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## INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

利和經銷集團有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

### CONTINUING CONNECTED TRANSACTIONS

The existing waiver granted by the Stock Exchange from strict compliance with the relevant requirements under the Listing Rules in respect of the Existing Continuing Connected Transactions will expire on 31 December 2006 and certain agreements governing the Existing Continuing Connected Transactions will also soon be expired. The Company is desirous of continuing the Existing Continuing Connected Transactions and thus entered into the New Master Agreements on 21 December 2006 to renew the terms of these transactions for a term commencing from 1 January 2007 and ending on 31 December 2009.

On the same date, the Group also entered into the Billing Agent Agreement with Appleton Holdings to govern the continuing connected transactions in relation to the provision of purchase agent service for a term commencing from 1 January 2007 and ending on 31 December 2009.

As the Parent Company is the controlling shareholder of the Company and each member of the Parent Group (other than the Parent Company) is an associate of the Parent Company, all members of the Parent Group are connected persons of the Company and the Proposed Continuing Connected Transactions constitute continuing connected transactions for the Company under the Listing Rules.

Taking into account the proposed annual caps for the Proposed Continuing Connected Transactions, as all the applicable percentage ratios are less than 2.5%, such transactions are subject to the reporting and announcement requirements under the Listing Rules.

#### 1. BACKGROUND INFORMATION

Reference is made to the section headed "Connected Transaction – Non-Exempt Continuing Connected Transactions" of the Prospectus in respect of the Existing Continuing Connected Transactions. The existing waiver granted by the Stock Exchange from strict compliance with the relevant requirements under the Listing Rules in respect of the Existing Continuing Connected Transactions will expire on 31 December 2006. In accordance with the existing waiver, the Existing Continuing Connected Transactions are governed by the Distribution and Sale of Goods Agreement, the Provision of Shipping, Handling and Logistics Services Agreement and the Lease Agreements, the major terms and conditions of which have been summarised on pages 119 to 131 of the Prospectus.

The Distribution and Sale of Goods Agreement and the Provision of Shipping, Handling and Logistics Services Agreement will expire on 31 December 2006 and certain Lease Agreements will expire in 2007. The Directors consider that it is in the interest of the Company to continue the Existing Continuing Connected Transactions and the Company entered into the New Master Agreements to renew the terms of the Distribution and Sale of Goods Agreement and the Provision of Shipping, Handling and Logistics Services Agreement and to replace the Lease Agreements.

Reference is also made to the section headed "Connected Transactions – Exempt Continuing Connected Transactions" of the Prospectus in respect of the Existing Billing Agent Service. The Directors consider that it is in the interest of the Company to continue the Existing Billing Agent Service and entered into the Billing Agent Agreement to govern such transaction.

#### 2. THE NEW MASTER AGREEMENTS AND THE BILLING AGENT AGREEMENT

The Company entered into each of the following New Master Agreements with the Parent Company and Nanjing IDS entered into the Billing Agent Agreement with Appleton Holdings on 21 December 2006 for a term of three years from 1 January 2007 to 31 December 2009:

##### (a) New Distribution and Sale of Goods Agreement

###### *Transaction Nature*

The Group distributes consumer and healthcare products to the retail operations of the Parent Group, such as Toys "R" Us – Lifung Limited and Circle K Convenience Stores (HK) Limited at market rates.

###### *Pricing Basis*

The fees charged by the Group to members of the Parent Group are either at market rates or at rates similar to those offered to third party customers.

This agreement is on the same terms and conditions as the Distribution and Sale of Goods Agreement pursuant to which the Group and the Parent Group would enter into, and procure their respective subsidiaries and associates to enter into such transactions. The fees will be paid in cash by the Parent Group.

##### (b) New Provision of Shipping, Handling and Logistics Services Agreement

###### *Transaction Nature*

Members of the Group have been providing shipping, handling services and a variety of other logistics services, including storage, cargo handling, container devanning, administration, labeling, goods return sorting and delivery to members of the Parent Group.

###### *Pricing Basis*

The fees charged by the members of the Group to members of the Parent Group are either at market rates or at rates similar to those offered to third party clients.

This agreement is on the same terms and conditions as the Provision of Shipping, Handling and Logistics Services Agreement pursuant to which the Group and the Parent Group would enter into, and procure their respective subsidiaries and associates to enter into such transactions. The fees will be paid in cash by the Parent Group.

\* For identification purpose only

(c) **Group Master Lease Agreement**

*Transaction Nature*

Leasing of properties by the Group to members of the Parent Group.

*Pricing Basis*

The rental for the properties were negotiated between the parties with reference to the then prevailing market rates and therefore, the Directors consider the level of rental to be received to be fair and reasonable to the Group.

The Group Master Lease Agreement provides a framework for leasing of properties by the Group to members of the Parent Group. The lease terms of all the properties under the Group Master Lease Agreement are for a term to be expired no later than 31 December 2009. The rental payment will be paid in cash by the Parent Group. Under the Group Master Lease Agreement, the Group may lease other properties to the Parent Group.

(d) **Parent Group Master Lease Agreement**

*Transaction Nature*

Leasing of properties by the Group from members of the Parent Group.

*Pricing Basis*

The rental for the properties were negotiated between the parties with reference to the then prevailing market rates and therefore, the Directors consider the level of rental to be paid to be fair and reasonable to the Group.

The Parent Group Master Lease Agreement provides a framework for leasing of properties by the Group from members of the Parent Group. Save for a property with a lease term to be expired in 2014, the lease terms of all other properties under the Parent Group Master Lease Agreement are for a term to be expired no later than 31 December 2009. The rental payment will be paid in cash to the Parent Group. Under the Parent Group Master Lease Agreement, the Group may lease other properties from the Parent Group.

The lease term of one of the properties under the Parent Group Master Lease Agreement has a duration of more than three years and based on the reasons as more particularly set out in the last paragraph on page 130 of the Prospectus, the Directors are of the opinion that a term exceeding three years is required for such lease and confirm that it is normal business practice for the lease terms of this type of property to be of such duration. As set out on page 131 of the Prospectus, the Company has already obtained the sponsor's opinion at the time of listing that a term exceeding three years is required for certain lease agreements, including the leases of this property with lease term to be expired in 2014, and that it is normal business practice for lease agreements of this type to be of such duration, which opinion was accepted and approved by the Stock Exchange. The Company considers that given the said opinion already covers the subject property and there is not any change in circumstances which renders the said opinion to be inapplicable, the engagement of independent financial advisor is unnecessary.

(e) **Billing Agent Agreement**

*Transaction Nature*

Nanjing IDS has been engaged by Appleton Holdings as an agent of the LF Companies, which includes Shiu Fung Fireworks, for the export of merchandise sourced by them from the PRC market.

*Pricing basis*

Nanjing IDS bills the LF Companies for the amount it paid on their behalf for the merchandise and it is entitled to a service fee at a certain percentage on such amount. The said service fee was determined based on the amount of work to be involved for provision of such services. The service fee will be paid in cash by the relevant LF Companies.

Pursuant to this agreement, Appleton Holdings shall continue to engage Nanjing IDS as agent of the LF Companies for the export of merchandise sources by them in the PRC market.

3. **HISTORICAL FIGURES**

**The amounts of the Existing Continuing Connected Transactions and the Existing Billing Agent Service for the two years ended 31 December 2005 and the nine months ended 30 September 2006**

Set out below are the amounts of each category of the Existing Continuing Connected Transactions and the Existing Billing Agent Service for the two years ended 31 December 2005 and the nine months ended 30 September 2006:

Transactions	Year ended 31 December 2004	Year ended 31 December 2005	Nine months ended 30 September 2006
1. <b>Distribution and Sale of Goods Agreement</b>	US\$1,205,000 (approximately HK\$9,359,765)	US\$937,000 (approximately HK\$7,278,091)	US\$584,000 (approximately HK\$4,536,184)
(Annual Cap) <sup>Note 1</sup>	US\$2,182,000 (approximately HK\$16,948,554)	US\$2,182,000 (approximately HK\$16,948,554)	US\$2,182,000 (approximately HK\$16,948,554)
2. <b>Provision of Shipping, Handling and Logistics Services Agreement</b>	US\$5,442,000 (approximately HK\$42,270,408)	US\$3,071,000 (approximately HK\$23,853,808)	US\$1,941,000 (approximately HK\$15,076,601)
(Annual Cap) <sup>Note 1</sup>	US\$5,484,600 (approximately HK\$42,601,301)	US\$5,810,900 (approximately HK\$45,135,817)	US\$7,937,400 (approximately HK\$61,653,278)
3. <b>The aggregate rental paid to the Group by the Parent Group under the Lease Agreements</b>	US\$899,000 (approximately HK\$6,982,928)	US\$1,331,000 (approximately HK\$10,338,462)	US\$816,000 (approximately HK\$6,338,231)
(Annual Cap) <sup>Note 1</sup>	US\$914,600 (approximately HK\$7,104,100)	US\$1,346,700 (approximately HK\$10,460,411)	US\$1,149,800 (approximately HK\$8,931,002)
4. <b>The aggregate rental paid by the Group to the Parent Group under the Lease Agreements</b>	US\$2,460,000 (approximately HK\$19,107,902)	US\$2,832,000 (approximately HK\$21,997,390)	US\$1,974,000 (approximately HK\$15,332,926)
(Annual Cap) <sup>Note 1</sup>	US\$2,590,800 (approximately HK\$20,123,883)	US\$4,880,200 (approximately HK\$37,906,660)	US\$4,951,900 (approximately HK\$38,463,586)
5. <b>The aggregate amount of service fees received by Nanjing IDS in respect of the Existing Billing Agent Service</b> <sup>Note 2</sup>	US\$135,000 <sup>Note 3</sup> (approximately HK\$1,048,604)	US\$219,000 <sup>Note 3</sup> (approximately HK\$1,701,069)	US\$259,000 <sup>Note 4</sup> (approximately HK\$2,011,766)

Notes:

1. These are the annual caps for the Existing Continuing Connected Transactions for the three years ending 31 December 2006 as agreed under the existing waiver.
2. No caps were set previously for the service fees received by Nanjing IDS in respect of the Existing Billing Agent Service.
3. Each of the applicable percentage ratios calculated with reference to the aggregate annual transaction amount in respect of the Existing Billing Agent Service for the two years ended 31 December 2005 did not exceed 0.1%, thus, such transaction constitutes a de minimis continuing connected transaction for the Company under the Listing Rules and is exempted from all reporting, announcement and independent shareholders' approval requirements of the Listing Rules.
4. Based on the transaction amount for the nine months ended 30 September 2006, the Directors expect that each of the applicable percentage ratios will not exceed 0.1% for the year ending 31 December 2006 and hence the Existing Billing Agent Service is exempted from all reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

#### 4. PROPOSED ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS

##### Proposed annual caps for the Proposed Continuing Connected Transactions for the three years ending 31 December 2009

The projected annual caps for the Proposed Continuing Connected Transactions for the three financial years ending 31 December 2009 are stated as follows:

Transactions	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009
1. <b>New Distribution and Sale of Goods Agreement</b>	US\$2,446,000 (approximately HK\$18,999,158)	US\$2,446,000 (approximately HK\$18,999,158)	US\$2,446,000 (approximately HK\$18,999,158)
2. <b>New Provision of Shipping, Handling and Logistics Services Agreement</b>	US\$4,984,000 (approximately HK\$38,712,920)	US\$5,466,000 (approximately HK\$42,456,827)	US\$6,041,000 (approximately HK\$46,923,105)
3. <b>The aggregate rental payable to the Group under the Group Master Lease Agreement</b>	US\$1,337,000 (approximately HK\$10,385,067)	US\$1,365,000 (approximately HK\$10,602,555)	US\$1,367,000 (approximately HK\$10,618,090)
4. <b>The aggregate rental payable by the Group under the Parent Group Master Lease Agreement</b>	US\$3,163,000 (approximately HK\$24,568,412)	US\$3,400,000 (approximately HK\$26,409,296)	US\$3,768,000 (approximately HK\$29,267,713)
5. <b>Billing Agent Agreement</b>	US\$501,000 (approximately HK\$3,891,487)	US\$626,000 (approximately HK\$4,862,417)	US\$751,000 (approximately HK\$5,833,347)

The above annual caps for the transactions contemplated under the New Distribution and Sale of Goods Agreement are based on the historical transaction amounts for the two years ended 31 December 2005 and the nine months ended 30 September 2006 and the growth in demand by Circle K Convenience Stores (HK) Limited, whose purchases account for more than 90% of the size of such transactions, for goods to be supplied by the Group. The increase in the annual caps is mainly attributed from the expected increase in the number of Circle K convenience stores in Hong Kong and China, series of promotion to be performed, launch of new items and inflation.

The above annual caps for the transactions contemplated under the Provision of Shipping, Handling and Logistics Services are based on the historical transaction amounts for the two years ended 31 December 2005 and the nine months ended 30 September 2006 and the growth rates for such transactions as projected by the Company. For the past three years, the businesses of the Parent Group have been tremendously expanded through acquisition and/or setting up of new business units. Thus, there has been a substantial growth in the demand for logistic services by the Parent Group and the increase in annual caps for such services is to cope with the business needs of the Parent Group.

The above respective annual caps for the aggregate rental payable to and from the Group under the Group Master Lease Agreement and the Parent Group Master Lease Agreement are based on the rental for the properties leased by the Group to and from the members of the Parent Company under the Group Master Lease Agreement and the Parent Group Master Lease Agreement.

The above annual caps for the service fees payable under the Billing Agent Agreement are based on the historical transaction amounts for the two years ended 31 December 2005 and the nine months ended 30 September 2006 and the historical growth rate of Existing Billing Agent Service.

#### 5. REASONS AND BENEFITS OF ENTERING INTO THE PROPOSED CONTINUING CONNECTED TRANSACTIONS

##### (a) New Distribution and Sale of Goods Agreement

The Group distributes certain consumer and healthcare products that match with the product lines carried by some of the retail operations under the Parent Group. Such transactions enable the Group to enhance the market coverage and sales performance of these products.

##### (b) New Provision of Shipping, Handling and Logistics Services Agreement

Such transactions allow the Group to leverage to its logistics expertise and provide opportunities for offering support services to clients of the members of the Parent Groups.

##### (c) Group Master Lease Agreement and Parent Group Master Lease Agreement

Given the affiliation between the Group and the Parent Group, the Group has been leasing certain office and warehouse premises to and from members of the Parent Group in the past and will continue to do so in view of administrative convenience.

##### (d) New Billing Agent Agreement

Such transaction allows Nanjing IDS to leverage its licence in the PRC to conduct import and export business in respect of various products from the PRC for the Parent Group.

The terms of the New Master Agreements and the Billing Agent Agreement were made after arm's lengths negotiations between the Group and the Parent Group. The Directors (including the independent non-executive Directors) consider that the terms of the New Master Agreements and the Billing Agent Agreement and the above annual caps are fair and reasonable, on normal commercial terms and in the interest of the Company and its shareholders as a whole.

## 6. INFORMATION ON THE PARTIES

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

The Parent Company is the controlling shareholder of other companies which trade under the name “Li & Fung” and focuses on three main businesses – sourcing and export trading, distribution and logistics and retailing.

Appleton Holdings is an investment holding company wholly owned by Li & Fung Limited.

## 7. GENERAL

As the Parent Company is the controlling shareholder of the Company and each member of the Parent Group (other than the Parent Company) is an associate of the Parent Company, all members of the Parent Group are connected persons of the Company and the Proposed Continuing Connected Transactions constitute continuing connected transactions for the Company under the Listing Rules.

Taking into account the proposed annual caps for the Proposed Continuing Connected Transactions, as all the applicable percentage ratios are less than 2.5%, such transactions are subject to the reporting and announcement requirements of the Listing Rules. Details of the Proposed Continuing Connected Transactions will be included in the next published annual report and accounts of the Company in accordance with Rule 14A.46 of the Listing Rules and the Company will also comply with Rules 14A.37 to 14A.40 of the Listing Rules.

## 8. DEFINITIONS

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

“Appleton Holdings”	Appleton Holdings Ltd., a wholly owned subsidiary of a member of the Parent Group, namely Li & Fung Limited, which holds the entire interests in Shiu Fung Fireworks
“associate(s)”, “connected person(s)”, “controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Billing Agent Agreement”	the agreement entered into between Nanjing IDS and Appleton Holdings on 21 December 2006 in relation to the provision of purchase agent service to the LF Companies
“Board”	the board of Directors
“Company”	Integrated Distribution Services Group Limited, a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange
“Directors”	directors of the Company
“Distribution and Sale of Goods Agreement”	the agreement entered into between the Company and the Parent Company on 18 November 2004 in relation to the distribution and sale of goods
“Existing Billing Agent Service”	the transaction for the Group in respect of the provision of purchase agent services which include the billing agent service as set out in the section headed “Connected Transactions – Exempt Continuing Connected Transactions” on page 118 of the Prospectus
“Existing Continuing Connected Transactions”	the non-exempt continuing connected transactions of the Company set out in the section headed “Connected Transactions – Non-exempt Continuing Connected Transactions” on pages 119 to 131 of the Prospectus
“Group”	the Company and its subsidiaries
“Group Master Lease Agreement”	the master lease agreement entered into between the Company and the Parent Company on 21 December 2006 in relation to the lease of properties by the Group to the members of the Parent Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Lease Agreements”	the lease agreements entered into between the Group and the Parent Group before the listing of the shares of the Company on the Stock Exchange which constitute non-exempt continuing connected transactions for the Company and major terms and conditions have been summarised in the Prospectus
“LF Companies”	the subsidiaries and associated companies of Li & Fung Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nanjing IDS”	Nanjing IDS Marketing Company Limited, a wholly owned subsidiary of the Company
“New Distribution and Sale of Goods Agreement”	the agreement entered into between the Company and the Parent Company on 21 December 2006 in relation to the distribution and sale of goods
“New Master Agreements”	the New Distribution and Sale of Goods Agreement, the New Provision of Shipping, Handling and Logistics Services Agreement, the Group Master Lease Agreement and the Parent Group Master Lease Agreement
“New Provision of Shipping, Handling and Logistics Services Agreement”	the agreement entered into between the Company and the Parent Company on 21 December 2006 in relation to the provision of shipping, handling and other logistic services
“Parent Company”	Li & Fung (1937) Limited, a company incorporated under the laws of Hong Kong
“Parent Group”	the Parent Company and its subsidiaries together with Li & Fung Limited and its subsidiaries
“Parent Group Master Lease Agreement”	the master lease agreement entered into between the Company and the Parent Company on 21 December 2006 in relation to the lease of properties by the Group from the members of the Parent Group
“Proposed Continuing Connected Transactions”	the transactions contemplated under the New Master Agreements and the Billing Agent Agreement
“Prospectus”	the prospectus of the Company dated 24 November 2004
“Provision of Shipping, Handling and Logistics Services Agreement”	the agreement entered into between the Company and the Parent Company on 18 November 2004 in relation to the provision of shipping, handling and other logistic services
“Shareholder(s)”	holder(s) of shares in the Company

“Shiu Fung Fireworks”

Shiu Fung Fireworks Company Limited, a wholly owned subsidiary of Appleton Holdings

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

*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\$7.76744.*

By Order of the Board  
**Victor FUNG Kwok King**  
Chairman

Hong Kong, 21 December 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.*