in the second quarter of 2005 and the expansion of our distribution network in China, revenue from the Philippines and China increased by 837.0% to US$137.2 million and by 153.5% to US$101.2 million, respectively. Singapore, Taiwan and Brunei also recorded more than 30% revenue growth driven by new contracts won in 2005.

Liquidity and Financial Resources

As at 31 December 2005, the Group is in a strong financial position with no net borrowings, and with a net cash position amounting to US$6.8 million. Hence, no gearing ratio is presented. In addition, the Group has available bank loans and overdraft facilities of US$180 million of which only US$50.7 million have been utilized.

Charges on Group Assets

As at 31 December 2005, there were no charges on the Group's assets.

Foreign Exchange Risk Management
The Group operates regionally in 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 in foreign currencies and restrict from engaging in speculative foreign exchange transactions.

Contingent Liabilities
As at 31 December 2005, the Group has the following outstanding bank guarantees issued by banks in the ordinary course of business:

	2005 US$'000	**2004 US$'000**
As security in favor of local tax and customs authorities in accordance with local regulations	9,032	9,201
For purchase of goods in favor of suppliers	9,145	7,756
Performance bonds and others	566	155
For rental payment in favor of the landlords	4,665	3,456
	23,408	20,568

Human Resources
As at 31 December 2005, the Group employed 5,000 (vs. 4,400 in 2004) permanent employees and 4,000 (vs. 2,900 in 2004) contract/ temporary employees. They were located throughout our operations in the nine economies in Asia, namely Hong Kong, Taiwan, Thailand, Malaysia, Singapore, the Philippines, Indonesia, China and Brunei. Total staff costs in 2005 amounted to US$90.3 million (vs. US$74.4 million in 2004).

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.

Information Technology & Business Applications
The Group has always placed great importance on leveraging technology as a competitive advantage. To this end, in 2005 we successfully launched our standard regional Enterprise Resources Planning (ERP) system, JD Edwards Enterprise One, in China to improve the visibility of business-critical information. This follows a similar rollout of the same system in the other economies in the previous years. At the Group level, we also implemented Hyperion Financial Management Reporting to improve the efficiency of the Group Finance consolidation and reporting process. In addition, we are upgrading our network infrastructure in China to support the explosive business growth in our fastest growing market in Asia.

Enhancement programs for our Warehouse Management System (WMS) commenced in 2005 with the installation of a Remote Data Terminal (RDT) to capture and update warehouse transaction data in real time. This project was conducted on a customer-specific basis focusing on mutually agreed processes. Subsequent to implementation, these customers were able to dramatically improve efficiency through reduced processing time and enhanced accuracy. For 2006 we plan to further roll out RDT in Taiwan, the Philippines and China.

The Group also completed its implementation of the sales force automation module of Road Warrior in Hong Kong and Thailand in 2005. Over 100 sales people in each market are now equipped with Personal Digital Assistants (PDAs) to handle order processing. The project is going to be rolled out to the rest of the region, starting with China in the first half of 2006.

Prospects for 2006
The Group will continue to focus on our Three-Year Strategic Plan 2005 –2007 target of delivering US$21.2 million profit by the end of the Plan period. To achieve this, we need to ensure that we can put our strategy of Value-Chain Logistics into action and keep our services relevant to the ever-changing business environment and customer needs. New service offerings that have been identified and

tested with success in 2005, including Credit & Cash Management and Export Logistics, will be promoted further. Other services like Transportation and Network Management will be rolled out in 2006. The unbundling process will continue across our three core businesses. The over-riding goal is to enhance our menu of services so that we are able to appeal to a larger variety of potential customers by offering distinct value-added solutions.

To fully realize the potential of our strong customer base in Asia, the Group will intensify its regional business development efforts to expand our customer relationships in terms of both service scope and geographical coverage. To this end, we will form a dedicated team comprising business development personnel from each of our core businesses backed by technology support. This team will be responsible for sharing best practices and market intelligence, which should enhance our success rate for new contract bids.

While the Group adopts a Business Stream structure to ensure that each business builds on its own strength, we encourage cross-stream cooperation within each country to drive organizational effectiveness and facilitate business development. Along this direction, a Country Resource Team (CRT) structure was put in place in late 2005 centralizing in-country support functions of Finance, Human Resources and Information Technology. Simply put, this strategic move provides all business units the platform for scalable growth.

Since 2005 we have been actively identifying, evaluating and scrutinizing various potential acquisition targets. We have also been weighing up our options on geographical expansion. These important initiatives are going to help us "fill in the mosaic", and in the process complement our organic growth.

Our success in 2005 is a tribute to all our people. Their single-minded focus on service excellence makes the difference. By partnering with IDS, our customers know they are dealing with a safe pair of hands.

Ben CHANG Yew Teck
Group Managing Director

Hong Kong, 20 April 2006

Celebrating successful partnerships with our customers in the Philippines.

A fun night out at the Leadership Council Meeting in Thailand.


Our senior management worked hard and played hard.


Our people is the main driving force behind our success.