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INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

MEMORANDUM OF UNDERSTANDING BETWEEN IDS GROUP LIMITED AND IMPAC LOGISTICS SERVICES LLC

On 16 August 2006, IDS and Impac entered into a non-legally binding memorandum of understanding pursuant to which IDS intends to acquire, through an affiliate in the U.S., the apparel logistics business of the Impac Group.

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

On 16 August 2006, IDS Group Limited ("IDS"), a wholly-owned subsidiary of Integrated Distribution Services Group Limited (the "Company"), and Impac Logistics Services LLC ("Impac") entered into a non-legally binding memorandum of understanding (the "MOU"), pursuant to which IDS intends to acquire, through an affiliate in the United States of America (the "U.S."), the apparel logistics business of Impac and affiliates (collectively, the "Impac Group"). Impac is a company independent of, and not connected with the Company or its connected persons (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")). The parties intend that definitive agreements will be entered into by 30 September 2006 subject to satisfactory due diligence by IDS. The total consideration payable by IDS will consist of (i) US\$35.0 million (approximately HK\$272.21 million) based on average adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") for financial years ended 31 December 2004 and 2005 of Impac Group being approximately US\$5.50 million (approximately HK\$42.78 million) as provided by Impac and net asset value transferred to IDS being not less than US\$10 million (approximately HK\$77.77 million) and (ii) a total maximum earn-out payment of US\$7.5 million (approximately HK\$58.33 million) payable on achievement of certain EBITDA targets for each of the three years ending 31 December 2006, 2007 and 2008. The consideration is expected to be payable over a period of two and a half years from completion.

Information on Impac

Impac, established in 1992, is a privately-owned, U.S. based 3rd party logistics provider of a broad array of services to the apparel industry with specialized expertise in Garments on Hangers ("GOH"). Its scope of services includes full service pick and pack, bulk distribution, fulfilment, ground and air transportation, and value added IT services to leading U.S. retailers and manufacturers. Impac has extensive operations in New Jersey, Los Angeles and Miami with 11 distribution centres totalling 1.4 million square feet. It employs about 1,000 employees. According to Impac, revenue attributable to the business to be acquired for the year ended 31 December 2005 was approximately US\$45.9 million (approximately HK\$356.98 million).

Reasons for the Proposed Acquisition

The proposed acquisition is expected to complement the Company's export logistics business in China, where most of the exports to the U.S. and Europe originate. It is also expected that the proposed acquisition will give the Company immediate entry into the apparel logistics/GOH sector which will enable the Company to gradually add on the potential business from its customers who currently outsource this business to other third party service providers.

General

The proposed acquisition is subject to, *inter alia*, IDS being satisfied with the due diligence review on the Impac Group. Accordingly, the proposed acquisition may or may not proceed. The terms of the definitive agreements have yet to be negotiated and may deviate from those contained in the MOU if the proposed acquisition is to proceed. Subject to the terms of the definitive agreements, it is presently expected that the proposed acquisition may constitute a discloseable transaction for the Company under the Listing Rules.

Further announcement will be made by the Company as and when necessary in compliance with the Listing Rules, if required.

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

Unless otherwise stated, all references in this Announcement to HK\$ are for information only and are referenced to Hong Kong Dollars based on an approximate exchange rate of US\$1 = HK\$7.7773.

By Order of the Board
Victor FUNG Kwok King
Chairman

Hong Kong, 16 August 2006

As at the date hereof, 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 and Mr. LAU Butt Farn; and the independent non-executive directors of the Company are Mr. William Winship FLANZ, Mr. John Estmond STRICKLAND, Dr. FU Yu Ning and Prof. LEE Hau Leung.