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INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

DISCLOSEABLE AND CONNECTED TRANSACTION

DISPOSAL OF INTEREST IN A SUBSIDIARY

On 13 November 2006, the Seller, a direct wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser, pursuant to which the Seller agreed to sell 40% interest in Slumberland to the Purchaser at a consideration as set out below.

The Transaction constitutes a discloseable transaction for the Company under the Listing Rules. As the Purchaser is a substantial shareholder of Slumberland and thus a connected person of the Company, the Transaction also constitutes a connected transaction for the Company under the Listing Rules. Since the consideration for the Transaction is more than HK\$10,000,000 and the applicable ratios exceed 2.5%, the Transaction is subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

The Company has applied to the Stock Exchange for a waiver to approve the Transaction by way of a written independent shareholders' approval in lieu of holding a general meeting pursuant to Rule 14A.43 of the Listing Rules. A circular containing, among other things, (i) further details of the Transaction; (ii) a letter from the Independent Board Committee; and (iii) a letter from the independent financial adviser will be despatched to the shareholders of the Company as soon as practicable.

THE AGREEMENT DATED 13 November 2006 (the “Agreement”)

Parties

Seller: IDS Group Limited (the “**Seller**”), a direct wholly-owned subsidiary of Integrated Distribution Services Group Limited (the “**Company**”).

Purchaser: Bico AG (the “**Purchaser**”), a company engaging in the sale and marketing and manufacturing of bedding related products and a member of the Hilding Anders Group. The Hilding Anders Group is a group of companies engaging in the development, production and marketing of beds and mattresses and associated products. Insofar as the Company is aware, the Hilding Anders Group does not hold any shares in the Company as at the date of this announcement.

Purchaser’s

Guarantor: Hilding Anders International AB, the immediate holding company of the Purchaser and the holding company for the operational business of the Hilding Anders Group.

ASSETS TO BE DISPOSED OF

An aggregate of 400,000 shares in Slumberland Asia Pacific Limited (“**Slumberland**”), which represent 40% interest therein (the “**Sale Shares**”), comprising three respective tranches of 125,000 shares (represent 12.5% interest therein) (the “**First Tranche**”), 175,000 shares (represent 17.5% interest therein) (the “**Second Tranche**”) and 100,000 shares (represent 10% interest therein) (the “**Third Tranche**”). Slumberland is an indirect non-wholly owned subsidiary of the Company owned as to 80% by the Seller and 20% by the Purchaser which engages in the marketing, distribution and manufacturing of mattresses and bed related products.

CONSIDERATION

The consideration for the Sale Shares was agreed after arm’s length negotiations between the Seller and the Purchaser, and shall be based on a price per share corresponding to sixteen times the EBITDA (as further described below) of Slumberland for the financial year ending 31 December 2006, plus or minus, as the case may be, the net cash (as further described below) of Slumberland as shown in its audited consolidated annual accounts for the financial year ending 31 December 2006 divided by the total number of issued shares in Slumberland as at the date of the Agreement, provided that the EBITDA shall be subject to a cap of US\$4,745,000 (approximately HK\$36,935,080).

EBITDA means the net profit after taxation and finance costs increased (or decreased if the following are net income items) by (i) income taxes; (ii) non-operating income and expenses and non-recurring one-off items; (iii) net financial result (interest income, interest cost, capital gains and losses on investments); (iv) depreciation and amortisation; (v) minority interests; and decreased by (vi) any costs, salaries, bonuses, taxes or similar in relation the employees of Slumberland, such as employees share option scheme which have not been accounted for in the audited accounts of Slumberland. Net cash means the sum

of positive funds in cash and petty cash, minus the sum of (i) any and all interest-bearing debt or debt that by its nature should be categorized as interest-bearing including accrued interest; (ii) actuarial value of unfunded pension liabilities; and (iii) financial liabilities in connection with financial lease agreements.

An initial consideration of US\$9,893,875 (approximately HK\$77.01 million) for the First Tranche shall be paid in cash upon the completion of the sale and purchase of the First Tranche (the “**First Closing**”). If there is any difference between the said initial consideration and the consideration for the First Tranche as finally determined, the Seller or the Purchaser, as the case may be, shall refund any excess or pay any shortfall amount to the other party with interest accrued thereon at the rate of 30 days US\$ London Inter-Bank Offer Rate from the date of the First Closing until the actual date of such refund or payment.

Consideration for the Second Tranche and the Third Tranche shall be payable in cash upon completion of their respective sale and purchase. On the assumption that the said initial consideration payable for the First Tranche would be the same as the consideration for the Sale Shares as finally determined, the consideration for the Sale Shares would be US\$79.151 per Sale Shares and the total consideration for all the Sale Shares would be approximately US\$31,660,400 (approximately HK\$246.44 million).

The following table shows the audited consolidated financial information of Slumberland and its subsidiaries (the “**Slumberland Group**”) for the two years ended 31 December 2005:

	For the year ended 31 December 2005	For the year ended 31 December 2004 (restated)
	<i>US\$'000</i>	<i>US\$'000</i>
Turnover	39,954	38,926
Net profit before finance costs, net	4,076	3,771
Finance costs, net	(26)	(57)
Net profit before taxation and minority interests	4,050	3,714
Taxation	(779)	(729)
Net profit after taxation but before minority interests	3,271	2,985
Minority interests	(15)	(54)
Net profit after taxation and minority interests	3,256	2,931

	As at 31 December 2005	As at 31 December 2004 (restated)
	<i>US\$'000</i>	<i>US\$'000</i>
Total assets	23,106	23,226
Total liabilities	12,193	14,459
Net asset value	10,611	8,463

Based on the net asset value of the Slumberland Group of approximately US\$10,126,000 (approximately HK\$78,820,784) as at 30 June 2006 (adjusted by the dividend paid in September 2006), an aggregate gain may be of approximately US\$27,110,000 (approximately HK\$211,024,240) (comprising three tranches of US\$8,472,000, US\$11,860,000 and US\$6,778,000 (approximately HK\$65,946,048, HK\$92,318,240 and HK\$52,759,952 respectively) for the First Tranche, the Second Tranche and the Third Tranche respectively) as a result of the disposal of all the Sale Shares. The actual gain on the said disposal will be calculated and recognised in each tranche in the corresponding accounting period, taking into accounts the valuation of the put option (the “**Put Option**”) and the call option (the “**Call Option**”) to be granted to the Seller and the Purchaser respectively under the shareholders’ agreement to be entered into upon the First Closing (details of which are set out below). The said estimated gain has not taken into account the effect of the Put Option and the Call Option as the fair value of such options is yet to be determined. The gain and the amount of proceeds to be received by the Seller upon the exercise of the Put Option and the Call Option (if any) also cannot be ascertained as at the date of this announcement.

CONDITION

Completion of the Agreement shall be conditional upon the Company obtaining all necessary approvals as may be required under the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) to permit the consummation of the transactions contemplated by the Agreement (the “**Condition**”). In case the said approvals cannot be obtained on or before 31 January 2007 (or such other date as the parties may agree upon), the Agreement shall cease to be of any effect.

COMPLETION

Completion of the sale and purchase of the respective tranches of the Sale Shares shall take place on the following date, or such other date as the Seller and Purchaser may agree in writing:

Tranche of the Sale Shares	Completion Date
First Tranche	14 December 2006 or three business days after fulfillment of the Condition
Second Tranche	2 October 2007
Third Tranche	2 July 2008

Following the completion of the sale and purchase of the Third Tranche, Slumberland will become an associated company of the Company.

SHAREHOLDERS' AGREEMENT

The affairs relating to the management of Slumberland and the rights of its shareholders are currently regulated by a shareholders' agreement dated 9 September 2002. In view of the change in the shareholdings pursuant to the Agreement, the parties to the Agreement and Slumberland will enter into a new shareholders' agreement (the "**Shareholders' Agreement**") upon the First Closing to replace the existing shareholders' agreement.

The Shareholders' Agreement provides that the transfer of shares in Slumberland by any shareholder to any persons (other than its affiliates) shall be subject to the approval of the other shareholder provided that the Purchaser may transfer all (but not part only) of its shares and provided further that such permitted transfer will be subject to the right of the Seller to require the transferee thereof to purchase all its shares in Slumberland on the same terms as those offered to the Purchaser.

Pursuant to the Shareholders' Agreement, the Seller has the Put Option to require the Purchaser to purchase all its shares in Slumberland at any time during the two year period commencing from the first day after completion of the sale and purchase of the Third Tranche (the "**Put Option Period**"), while the Purchaser has the Call Option to require the Seller to sell all its shares in Slumberland at any time during the one year period commencing from the expiry of the Put Option Period. No premium is payable for the grant of the Call Option and the Put Option. The purchase price for the shares in Slumberland subject to the Put option and the Call option shall be an amount per share equal to the higher of:

- i) 14 times the EBITDA up to an EBITDA of US\$6,700,000 (approximately HK\$52,152,800), and 7.5 times the EBITDA exceeding US\$6,700,000 (approximately HK\$52,152,800) up to US\$9,000,000 (approximately HK\$70,056,000) (provided that the EBITDA shall be subject to a cap of US\$9,000,000 (approximately HK\$70,056,000) for the latest financial year ending prior to the date of the put option notice to be served by the Seller to the Purchaser or the call option notice to be served by the Purchaser to

the Seller (as the case may be) (the “**Latest Account**”), plus or minus, as the case may be, the net cash of Slumberland as shown in the Latest Accounts, divided by the total number of shares in Slumberland then in issue; and

ii) the consideration for the sale and purchase of the Sale Shares.

The Company will comply with the requirements of the relevant Listing Rules upon the exercise of the Put option.

Furthermore, it is agreed that Slumberland shall ensure that not less than 60% of its distributable profits on a consolidated basis will be paid as dividends, unless its shareholders unanimously agree otherwise. Each shareholder undertakes that for so long as it holds any shares in Slumberland, it shall not directly or indirectly engage in any activities in competition with the business of Slumberland.

REASONS FOR THE TRANSACTION

The directors of the Company (the “**Directors**”) consider that the transactions contemplated under the Agreement (the “**Transaction**”) are part of the strategy of the Company and its subsidiaries (the “**Group**”) to focus on its three core businesses of marketing, logistics and manufacturing which provide services to brand owners. In addition, Slumberland has got the lowest fit with the other three businesses which are mainly focusing on consumer non-durables. The Transaction will unlock significant value for the shareholders of the Company and generate cashflow that will mainly be used to finance any possible acquisitions of the Group in the three core businesses. The Directors (other than the independent non-executive Directors whose views will be set out in the circular to be despatched to the shareholders of the Company) consider that the terms of the Transaction are fair and reasonable and the Transaction is in the best interests of the Company and the shareholders of the Company as a whole.

USE OF PROCEEDS

The net proceeds from the sale of the Sale Shares are estimated to be approximately US\$31,160,000 (approximately HK\$242,549,440), which are currently expected to be used for funding any possible future acquisitions (if any) and as working capital of the Group.

INFORMATION ON THE COMPANY

The Company is an integrated-distribution services provider in Asia, comprising marketing, logistics and manufacturing operations.

GENERAL

The Transaction constitutes a discloseable transaction for the Company under the Listing Rules. As the Purchaser is a substantial shareholder of Slumberland and thus a connected person of the Company, the Transaction also constitutes a connected transaction for the Company under the Listing Rules. Since the consideration for the Transaction is more than HK\$10,000,000 and the applicable ratios exceed 2.5%, the Transaction is subject to the reporting, announcement and independent shareholders’ approval requirements of the Listing Rules.

As no shareholder of the Company is required to abstain from voting in the general meeting of the Company for approving the Transaction and the Company has obtained from Li & Fung (Distribution) Limited, which currently holds 51.12% of the issued share capital of the Company, written approval of the Transaction, the Company has applied to The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for a waiver to approve the Transaction by way of a written independent shareholders’ approval in lieu of holding a general meeting pursuant to Rule 14A.43 of the Listing Rules.

An independent committee of the board of Directors (the “**Independent Board Committee**”) comprising the independent non-executive Directors will be formed to advise the shareholders of the Company, and an independent financial adviser will be retained to advise the Independent Board Committee and the shareholders of the Company in relation to the Transaction.

A circular containing, among other things, (i) further details of the Transaction; (ii) a letter from the Independent Board Committee; and (iii) a letter from the independent financial adviser will be despatched to the shareholders of the Company as soon as practicable.

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\$7.784.

By Order of the Board
Victor FUNG Kwok King
Chairman

Hong Kong, 13 November 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.

Please also refer to the published version of this announcement in South China Morning Post, and Hong Kong Economic Times.