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## **INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 2387)**

### **COMMENCEMENT OF BUSINESS OF IDS MARKETING (PHILIPPINES), INC.**

#### **CONNECTED TRANSACTION ACQUISITION AND SERVICE AGREEMENT RELATING TO JDH (PHILIPPINES), INC.**

On 9 March 2005, IDS Marketing (Philippines) entered into the Acquisition and Service Agreement with JDH (Philippines), pursuant to which IDS Marketing (Philippines) has conditionally agreed to acquire from JDH (Philippines) the Inventory, the Motor Vehicles and the IT Equipment and to provide the Service to JDH (Philippines). The aggregate purchase price for the acquisition of the Inventory, the Motor Vehicles and the IT Equipment will not exceed US\$2,520,000 (approximately HK\$19,656,000). The service fees payable by JDH (Philippines) for the Service will be not more than US\$1,293,000 (approximately HK\$10,085,400).

JDH (Philippines) is wholly owned by LFD, which is a controlling shareholder of the Company. Accordingly, JDH (Philippines) is a connected person of the Company and the acquisitions under the Transaction constitutes a connected transaction, and the Service to be provided under the Transaction constitutes a continuing connected transaction, for the Company under the Listing Rules. Pursuant to the Listing Rules, as each of the applicable Percentage Ratios is less than 2.5%, the Transaction is only subject to announcement and reporting requirements and does not require the approval of the independent shareholders of the Company. Details of the Transaction are accordingly disclosed in this announcement and will be disclosed in the Company's forthcoming annual report pursuant to Rule 14A.45 of the Listing Rules.

As disclosed in the Prospectus, the Company, with a view to developing its marketing operation in the Philippines, intended IDS Marketing (Philippines), which was incorporated in the Philippines in July 2004 as a wholly owned subsidiary of the Company, to commence the Group's marketing and distribution activities in the Philippines in accordance with the Company's business strategy going forward. Such strategy focuses on undertaking new business contracts on a balanced risk/reward basis. JDH (Philippines) is in the process of closing down its business and is expected to cease its operations by end of 2005.

As set out in the section headed "Connected Transactions — Pre-listing connected transaction to be completed after listing" of the Prospectus, it was agreed between IDS Marketing (Philippines) and JDH (Philippines) that IDS Marketing (Philippines) would, conditional upon the principals who had terminated their distribution contracts with JDH (Philippines) and had appointed IDS Marketing (Philippines) as their new distributor requesting IDS Marketing (Philippines) to purchase the inventory of JDH (Philippines) related to such principals and such requests being

accepted by IDS Marketing (Philippines), purchase such inventory. IDS Marketing (Philippines) is in discussion with the above-mentioned principals on the possibility of appointing IDS Marketing (Philippines) to act as their distributor.

In view of the foregoing, on 9 March 2005, IDS Marketing (Philippines) entered into the Acquisition and Service Agreement with JDH (Philippines), pursuant to which IDS Marketing (Philippines) has conditionally agreed to acquire from JDH (Philippines) the Inventory, the Motor Vehicles and the IT Equipment, and to provide the Service to JDH (Philippines).

To enhance the business relationship with such principals across the region and to position IDS Marketing (Philippines) as the sole supplier of goods of such principals, the Company considers that it would be in the best interest of IDS Marketing (Philippines) to acquire the Inventory. Also, to facilitate the commencement of the marketing and distribution businesses by IDS Marketing (Philippines), the Company considers that it would also be in the best interest of IDS Marketing (Philippines) to acquire the Motor Vehicles and the IT Equipment.

The Company has been providing certain administrative services to JDH (Philippines) on a cost basis and, as disclosed in the Prospectus, granting a sub-lease of its office premises for a term up to 31 December 2005 at an annual rental of approximately US\$163,000 (approximately HK\$1,271,400) to JDH (Philippines). As anticipated in the Prospectus, IDS Marketing (Philippines) has been operated independently from JDH (Philippines) and has not sourced or supplied any marketing services to or from JDH (Philippines). However, in connection with the closure of business of JDH (Philippines), the Company considers that it would be in the best interest of IDS Marketing (Philippines) to provide the Service to JDH (Philippines) for a service fee payable by JDH (Philippines) as set out below. The Company considers that the provision of the Service by IDS Marketing (Philippines) will secure revenue contribution to cover its overheads until it secures additional business over and above its current targeted principals.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Acquisition and Service Agreement are normal commercial terms, and are fair and reasonable and in the interest of the shareholders of the Company as a whole.

## **DETAILS OF THE ACQUISITION AND SERVICE AGREEMENT**

### **Date and Parties**

Date: 9 March 2005

Parties: JDH (Philippines), which is wholly owned by LFD. Since LFD is a controlling shareholder of an approximately 51.12% interest in the Company, JDH (Philippines) is a connected person of the Company; and

IDS Marketing (Philippines), a wholly owned subsidiary of the Company.

### **Assets to be Acquired and Service to be Provided**

(1) JDH (Philippines) shall sell to IDS Marketing (Philippines):

- the Inventory, which relates to the principals who have terminated their distribution contracts with JDH (Philippines), provided that such principals have appointed IDS Marketing (Philippines) as their new distributor and have requested IDS Marketing

(Philippines) to acquire JDH (Philippines)'s inventory related to them. The Inventory comprises the First Tranche Inventory (to be completed on the First Completion Date), the Second Tranche Inventory (to be completed on the Second Completion Date), and the Other First Tranche Inventory and the Other Second Tranche Inventory (to be completed respectively on the Other Inventory Completion Dates); and

- the Motor Vehicles and the IT Equipment, which comprise used motor vehicles and information technology equipment to be used by IDS Marketing (Philippines) for the carrying out of its marketing and distribution businesses.

(2) IDS Marketing (Philippines) shall provide to JDH (Philippines) the Service, comprising winding down service for the smooth winding down of the operations of JDH (Philippines), which includes collection service for trade receivables and provision of information technology support. Under the Listing Rules, the Service constitutes a continuing connected transaction for the Company. The winding down of the operations of JDH (Philippines) is expected to be completed by end of 2005. However, the period for the collection of trade receivables is expected to be 13 months, which will extend beyond 2005. The provision of information technology support will be for a term of one year commencing from the Second Completion Date. The collection service for trade receivables will be for a term commencing from the First Completion Date and ending on the first anniversary of the Second Completion Date, which is expected to be a term of 13 months.

## **Consideration Payable**

The purchase prices payable by IDS Marketing (Philippines) for the acquisition of the Inventory, the Motor Vehicles and the IT Equipment and the service fee payable by JDH (Philippines) for the Service were determined after arm's length negotiation between IDS Marketing (Philippines) and JDH (Philippines) and the aggregate consideration payable for these acquisitions excluding any value added tax and other taxes will not exceed US\$2,520,000 (approximately HK\$19,656,000).

The purchase price payable in cash by IDS Marketing (Philippines) for the acquisition of the Motor Vehicles will be the fair market value as determined prior to the completion of the said acquisition by an independent appraiser in the Philippines which has been selected jointly by IDS Marketing (Philippines) and JDH (Philippines). As at the date of this announcement, the said appraiser has indicated that the advance (but not final) estimates of the fair market value of the Motor Vehicles is approximately PHP9,688,000 (approximately US\$173,000 or HK\$1,349,400). According to the unaudited accounts of JDH (Philippines) as at 28 February 2005, the book value of the Motor Vehicles was US\$162,050 (approximately HK\$1,264,000). The original acquisition cost of the Motor Vehicles to JDH (Philippines) was US\$263,790 (approximately HK\$2,057,600).

The purchase price payable in cash by IDS Marketing (Philippines) for the acquisition of the IT Equipment will be the fair market value as determined prior to the completion of the said acquisition by an independent appraiser which has been selected jointly by IDS Marketing (Philippines) and JDH (Philippines). As at the date of this announcement, the said appraiser has indicated that the advance (but not final) estimates of the fair market value of the IT Equipment is approximately PHP3,959,000 (approximately US\$70,700 or HK\$551,400). According to the unaudited accounts of JDH (Philippines) as at 28 February 2005, the book value of the IT Equipment was US\$124,340 (approximately HK\$969,900). The original acquisition cost of the IT Equipment to JDH (Philippines) was US\$191,950 (approximately HK\$1,497,200).

The purchase price payable in cash by IDS Marketing (Philippines) for the acquisition of the Inventory will be determined based on actual quantity of the Inventory to be acquired as requested by the aforesaid principals of IDS Marketing (Philippines) multiplied by its unit price as at the relevant date of completion. The said unit price will equal to the acquisition costs of the relevant Inventory less provisions for ageing based on the Group's inventory provision policy. The actual quantity of the Inventory to be acquired will be determined prior to the completion of acquisitions under the Acquisition and Service Agreement. The Inventory will be acquired in several tranches — the First Tranche Inventory, the Second Tranche Inventory, the Other First Tranche Inventory and the Other Second Tranche Inventory as defined under the section headed "Definitions" of this announcement. The original acquisition cost of the Inventory to JDH (Philippines) is estimated to be approximately US\$2,406,000 (approximately HK\$18,766,800).

The service fee payable by JDH (Philippines) in cash (to be paid by way of a monthly payment of US\$36,000 for 12 months and by way of commission payable based on actual collections as set out below) for the Service will be not more than US\$432,000 plus PHP48,216,000 (approximately in aggregate US\$1,293,000 or HK\$10,085,400), comprising:

- (1) commission for collection service for trade receivables, which is determined based on arm's length negotiation after considering an independent third party quote and will be charged at the following progressive rates: 5% on the amounts collected within the range of the first PHP350 million; 7% on the amount collected within the range of the next PHP150 million; 10% on the amount collected within the range of the next PHP75 million; 17% on the amount collected beyond the aforesaid ranges. Under the Acquisition and Service Agreement, the maximum amount of trade receivables to be collected by IDS Marketing (Philippines) for JDH (Philippines) will be PHP649,800,000 (approximately US\$11,603,600 or HK\$90,508,100) and commission payable will be PHP48,216,000 (approximately US\$861,000 or HK\$6,715,800). As neither IDS Marketing (Philippines) nor JDH (Philippines) can control the timing of the settlement of the trade receivables by trade debtors, who are independent third parties, it is possible that the settlement of the whole of the trade receivables, and thus the earning of the whole of the said commission by IDS Marketing (Philippines), may take place wholly in the financial year ending 31 December 2005 or in the financial year ending 31 December 2006. Accordingly the Company decides that for the purpose of the continuing connected transaction arising from the collection of trade receivables, the annual caps for each of the financial year ending 31 December 2005 and 2006 will respectively be PHP48,216,000, and PHP48,216,000 minus all the commission earned in the financial year ending 31 December 2005; and
- (2) fee for the provision of information technology support which is based on cost. As disclosed in the section headed "Connected Transactions — Exempt Continuing Connected Transactions" of the Prospectus, members of the Group have been sharing certain administrative services, including information technology infrastructure and application support, with the Company's parent company and its group companies (including LFD and JDH (Philippines)) at a rate based on usage and at cost which is determined on a fair and equitable basis. Hence, the Company considers that it is appropriate for the Company to adopt the same charging basis for the provision of information technology support under the Acquisition and Service Agreement. As the fee for the provision of information technology support is charged at US\$36,000 per month, the Company expects that the total amounts receivable by the Group will respectively be US\$288,000 (approximately HK\$2,246,400) and US\$144,000 (approximately HK\$1,123,200) in each of the financial year ending 31 December 2005 and 2006. Accordingly the Company decides that for the purpose of the continuing connected

transaction arising from the provision of information technology support, the annual caps for each of the financial year ending 31 December 2005 and 2006 will respectively be US\$288,000 and US\$144,000.

## **Condition Precedent**

The completion of the Acquisition and Service Agreement is conditional upon IDS Marketing (Philippines) being appointed as exclusive distributor by the 3 principals of JDH (Philippines) as specified in the Acquisition and Service Agreement not later than 31 March 2005 or such later date (which shall be no later than 31 May 2005) as JDH (Philippines) and IDS Marketing (Philippines) may agree.

## **Completion**

Completion of all the acquisitions under the Acquisition and Service Agreement will take place in the following manner:

- (1) delivery and payment for the acquisition of the Motor Vehicles will take place on the First Completion Date;
- (2) delivery for the acquisition of the First Tranche Inventory will take place on the First Completion Date, and the payment for it will be made within 60 days from the date of the said delivery;
- (3) delivery and payment for the acquisition of the IT Equipment will take place on the Second Completion Date;
- (4) delivery of the Second Tranche Inventory will take place on the Second Completion Date, and the payment for it will be made within 60 days from the date of the said delivery; and
- (5) the Other First Tranche Inventory and the Other Second Tranche Inventory may be delivered in various batches on the Other Inventory Completion Dates as may be agreed by IDS Marketing (Philippines) and JDH (Philippines), and the payment for each batch of the Other First Tranche Inventory or the Other Second Tranche Inventory delivered will be made within 60 days from the First Completion Date or the Second Completion Date respectively.

## **INFORMATION ON THE COMPANY**

The Company is an integrated-distribution services provider in Asia, comprising marketing, logistics and manufacturing operations. LFD is principally engaged in the distribution of fashion and industrial products. LFD is a subsidiary of King Lun Holdings Limited, in which a family trust of Dr. Victor FUNG Kwok King (a non-executive Director) has a 50% interest and Dr. William FUNG Kwok Lun (a non-executive Director) has the remaining 50% interest. JDH (Philippines) was previously engaged in marketing business in the Philippines and is now in the process of closing down its operation.

## **GENERAL**

JDH (Philippines) is wholly owned by LFD, which is a controlling shareholder of the Company. Accordingly, JDH (Philippines) is a connected person of the Company, and the acquisitions under the Transaction constitutes a connected transaction, and the Service to be provided under the Transaction constitutes a continuing connected transaction, for the Company under the Listing Rules. Pursuant to the Listing Rules, as each of the applicable Percentage Ratios is less than 2.5%,

the Transaction is only subject to announcement and reporting requirements and does not require the approval of the independent shareholders of the Company. The Transaction is accordingly disclosed in this announcement and will be disclosed in the Company's forthcoming annual report pursuant to Rule 14A.45 of the Listing Rules.

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below, unless the context otherwise requires:

“Acquisition and Service Agreement”	the acquisition and service agreement dated 9 March 2005 between JDH (Philippines) and IDS Marketing (Philippines), pursuant to which IDS Marketing (Philippines) has conditionally agreed to acquire from JDH (Philippines) the Inventory, the Motor Vehicles and the IT Equipment and to provide to JDH (Philippines) the Service;
“Company”	Integrated Distribution Services Group Limited, a company incorporated in Bermuda whose shares are listed on the Stock Exchange;
“connected person(s)”	each of which has the meaning ascribed to it under the Listing Rules;
“Director(s)”	director(s) of the Company;
“First Completion Date”	31 March 2005 or such later date as JDH (Philippines) and IDS Marketing (Philippines) may agree;
“First Tranche Inventory”	certain part of the Inventory relating to a specified principal, the completion of which will take place on the First Completion Date;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong;
“IDS Marketing (Philippines)”	IDS Marketing (Philippines), Inc., a company incorporated in the Philippines and a wholly owned subsidiary of the Company;
“Inventory”	certain inventory of JDH (Philippines) to be sold to IDS Marketing (Philippines) under the Acquisition and Service Agreement upon the principals of IDS Marketing (Philippines) requesting it to acquire the same, comprising the First Tranche Inventory, the Second Tranche Inventory, the Other First Tranche Inventory and the Other Second Tranche Inventory;
“IT Equipment”	used information technology equipment to be sold by JDH (Philippines) to IDS Marketing (Philippines) under the Acquisition and Service Agreement;
“JDH (Philippines)”	JDH (Philippines), Inc., a wholly owned subsidiary of LFD;
“LFD”	Li & Fung (Distribution) Limited, a controlling shareholder of the Company;

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Motor Vehicles”	used motor vehicles to be sold by JDH (Philippines) to IDS Marketing (Philippines) under the Acquisition and Service Agreement;
“Other First Tranche Inventory”	certain part of the Inventory relating to the same principal that is related to the First Tranche Inventory, the completion of which will take place on the Other Inventory Completion Date, and is (i) the subject of pending purchase orders as at the time of the First Completion Date; (ii) in transit as at the time of the First Completion Date; or (iii) the inventory returned from the trade within 90 days after the First Completion Date;
“Other Second Tranche Inventory”	certain part of the Inventory relating to the same principals that are related to the Second Tranche Inventory, the completion of which will take place on the Other Inventory Completion Date, and is (i) the subject of pending purchase orders as at the time of the Second Completion Date; (ii) in transit as at the time of the Second Completion Date; or (iii) the inventory returned from the trade within 90 days after the Second Completion Date;
“Other Inventory Completion Date”	the date on which the completion of the acquisition of the Other First Tranche Inventory or the Other Second Tranche Inventory takes place, which shall be a date to be agreed by JDH (Philippines) and IDS Marketing (Philippines), provided that in the case of the Other First Tranche Inventory, such date shall be within 90 days from the First Completion Date, and in the case of the Other Second Tranche Inventory, such date shall be within 90 days from the Second Completion Date;
“Percentage Ratios”	has the meaning set out in Rule 14A.10(10) of the Listing Rules;
“PHP”	the Philippines Pesos, the lawful currency of the Philippines;
“Prospectus”	the prospectus of the Company dated 24 November 2004;
“Second Completion Date”	30 April 2005 or such later date as JDH (Philippines) and IDS Marketing (Philippines) may agree, but in any case not later than 30 June 2005;
“Second Tranche Inventory”	certain part of the Inventory relating to principals that are not related to the First Tranche Inventory, the completion of which will take place on the Second Completion Date;
“Service”	certain winding down service to be provided by IDS Marketing (Philippines) to JDH (Philippines) under the Acquisition and Service Agreement, details of which are set out above;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transaction”	the acquisitions of the Inventory, the Motor Vehicles and the IT Equipment and the provision of the Service contemplated under the Acquisition and Service Agreement; and

“US\$”

United States Dollars, the lawful currency of the United States.

*(In this announcement and for reference only, the exchange rate of United States dollars to Hong Kong dollars is US\$1.0=HK\$7.8; the exchange rate of the Philippines Pesos to United States dollars is PHP56.0=US\$1.0.)*

By Order of the Board  
**Integrated Distribution Services Group Limited**  
**YUEN Ying Kwai**  
*Company Secretary*

Hong Kong, 9 March 2005

*As at the date of this announcement, the executive directors of the Company are Mr. Benedict CHANG Yew Teck, Mr. Joseph Chua PHI and Mr. Rajesh Vardichand RANAVAT; the non-executive directors of the Company are Dr. Victor FUNG Kwok King, Dr. William FUNG Kwok Lun, Mr. Jeremy Paul Egerton HOBBS, Mr. Butt Farn LAU and Mr. Derrick LEE Meow Chan; and the independent non-executive directors of the Company are Mr. William Winship FLANZ, Mr. John Estmond STRICKLAND, Dr. FU Yu Ning and Prof. Hau Leung LEE.*

*Please also refer to the published version of this announcement in the (South China Morning Post)*