Towards Industry Dominance

2006 Highlights

- Efforts in refining our business model and developing a comprehensive menu of services have built a strong foundation for long-term sustainable growth.
- Strengthened leadership team across the Group will drive future growth.
- Acquisition of a garment logistics company has established the Group's presence in the US, enabling us to control the end-to-end supply chain between the US and Asia.
- Formation of a dedicated Regional Business Development team will allow us to focus on aggressively identifying regional business opportunities and strengthening relationships with business partners.

2007 Prospects

- Focus on people development through full-scale implementation of Leadership, Management and Talent development programs across the Group.
- Aggressively promote our new service offerings of Export Logistics and Credit & Cash Management, and further develop new services including Transportation Management.
- Identify suitable M&A opportunities that complement our existing operations in Asia, and further extend our logistics presence on a global basis.

IDS had an eventful year in 2006 and made significant strides across all aspects of our business. Our strong focus on operations excellence, customer partnerships and cost savings has resulted in an encouraging set of financial results for the year.

Ben CHANG Yew Teck
Group Managing Director

Visiting the Urban Planning Exhibition Center in Shanghai (above) and Intramuros in Manila (below) during our Leadership Council Meetings.

IDS had an eventful year in 2006 and made significant strides across all aspects of our business. Our 2006 theme for the year – "Keeping our Eye on the Ball", with a strong focus on operations excellence, customer partnerships and cost savings has resulted in an encouraging set of financial results for the year. Our business model, which offers a comprehensive menu of services along the value chain supported by our extensive infrastructure network and a cutting-edge IT system, has resulted in the Group successfully winning new businesses and developing a vast range of customized solutions.

During the year, we completed two strategically important acquisitions in Malaysia and the US that put IDS into high gear for business expansion in 2007. Our emphasis on building a strong Country Resource Team (CRT) structure, which centralizes in-country support functions of Finance, Human Resources and Information Technology, has been instrumental in efficiently integrating the logistics acquisitions we made in Malaysia and the US.

Our acquisition in Malaysia has propelled us to become the leading third-party logistics provider in the Fast Moving Consumer Goods (FMCG) segment in the country. On the other hand, the acquisition of a garment logistics operator in the US is a milestone for our move towards establishing a global logistics network that complements our strong Asia-wide infrastructure platform. The strategic intent is to establish on-the-ground presence to handle last-mile delivery, thus extending our logistics service offering to cover the end-to-end process from manufacturing plants to retail outlets. This also supports the aggressive growth of our export logistics services and taps into the tremendous opportunities of export from Asia to the US and eventually Europe.

We also started building a stronger presence in the industry by collaborating with renowned academic institutions. In December 2006, we organized the inaugural IDS Value-Chain Logistics Seminar in Bangkok in conjunction with Chulalongkorn University. The objective is to provide a high-level and value-driven education experience to practitioners in logistics and supply chain management. Similar seminars will be held in other cities including Hong Kong, Shanghai and Singapore in 2007.

Revenue in 2006 grew 20.9% over 2005 to US$993.61 million. Core operating profit showed a stronger growth of 26.1% to US$20.11 million as a result of better operating leverage. Operating profit increased by 42.7% to US$27.06 million after taking into account the other gains that were mainly attributable to the profits realized from the progressive divestment of shares in Slumberland Asia Pacific. Profit attributable to shareholders surged 73.9% to US$23.19 million in 2006, compared to US$13.33 million in 2005. Cash flow generated from operations increased to US$49.38 million from US$19.68 million in 2005. Due to funding requirements for the acquisitions made during the year, the Group was at a net borrowing position of US$13.91 million as of 31 December 2006, compared to a net cash position of US$6.83 million at the end of 2005.

The acquisition of a garment logistics operator in the US is a milestone for our move towards establishing a global logistics network.

The buoyant consumer market in China coupled with new contract wins resulted in another remarkable year for our businesses in China. Revenue from our China operations grew by 55.2% to US$157.05 million and accounted for 15.7% of total Group revenue in 2006, compared to 12.2% in 2005. New contract wins including the distribution of Hershey chocolates, the logistics contract for Johnson Diversey and the operation of a distribution hub for Pacific Brands are going to fuel an even stronger performance in 2007.

Despite the unfavorable economic environment and political uncertainties, performance in Thailand improved substantially as a result of strengthened management team and rationalized customer portfolio. We will be closely monitoring under-performing units including the Marketing operations in Malaysia, Indonesia and the Philippines to address their respective issues and take appropriate actions to bring these units back on track.

Dedicated resources have been assigned to each business stream to spearhead regional business development. Their objective is to identify opportunities with new customers, to expand the scope and scale of services provided to existing customers, and to improve the success rate of new contract bidding. The team will also facilitate regional account management and gather market intelligence.

To cope with business expansion, during the year we continued to bring in management talents across the region, especially in China. We now have a robust structure to lead IDS towards the next level of growth.

Financial Overview

US$ million	**2006**	2005	Change%
Revenue	**993.61**	821.53	20.9%
Core operating profit	**20.11**	15.95	26.1%
Operating profit	**27.06**	18.96	42.7%
Profit attributable to shareholders	**23.19**	13.33	73.9%
Earnings per share	**US7.50 cents**	US4.31 cents	73.9%

The Group reported revenue of US$993.61 million, a 20.9% growth compared to 2005. The strong growth in revenue was driven by a 24.2% increase in the Marketing business and a 22.4% increase in the Logistics business. Gross profit grew by US$40.97 million, an increase of 18.9%. The gross profit margin was 26.0% in 2006, compared to 26.4% in 2005 due to business growth in the Philippines where the profit margin was relatively lower. The impact was partly offset by higher margin in Manufacturing benefiting from cost control and continued productivity improvement.

The Group's core operating profit rose 26.1% to US$20.11 million in 2006, driven by higher revenue and better operating leverage. Operating profit grew by 42.7% to US$27.06 million including a US$8.00 million gain on the progressive divestment of a 12.5% share in Slumberland Asia Pacific, our bedding business subsidiary. This was partly offset by a US$1.05 million provision for closure costs relating to the underperforming FMCG divisions in Malaysia and Indonesia. Net finance costs increased from US$0.86 million in 2005 to US$1.44 million in 2006 due to higher interest rate and the financing for two acquisitions in 2006. Taxation reduced from US$3.83 million to US$1.73 million due to the recognition of additional deferred tax credits in 2006. As a result, profit attributable to shareholders surged 73.9% to US$23.19 million.

Inventory, debtors and creditors turnover days went up proportionately reflecting the Group's strategy to increase market coverage which was largely self-financed by the principals' extended credit terms. Overall working capital performance was satisfactory.

Segmental Analysis

Logistics

Logistics revenue and segment results increased by 22.4% and 23.4% to US$155.53 million and US$12.79 million respectively. The growth in Logistics stream was mainly attributable to the strong organic growth. During the year, substantial new contracts were won from major multinationals, such as P&G and Diageo. Together with the significant growth in existing businesses, particularly in China, IDS succeeded in geographical and scope expansions for both new and existing customers. The acquisitions in Malaysia and the US in the last quarter of 2006 contributed revenue of US$10.39 million to the Logistics stream.

Opening of our regional hubbing operations for Diageo, world's leading premium beverage alcohol company, in our ASRS facility in Singapore.

Marketing

Marketing revenue and core operating profit rose by 24.2% and 9.3% to US$715.26 million and US$12.30 million respectively. The growth in Marketing was mainly attributable to the continued expansion in China. In 2006, 11 new branch offices were opened and the distribution coverage expanded to over 120 cities. The full year operations from the Philippines in 2006 also contributed to the revenue growth. Apart from this, there was good organic growth in Brunei, Thailand and Singapore from the gain of new principals and continued growth in existing business lines.

Manufacturing

Despite the high oil price and weak consumer demand, Manufacturing revenue and operating profit recorded growth of 1.8% and 29.6% compared to 2005. The growth has demonstrated our success in cost control and efficiency enhancement.

Geographically, all economies continued their growth momentum in 2006. In particular, China's revenues surged by 55.2%. Hong Kong is still the Group's largest market, accounting for 22.4% of the total revenue.

Acquisitions and Divestment

During the year, the Group completed two acquisitions. In September, the Group acquired the entire issued share capital of Sitt Tatt Logistics Sdn. Bhd., a logistics company operating in Malaysia, and two associated distribution centers for a consideration of US$25.62 million. Another acquisition was the assets and apparel logistics business of a US-based Company, Impac Logistic Services LLC and its affiliates, which was completed in December for a consideration of US$39.20 million. These acquisitions have strengthened our position in the logistics industry and will also enable the Group to develop and grow outside of Asia. The Group also divested a 12.5% share in its Slumberland business and recorded a gain of approximately US$8.00 million.

Liquidity and Financial Resources

As at 31 December 2006, the Group had a gearing ratio of 11.8%. The new loans raised were mainly for financing the acquisitions. In addition, the Group has available bank loans and overdraft facilities of US$250 million of which only US$98.32 million have been utilized.

Charges on Group Assets

As at 31 December 2006, there were no charges on the Group's assets.

Foreign Exchange Risk Management

The Group operates in ten economies over the world and is exposed to foreign exchange risk in the Asian economies. 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

The Group has counter-guaranteed the following outstanding bank guarantees issued by banks for normal business operations:

US$'000	**2006**	2005
As security in favor of local tax and customs authorities in accordance with local regulations	**9,811**	9,032
For purchase of goods in favor of suppliers	**10,052**	9,145
Performance bonds and others	**407**	566
For rental payment in favor of the landlords	**5,762**	4,665
	26,032	23,408

Human Resources

As at 31 December 2006, the Group employed 6,200 (vs. 5,000 in 2005) permanent employees and 4,700 (vs. 4,000 in 2005) contract/temporary employees. They were located throughout our operations in ten economies within the Group. Total staff costs on 31 December 2006 amounted to about US$109.92 million (vs. US$90.32 million in 2005).

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 Sales Force Automation module of Road Warrior was successfully launched in China in 2006 to fully automate the order taking process. Currently the application is being used in China, Hong Kong, the Philippines, Thailand, Malaysia and Singapore. Over 500 Personal Digital Assistants (PDAs) have been deployed in the field. Another module of Road Warrior – Field Data Automation, which was implemented in Hong Kong for the collection of product data from sales channels, has been upgraded and we are reviewing the timetable for regional roll-out.

The installation of Remote Data Terminal (RDT) was further implemented regionally in 2006. Currently, RDT has been introduced in our logistics facilities in Hong Kong, Taiwan, the Philippines and Malaysia. Based on the response from our customers, RDT has resulted in substantial improvements in productivity and accuracy.

The implementation of our standard regional Enterprise Resources Planning (ERP) system, JD Edwards Enterprise One, in Taiwan has begun in the last quarter of 2006, and is expected to complete by mid-2007.

Our CRT has played a crucial role in the integration of the newly acquired logistics businesses. The team facilitated the efficient alignment of back office systems to ensure standard financial reporting format. The immediate focus is on reviewing the operations in detail to map out the changes in work processes required to implement our standard core applications.

One of the programs during our Senior Managers Meeting in Hong Kong held in February 2006.

Our key priorities in 2007 will be to revisit our core applications of ERP and WMS to ensure the benefits of the systems are leveraged across the organization. We will also roll-out RDTs and the implementation of a Transportation Management System on a regional basis.

IDS supports education and sponsors industry seminars to raise funds for student grants and research initiatives.

To support the rapid growth of our international logistics business, we will upgrade the current system used and take a ground up approach to map the functional requirements for enhancement. We will also take the future development strategy into consideration to determine the most appropriate integrated solution.

Prospects for 2007

2007 will be the final year of our Three-Year Strategic Plan 2005–2007. Since 1999, when we embarked on our journey to re-invent the traditional distribution industry, we have exerted substantial efforts in constantly refining our business model, building our competitive edge in technology and achieving operational excellence. The next focus for us is to develop a talent base with the right skills and mindset to build a winning company and drive a quantum leap in business growth. Hence, the theme for IDS in 2007 is "Making the Difference with People".

IDS cherishes loyalty and recognizes long service employees. We have many members who have been with the Group for more than 30 years.

A winning company is characterized by a "High Performance, High Values" culture, which emphasizes not only performance measured by financial results and personal achievements, but also values driven by strong governance, teamwork and the pursuit of long-term sustainability. By striking a balance between performance and values, our company is poised for accelerated pace of profitable growth.

We have designed a comprehensive Leadership, Management and Talent (LMT) development program, including custom-made training activities for existing employees as well as new recruits, for full-scale implementation. The first activity – the Growth Leadership Seminar designed to equip our leadership team with the necessary competencies and pragmatic skills to champion growth at IDS – was conducted between November 2006 and January 2007. Other activities for middle and supervisory management as well as programs for management trainees and interns will be launched in 2007.

Our strategy of offering a full menu of services for our customers has successfully differentiated us from other logistics and distribution companies. Our ability to design customized and innovative solutions has added enormous value to our business partners. Our capability of providing full data visibility with our advanced IT systems is well recognized by our business partners.

We are on track to achieve a strong finish in 2007 for our current Strategic Plan 2005-2007. We have also set a robust foundation for us to have an even stronger beginning for our next 3-year Strategic Plan 2008-2010

Going forward, we will continue to offer new and differentiated services such as Credit and Cash Management and Export Logistics. By establishing a foothold in the US, we see tremendous potential to further grow the Export Logistics business. Since late last year, we have introduced with much success our Transportation & Network Management services, which employ operations research techniques to create optimal logistics solutions for our customers.

We are always keeping a keen eye on potential acquisition targets. We will continue to look for profitable, well-run companies with strong management team across our core businesses that can either complement our growth or give us entry into new markets. It is our strategic intent to support the establishment of a global logistics network. We will institutionalize the integration process of all our acquisitions to ensure that business processes and operating procedures are standardized to derive maximum synergies.

IDS completed the acquisition of a garment logistics operator in the US in December 2006.

We have come a long way since we began our journey towards re-inventing the traditional distribution industry. We are on track to achieve a strong finish in 2007 for our current Strategic Plan 2005-2007. We have also set a robust foundation for us to have an even stronger beginning for our next 3-Year Strategic Plan 2008-2010. With persistence and determination, we now have aggressively evolved into a leading market force on our way towards industry dominance.

Ben CHANG Yew Teck
Group Managing Director

Hong Kong, 20 March 2007