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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**

**Independent financial adviser to the independent board committee
and shareholders of Integrated Distribution Services Group Limited**



SOMERLEY LIMITED

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

“Agreement”	the sale and purchase agreement dated 13 November 2006 entered into between the Seller, the Purchaser and the Purchaser’s Guarantor in relation to the sale of the Sale Shares
“associates”, “connected person(s)”	has the meaning ascribed to them under the Listing Rules
“Business Day”	a day other than a Saturday or Sunday, on which banks are open in Hong Kong to the general public for business
“Call Option”	the right to be granted by the Seller to the Purchaser under the Shareholders’ Agreement 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
“Company”	Integrated Distribution Services Group Limited, a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange
“Condition”	condition to the Agreement, details of which are set out in the paragraph headed “Condition” in the Letter from the Chairman contained in this circular
“Directors”	directors of the Company
“Disposal”	the disposal of the Sale Shares contemplated under the Agreement
“EBITDA”	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
“First Closing”	completion of the sale and purchase of the First Tranche

DEFINITIONS

“First Tranche”	125,000 shares in Slumberland, which represent 12.5% interest therein
“Group”	the Company and its subsidiaries
“Hilding Anders Group”	a group of companies engaging in the development, production and marketing of beds and mattresses and associated products.
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent committee of the board of Directors comprising Mr. John Estmond STRICKLAND and Mr. William Winship FLANZ
“Latest Account”	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)
“Latest Practicable Date”	30 November 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Net Cash”	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
“Purchaser”	Bico AG, a company engaging in the sale and marketing and manufacturing of bedding related products and a member of the Hilding Anders Group
“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
“Put Option”	the right to be granted by the Purchaser to the Seller under the Shareholders’ Agreement to require the Purchaser to purchase all its shares in Slumberland at any time during the Put Option Period

DEFINITIONS

“Put Option Period”	a two year period commencing from the first day after completion of the sale and purchase of the Third Tranche
“Sale Shares”	400,000 shares in Slumberland, which represent 40% interest therein, comprising the First Tranche, the Second Tranche and the Third Tranche
“Second Tranche”	175,000 shares in Slumberland, which represent 17.5% interest therein
“Seller”	IDS Group Limited, a company incorporated in the British Virgin Islands, a direct wholly-owned subsidiary of the Company
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into between the parties to the Agreement and Slumberland relating to Slumberland upon the First Closing
“Share(s)”	ordinary share(s) with nominal value of US\$0.10 per share in the capital of the Company
“Slumberland”	Slumberland Asia Pacific Limited, a company incorporated in the British Virgin Islands and 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
“Slumberland Group”	Slumberland and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Third Tranche”	100,000 shares in Slumberland, which represent 10% interest therein
“Transaction”	the Agreement and all the transactions contemplated thereunder
“%”	per cent

Unless otherwise stated, all references in this circular 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.

LETTER FROM THE CHAIRMAN



INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

Non-executive Directors:

Dr. Victor FUNG Kwok King (*Chairman*)
William Winship FLANZ[#]
John Estmond STRICKLAND[#]
Dr. FU Yu Ning[#]
Professor LEE Hau Leung[#]
Dr. William FUNG Kwok Lun
Jeremy Paul Egerton HOBBS
LAU Butt Farn

Executive Directors:

Benedict CHANG Yew Teck
(*Group Managing Director*)
Joseph Chua PHI
Rajesh Vardichand RANAVAT

[#] *Independent Non-executive Director*

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business:

15th Floor, LiFung Centre
2 On Ping Street
Siu Lek Yuen
Shatin, N.T.
Hong Kong

4 December 2006

To Shareholders

Dear Sirs or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION DISPOSAL OF INTEREST IN A SUBSIDIARY

INTRODUCTION

On 13 November 2006, the Seller entered into the Agreement with the Purchaser and the Purchaser's Guarantor, pursuant to which the Seller agreed to sell 40% interest in Slumberland to the Purchaser at a consideration as set out below.

The purpose of this circular is to provide Shareholders with relevant information relating to the Transaction. The recommendation of the Independent Board Committee regarding their view on the Transaction is set out on page 11 of this circular. A copy of the letter from Somerley Limited containing its advice in relation to the terms of the Transaction is set out on pages 12 to 26 of this circular.

LETTER FROM THE CHAIRMAN

THE AGREEMENT DATED 13 NOVEMBER 2006

Parties

- (i) Seller;
- (ii) Purchaser; and
- (iii) Purchaser's Guarantor.

Insofar as the Company is aware, the Hilding Anders Group does not hold any shares in the Company as at the Latest Practicable Date.

Assets to be disposed of

Pursuant to the Agreement, the Seller has agreed to sell the Sale Shares to the Purchaser.

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 of Slumberland for the financial year ending 31 December 2006, plus or minus, as the case may be, the Net Cash 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).

An initial consideration of US\$9,893,875 (approximately HK\$77.01 million) for the First Tranche shall be paid in cash upon 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 (approximately HK\$616.11) per Sale Shares and the total consideration for all the Sale Shares would be approximately US\$31,660,400 (approximately HK\$246.44 million).

LETTER FROM THE CHAIRMAN

The following table shows the audited consolidated financial information of the Slumberland Group for the two years ended 31 December 2005:

	For the year ended 31 December 2005 US\$'000	For the year ended 31 December 2004 (restated) US\$'000
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 US\$'000	As at 31 December 2004 (restated) US\$'000
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. The actual gain on the Disposal will be calculated and recognised in each tranche in the corresponding accounting period, taking into accounts the valuation of the Put Option and the Call Option. In light of the above, it is expected that the gain to be recognised from the Disposal will contribute significantly to the results of the Group in the current and the next two financial years when compared to the results of the Group for the financial years 2004 and 2005. 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

LETTER FROM THE CHAIRMAN

date of this circular. However, given the purchase price for the shares in Slumberland subject to the Put Option and the Call Option will not be lower than the consideration for the Sale Shares (details of which are set out in the paragraph “**Shareholders’ Agreement**” below), it is expected that in case of exercise of the Put Option or the Call Option, the further disposal of 40% interest in Slumberland pursuant thereto will generate further positive earning effects to the Group.

Upon the completion of the Third Closing, Slumberland will no longer be treated as a subsidiary of the Company and will be accounted for as an associated company of the Group. It is estimated that the consolidated total assets of the Group will increase by the consideration and the share of net asset value of Slumberland Group, and reduced by the total assets of the Slumberland Group which will not be consolidated, whereas the consolidated total liabilities of the Group will decrease by the total liabilities of the Slumberland Group which will not be consolidated.

Condition

Completion of the Agreement shall be conditional upon the Company obtaining all necessary approvals as may be required under the Listing Rules to permit the consummation of the Transactions. The Company is of the view that all such approvals are obtained on the date of this circular.

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	7 December 2006
Second Tranche	2 October 2007
Third Tranche	2 July 2008

Following the completion of the sale and purchase of the Third Tranche, the Company will hold 40% interest in Slumberland through the Seller and Slumberland will become an associated company of the Company.

LETTER FROM THE CHAIRMAN

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 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 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) as shown in 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.

LETTER FROM THE CHAIRMAN

REASONS FOR THE TRANSACTION

The Directors consider that the Transaction is part of the strategy of 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 and generate cashflow that will mainly be used to finance any possible acquisitions of the Group in the three core businesses. The Directors 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 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 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 for and been granted 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.

INDEPENDENT ADVICE

The Independent Board Committee has been formed to advise the Shareholders, and Somerley Limited has been retained as an independent financial adviser to advise the Independent Board Committee and the Shareholders in relation to the Transaction.

LETTER FROM THE CHAIRMAN

ADDITIONAL INFORMATION

Your attention is drawn to the information as set out in the following sections of this circular:

- (i) Letter from the Independent Board Committee set out on page 11;
- (ii) Letter from Somerley Limited set out on pages 12 to 26; and
- (iii) General information set out in the Appendix.

Yours faithfully,
Victor FUNG Kwok King
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

4 December 2006

To: the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to the circular of the Company to the Shareholders dated 4 December 2006 (the "Circular"), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Independent Board Committee has been established to give an opinion to the Shareholders in respect of the terms of the Agreement and transactions contemplated thereunder. Somerley Limited has been appointed as the independent financial adviser to advise us and the Shareholders in connection with the terms of the Agreement and transactions contemplated thereunder. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out in its letter on pages 12 to 26 of the Circular.

Your attention is drawn to the "Letter from the Chairman" set out on pages 4 to 10 of and the additional information set out in the Appendix to the Circular.

Having taken into account the terms of the Agreement and transactions contemplated thereunder and the advice of Somerley Limited, we consider the terms of the Agreement and transactions contemplated thereunder to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Yours faithfully,

William Winship FLANZ

John Estmond STRICKLAND

The Independent Board Committee

LETTER FROM SOMERLEY LIMITED

The following is the letter of advice from Somerley Limited to the Independent Board Committee and the Shareholders, which has been prepared for the purpose of inclusion in this circular.



Somerley Limited
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

4 December 2006

To: The Independent Board Committee and the Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Shareholders in connection with the Transaction involving the proposed disposal of a 40% interest in Slumberland to the Purchaser and proposed grant of the Put Option and the Call Option (the "Options") over the Group's remaining 40% interest in Slumberland to the Purchaser. Details of the Transaction are contained in the circular to the Shareholders dated 4 December 2006 (the "Circular"), of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as defined in the Circular.

The Transaction constitutes a discloseable transaction of the Company under the Listing Rules. As at the date of the Agreement, the Purchaser was interested in 20% of Slumberland, a subsidiary of the Company, and was therefore a connected person of the Company. Accordingly, the Transaction also constitute a connected transaction for the Company under the Listing Rules and is subject to approval by the disinterested Shareholders. The Company has already obtained written approval of the Transaction from Li & Fung (Distribution) Limited which holds approximately 51.12% of the Shares in issue. On this basis, the Company has applied to the Stock Exchange for a waiver (the "Waiver") from the requirement to hold a general meeting of the Shareholders and for permission for the shareholders' approval of the Transaction to be given in writing. The Stock Exchange granted the Waiver on 16 November 2006.

The Independent Board Committee comprising Messrs. William Winship FLANZ and John Estmond STRICKLAND, two independent non-executive Directors, has been formed to advise the Shareholders in respect of the terms of the Agreement and the transactions contemplated thereunder. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in this regard.

LETTER FROM SOMERLEY LIMITED

We are not connected with the Company, the Purchaser or their respective substantial shareholders or associates and accordingly are considered suitable to give independent financial advice on the terms of the Agreement and the transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Purchaser or their respective substantial shareholders or associates.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors, which we have assumed to be true, accurate and complete. We have reviewed, among other things, (i) the prospectus of the Company dated 24 November 2004; (ii) the financial information of the Group, including its annual reports for the two years ended 31 December 2005 and interim report for the six months ended 30 June 2006; (iii) the audited financial information of the Slumberland Group for the three years ended 31 December 2005; and (iv) the Agreement and the Shareholders' Agreement. We have also visited Slumberland's facilities in Malaysia and Shanghai and have discussed with the management their plans and their views on the business prospects of the Slumberland Group.

We have sought and received confirmation from the Directors that all material relevant information has been supplied to us and to the best knowledge of the Directors, no material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material information has been omitted or withheld. We have assumed that all information and representations contained or referred to in the Circular are true at the date of the Circular. However, we have not conducted any independent investigation into the business and affairs of the Group or of the Slumberland Group.

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In arriving at our opinion as regards the terms of the Agreement and transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

1. Principal terms of the Transaction

(a) *The Disposal*

On 13 November 2006, the Seller, which is a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser, pursuant to which the Seller agreed to sell a 40% interest in Slumberland to the Purchaser. The principal terms of the Agreement are as follows:

- (i) the Seller agreed to sell, and the Purchaser agreed to purchase, an aggregate of 40% interest in Slumberland, in three tranches of 12.5%, 17.5% and 10%. The consideration (the "Consideration")

LETTER FROM SOMERLEY LIMITED

will be in cash and be based on a price corresponding to 16 times the EBITDA of Slumberland for the financial year ending 31 December 2006, plus the net cash or minus net debts (as the case may be) of Slumberland as shown in its audited consolidated annual accounts for the financial year ending 31 December 2006. For the purpose of this calculation, EBITDA shall be subject to a cap of US\$4,745,000 (equivalent to approximately HK\$36,935,080); and

- (ii) an initial consideration of US\$9,893,875 (equivalent to approximately HK\$77,013,923) for the First Tranche shall be paid in cash upon the First Closing which is expected on 7 December 2006. The consideration for the Second Tranche and the Third Tranche shall be payable in cash upon completion of the respective sale and purchase on 2 October 2007 and 2 July 2008.

(b) The Options

The parties shall enter into a new shareholders' agreement for Slumberland upon the First Closing to replace the existing shareholders' agreement, pursuant to which

- (i) a put option will be granted to the Seller to require the Purchaser to purchase all its remaining 40% shares in Slumberland at any time during the Put Option Period, the two-year period commencing from the first day after completion of the sale and purchase of the Third Tranche; and
- (ii) a call option will be granted to the Purchaser to require the Seller to sell all its remaining 40% shares in Slumberland at any time during the one year period commencing from the expiry of the Put Option Period.

(c) Condition of the Agreement

Completion of the Agreement shall be conditional upon the Company obtaining all approvals as may be required under the Listing Rules. The Company is of the view that all such approvals are obtained on the date of the Circular.

2. Business of the Group

The Company is incorporated in Bermuda with limited liability and its shares became listed on the Main Board of the Stock Exchange on 7 December 2004. The Group is an integrated-distribution services provider in Asia covering three core businesses of logistics, marketing and manufacturing. Primary focus is on serving brand owners of consumer and healthcare products who wish to penetrate the Asian

LETTER FROM SOMERLEY LIMITED

market. The logistics division of the Group generally manages and coordinates the movement of goods on behalf of clients by providing principally warehousing and transportation services, without assuming title to such goods. The marketing division focuses on representing brand owners in distributing fast moving consumer goods and healthcare products. The manufacturing division acts as contract manufacturer which undertakes light manufacturing processes such as blending, mixing, filling and packaging for food and beverages, pharmaceuticals, personal care and household products based on the formulation and instruction provided by clients and does not own any brands. Slumberland is grouped under the marketing division of the Group, for administrative purposes, but Slumberland's business is in our opinion substantially different from the focus of the marketing division and indeed from the other business in the Group.

For the year ended 31 December 2005, the Group reported an audited consolidated revenue of approximately US\$821.5 million (equivalent to approximately HK\$6,394.6 million) and a profit attributable to Shareholders of approximately US\$13.3 million (equivalent to approximately HK\$103.5 million). As at 30 June 2006, the Group's unaudited total assets amounted to approximately US\$378.4 million (equivalent to approximately HK\$2,945.5 million) and the unaudited net assets attributable to Shareholders amounted to approximately US\$93.8 million (equivalent to approximately HK\$730.1 million).

The following table sets out the revenue of the Group by business segment for the three years ended 31 December 2003, 2004 and 2005 as extracted and summarised from the Company's 2004 and 2005 annual reports and audited consolidated financial statements of Slumberland:

	For the year ended 31 December					
	2005		2004		2003	
	<i>US\$'000</i>	%	<i>US\$'000</i>	%	<i>US\$'000</i>	%
Logistics	127,030	15.2	94,251	15.8	78,764	13.0
Marketing						
– Slumberland	39,954	4.8	38,926	6.5	34,674	5.7
– Others	535,944	64.0	341,010	57.0	389,396	64.5
	575,898	68.8	379,936	63.5	424,070	70.2
Manufacturing	134,313	16.0	123,831	20.7	101,414	16.8
Total	<u>837,241</u>	<u>100.0</u>	<u>598,018</u>	<u>100.0</u>	<u>604,248</u>	<u>100.0</u>

Note: The information shown in the above table has not taken into account inter-segment elimination.

LETTER FROM SOMERLEY LIMITED

As illustrated above, the contribution of Slumberland represents less than 7% of the Group's total revenue for each of the three years ended 31 December 2005. The contribution dropped below 5% in the year ended 31 December 2005. As mentioned above, the business of Slumberland is substantially different from the rest of the Group's business and management considers it a non-core operation of the Group, with the least fit with the Group's three divisions, i.e. provision of logistic services, marketing of third party brands and light contract manufacturing of fast moving consumer goods.

3. Past performance of the Slumberland Group

The Slumberland Group is principally engaged in the business of manufacturing and marketing of a portfolio of brands of mattresses and bed related products targeting at mid to upper-income consumers across six economies in Asia including Malaysia, Thailand, Hong Kong, Singapore, Indonesia and Mainland China. It also exports its products to Brunei, Taiwan, the Philippines, Sri Lanka, the Maldives, India and Japan.

The following table summarises the audited consolidated financial results of the Slumberland Group for the three years ended 31 December 2005 which are extracted from the relevant audited consolidated accounts of Slumberland:

	For the year ended 31 December		
	2005	2004	2003
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	39,954	38,926	34,674
Cost of sales	(19,850)	(19,193)	(16,414)
Gross profit	20,104	19,733	18,260
Operating profit	4,153	3,814	3,788
EBITDA (<i>Note</i>)	4,404	4,307	3,925
Profit for the year	3,271	2,985	3,029
<i>Profitability:</i>			
<i>Gross profit margin</i>	50.3%	50.7%	52.7%
<i>Net profit margin</i>	8.2%	7.7%	8.7%

Note: The EBITDA figures are provided by the Company and derived from the relevant audited consolidated accounts of Slumberland, based on the definition of EBITDA contained in the Agreement.

LETTER FROM SOMERLEY LIMITED

As shown above, the performance of the Slumberland Group in terms of both revenue and profitability has been relatively stable during the three years ended 31 December 2005. The moderate growth in revenue was mainly attributable to the combined effects of the growth in certain markets, including Mainland China, and a drop in performance of certain mature markets including Malaysia.

The principal raw materials required for the production of mattresses are wire, cotton, foam, coir fibre, polyester fibre and fabric, most of which are petroleum-based products. In general, the cost of raw materials represents approximately 80% of the total cost of sales and approximately 40% of the total revenue of Slumberland. As advised by the management of Slumberland, the cost of sales for the year ended 31 December 2003 was reduced by the write back of a provision (made in previous year for product warranty of approximately US\$250,000) which led to an increase in gross profit margin in 2003. Without this, the profits for 2003 to 2005 would have shown a modest rising trend and the gross profit margin would have been stable at just over 50%.

4. Overview of the markets for mattress and bed related products in Asia

Malaysia, Thailand and Mainland China are the biggest markets of the Slumberland Group, accounting for approximately 22.3%, 27.4% and 30.3% respectively of the Slumberland Group's turnover for the year ended 31 December 2005.

The bedding industry in Malaysia and Thailand are mature with numerous players. Reflecting general economic conditions in Malaysia and Thailand, the mattress businesses in Malaysia and Thailand are expected to grow at a moderate pace. The economy in Mainland China, on the other hand, remains strong. According to statistics published by the National Bureau of Statistics of China, gross domestic products for the first three quarters of 2006 grew by an average of about 10.6% over the corresponding periods in 2005. At present, the Slumberland Group has a presence in more than 10 cities in Mainland China and there is potential to grow. In view of the economic growth in Mainland China and the forthcoming international events such as the Beijing Olympic Games 2008 and Shanghai Expo 2010, the demand for high-end mattresses both from consumers as well as hotels in China is expected to be good. However, due to low entry barriers, competition is vigorous in the mattress industry. The austerity measures imposed by the Chinese government on the property market may also have a dampening effect on the demand for household products. In overall terms, the prospects for the mattress business in Mainland China seem encouraging, but with some volatility expected.

5. Evaluation of the Consideration

The aggregate consideration for the Sale Shares is based on 16 times (the "Agreed Multiple") the EBITDA of Slumberland for the financial year ending 31 December 2006, plus the net cash or minus the net debts (as the case may be) of Slumberland as shown in the audited consolidated accounts of Slumberland for the financial year ending 31 December 2006. However, a cap amount is set on the EBITDA to be used in the calculation, which shall not exceed US\$4,745,000 (the "Cap").

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The Disposal will be completed and the consideration will be receivable in three tranches which are expected to be in December 2006, October 2007 and July 2008. If the consideration for the Second Tranche and the Third Tranche were discounted to reflect the interest income that the Group, which has positive cash balances at present, would earn on the proceeds, the Agreed Multiple of 16 times would be adjusted to approximately 15.3 times (the “Adjusted Multiple”) (See note below). Since the Adjusted Multiple is not materially different from the Agreed Multiple, we have referred to the Agreed Multiple throughout our analysis of the Consideration below.

Note: The Adjusted Multiple is calculated by discounting the Agreed Multiple for the Second Tranche by an annual rate of 5.0% (which is approximately the current interest rate for the Group’s bank deposits in US dollars) for one year, while that for the Third Tranche is calculated by discounting the Agreed Multiple by the same annual rate of 5.0% for two years, taking into account the proportion of the 40% interest in Slumberland to be disposed of in each of the three tranches.

(a) *Comparable transactions*

In our evaluation of the fairness and reasonableness of the Consideration, we have researched merger and acquisition transactions involving companies principally engaged in the manufacturing and selling of mattresses and other bed related products from publicly available information during the period from 1 January 2004 to the Latest Practicable Date. Based on the above criteria, we have identified the following two comparable transactions in April 2004 and September 2006 which involved the acquisition of controlling stake in companies principally engaged in manufacturing and selling of conventional bedding products including mattresses (the “Comparable Transactions”):

Date of announcement	Name of target company (principal market)	Seller	Purchaser	Percentage of interest disposed of	Consideration	Price to EBITDA
21 September 2006	Simmons Canada Inc. (Canada)	SCI Income Trust	Simmons Bedding Company	100%	CAD136.8 million cash	9.0 (Note 1)
6 April 2004	Sealy Corporation (USA, Canada and Europe)	Affiliates of Bain Capital, Charlesbank Capital Partners, JP Morgan Partners, CIBC Argosy Merchant Fund and BancBoston Capital	Affiliates of Kohlberg Kravis Roberts & Co. L.P. together with management of the target	92%	US\$740.5 million cash	6.2 (Note 2)
<i>Average</i>						7.6
The Disposal				40%	US\$30.4 million cash (Note 3)	16.0

Source: Thomson ONE Banker, company announcements and other published financial information.

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Notes:

1. The multiple is calculated based on the financial information contained in the annual report of SCI Income Trust for the year ended 31 December 2005.
2. The multiple is calculated based on the financial information contained in the annual report of Sealy Corporation for the year ended 30 November 2003.
3. The consideration is based on a 40% sale and the cap amount of EBITDA of US\$4,745,000 without adjusting the net cash or net debts of Slumberland.

See comments in paragraph (c) below.

(b) Comparable companies

We have further researched the market ratings of listed companies which are engaged in similar business to Slumberland. We are however only able to identify one listed company in Asian stock markets (including Hong Kong) engaged in similar types of business to Slumberland. We have alternatively reviewed companies listed on other major stock exchanges which are principally engaged in the manufacturing and selling of mattresses and other bedding products (the “Comparable Companies”). Set out below is a table comparing the price to EBITDA multiple of Slumberland represented by the Consideration with those of the Comparable Companies:

Companies	Country of listing	Closing price as at the Latest Practicable Date or the last trading day immediately preceding the Latest Practicable Date (where applicable)	Price to EBITDA	Principal markets	Principal brands
Lee Swee Kiat Group Berhad	Malaysia	MYR0.175	5.2	Malaysia and Brunei	Mattressworld, Goldenite and Easysleep
Sealy Corporation	USA (NYSE)	US\$15.1	4.6	USA, Canada and Europe	Sealy, Stearns & Foster
Select Comfort Corporation	USA (NYSE)	US\$20.99	8.8	USA	Sleep Number
Tempur Pedic International	USA (NYSE)	US\$21.41	9.7	USA	Tempur
<i>Average</i>			7.1		
<i>Median</i>			7.0		
Slumberland			16.0		

Source: Thomson ONE Banker, company announcements and other published financial information.

See comments in paragraph (c) below.

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(c) *Our analysis*

As shown in the above tables, the Agreed Multiple of 16 times is substantially higher than the average multiple of 7.6 times for the Comparable Transactions. The Agreed Multiple of 16.0 times is also higher than those of the Comparable Companies, which ranged from 4.6 times to 9.7 times with an average of 7.1 times and median of 7.0 times. It should be noted that the target companies in the Comparable Transactions and most of the Comparable Companies have principal markets different from those of Slumberland. Companies with different geographical coverage may not be directly comparable to Slumberland and different stock markets may have different ratings for companies engaged in the same industry. We also note that neither the target companies of the Comparable Transactions nor any of the Comparable Companies have a significant existing presence in Mainland China comparable to that of Slumberland. This competitive advantage of Slumberland over the Comparable Companies in the Mainland China consumer market may, in our view, explain the relatively higher EBITDA multiples for the Consideration. Nevertheless, we believe that the Comparable Transactions and the Comparable Companies serve as reasonable benchmark in assessing the fairness of the Consideration.

(d) *The Cap*

The consideration for the Sale Shares is subject to the Cap whereby the EBITDA of Slumberland for the financial year ending 31 December 2006 used as the basis of the Consideration shall not exceed US\$4,745,000. We understand from the management that the Cap was determined with reference to the management accounts of the Slumberland Group for the eight months ended 31 August 2006 and has taken into account the orders on hand for the remainder of the year and historical trend of performance of Slumberland. The management of the Company have informed us that they are not aware of any material adverse change in the trading position and prospects of Slumberland which would affect the performance of Slumberland up to December 2006. Although the final determination of the EBITDA and therefore the final Consideration will be subject to the audit of the accounts of Slumberland, based on the experience of the management in the business and the nature of mattress business, the audited EBITDA is not expected to exceed the Cap of US\$4,745,000 significantly.

Based on the above, we are of the opinion that the Consideration and the basis of its calculation are fair and reasonable.

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6. Principal terms of the Shareholders' Agreement

As set out in the "Letter from the Chairman" contained in the Circular, 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 upon the First Closing to replace the existing shareholders' agreement. The principal terms of the Shareholders' Agreement are set out in the section headed "Shareholders' Agreement" in the "Letter from the Chairman" contained in the Circular.

(a) Board representation

The number of representatives of the Seller and the Purchaser on the board of directors of Slumberland shall be pro rata to the then respective shareholdings to be held by the Seller and the Purchaser.

(b) Provision of financial assistance

We note that pursuant to the Shareholders' Agreement, in case of providing guarantee and other securities in respect of any borrowings of Slumberland, such guarantees or securities shall be pro rata in accordance with the respective shareholdings of the Seller and the Purchaser.

(c) Transfer of shares

In addition, 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 "tag along" right of the Seller to require the transferee to purchase all its shares in Slumberland on the same terms as those offered to the Purchaser.

(d) The Options

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 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.

After completion of the Disposal, the Group will only hold a minority interest of 40% in Slumberland. The Put Option provides certainty to the Group that it will be able to sell its remaining minority interests in Slumberland to the Purchaser at a pre-determined basis. We consider such arrangement would provide an exit mechanism to the Group in respect of its minority interests in an associated company over which it has limited control.

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In the event that the Seller does not exercise the Put Option during the Put Option Period, the Purchaser could exercise the Call Option within one year thereafter. We consider the grant of call option to the purchaser to buy out the remaining interests in a target company is a common commercial arrangement as this will provide assurance to the purchaser that it can consolidate control in the target company should it think fit.

The following are the key terms of the Options:

(i) Exercise price

The exercise price for the shares in Slumberland subject to the Options shall be an amount per share equal to the higher of:

- 14 times the EBITDA of Slumberland up to US\$6,700,000 (the "Threshold"), and 7.5 times on any amount of EBITDA exceeding US\$6,700,000 and up to US\$9,000,000 provided that the EBITDA shall be subject to a cap of US\$9,000,000 (the "Option Cap") as shown in the Latest Accounts, plus the net cash or minus the net debts (as the case may be) of Slumberland as shown in the Latest Accounts divided by the total number of shares in Slumberland then in issue; and
- the Consideration.

The multiples for determining the exercise price varies with the level of EBITDA achieved by Slumberland during the Options period. We note that the 14 times multiples for the Options applicable to the Threshold is slightly below that for the Consideration of 16 times. The 14 times multiple applicable to the Threshold is nevertheless higher than the range, average and median of the Comparable Companies and the 7.5 times multiple for EBITDA exceeding the Threshold is around those of the Comparable Companies. In addition, while the multiple of 14 times is slightly lower than the 16 times applying to the Disposal, the amount of EBITDA up to which it applies is expected to be higher in light of the historical EBITDA growth of Slumberland of 9.7% in 2004 and 2.3% in 2005. Based on the above, we consider that the basis of determining the exercise price of the Options, which links the future performance of Slumberland to the exercise price, is fair and reasonable.

The exercise price is further subject to the Threshold and the Option Cap. The management of the Company informed us that they have taken into account the historical performance and anticipated growth in the results of the Slumberland Group in determining the Threshold and the Option Cap. A 15% annual growth has been estimated based on the Cap of US\$4,745,000 for the year ending 31 December 2006 in determining

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the Threshold and Option Cap. Such estimation, in our view, provides comfortable margin for the Group to maximise the exercise price under the Options in light of the aforesaid historical EBITDA growth of Slumberland and the prospects of the mattress industry and bedding industry as discussed in the section headed “Overview of the markets of the mattress and bed related products in Asia” above.

There is on the other hand a floor exercise price for the Options. The lowest price at which the Seller may dispose of its remaining 40% interest in Slumberland under the Options will be the Consideration, which is 16 times EBITDA of Slumberland for the financial year ending 31 December 2006, plus the net cash or minus the net debts (as the case may be) of Slumberland. We consider that such floor price eliminates the downside risk to the Group should it decide to dispose of its minority stake in Slumberland in the event the performance of Slumberland deteriorates after the Disposal.

(ii) Options exercise periods

The Put Option is exercisable at any time during the two-year period commencing from the first day after completion of the sale and purchase of the Third Tranche, i.e. from 3 July 2008 to 2 July 2010. As discussed with the management of the Company, whether or when the Seller will exercise the Put Option will depend on a number of factors including the future performance and prospects of the Slumberland Group. We consider the two-year period provides a reasonable time frame for the Seller to assess the performance of the Slumberland Group after the change in shareholding structure.

The Call Option is exercisable at any time during the one-year period commencing from the expiry of the Put Option Period, i.e. from 3 July 2010 to 2 July 2011. We consider this one-year period following the expiry of the Put Option Period is an acceptable time frame bearing in mind the Seller has discretion to exercise the Put Option during the Put Option Period.

Based on the above, we are of the view that the terms of the Shareholders' Agreement (including the Options) are fair and reasonable so far as the Shareholders are concerned.

7. Financial effects of the Transaction on the Group

(a) Earnings

For the two years ended 31 December 2004 and 2005, the Group recorded audited net profit attributable to the Shareholders of approximately US\$10.6 million (equivalent to approximately HK\$82.5 million) and US\$13.3 million (equivalent to approximately HK\$103.5 million) respectively. For the six months ended 30 June 2006, the Group recorded unaudited net profit attributable to the Shareholders of US\$8.5 million (equivalent to approximately HK\$66.2 million). In general, the results of the Group show a promising growing trend.

Based on the Consideration and the net asset value of the Slumberland Group as at 30 June 2006 after adjustment of the dividends paid by the Slumberland Group in September 2006, upon completion of the First Tranche which is expected on 7 December 2006, the Group is expected to recognise a gain of approximately US\$8,472,000 (equivalent to approximately HK\$65.9 million) in the financial year of 2006. Upon completion of the Second Tranche on 2 October 2007, the Group is expected to recognise a gain of approximately US\$11,860,000 (equivalent to approximately HK\$92.3 million) in the financial year of 2007. A further gain of approximately US\$6,778,000 (equivalent to approximately HK\$52.8 million) will be recognised in the financial year of 2008 upon completion of the sale and purchase of the Third Tranche on 2 July 2008. We understand from the Company that since the Options are granted in conjunction with the Disposal, part of the Consideration is required to be allocated to the fair value of the Options in accordance with applicable accounting standards. The aforesaid estimated gain on the Disposal has not taken into account the effects of the Options as the fair value of such Options is yet to be determined.

In light of the above, the gain to be recognised from the Disposal will contribute significantly to the results of the Group in the current and next two financial years when compared to the results of the Group for the financial years 2004 and 2005.

Since the purchase price for the shares in Slumberland subject to the Options will be based on various EBITDA multiples to be achieved by the Slumberland Group in the following years or the Consideration, whichever is higher, the Company is not at present in a position to calculate the gain to be derived in the event that the Options are exercised. However, given such purchase price will not be lower than the Consideration in any event, we consider that the disposal of the remaining 40% interest in Slumberland subject to the Options will generate further positive earning effects to the Group.

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(b) *Net asset value*

According to the interim report of the Company for the six months ended 30 June 2006, the unaudited net asset value of the Group attributable to the Shareholders was approximately US\$93.8 million (equivalent to approximately HK\$730.1 million) as at 30 June 2006. As mentioned above, the Group is expected to recognise an aggregate gain of approximately US\$27,110,000 (equivalent to approximately HK\$211.0 million) in stages from the Disposal. It is expected that a further gain on disposal will be resulted in the event the Options are exercised. The aforesaid expected gain to be derived from the disposal of interests in Slumberland will improve the net asset value of the Group in stages.

(c) *Cashflow*

The Consideration and exercise price under the Options will be satisfied solely by cash. Taking into account the net proceeds of the Disposal and the interest income to be earned from the proceeds, the cashflow of the Group will be strengthened upon completion of each of the First Tranche, Second Tranche and Third Tranche and in the event that the Options are exercised.

The net proceeds from the Disposal are estimated to be approximately US\$31,160,000 (equivalent to approximately HK\$242.5 million), which is currently expected to be used for funding possible future acquisitions (if any) and as working capital of the Group.

DISCUSSION

The business of Slumberland is significantly different from the other main businesses of the three divisions of the Group in that it involves substantially more manufacturing content and requires greater capital employed for fixed assets and stocks, among other items. While the performance of the Slumberland Group has been satisfactory over the past three years, it contributed less than 5% of the Group's total revenue for the financial year 2005 and is considered non-core by the Group's management. Prospects for the Slumberland Group in Mainland China seem promising, but we consider that the Consideration based on 16 times 2006 EBITDA reflects this. This multiple is higher than those of the Comparable Transactions and Comparable Companies we have identified.

The Group has agreed to sell half of its 80% interest now and has obtained an option to sell the remaining interest in 2008 to 2010. By this means, based on the pricing formula when the Options are exercised, the Group can exit from its remaining minority position in Slumberland at no less than the Consideration while having the opportunity to benefit from further growth in Slumberland's EBITDA prior to the exercise of the Options.

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OPINION

Based on the above principal factors and reasons, we consider the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M.N. Sabine
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF INTERESTS

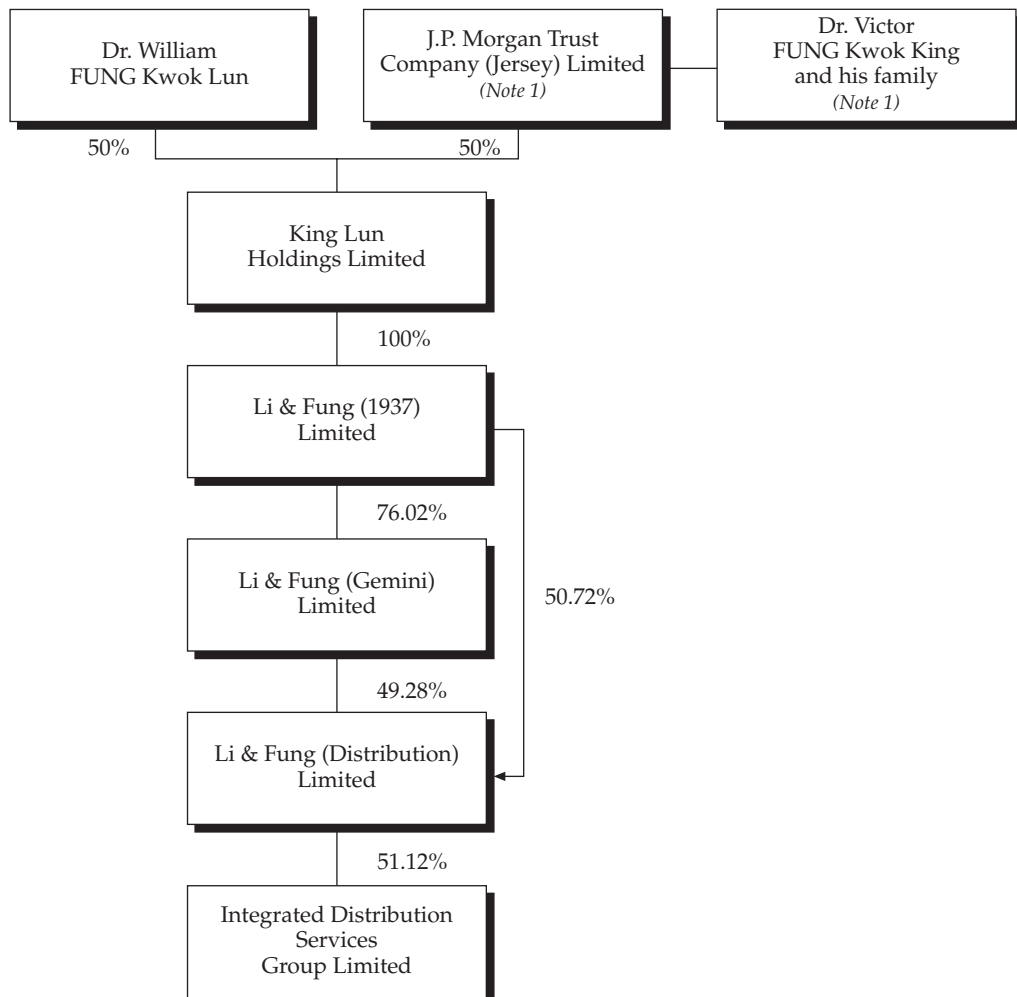
(I) Interests of Directors and the Chief Executives

As at the Latest Practicable Date, the Directors and chief executives of the Company had the following interests in the Shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which are required to be entered in the register under section 352 of the SFO:

(A) Long position in Shares and underlying shares of the Company

Name of Director	Number of Shares				Number of underlying shares under equity derivatives (Share Options)	Total interest	Approximate percentage of issued share capital (%)
	Personal interest	Family interest	Corporate/trust interest	Other interest			
Dr. Victor FUNG Kwok King	2,405,509	-	157,960,917 (Note 1)	-	-	160,366,426	51.90
Dr. William FUNG Kwok Lun	-	-	157,960,917 (Note 1)	-	-	157,960,917	51.12
Benedict CHANG Yew Teck	1,412,573	-	-	-	3,390,000	4,802,573	1.55
Joseph Chua PHI	1,047,632	-	-	-	1,755,000	2,802,632	0.91
Rajesh Vardichand RANAVAT	305,375	-	-	-	1,440,000	1,745,375	0.56
Jeremy Paul Egerton HOBBS	1,202,754	-	-	-	-	1,202,754	0.39
LAU Butt Farn	610,549	-	-	-	-	610,549	0.20
John Estmond STRICKLAND	-	-	-	22,000 (Note 2)	-	22,000	0.00

The interests of Dr. Victor FUNG Kwok King and Dr. William FUNG Kwok Lun in the Shares are summarized in the following chart:



Notes:

- As at the Latest Practicable Date, King Lun Holdings Limited ("King Lun") through its indirect non-wholly owned subsidiary, Li & Fung (Gemini) Limited ("LFG"), held a 49.28% interest in Li & Fung (Distribution) Limited ("LFD"). In addition, King Lun also through its wholly owned subsidiary, Li & Fung (1937) Limited, held 50.72% interest in LFD. LFD held 157,960,917 shares, representing 51.12% of the issued share capital of the Company. King Lun are owned (a) as to 50% by J.P. Morgan Trust Company (Jersey) Limited (which also indirectly held 8.77% of the issued share capital of LFG), the trustee of a trust established for the benefit of the family members of Dr. Victor FUNG Kwok King and (b) as to 50% by Dr. William FUNG Kwok Lun. Dr. Victor FUNG Kwok King and Dr. William FUNG Kwok Lun are deemed to have interests in these shares through their respective interests in King Lun and indirect interests in LFD as set out above.
- Mr. John Estmond STRICKLAND and his wife, Mrs. Anthea Evadne STRICKLAND are joint beneficial owners of these shares.

(B) Long position in shares and underlying shares of associated corporations

Name of Director	Name of associated corporation	Class of shares	Number of shares	Nature of interest	Approximate percentage of interests (%)
*Dr. Victor FUNG Kwok King	King Lun Holdings Limited	Ordinary	1,332,840	beneficiary of a trust	50.00
	Li & Fung (Gemini) Limited	Ordinary	5,825,438	as above	84.80
*Dr. William FUNG Kwok Lun	King Lun Holdings Limited	Ordinary	1,332,840	controlled corporation	50.00
	Li & Fung (Gemini) Limited	Ordinary	5,222,807	as above	76.02
Benedict CHANG Yew Teck	Li & Fung (Gemini) Limited	Ordinary	462,018	controlled corporation (Note 1)	6.73
Rajesh Vardichand RANAVAT	Convenience Retail Asia Limited	Ordinary	26,000	beneficial owner	0.004
Jeremy Paul Egerton HOBBS	Convenience Retail Asia Limited	Ordinary	180,000	beneficial owner	0.03
	Li & Fung (Gemini) Limited	Ordinary	462,018	controlled corporation (Note 2)	6.73
LAU Butt Farn	Convenience Retail Asia Limited	Ordinary	2,390,000	beneficial owner	0.35

* Dr. Victor FUNG Kwok King and Dr. William FUNG Kwok Lun, by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company, are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under the SFO. A waiver application was submitted to the Stock Exchange for exemption from disclosure of their interests and short positions in the shares and underlying shares of the associated corporations (save for King Lun and Li & Fung (Gemini) Limited) of the Company, and a waiver was granted by the Stock Exchange on 24 November 2006.

Notes:

- 462,018 shares in Li & Fung (Gemini) Limited, representing 6.73% of its issued share capital, are held by Mikenwill Investments Limited which is owned by Mr. Benedict CHANG Yew Teck.
- 462,018 shares in Li & Fung (Gemini) Limited, representing 6.73% of its issued share capital, are held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton HOBBS.

(C) *Short position in shares and underlying shares of the Company and associated corporations*

As at the Latest Practicable Date, none of the directors and chief executive of the Company or their associates had any short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(D) *Interest in share options*

Share options granted under the share option scheme adopted by the written resolutions of the then sole shareholder of the Company dated 4 November 2004 and amended by a committee of the Board on 22 November 2004 and remain outstanding:

Name of Director	Number of Share Options outstanding	Exercise Price	Grant date	Exercise period
		HK\$		
Benedict CHANG	750,000	4.825	14/12/04	01/01/07-31/12/08
Yew Teck	750,000	4.825	14/12/04	01/01/08-31/12/09
	750,000	4.825	14/12/04	01/01/09-31/12/10
	380,000	8.600	16/12/05	01/01/08-31/12/09
	380,000	8.600	16/12/05	01/01/09-31/12/10
	380,000	8.600	16/12/05	01/01/10-31/12/11
Joseph Chua PHI	375,000	4.825	14/12/04	01/01/07-31/12/08
	375,000	4.825	14/12/04	01/01/08-31/12/09
	375,000	4.825	14/12/04	01/01/09-31/12/10
	210,000	8.600	16/12/05	01/01/08-31/12/09
	210,000	8.600	16/12/05	01/01/09-31/12/10
	210,000	8.600	16/12/05	01/01/10-31/12/11
Rajesh Vardichand RANAVAT	345,000	4.825	14/12/04	01/01/07-31/12/08
	345,000	4.825	14/12/04	01/01/08-31/12/09
	345,000	4.825	14/12/04	01/01/09-31/12/10
	135,000	8.600	16/12/05	01/01/08-31/12/09
	135,000	8.600	16/12/05	01/01/09-31/12/10
	135,000	8.600	16/12/05	01/01/10-31/12/11

(II) Interests of Shareholders Discloseable Pursuant to the SFO

Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:–

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of issued share capital (%)
Li & Fung (Distribution) Limited	Beneficial owner	157,960,917	51.12
Li & Fung (Gemini) Limited	Interest of controlled corporation	157,960,917	51.12
Li & Fung (1937) Limited	Interest of controlled corporation	157,960,917	51.12
King Lun Holdings Limited	Interest of controlled corporation	157,960,917	51.12
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	157,960,917	51.12
Matthews International Capital Management, LLC	Investment manager	22,065,000	7.14
Brookside Capital Investors, L.P.	Interest of controlled corporation	15,473,000	5.01

(III) Substantial Shareholders in Other Members of the Group

Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of the Company, or his/her respective associate(s)) who, as at the Latest Practicable Date, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Company	Name of Shareholder	(%)
上海英和申宏商業服務有限公司 [®] Shanghai IDS Shen Hong Logistics Co., Ltd.	上海申宏有限公司 [®] Shanghai Shen Hong Company	20
上海利和物流有限公司 [®] Shanghai IDS Logistics Co., Ltd.	上海申宏有限公司 [®] Shanghai Shen Hong Company	20
Slumberland Asia Pacific Limited	Bico AG	20
PT. Slumberland Indonesia	PT. Bumijaya Trilestari	49.9
IDS Borneo Sdn Bhd	Yang Amat Mulia Pengiran Indera Setia DiRaja Sahibul Karib Pengiran Anak Haji Idris bin Pengiran Maharaja Lela Pengiran Muda Abdul Kahar	10
IDS Borneo Sdn Bhd	Yang DiMuliakan lagi DiHormati Pehin Orang Kaya DiGadong Seri DiRaja Dato Laila Utama Awang Haji Abdul Rahman bin Pehin Orang Kaya Shahbandar Awang Haji Mohd Taha	20
PT. Singa Jaya Kapita	PT. Madari Eka Pratama	15

[®] The legal name of the relevant company is in Chinese

(IV) Material interests

Save as disclosed under the section headed “Connected Transactions” in the report of the directors and in note 30 to the financial statements in the 2005 annual report of the Company:

- i. none of the Directors or the chief executive of the Company has any direct or indirect interest in any assets which have since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- ii. there is no contract or arrangement subsisting at the Latest Practicable Date, in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

3. SERVICE CONTRACTS

There is no existing or proposed service contract between any of the Directors or proposed Directors and the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation other than by statutory compensation.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which compete or may compete with the business of the Group.

5. INDEPENDENT FINANCIAL ADVISER

The qualification of the independent financial adviser who has given advice contained in this circular is set out as follows:

Name	Qualification
Somerley Limited	a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Somerley Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, Somerley Limited did not have any shareholding interests in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest published audited accounts of the Group have been made up.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened against the Company or any of its subsidiaries.

8. GENERAL

- (a) The secretary of the Company is Ms. YUEN Ying Kwai, a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (b) The qualified accountant of the Company is Mr. Edward POON Che Man, a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (c) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (d) The head office and principal place of business of the Company is 15th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong.
- (e) The principal share registrar of the Company is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM 08, Bermuda and its branch share registrar is Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (f) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENT AVAILABLE FOR INSPECTION

Copy of the Agreement is available for inspection at the principal place of business of the Company in Hong Kong, which is situated at 15th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong, during business hours (except Saturdays and public holidays) up to and including 20 December 2006.