

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should obtain independent professional advice or consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Integrated Distribution Services Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

DISCLOSEABLE AND CONNECTED TRANSACTIONS

ACQUISITION OF SHAREHOLDING INTEREST

**Independent Financial Adviser
to the Independent Board Committee and
the Independent Shareholders**



A letter from the Independent Board Committee is set out on page 12 of this circular. A letter from Sommerley Limited to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 22 of this circular.

A notice convening a special general meeting of Integrated Distribution Services Group Limited to be held at Stork Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on Tuesday, 22 May 2007 at the later of 12:25 p.m. and the conclusion of the annual general meeting of the Company convened for 12:00 noon on Tuesday, 22 May 2007 is set out on pages 31 to 32 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

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DEFINITIONS

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

“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 Malaysia and Hong Kong for business
“Company”	Integrated Distribution Services Group Limited, a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Transactions and/or Minority Transaction
“Completion Date”	date of Completion
“Cut-off Date”	the date occurring one week prior to the Completion Date
“Directors”	directors of the Company
“FIC”	Foreign Investment Committee
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	independent committee of the board of Directors comprising Mr. William Winship FLANZ, Mr. John Estmond STRICKLAND, Dr. FU Yu Ning and Professor LEE Hau Leung, the Independent Non-executive Directors of the Company
“Independent Shareholders”	Shareholders who are not otherwise required by the Stock Exchange to abstain from voting in respect of the Sebor Sarawak Agreement and Sebor Sabah Agreement
“Latest Practicable Date”	27 April 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“LFD”	Li & Fung (Distribution) Limited
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Malinch”	Malinch Associate Holdings Sdn Bhd, a company incorporated in Malaysia, an indirect wholly-owned subsidiary of LFD and an investment holding company
“Minority Sebor Sarawak Agreement”	the agreement entered into by the Purchaser with six independent third parties who are not connected with the Directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, or an associate of any of them on 16 April 2007
“Minority Sebor Sarawak Shares”	an aggregate of 983,644 shares in Sebor Sarawak
“Minority Transaction”	the acquisition of the Minority Sebor Sarawak Shares under the Minority Sebor Sarawak Agreement
“PNB”	Permodalan Nasional Berhad
“Purchaser”	IDS Group Limited, a company incorporated in the British Virgin Islands, a direct wholly-owned subsidiary of the Company and an investment holding company
“RM”	Malaysian Ringgit, the lawful currency of Malaysia
“Sebor Sabah”	Sebor (Sabah) Sdn Bhd, a company incorporated in Malaysia, which is principally engaged in distribution of consumer goods in Eastern Malaysia
“Sebor Sabah Agreement”	the sale and purchase agreement in relation to the interests in Sebor Sabah Group dated 16 April 2007
“Sebor Sabah Group”	Sebor Sabah and its subsidiary
“Sebor Sabah Shares”	an aggregate of 4,400,000 shares in Sebor Sabah
“Sebor Sarawak”	Sebor (Sarawak) Sdn Bhd, a company incorporated in Malaysia, which is principally engaged in distribution of consumer goods in Eastern Malaysia
“Sebor Sarawak Agreement”	the sale and purchase agreement in relation to the interests in Sebor Sarawak Group dated 16 April 2007
“Sebor Sarawak Group”	Sebor Sarawak and its subsidiaries
“Sebor Sarawak Shares”	an aggregate of 5,392,329 shares in Sebor Sarawak
“SEDC”	Sarawak Economic Development Corporation
“SEDCO”	Sabah Economic Development Corporation

DEFINITIONS

“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at Stork Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on Tuesday, 22 May 2007 at the later of 12:25 p.m. and the conclusion of the annual general meeting of the Company convened for 12:00 noon on Tuesday, 22 May 2007
“Share(s)”	ordinary share(s) of US\$0.10 each of the Company
“Shareholder(s)”	holders of Share(s) in issue
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the acquisition of the Sebor Sarawak Shares and Sebor Sabah Shares contemplated under the Sebor Sarawak Agreement and the Sebor Sabah Agreement

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 RM1 = HK\$2.2673.

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

[#] *Independent Non-executive Director*

Executive Directors:

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

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

3 May 2007

To Shareholders

Dear Sirs or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
ACQUISITION OF SHAREHOLDING INTEREST**

INTRODUCTION

On 16 April 2007, the Purchaser entered into the Sebor Sarawak Agreement and the Sebor Sabah Agreement with Malinch, pursuant to which the Purchaser agreed to purchase an aggregate of approximately 56.74% and 40% interest in Sebor Sarawak and Sebor Sabah respectively at the consideration as set out below. On the same day, the Purchaser also entered into the Minority Sebor Sarawak Agreement with six independent third parties for acquisition of an additional 10.35% interest in Sebor Sarawak.

The Transactions, together with the Minority Transaction, constitute discloseable transactions for the Company under the Listing Rules. As Malinch is an indirect wholly-owned subsidiary of LFD, the controlling shareholder of the Company holding approximately 50.10% interest in the Company as at the Latest Practicable Date, it is a connected person of the Company and the Transactions also constitute

LETTER FROM THE CHAIRMAN

connected transactions for the Company under the Listing Rules. Since the consideration for the Transactions is more than HK\$10,000,000 and the applicable percentage ratios exceed 2.5%, the Transactions are subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

The purpose of this circular is to provide Shareholders with (i) relevant information relating to the Transactions and the Minority Transaction; (ii) the recommendation of the Independent Board Committee regarding their view on the Transactions; (iii) a copy of the letter from Somerley Limited, the independent financial adviser, containing its advice in relation to the terms of the Transactions; and (iv) a notice of the SGM.

THE SALE AND PURCHASE AGREEMENTS

1. Sebor Sarawak Agreement

Parties

Seller: Malinch, which holds approximately 56.74% interest in Sebor Sarawak
Purchaser: IDS Group Limited

2. Sebor Sabah Agreement

Parties

Seller: Malinch, which holds 40% interest in Sebor Sabah
Purchaser: IDS Group Limited

ASSETS TO BE ACQUIRED

The Sebor Sarawak Shares representing approximately 56.74% interest in Sebor Sarawak including the rights to receive all dividends and other distributions declared, made or paid on or after 31 December 2006 until the Cut-off Date; and the Sebor Sabah Shares representing 40% interest in Sebor Sabah including the rights to receive all dividends and other distributions declared, made or paid on or after 31 December 2006 until the Cut-off Date. Sebor Sarawak and Sebor Sabah are both principally engaged in the distribution of consumer goods in Eastern Malaysia.

The original purchase costs of the Sebor Sarawak Shares and the Sebor Sabah Shares to Malinch were approximately RM7,978,000 (approximately HK\$18,088,519) and RM4,809,000 (approximately HK\$10,903,446) respectively.

CONSIDERATION

Pursuant to the Sebor Sarawak Agreement, the Purchaser agreed to purchase the Sebor Sarawak Shares at an aggregate consideration of RM25,343,946.30 (approximately HK\$57,462,329) (equivalent to RM4.70 (approximately HK\$10.66) per share), which is with reference to the net asset value as shown in the audited accounts of Sebor Sarawak for the year ended 31 December 2006 after taking into account a revaluation of property which increases the audited net asset value by approximately

LETTER FROM THE CHAIRMAN

RM6.988 million (approximately HK\$15.84 million). The said purchase price shall be reduced by the aggregate amount of any dividend paid by Sebor Sarawak after 31 December 2006 until the Cut-off Date multiplied by the percentage of the shares to be acquired.

Pursuant to the Sebor Sabah Agreement, the Purchaser agreed to purchase the Sebor Sabah Shares at an aggregate consideration of RM4,587,525 (approximately HK\$10,401,295) (equivalent to RM1.04 (approximately HK\$2.36) per share), which is based on the net asset value as shown in the audited accounts of Sebor Sabah for the year ended 31 December 2006. The said purchase price shall be reduced by the aggregate amount of all dividends paid by Sebor Sabah after 31 December 2006 until the Cut-off Date multiplied by the percentage of the shares to be acquired.

The consideration for the Sebor Sarawak Shares and the Sebor Sabah Shares was agreed between the parties after arm's length negotiations and shall be paid in cash upon Completion. The acquisitions will be financed from the Company's internal cash reserves and bank borrowings.

The following table shows the audited consolidated financial information of the Sebor Sarawak Group for the two years ended 31 December 2006:

	For the year ended	
	31 December	
	2006	2005
	<i>RM'000</i>	<i>RM'000</i>
Turnover	237,456	240,070
Net profit/(loss) before taxation and extraordinary items	4,431	4,217
Net profit/(loss) after taxation and extraordinary items	3,204	3,097
	As at 31 December	
	2006	2005
	<i>RM'000</i>	<i>RM'000</i>
Total assets	84,918	81,816
Total liabilities	44,697	43,843
Net asset value	40,221	37,973

LETTER FROM THE CHAIRMAN

The following table shows the audited consolidated financial information of the Sebor Sabah Group for the two years ended 31 December 2006:

	For the year ended	
	31 December	
	2006	2005
	<i>RM'000</i>	<i>RM'000</i>
Turnover	85,680	83,288
Net profit/(loss) before taxation and extraordinary items	1,380	889
Net profit/(loss) after taxation and extraordinary items	1,359	865
	As at 31 December	
	2006	2005
	<i>RM'000</i>	<i>RM'000</i>
Total assets	43,817	50,743
Total liabilities	32,348	40,633
Net asset value	11,469	10,110

CONDITIONS

Completion of the Sebor Sarawak Agreement and the Sebor Sabah Agreement shall be conditional upon the following conditions being satisfied or waived by the relevant party on or before 31 July 2007 or such other date as mutually agreed between the Purchaser and Malinch.

The Sebor Sarawak Agreement

- i. A due diligence exercise on the Sebor Sarawak Group being carried out to the reasonable satisfaction of the Purchaser in all material respects.
- ii. The Company having obtained all necessary approvals as may be required under the Listing Rules to permit the consummation of the transactions contemplated under the Sebor Sarawak Agreement.
- iii. All warranties set out in the Sebor Sarawak Agreement being true and accurate in all material respects at its Completion.
- iv. There being no material adverse change in the business, operations, assets, position (financial, trading or otherwise) or profits of the Sebor Sarawak Group as a whole between the date of the Sebor Sarawak Agreement and its Completion.
- v. No contracts that are material to the business of the Sebor Sarawak Group as a whole being terminated or their terms being materially and adversely changed before Completion.
- vi. The approval of the FIC being obtained in relation to the transactions contemplated in the Sebor Sarawak Agreement, in a form acceptable to the Purchaser.

LETTER FROM THE CHAIRMAN

- vii. All the conditions precedent (save for such conditions precedent relating to the fulfilment of all the conditions set out in this section) under the Sebor Sabah Agreement having been fulfilled or waived in accordance with its terms.

The Sebor Sabah Agreement

- i. A due diligence exercise on the Sebor Sabah Group being carried out to the reasonable satisfaction of the Purchaser in all material respects.
- ii. The Company having obtained all necessary approvals as may be required under the Listing Rules to permit the consummation of the transactions contemplated under the Sebor Sabah Agreement.
- iii. The Seller having obtained the consents of PNB and SEDCO, existing shareholders of Sebor Sabah, for the transfer of Sebor Sabah Shares in the agreed form at Completion.
- iv. All warranties set out in the Sebor Sabah Agreement being true and accurate in all material respects at its Completion.
- v. There being no material adverse change in the business, operations, assets, position (financial, trading or otherwise) or profits of the Sebor Sabah Group as a whole between the date of the Sebor Sabah Agreement and its Completion.
- vi. No contracts that are material to the business of the Sebor Sabah Group as a whole being terminated or their terms being materially and adversely changed before Completion.
- vii. All the conditions precedent (save for such conditions precedent relating to the fulfilment of all the conditions set out in this section) under the Sebor Sarawak Agreement having been fulfilled or waived in accordance with its terms.

COMPLETION

Completion of the sale and purchase of the Sebor Sarawak Shares and the Sebor Sabah Shares shall take place on the fifth Business Day following satisfaction or waiver by the relevant party of the conditions under the Sebor Sarawak Agreement and the Sebor Sabah Agreement respectively, or such other date as the parties may agree in accordance with the terms of the relevant agreements. The Purchaser has the right to nominate not less than four directors which will form a majority of the board of directors of Sebor Sarawak and two directors on the board of directors of Sebor Sabah upon or after Completion.

MINORITY TRANSACTION

On the same day of the execution of the Sebor Sarawak Agreement, the Purchaser also entered into the Minority Sebor Sarawak Agreement with six independent third parties who are not connected with the Directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, or an associate of any of them for acquisition of the Minority Sebor Sarawak Shares representing

LETTER FROM THE CHAIRMAN

approximately 10.35% interest in Sebor Sarawak including the rights to receive all dividends and other distributions declared, made or paid on or after 31 December 2006 until the Cut-off Date at the same price per share as the Sebor Sarawak Shares.

Pursuant to the Minority Sebor Sarawak Agreement, the Purchaser agreed to purchase the Minority Sebor Sarawak Shares at an aggregate consideration of RM4,623,126.8 (approximately HK\$10,482,015) (equivalent to RM4.70 (approximately HK\$10.66) per share), which is with reference to the net asset value as shown in the audited accounts of Sebor Sarawak for the year ended 31 December 2006 after taking into account a revaluation of property which increases the audited net asset value by approximately RM6.988 million (approximately HK\$15.84 million). The said purchase price shall be reduced by the aggregate amount of any dividend paid by Sebor Sarawak after 31 December 2006 until the Cut-off Date multiplied by the percentage of the shares to be acquired.

Completion of the Minority Sebor Sarawak Agreement shall be conditional upon the same conditions as the Sebor Sarawak Agreement (save for the FIC approval and the satisfaction (or waiver) of the conditions precedent under the Sebor Sabah Agreement) and the simultaneous acquisition by the Purchaser or one of the wholly-owned subsidiaries of the Company of the Sebor Sarawak Shares. Completion shall take place on the fifth Business Day following satisfaction or waiver by the relevant party of the conditions.

Following the completions of the Sebor Sarawak Agreement, the Minority Sebor Sarawak Agreement and the Sebor Sabah Agreement, Sebor Sarawak will be owned as to approximately 67.09% by the Purchaser and approximately 32.91% by SEDC and become an indirect subsidiary of the Company, while Sebor Sabah will be owned as to 40% by the Purchaser, approximately 55% by PNB and approximately 5% by SEDCO and become an associated company of the Company. SEDC, PNB and SEDCO are independent third parties.

REASONS FOR AND EFFECTS OF THE TRANSACTIONS AND MINORITY TRANSACTION

The Directors consider that the Transactions, together with the Minority Transaction, will strengthen the network and presence of the Group complemented by the existing operations in Brunei and Peninsula Malaysia. The Directors (other than the Independent Non-executive Directors whose view has been set out in the letter from the Independent Board Committee in this circular) consider that the terms of the Transactions and the Minority Transaction are fair and reasonable, and the Transactions and the Minority Transaction are in the best interests of the Company and the shareholders of the Company as a whole.

The Transactions and the Minority Transaction will be financed from the Group's internal cash reserves and bank borrowings. Upon Completion, Sebor Sarawak and Sebor Sabah will be accounted for as a subsidiary and associated company respectively. The Group's assets will be increased by the assets of Sebor Sarawak and 40% share of net asset of Sebor Sabah, and decreased by the amount of cash reserves taken for financing for the Transactions and the Minority Transaction. The Group's liabilities will be increased by the amount of bank borrowings for the Transactions and the Minority Transaction and the liabilities of Sebor Sarawak. Incremental earnings will be generated for the Group subsequent to the Transactions and the Minority Transaction.

LETTER FROM THE CHAIRMAN

INFORMATION OF THE COMPANY

The Group is a leading integrated distribution services provider in Asia covering the three core businesses of Marketing, Logistics and Manufacturing.

CONNECTED PERSONS

(1) LFD and its associates and (2) Dr. Victor FUNG Kwok King (by virtue of his deemed interest in LFD and his directorship in LFD), Mr. Jeremy Paul Egerton HOBBS (by virtue of his shareholding in Li & Fung (Gemini) Limited, a substantial shareholder of LFD, and his directorship in LFD), Mr. Benedict CHANG Yew Teck and Mr. LAU Butt Farn (by virtue of their directorship in LFD) are required to abstain from voting at the SGM in relation to the resolution approving the Sebor Sarawak Agreement and Sebor Sabah Agreement. Such resolution will be voted by poll.

GENERAL

The Transactions, together with the Minority Transaction, constitute discloseable transactions for the Company under the Listing Rules. As Malinch is an indirect wholly-owned subsidiary of LFD, a controlling shareholder of the Company holding approximately 50.10% interest in the Company as at the Latest Practicable Date, it is a connected person of the Company and the Transactions also constitute connected transactions for the Company under the Listing Rules. Since the aggregate consideration for the Transactions is more than HK\$10,000,000 and the applicable percentage ratios exceed 2.5%, the Transactions are subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

A SGM will be convened to approve the Transactions. An Independent Board Committee comprising the Independent Non-executive Directors has been formed to advise the Independent Shareholders, and Somerley Limited has been retained to advise the Independent Board Committee and the Independent Shareholders in relation to the Transactions.

NOTICE OF SPECIAL GENERAL MEETING

Set out on pages 31 to 32 of this circular is a notice convening the SGM for the purpose of considering and, if thought fit, passing the resolution set out therein.

A form of proxy for use at the SGM is enclosed. Whether or not you intend to be present at the SGM, you are requested to complete and return the enclosed form of proxy to the Company's Hong Kong branch share registrar, Abacus Share Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for holding the SGM. The completion and return of the form of proxy will not prevent you from attending and voting in person at the SGM should you so wish.

LETTER FROM THE CHAIRMAN

PROCEDURE ON VOTING BY POLL

Pursuant to Bye-law 66 of the Bye-laws, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (a) the chairman of the meeting; or
- (b) at least three members present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (c) any member(s) present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (d) member(s) present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

In order to enhance shareholders' rights, the Chairman will demand a poll, pursuant to Bye-law 66 of the Bye-laws, on the question submitted for determination at the SGM. The results of the poll will be published in the local newspapers and on the Company's and the Stock Exchange's websites on the business day following the SGM.

INDEPENDENT ADVICE

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

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 12;
- (ii) Letter from Somerley Limited set out on pages 13 to 22; and
- (iii) Additional 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)

3 May 2007

To: the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
ACQUISITION OF SHAREHOLDING INTEREST**

We refer to the circular of the Company to the Shareholders dated 3 May 2007 (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 Independent Shareholders in respect of the terms of the Sebor Sarawak Agreement and the Sebor Sabah Agreement and transactions contemplated thereunder. Somerley Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in connection with the terms of the Sebor Sarawak Agreement and the Sebor Sabah Agreement and transactions contemplated thereunder. Details of its advice, together with the principal facts and reasons taken into consideration in arriving at such advice, are set out in their letter on pages 13 to 22 of the Circular.

Your attention is drawn to the “Letter from the Chairman” set out on pages 4 to 11 of and the additional information set out in the Appendix to the Circular.

Having taken into account the terms of the Sebor Sarawak Agreement and the Sebor Sabah Agreement and transactions contemplated thereunder and the advice of Somerley Limited, we consider the terms of the Sebor Sarawak Agreement and the Sebor Sabah Agreement and transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Sebor Sarawak Agreement and the Sebor Sabah Agreement and the transactions contemplated thereunder.

Yours faithfully,

William Winship FLANZ

John Estmond STRICKLAND

FU Yu Ning

LEE Hau Leung

The Independent Board Committee

LETTER FROM SOMERLEY LIMITED

The following is the text of a letter of advice from Somerley Limited, the independent financial adviser, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and Independent Shareholders in connection with the Transactions.



Somerley Limited
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong
3 May 2007

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS ACQUISITION OF SHAREHOLDING INTEREST

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Group's proposed acquisition of a 56.74% interest in Sebor Sarawak and a 40% interest in Sebor Sabah from Malinch. The Group also proposed to acquire a further 10.35% interest in Sebor Sarawak from six independent third parties. Details of the Transactions and the Minority Transaction are contained in the circular to the Shareholders dated 3 May 2007 (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 Transactions, together with the Minority Transaction, constitute discloseable transactions of the Company under the Listing Rules. As at the date of the Sebor Sarawak Agreement and the Sebor Sabah Agreement (together, the "Agreements"), Malinch was a wholly-owned subsidiary of LFD which in turn was the controlling Shareholder holding an approximately 50.10% interest in the Company. Malinch is therefore a connected person of the Company and the Transactions constitute connected transactions for the Company under the Listing Rules and are subject to approval of the Independent Shareholders.

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. William Winship FLANZ, Mr. John Estmond STRICKLAND, Dr. FU Yu Ning and Professor LEE Hau Leung, has been formed to advise the Independent Shareholders in respect of the terms of the Agreements and the transactions contemplated thereunder. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM SOMERLEY LIMITED

We are not connected with the Company, Malinch or their respective substantial shareholders or associates and accordingly are considered suitable to give independent financial advice on the terms of the Agreements 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, Malinch 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 financial information of the Group, including its annual reports/final results announcements for the two years ended 31 December 2006; (ii) the audited financial information of Sebor Sarawak and Sebor Sabah (together, the "Target Companies") for the three years ended 31 December 2006; (iii) the valuation reports for the properties held by Sebor Sarawak; and (iv) the terms of the Agreements. We have also discussed with the management of the Target Companies their plans and views on the business prospects of the Target Companies.

We have sought and received confirmation from the Directors that all material relevant information has been supplied to us and that, 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 and will remain true up to the date of the SGM. However, we have not conducted any independent investigation into the business and affairs of the Group or the Target Companies.

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

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

1. Principal terms of the Transactions

(a) The Sebor Sarawak Agreement

On 16 April 2007, the Purchaser, which is a wholly-owned subsidiary of the Company, entered into the Sebor Sarawak Agreement with Malinch, pursuant to which the Purchaser agreed to acquire the Sebor Sarawak Shares (representing a 56.74% interest in Sebor Sarawak) from Malinch for a total consideration of RM25,343,946.30 (equivalent to approximately HK\$57.5 million or US\$7.4 million).

On the same date, the Purchaser also entered into the Minority Sebor Sarawak Agreement with six independent third parties to acquire an aggregate of 10.35% interest in Sebor Sarawak at the same price per share as the Sebor Sarawak Shares.

LETTER FROM SOMERLEY LIMITED

(b) *The Sebor Sabah Agreement*

On 16 April 2007, the Purchaser further entered into the Sebor Sabah Agreement with Malinch, pursuant to which the Purchaser agreed to acquire the Sebor Sabah Shares (representing a 40% interest in Sebor Sabah) from Malinch for a total consideration of RM4,587,525 (equivalent to approximately HK\$10.4 million or US\$1.3 million).

The consideration for the Sebor Sarawak Shares and the Sebor Sabah Shares shall be reduced by any amount of dividends paid by Sebor Sarawak or Sebor Sabah (as the case may be) on these shares after 31 December 2006 until the Cut-off Date.

(c) *Conditions of the Agreements*

Completion of each of the Agreements shall be conditional upon certain conditions which include, among other things, (a) a due diligence exercise on each of the Target Companies being carried out to the satisfaction of the Purchaser; (b) the Company having obtained all necessary approvals as may be required under the Listing Rules to permit consummation of the Transactions; (c) the Seller having obtained the consents of the other existing shareholders of Sebor Sabah for the transfer of the Sebor Sabah Shares; and (d) compliance with applicable approval or notification requirements in Malaysia. Completion of each of the Sebor Sarawak Agreement and the Sebor Sabah Agreement is conditional on all the conditions precedent under the other agreement having been fulfilled or waived in accordance with its terms.

Completion of the Minority Sebor Sarawak Agreement shall be conditional upon substantially the same conditions as the Sebor Sarawak Agreement and the simultaneous acquisition by the Purchaser or one of the wholly-owned subsidiaries of the Company of the Sebor Sarawak Shares. Accordingly, the Purchaser will only acquire the Minority Sebor Sarawak Shares if the acquisition of the Sebor Sarawak Shares can be completed.

2. Reasons for the Transactions

The Group is a leading integrated distribution services provider in Asia covering the three core businesses of marketing, logistics and manufacturing. Principal markets of the Group include Hong Kong, China, the Philippines and Malaysia. For the year ended 31 December 2006, revenue generated and total assets deployed in Malaysia accounted for approximately 13.9% and 15.9% of the Group's revenue and assets respectively.

With a view to scaling up and consolidating the logistics business of the Group in Malaysia, the Group acquired the entire issued share capital of Sitt Tatt Logistics Sdn. Bhd. ("STLog"), a logistics company operating in Malaysia, together with two parcels of land for use as distribution centres, in September 2006 (the "Past Acquisition"). This acquisition has doubled the scale of the Group's logistics operations in Malaysia.

The Target Companies are engaged in the marketing and distribution of fast moving consumer goods in Sarawak and Sabah, Malaysia. Both companies have been set up for over 30 years initially as joint ventures with the respective State Economic Development Corporation in Sarawak and Sabah. Sebor Sarawak is at present the largest fast moving consumer goods

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marketing and distribution company in Sarawak. The Directors consider the businesses of the Target Companies are complementary to the existing marketing and logistics operations of the Group in Brunei and Peninsula Malaysia and the Transactions, together with the Minority Transaction, serve to strengthen the Group's network and presence in the whole of Malaysia. We concur with the Directors' view in this regard, having considered the established and stable business of the Target Companies, the present geographical reach of the Group and the expansion plans of the Group in Malaysia as evidenced by the Past Acquisition (which was from a third party).

3. Past performance of the Target Companies

(a) *Sebor Sarawak*

The following table summarises the audited consolidated financial results of Sebor Sarawak for the three years ended 31 December 2006 which are extracted from the relevant audited consolidated accounts of Sebor Sarawak:

	For the year ended 31 December		
	2004	2005	2006
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Revenue	237,517	240,070	237,456
Gross profit	24,146	23,904	23,581
Profit from operations	3,044	4,432	4,562
Profit for the year	1,988	3,097	3,204
<i>Profitability:</i>			
<i>Gross profit margin</i>	10.17%	9.96%	9.93%
<i>Net profit margin</i>	0.84%	1.29%	1.35%

As shown above, the performance of Sebor Sarawak in terms of revenue and gross profit has been relatively stable during the three years ended 31 December 2006. The improvement in profit from operations during 2005 was principally due to the profit from the sale of listed shares investments and the cessation of a loss making agency agreement. Measures to improve cost control have led to improvement in net profits and margins in 2006.

(b) *Sebor Sabah*

The following table summarises the audited consolidated financial results of Sebor Sabah for the three years ended 31 December 2006 which are extracted from the relevant audited consolidated accounts of Sebor Sabah:

	For the year ended 31 December		
	2004	2005	2006
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Revenue	84,186	83,288	85,680
Gross profit	7,681	8,069	8,672
Operating profit	1,278	2,043	2,483
Profit for the year	579	865	1,359

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	For the year ended 31 December		
	2004	2005	2006
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
<i>Profitability:</i>			
<i>Gross profit margin</i>	9.12%	9.69%	10.12%
<i>Net profit margin</i>	0.69%	1.04%	1.59%

Revenue of Sebor Sabah dropped slightly in 2005 principally due to the termination of a loss making agency agreement in mid 2005. Revenue in 2006 has picked up as a result of the acquisition of three new agency agreements. Due to the cessation of the loss making agency agreement in 2005 for ice-cream products, certain plant and equipment specifically used for such agency agreement such as cold storage facilities and refrigerated trucks were disposed of at a gain. As a result, profits and margins improved in 2005. Efforts on obtaining new agency agreements coupled with measures to control administrative costs as well as savings on electricity consumption due to the cessation of the ice-cream agency agreement in 2005 helped to improve the overall profitability and margins of Sebor Sabah in 2006.

4. Financial position of the Target Companies

The following table summarises the balance sheet positions of Sebor Sarawak and Sebor Sabah as at 31 December 2006:

	Sebor Sarawak	Sebor Sabah
	<i>RM'000</i>	<i>RM'000</i>
Property, plant and equipment	8,056	10,267
Inventories	44,317	14,643
Trade receivables	23,919	17,748
Trade payables	(41,246)	(14,559)
Borrowings	—	(17,785)
Other net current assets	5,674	1,155
Deferred tax liability	(499)	—
Net assets	<u>40,221</u>	<u>11,469</u>

Property, plant and equipment represent principally warehouse and office properties and other equipment and delivery trucks.

Properties of Sebor Sarawak having net book value of approximately RM5.8 million (equivalent to approximately HK\$13.2 million or US\$1.7 million) as at 31 December 2006 have been valued by an independent valuer (the “Valuer”) at approximately RM12.8 million (equivalent to approximately HK\$29.0 million or US\$3.7 million) as at 12 February 2007. Such valuation represents a surplus of approximately RM7.0 million (equivalent to approximately HK\$15.8 million or US\$2.0 million) (the “Sarawak Surplus”) over the net book value as at 31 December 2006. We have discussed with the Valuer the methodology it used to value the properties. The Valuer advised that in arriving at its opinion of the market value of the properties,

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it has principally adopted the comparison method whereby comparison is made of properties under valuation with sales of other similar properties, adjusted for dissimilarities (if any). We consider the basis of the valuation and methodology reasonable.

The properties of Sebor Sabah have net book value of approximately RM10.0 million (equivalent to approximately HK\$22.7 million or US\$2.9 million) as at 31 December 2006. As disclosed in the audited accounts of Sebor Sabah for the year ended 31 December 2006, the properties of Sebor Sabah were valued by an independent valuer in the financial year ended 31 December 2003 to the effect that the fair value of the properties exceeded their total carrying cost as at 31 December 2003. We have discussed with the Valuer the Malaysian property market, in particular relating to industrial properties. The Valuer advised that the Malaysian market has been showing keen interest in industrial properties. Based on the above, we have no grounds to believe that the carrying value of the properties of Sebor Sabah as at 31 December 2006 is lower than the market value. The borrowings of Sebor Sabah were principally drawn down to finance the acquisition of the properties and are secured by such properties.

According to the accounting policies of the Target Companies, inventories are stated at the lower of cost and net realisable value while trade receivables are stated at the anticipated realisable value. We have discussed with the respective management of the Target Companies and understand that provisions are made against inventories and trade receivables according to the policies of LFD. We have also discussed with the auditors of the Target Companies and understand that there have not been any significant obsolete stock or bad debt write offs exceeding the general provisions made by the Target Companies in recent years.

5. Overview of the market for distribution of fast moving consumer goods in Sarawak and Sabah and prospects of the Target Companies

According to government sources, the wholesale and retail sector in Sarawak is expected to grow by around 7.5% per annum for the next few years, which is higher than the expected growth of 6% for total State gross domestic product. The higher growth is partly due to the inflow of workers from other parts of Malaysia and foreign countries to support the growth in commercial agriculture sector and infrastructure development projects initiated by the State government, and the improved spending power of the residents. These factors are expected to benefit the wholesale business in Sarawak. Nevertheless, the increase in parallel imports of similar products from neighbouring ASEAN countries and West Malaysia causes pressure on wholesalers to match trading terms. To sustain the profitability of its business, the management of Sebor Sarawak have been in continuous efforts to negotiate new agency agreements to enlarge revenue base and monitor working capital requirements to reduce interest costs.

The retail and wholesale sectors in Sabah are expected to be boosted by the expansion of its retail network announced by GCH Retailer (Malaysia) Sdn Bhd, a listed hypermarket and supermarket operator, in Sabah and Peninsula Malaysia. The retail sector is also expected to benefit from the promotion of tourism in Sabah by State government and the property development sector with new shopping malls and complexes being constructed. Whilst sizable retailers in Sabah may choose to deal directly with suppliers without going through wholesalers,

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the management of Sebor Sabah believe that the strong branch and service network that Sebor Sabah has already established would give it a competitive advantage to capture the business opportunities in the growing retail and wholesale markets in Sabah.

Overall, we concur with the management's view that the prospects of the fast moving consumer goods distribution business in Sarawak and Sabah and the businesses of the Target Companies are positive.

6. Evaluation of the Consideration

The consideration for the Sebor Sarawak Shares is based on the audited net asset value of Sebor Sarawak as at 31 December 2006 plus the Sarawak Surplus. The consideration for the Sebor Sabah Shares is based on the audited net asset value of Sebor Sabah as at 31 December 2006. The aggregate consideration for the Sebor Sarawak Shares and the Sebor Sabah Shares is payable in cash on completion of the respective Agreements.

(a) Comparable transactions

In our evaluation of the fairness and reasonableness of the consideration for the Transactions, we have researched merger and acquisition transactions involving companies principally engaged in the distribution of fast moving consumer goods in Asia during the period from 1 January 2006 to the Latest Practicable Date. In addition to the Past Acquisition, we have identified one transaction from public sources during the period. We have reviewed and compared the terms of the aforesaid two transactions (the "Comparable Transactions") with the Transactions as detailed in the table below:

Date of announcement	Name of target company (principal market)	Seller	Purchaser	Percentage of interest acquired	Consideration	Price to earnings	Price to net book value
3 August 2006	STLog (Malaysia)	Sitt Tatt Company Sdn. Bhd.	IDS Logistics Services (M) Sdn. Bhd.	100%	RM16.6 million	8.0 <i>(Note 1)</i>	1.4 <i>(Note 1)</i>
20 April 2007	Texchem Consumer Sdn. Bhd. (Malaysia)	Texchem Resources Bhd.	DKSH Holdings (Malaysia) Berhad	100%	RM16 million	26.2	1.3
<i>Average</i>						<i>17.1</i>	<i>1.4</i>
The Sebor Sarawak Transaction				56.74%	RM25.3 million	13.9	1.1 <i>(Note 2)</i>
The Sebor Sabah Transaction				40%	RM4.6 million	8.4	1.0

Source: Published announcements and circulars of the relevant companies.

Notes:

- The ratios are calculated based on the financial information of STLog for the year ended 31 December 2005 contained in the Company's circular dated 23 August 2006.
- The ratio of price to net book value is above 1.0 because of the effect of the Sarawak Surplus.

See comments in paragraph (c) below.

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(b) *Comparable companies*

We have further researched the market ratings of listed companies in Asian stock markets (including Hong Kong) which are engaged in a similar business to Sebor Sarawak and Sebor Sabah (the “Comparable Companies”). Set out below is a table comparing the price to earnings and price to book multiples of the Transactions with those of the Comparable Companies:

Companies	Country of listing	Market capitalisation based on closing price as at the Latest Practicable Date or the last trading day immediately preceding the Latest Practicable Date (where applicable)	Price to earnings	Price to book
CNI Holdings Bhd	Malaysia	RM345.60 million	13.6	3.7
DKSH Holdings (Malaysia) Berhad	Malaysia	RM104.05 million	12.1	2.2
Harrisons Holdings (M) Bhd	Malaysia	RM75.30 million	5.7	0.4
ICC International Public Co. Ltd.	Thailand	Thai Baht 12,133.96 million	16.6	2.0
Saha Pathanapibul Public Co. Ltd.	Thailand	Thai Baht 4,938.17 million	13.4	2.3
Heng Tai Consumables Group	Hong Kong	HK\$2,493.98 million	15.2	2.2
<i>Average</i>			12.8	2.1
<i>Median</i>			13.5	2.2
The Sebor Sarawak Transaction			13.9	1.1
The Sebor Sabah Transaction			8.4	1.0

Source: Bloomberg and latest published audited accounts of the relevant companies

(c) *Our analysis*

As shown in the table in (a) above, the average price earnings multiple for the Comparable Transactions of around 17.1 times is higher than that for the Sebor Sabah Transaction and the Sebor Sarawak Transaction. The price earnings multiples of both the Sebor Sarawak Transaction and the Sebor Sabah Transaction are also within the range of those of the Comparable Transactions. We believe the relatively higher valuation for Sebor Sarawak as compared with that of the Past Acquisition is justified by the market leadership position of Sebor Sarawak in Sarawak and the limited scope of operations of STLog as a logistic service provider without any distribution agreements with major fast moving consumer goods manufacturers similar to those possessed by Sebor Sarawak. The price to book ratios for both the Transactions are lower than that for the Comparable Transactions.

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As shown in the table in (b) above, the price to book ratios for both the Transactions are lower than that for the Comparable Companies. However, we note that the price to earnings ratio represented by the consideration for the Sebor Sarawak Shares is comparable to the corresponding average and median for those of the Comparable Companies; while the price to earnings ratio represented by the consideration for the Sebor Sabah Shares is lower than the average and median for those of the Comparable Companies. The Group is acquiring a controlling stake in Sebor Sarawak but only a minority interest in Sebor Sabah. It is a common commercial term that a control premium is attached to the consideration of minority acquisitions. In addition, as set out in the paragraph headed “Past performance of the Target Companies” above, both turnover and net profit of Sebor Sarawak represent more than double those of Sebor Sabah for the three years ended 31 December 2006. Based on the above, we consider the lower valuation for the Sebor Sabah Shares is appropriate due to the fact that a minority stake is being acquired and the relatively smaller scale of operation of Sebor Sabah.

Based on the above, we are of the opinion that the consideration for the Sebor Sarawak Shares and the Sebor Sabah Shares is fair and reasonable.

7. Financial effects of the Transactions on the Group

(a) Earnings

Upon completion of the Agreements, the Group will become interested in 56.74% of Sebor Sarawak (excluding the Minority Sebor Sarawak Shares). Sebor Sarawak will be accounted for as a subsidiary and its results will be consolidated into the accounts of the Company. On the other hand, upon completion of the Sebor Sabah Agreement, Sebor Sabah will become a 40%-owned associated company of the Group and its results will be equity accounted for in the Group’s accounts. The Company intends to finance the acquisitions from its internal cash reserves and bank borrowings and expects that finance cost will be incurred as a result of the acquisitions. In view of the profitable track record of the Target Companies, completion of the Transactions is expected to make a positive contribution to the revenue and profits of the Group in overall terms.

(b) Net asset value

As the consideration for both the Sebor Sarawak Shares and the Sebor Sabah Shares will be settled in cash based principally on net asset value of the Target Companies, the Transactions should not result in any material effect on the net asset value of the Group.

(c) Cashflow and gearing

The aggregate consideration for the Transactions of approximately RM29.9 million (equivalent to approximately HK\$67.8 million or US\$8.7 million) will be satisfied by the Company’s internal cash reserves and bank borrowings. Taking into account the aggregate balance of time deposits and bank balances and cash of the Group of approximately US\$84.6 million and net current assets of approximately US\$61.6 million as at 31 December 2006, we consider the payment of the consideration will not have material adverse effect on the cash position and cashflow of the Group.

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Based on the audited accounts of the Group, the Group has a gearing ratio of around 12.0% as at 31 December 2006 (calculated as total bank loans and finance lease obligations net of time deposits, bank balances and cash, divided by total equity). Taking into account the cash balances of Sebor Sarawak as at 31 December 2006 and the aggregate consideration payable by the Purchaser for the Sebor Sarawak Shares and the Sebor Sabah Shares, the gearing ratio of the Group would be increased to approximately 17.5% assuming completion of the Agreements. Taking into account the relatively low gearing of the Group, we consider that the increase in the gearing ratio of the Group as a result of the Transactions is modest and acceptable and we do not consider such a relatively small increase would adversely affect the overall financial position of the Group.

OPINION

Based on the above principal factors and reasons, we consider the terms of the Agreements and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its Shareholders as a whole. We accordingly advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Agreements and the transactions contemplated thereunder.

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

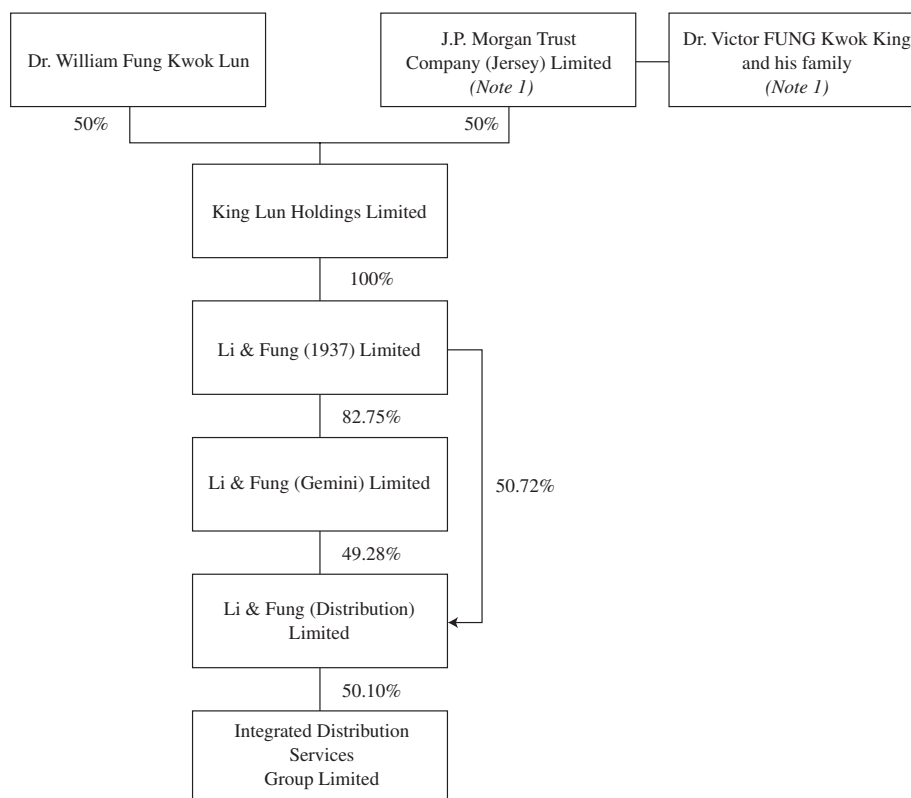
(I) Interests of Directors and the Chief Executives

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	—	155,860,917 (Note 1)	—	—	158,266,426	50.87
Dr. William FUNG Kwok Lun	—	—	155,860,917 (Note 1)	—	—	155,860,917	50.10
Benedict CHANG Yew Teck	4,262,573	—	—	—	12,180,000 (Note 2)	16,442,573	5.29
Joseph Chua PHI	1,047,632	—	—	—	2,550,000	3,597,632	1.16
Rajesh Vardichand RANAVAT	159,375	—	—	—	2,070,000	2,229,375	0.72
LAU Butt Farn	610,549	—	—	—	—	610,549	0.20
John Estmond STRICKLAND	—	—	—	22,000 (Note 3)	—	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:

1. 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 (“LF1937”), held 50.72% interest in LFD. LFD held 155,860,917 shares, representing 50.10% 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.
2.
 - a. the beneficial interest of Mr. Benedict CHANG Yew Teck in 3,780,000 underlying shares in respect of share options granted by the Company to Mr. Benedict CHANG Yew Teck, the details of which are set out in the share options section stated below; and
 - b. the deemed interest of Mr. Benedict CHANG Yew Teck in 8,400,000 underlying shares in the Company in respect of options granted by LF1937 to Mikenwill Investments Limited (“Mikenwill”), which is owned by Mr. Benedict CHANG Yew Teck, to require LF1937 to sell to Mikenwill or its nominee 10,500,000 shares in the Company in five tranches, with the first tranche of 2,100,000 shares exercised on 9 January 2007 and each of the remaining tranches having an exercisable period of one year during the period from 1 January 2007 to 31 December 2010 pursuant to an agreement made between LF1937 and Mikenwill dated 5 January 2007.
3. Mr. John Estmond STRICKLAND and his wife, Mrs. Anthea Evadne STRICKLAND are joint beneficial owners of these shares.

(B) *Short position in Shares and underlying shares of the Company*

By virtue of the SFO, each of Dr. Victor FUNG Kwok King and Dr. William FUNG Kwok Lun was taken as the Latest Practicable Date to have short position through LF1937, in which both of them are deemed to have interests as disclosed above, in respect of an aggregate of 8,400,000 underlying shares in the Company, representing 2.70 percent of the total issued share capital of the Company. Such interest constitutes, for the purposes of the SFO, a short position of LF1937 under unlisted physically settled equity derivative which arise under an agreement made between LF1937 and Mikenwill dated 5 January 2007 pursuant to which options were granted by LF1937 to Mikenwill to require LF1937 to sell to Mikenwill or its nominee 10,500,000 shares in the Company in five tranches, with the first tranche of 2,100,000 shares exercised on 9 January 2007 and each of the remaining tranches having an exercisable period of one year during the period from 1 January 2007 to 31 December 2010.

Save as disclosed above, 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.

(C) *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	6,287,456	as above	91.52
*Dr. William FUNG Kwok Lun	King Lun Holdings Limited	Ordinary	1,332,840	controlled corporation	50.00
	Li & Fung (Gemini) Limited	Ordinary	5,684,825	as above	82.75
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	0.02
	Li & Fung (Gemini) Limited	Ordinary	462,018	controlled corporation (Note)	6.73
LAU Butt Farn	Convenience Retail Asia Limited	Ordinary	2,390,000	beneficial owner	0.33

* Dr. Victor FUNG Kwok King and Dr. William FUNG Kwok Lun, by virtue of their interests in 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 in the shares and underlying shares of the associated corporations (save for King Lun and LFG) of the Company, and a waiver was granted by the Stock Exchange on 27 April 2007.

APPENDIX**ADDITIONAL INFORMATION**

Note:

462,018 shares in LFG, representing 6.73% of its issued share capital, are held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton HOBBS.

(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 HK\$	Grant date	Exercise period
Benedict CHANG 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
	380,000	15.100	15/12/06	01/01/09–31/12/10
	380,000	15.100	15/12/06	01/01/10–31/12/11
	380,000	15.100	15/12/06	01/01/11–31/12/12
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
	265,000	15.100	15/12/06	01/01/09–31/12/10
	265,000	15.100	15/12/06	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
	210,000	15.100	15/12/06	01/01/09–31/12/10
	210,000	15.100	15/12/06	01/01/10–31/12/11
210,000	15.100	15/12/06	01/01/11–31/12/12	

(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 (%)
Long Positions			
Li & Fung (Distribution) Limited	Beneficial owner	155,860,917	50.10
Li & Fung (Gemini) Limited	Interest of controlled corporation	155,860,917	50.10
Li & Fung (1937) Limited	Interest of controlled corporation	155,860,917	50.10
King Lun Holdings Limited	Interest of controlled corporation	155,860,917	50.10
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	155,860,917	50.10
Brookside Capital Investors, L.P.	Interest of controlled corporation	15,473,000	5.01
Commonwealth Bank of Australia	Interest of controlled corporation	15,459,000	5.00
Short Positions			
Li & Fung (1937) Limited	Beneficial owner	8,400,000 <i>(Note)</i>	2.70
King Lun Holdings Limited	Interest of controlled corporation	8,400,000 <i>(Note)</i>	2.70
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	8,400,000 <i>(Note)</i>	2.70

Note:

This short position represents LF1937's short position in 8,400,000 underlying shares which constitutes unlisted physically settled equity derivatives pursuant to arrangement as described in the Interests of Directors and the Chief Executives section stated above.

(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:

<u>Name of Company</u>	<u>Name of Shareholder</u>	<u>(%)</u>
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	32.5
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 (Deceased)	20
IDS Performance Services Sdn. Bhd.	Mohd Fauzi Bin Mohd Fadzil	30
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 31 to the financial statements in the 2006 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 2006, being the date to which the latest published audited financial statements of the Company 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 types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 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 they respectively appear.

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.

Somerley Limited does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Company were made up.

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 2006, being the date to which the latest published audited financial statements of the Company were 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 and the accompanying form of proxy shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are 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 22 May 2007:

- 1. Sebor Sarawak Agreement;
- 2. Sebor Sabah Agreement;
- 3. Letter from the Independent Board Committee dated 3 May 2007; and
- 4. Letter from Somerley Limited dated 3 May 2007.

NOTICE OF SPECIAL GENERAL MEETING



INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2387)

NOTICE IS HEREBY GIVEN that the Special General Meeting of the Company will be held at Stork Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on Tuesday, 22 May 2007 at the later of 12:25 p.m. and the conclusion of the annual general meeting of the Company convened for 12:00 noon on Tuesday, 22 May 2007 for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the entering into of the Sebor Sarawak Agreement and the Sebor Sabah Agreement by IDS Group Limited, a wholly-owned subsidiary of the Company (the “Subsidiary”), (copies of which agreements have been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) and the Transactions be and are hereby approved and confirmed (terms defined in the circular to shareholders of the Company dated 3 May 2007 having the same meanings when used in this resolution); and
- (b) any Director or authorized person of the Subsidiary be and is hereby authorized for and on behalf of the Subsidiary to execute all such other documents, instruments and agreements with the affixation of the common seal of the Subsidiary, where necessary, to effect such amendments to, and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Sebor Sarawak Agreement and Sebor Sabah Agreement and/or the Transactions.”

By Order of the Board
YUEN Ying Kwai
Company Secretary

Hong Kong, 3 May 2007

Notes:

- (1) A member entitled to attend and vote at the above meeting may appoint one or, if he holds two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority shall be deposited with the Company’s Hong Kong branch share registrar, Abacus Share Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than

NOTICE OF SPECIAL GENERAL MEETING

48 hours before the time for holding the meeting or any adjourned meeting. The proxy form will be published on the website of The Stock Exchange of Hong Kong Limited and can also be downloaded from the Company's website: *www.idsgroup.com*.

- (3) The Chairman of the Meeting will demand a poll on the question submitted for determination at the Special General Meeting.