

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**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)**

**CONTINUING CONNECTED TRANSACTION**

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

**COMMERZBANK** 

**Commerzbank AG Hong Kong Branch**

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A letter from the Independent Board Committee is set out on page 10 of this circular. A letter from Commerzbank to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 21 of this circular.

A notice convening a special general meeting of Integrated Distribution Services Group Limited to be held at Pheasant - Jasmine Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on Friday, 16 May 2008 at the later of 12:25 p.m. and the conclusion of the annual general meeting of the Company (which is scheduled to be held at 12:00 noon on Friday, 16 May 2008) is set out on pages 30 to 31 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 to the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong 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.

# CONTENT

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Chairman</b>	
Introduction .....	4
Background .....	5
The 2008 Logistics Agreement .....	6
Reasons for and benefit of entering into the Proposed Continuing Connected Transaction ..	7
Listing Rules Implication .....	7
Information on the Company and LF 1937 .....	7
Notice of SGM .....	8
Procedure on voting by poll .....	8
Independent advice .....	8
Additional information .....	9
<b>Letter from the Independent Board Committee</b> .....	10
<b>Letter from Commerzbank</b> .....	11
<b>Appendix – Additional Information</b> .....	22
<b>Notice of Special General Meeting</b> .....	30

## DEFINITIONS

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

“2006 Logistics Agreement”	the master agreement entered into between the Company and LF 1937 on 21 December 2006 in relation to the provision of shipping, handling and other logistics services
“2008 Logistics Agreement”	the master agreement entered into between the Company and LF 1937 on 8 April 2008 in relation to the provision of shipping, handling and other logistics services
“associate(s)”, “connected person(s)”, “controlling shareholder(s)”	has the meaning ascribed to them under the Listing Rules
“Board”	the board of Directors
“Company”	Integrated Distribution Services Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Directors”	directors of the Company
“GBP” or “£”	pound sterling, the lawful currency of the United Kingdom
“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. John Estmond STRICKLAND, Dr. FU Yu Ning and Prof. LEE Hau Leung, the Independent Non-executive Directors of the Company
“Independent Financial Adviser” or “Commerzbank”	Commerzbank AG, acting through its Hong Kong branch, a licensed bank under the Banking Ordinance and an authorised financial institutional under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO, and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Continuing Connected Transaction and the Proposed Caps
“Independent Shareholders”	Shareholders other than Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun and their respective associates

## DEFINITIONS

“Latest Practicable Date”	22 April 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“LF 1937”	Li & Fung (1937) Limited, the controlling Shareholder of the Company and a company incorporated under the laws of Hong Kong
“LF 1937 Group”	LF 1937 and its associates (excluding the Group but including Li & Fung Limited and its subsidiaries)
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PBFA”	Peter Black Footwear & Accessories Limited, an indirect wholly-owned subsidiary of Li & Fung Limited
“PBL”	PB Logistics Limited (now known as IDS Logistics (UK) Limited), an indirect wholly-owned subsidiary of the Company
“PB Logistics Agreement”	the distribution and warehousing agreement entered into between PBL and PBFA on 14 September 2007 in relation to the provision of logistics handling, storage, transport, freight and related services
“Proposed Caps”	the maximum aggregate annual value for the Proposed Continuing Connected Transaction for each of the three years ending 31 December 2010
“Proposed Continuing Connected Transaction”	the continuing connected transaction contemplated under the 2008 Logistics Agreement
“repealed caps”	caps for the 2006 Logistics Agreement and the PB Logistics Agreement
“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 Pheasant-Jasmine Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on Friday, 16 May 2008 at the later of 12:25 p.m. and the conclusion of the annual general meeting of the Company (which is scheduled to be held at 12:00 noon on Friday, 16 May 2008)
“Share(s)”	ordinary share(s) of US\$0.10 each of the Company
“Shareholder(s)”	holders of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

## DEFINITIONS

“US\$”

US dollars, the lawful currency of United States of America

*Unless otherwise stated, all reference 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\$7.7862 and £1 = HK\$15.3794.*

## 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*)  
John Estmond STRICKLAND<sup>#</sup>  
Dr. FU Yu Ning<sup>#</sup>  
Prof. LEE Hau Leung<sup>#</sup>  
Dr. William FUNG Kwok Lun  
William Winship FLANZ  
Jeremy Paul Egerton HOBBS  
LAU Butt Farn  
Rajesh Vardichand RANAVAT

<sup>#</sup> *Independent Non-executive Director*

***Executive Directors:***

Benedict CHANG Yew Teck  
*(Group Managing Director)*  
Joseph Chua PHI  
*(President and Regional Managing  
Director of IDS Group)*

***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

28 April 2008

*To Shareholders*

Dear Sirs or Madam,

### CONTINUING CONNECTED TRANSACTION

#### INTRODUCTION

On 8 April 2008, the Company entered into the 2008 Logistics Agreement with LF 1937, pursuant to which the Group will provide a variety of logistics services to LF 1937 Group. The provision of logistics services pursuant to the 2008 Logistics Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

## LETTER FROM THE CHAIRMAN

Since the applicable percentage ratios (as defined under the Listing Rules) in respect of the Proposed Caps exceed 2.5% and the Proposed Caps are more than HK\$10 million, the Proposed Continuing Connected Transaction is subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

Commerzbank has been appointed as the independent financial adviser to advise the Independent Board Committee of the Company and the Independent Shareholders in respect of the Proposed Continuing Connected Transaction and the Proposed Caps.

The purpose of this circular is to provide Shareholders with (i) relevant information relating to the 2008 Logistics Agreement and the Proposed Continuing Connected Transaction; (ii) the recommendation and advice of the Independent Board Committee on the Proposed Continuing Connected Transaction; (iii) a copy of the letter from Commerzbank containing its advice in relation to the terms of the Proposed Continuing Connected Transaction and the Proposed Caps; and (iv) a notice of the SGM.

### **BACKGROUND**

On 21 December 2006, the Company announced that it had entered into the 2006 Logistics Agreement, pursuant to which the Group would provide shipping, handling services and a variety of other logistics services, including storage, cargo handling, container devanning, administration, labeling, goods return sorting and delivery services to LF 1937 Group. The annual caps for each of the three years ended/ending 31 December 2007, 2008 and 2009 were US\$4,984,000 (approximately HK\$38.81 million), US\$5,466,000 (approximately HK\$42.56 million) and US\$6,041,000 (approximately HK\$47.04 million) respectively.

On 14 September 2007, the Company announced that PBL, an indirect wholly-owned subsidiary of the Company, had entered into the PB Logistics Agreement, pursuant to which PBL would provide logistics handling, storage, transport, freight and related services to PBFA. The caps for the period from 1 September to 31 December 2007 and from 1 January to 31 August 2008 were £2,650,000 (approximately HK\$40.76 million) and £3,650,000 (approximately HK\$56.13 million) respectively.

Due to the anticipated increase in the demand for logistics services business by LF 1937 Group under the 2006 Logistics Agreement and the forthcoming expiry of the PB Logistics Agreement by August 2008, the Company entered into the 2008 Logistics Agreement with the Proposed Caps which include the previously approved caps under the 2006 Logistics Agreement and the PB Logistics Agreement.

For the purpose of compliance with Chapter 14A of the Listing Rules, since the 2008 Logistics Agreement covers the scope of services contemplated under both of the 2006 Logistics Agreement and the PB Logistics Agreement, upon the 2008 Logistics Agreement becoming unconditional, the repealed caps shall cease to have any effect for the year of 2008 and onwards and transactions that would have otherwise been taken into account for the repealed caps will only be taken into account for the purpose of the Proposed Caps.

## LETTER FROM THE CHAIRMAN

### THE 2008 LOGISTICS AGREEMENT

The Company entered into the 2008 Logistics Agreement with LF 1937 on 8 April 2008 for a term of three years from 1 January 2008 to 31 December 2010 on the condition that it has obtained the approval of the Independent Shareholders.

#### Transaction nature

Provision by the Group of shipping, handling services and a variety of other logistics services, including storage, cargo handling, container devanning, administration, labeling, goods return sorting and delivery services to LF 1937 Group.

The Company will endeavour to procure its subsidiaries, and LF 1937 will endeavour to procure its associates, to comply with the terms of the 2008 Logistics Agreement in respect of transactions contemplated thereunder.

#### Pricing Basis

The fees charged by the members of the Group to the associates of LF 1937 are either at market rates or at rates similar to those offered to independent third parties.

#### Proposed annual caps for the Proposed Continuing Connected Transaction

The Proposed Caps for each of the three years ending 31 December 2010 are stated as follows:

<u>Year ending 31 December 2008</u>	<u>Year ending 31 December 2009</u>	<u>Year ending 31 December 2010</u>
US\$57,343,000 (approximately HK\$446.48 million)	US\$88,404,000 (approximately HK\$688.33 million)	US\$103,195,000 (approximately HK\$803.50 million)

The historical amount for the transactions contemplated under the 2006 Logistics Agreement for the year ended 31 December 2007 was US\$4,339,000 (approximately HK\$33.78 million). The historical amount for the transactions contemplated under the PB Logistics Agreement for the period from 1 September to 31 December 2007 was £1.544 million (approximately HK\$23.75 million).

The Proposed Caps are determined based on the Group's rapid expansion in logistics services, both in country logistics as well as end-to-end supply chain services. The Proposed Caps have also taken into account the estimated amounts of the potential new logistics businesses with LF 1937 Group, particularly in the markets of the United States of America and the United Kingdom, and the business expansion of LF 1937 Group for the years 2008 to 2010. The Proposed Cap for the year 2008 is based on various commencement dates for the potential businesses with LF 1937 Group. The Proposed Caps for the years 2009 and 2010 reflect both the full year impact of the potential businesses with LF 1937 Group and the expected growth of business.



## LETTER FROM THE CHAIRMAN

### REASONS FOR AND BENEFIT OF ENTERING INTO THE PROPOSED CONTINUING CONNECTED TRANSACTION

The Company expects that there may be increasing demand by LF 1937 Group for the shipping, handling and logistics services provided by the Group for the years 2008, 2009 and 2010 due to expansion of the Group's business in terms of scope of logistics services and geographical reach to the United States of America and the United Kingdom as a result of the acquisition of the business of Impac Logistic Services LLC (and its affiliates) and the entire shareholding interest in PBL in 2006 and 2007, respectively (details of which are disclosed in the Company's circulars dated 22 December 2006 and 3 September 2007, respectively). The above acquisitions have provided the Group with foothold into the United States of America, the United Kingdom and European markets and hence have created substantial potential for the Group's business expansion.

In view of the above, the Directors (excluding the independent non-executive Directors, whose view has been set out in the letter from the Independent Board Committee in this circular) consider that it is in the interest of the Company and the Shareholders as a whole to enter into the 2008 Logistics Agreement to cater for the increasing demand for the Group's shipping, handling and logistics services from LF 1937 Group, and that the entering into of the 2008 Logistics Agreement is in the ordinary course of business of the Group and is on normal commercial terms and is fair and reasonable.

### LISTING RULES IMPLICATION

As LF 1937 is the controlling Shareholder and its associates are connected persons of the Company, the Proposed Continuing Connected Transaction constitutes a continuing connected transaction for the Company under the Listing Rules. Dr. Victor FUNG Kwok King and Dr. William FUNG Kwok Lun (by virtue of their deemed interest and directorship in LF 1937) and their respective associates are required to abstain from voting at the SGM. Such resolution will be voted by poll. Details of their deemed shareholding interest in the Company as at the Latest Practicable Date are set out in the sections "(I) Interests of Directors and the Chief Executives" and "(II) Interests of Shareholders Discloseable Pursuant to the SFO" under the Appendix hereof on pages 22 to 26.

Since the applicable percentage ratios (as defined under the Listing Rules) in respect of the Proposed Caps exceed 2.5% and the Proposed Caps are more than HK\$10 million, the Proposed Continuing Connected Transaction is subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

Commerzbank has been appointed as the independent financial adviser to advise the Independent Board Committee of the Company and the Independent Shareholders in respect of the Proposed Continuing Connected Transaction and the Proposed Caps.

### INFORMATION ON THE COMPANY AND LF 1937

The Group is an integrated-distribution services provider in Asia, the United Kingdom and the United States of America covering three core businesses of marketing, logistics and manufacturing.

LF 1937 is the controlling Shareholder. LF 1937 Group focuses on sourcing and export trading and retailing businesses.

## LETTER FROM THE CHAIRMAN

### NOTICE OF SGM

Set out on pages 30 to 31 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, Tricor Abacus 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.

### 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 and in compliance with the requirements of the Listing Rules, the chairman of the meeting 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 on the websites of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company at [www.idsgroup.com](http://www.idsgroup.com) following the SGM.

### INDEPENDENT ADVICE

The Independent Board Committee has been formed to advise the Independent Shareholders, and Commerzbank has been retained as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders, in relation to the Proposed Continuing Connected Transaction and the Proposed Caps.

## 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 10;
- (ii) Letter from Commerzbank set out on pages 11 to 21; 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)**

28 April 2008

*To: the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION**

We refer to the circular of the Company to the Shareholders dated 28 April 2008 (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 2008 Logistics Agreement, the Proposed Continuing Connected Transaction and the Proposed Caps. Commerzbank has been appointed as the independent financial adviser to advise us and the Independent Shareholders in connection with the terms of the 2008 Logistics Agreement, the Proposed Continuing Connected Transaction and the Proposed Caps. Details of their advice, together with the principal facts and reasons taken into consideration in arriving at such advice, are set out in their letter on pages 11 to 21 of the Circular.

Your attention is drawn to the “Letter from the Chairman” set out on pages 4 to 9 of and the additional information set out in the Appendix to the Circular.

Having taken into account the terms of the 2008 Logistics Agreement, the Proposed Continuing Connected Transaction and the Proposed Caps and the advice of Commerzbank, we consider the terms of the 2008 Logistics Agreement, the Proposed Continuing Connected Transaction and the Proposed Caps 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 2008 Logistics Agreement, the Proposed Continuing Connected Transaction and the Proposed Caps.

Yours faithfully,

**John Estmond STRICKLAND**

**FU Yu Ning**

**LEE Hau Leung**

*The Independent Board Committee*

**COMMERZBANK** 

**Hong Kong Branch**

21st Floor, Hong Kong Club Building

3A Chater Road, Central

Hong Kong

28 April 2008

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs

**CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Proposed Continuing Connected Transaction and the Proposed Caps. Details of which, among other things, are set out in the section headed “Letter from the Chairman” in this circular dated 28 April 2008, (the “Circular”) of which this letter forms a part. Unless otherwise defined herein, terms used in this letter shall have the same meanings as defined in the Circular.

On 8 April 2008, the Company entered into the 2008 Logistics Agreement with LF 1937 to cater for the anticipated increase in demand for logistics business by LF 1937 Group under the 2006 Logistics Agreement and the forthcoming expiry of the PB Logistics Agreement by August 2008 as a result of the recent business expansion of the Group.

Since LF 1937 is the controlling Shareholder (as defined under the Listing Rules) and therefore a connected person of the Company under the Listing Rules, the transaction contemplated under the 2008 Logistics Agreement will constitute a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. Since the Proposed Caps for each of the three years ending 31 December 2010 exceed HK\$10 million and the relevant percentage ratios (as defined under the Listing Rules) are greater than 2.5%, the Proposed Continuing Connected Transaction constitutes a non-exempt continuing connected transaction for the Company and is subject to (i) annual review requirement under Rules 14A.37 to 14A.39 of the Listing Rules; (ii) the reporting requirements under Rules 14A.45 to 14A.47 of the Listing Rules; and (iii) the independent shareholders’ approval requirement under Rule 14A.48 of the Listing Rules. Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun and their respective associates are required to abstain from voting at the SGM in relation to the resolutions in respect of the 2008 Logistics Agreement, the Proposed Continuing Connected Transaction and the Proposed Caps.

The Board currently comprises 11 Directors, with Mr. Benedict Chang Yew Teck and Mr. Joseph Chua Phi as the executive Directors, Dr. Victor Fung Kwok King, Dr. William Fung Kwok Lun, Mr. William Winship Flanz, Mr. Jeremy Paul Egerton Hobbins, Mr. Lau Butt Farn and Mr. Rajesh Vardichand Ranavat as the non-executive Directors; and Mr. John Estmond Strickland, Dr. Fu Yu Ning and Professor Lee Hau Leung as the independent non-executive Directors. Since the Proposed Continuing Connected Transaction and the Proposed Caps are subject to the approvals of the

## LETTER FROM COMMERZBANK

Independent Shareholders, the Independent Board Committee comprising all of the independent non-executive Directors has been formed for the purpose of making recommendation to the Independent Shareholders as to how they should vote on the resolution in respect of the 2008 Logistics Agreement and the transactions contemplated thereunder at the SGM. We, Commerzbank AG Hong Kong Branch, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether (i) the Proposed Continuing Connected Transaction is in the ordinary and usual course of business of the Group; (ii) the terms of the 2008 Logistics Agreement are on normal commercial terms and are fair and reasonable; (iii) the entering into of the 2008 Logistics Agreement is in the interest of Company and the Shareholders as a whole and (iv) how the Independent Shareholders should vote in respect of the resolution to approve the 2008 Logistics Agreement and the transactions contemplated thereunder.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company. We have assumed that all information and facts supplied to us by the Company are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations made by the Directors that having made all due enquiries and careful decisions, and to the best of their information, knowledge and belief, there is no other fact or representation or the omission of which would make any statement contained in the Circular misleading. In addition, we have reviewed, inter alia, the 2008 Logistics Agreement, the financial information of the Company, including the published annual report covering the two years ended 31 December 2006 (the “2006 Annual Report”) and the published annual report covering the two years ended 31 December 2007 (the “2007 Annual Report”). We have also assumed that all information, statements and representations made or referred to in the Circular, which have been provided to us by the Company, and for which the Company is wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Circular.

We consider that we have (i) taken reasonable steps as required under Rule 13.80 of the Listing Rules in obtaining all necessary information from the Company and (ii) reviewed sufficient information to enable us to reach an informed view regarding the Proposed Continuing Connected Transaction and the Proposed Caps and to provide us with a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company; nor have we conducted any independent in-depth investigation into the business and affairs of the Company and its respective associates.

# LETTER FROM COMMERZBANK

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in relation to the 2008 Logistics Agreement, the Continuing Connected Transaction and the Proposed Caps, and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders in this regard, we have taken into account the following principal factors:

### 1. Background and recent business development of the Company

The Group is an integrated-distribution services provider and has a long operating history of over 100 years. The Group primarily focuses on serving brand owners of consumer and healthcare products by offering three major core services, namely, manufacturing, distribution and logistics services.

The Group's logistics business comprises the management and coordination for the movement of goods on behalf of brand owners of consumer and health products such as providing warehousing and transportation services as well as other value-added services (including packing and labeling). Its distribution business represents brand owners in distributing their products to retail, institutional food services outlets and healthcare channels. And the manufacturing business offers contracted manufacturing services, including procurement of raw material and converting raw materials into finished products based on the formulation and instruction provided by the Group's clients. During the recent years, the Group's logistics business, being one of the Group's key growth drivers and accounting for approximately 54.7%, 47.3% and 41.6% of the Group's total operating profit for each of the three years ended 31 December 2007 (as illustrated below), has undergone substantial growth. Revenue generated from logistics business increased by approximately 22.4% from approximately US\$127.0 million for the year ended 31 December 2005 to approximately US\$155.5 million for the year ended 31 December 2006, and had further increased to approximately US\$271.5 million for the year ended 31 December 2007, representing a compounded annual growth rate of approximately 46.2%. Set out below is the summary of the Group's financial results extracted from the 2006 Annual Report and the 2007 Annual Report:

	<b>For the year ended 31 December</b>					
	<b>2005</b>		<b>2006</b>		<b>2007</b>	
	<i>US\$'000</i>	<i>%</i>	<i>US\$'000</i>	<i>%</i>	<i>US\$'000</i>	<i>%</i>
<b>Revenue</b>						
– Logistics	127,030	15.2	155,531	15.4	271,488	20.7
– Distribution	575,898	68.8	715,258	71.0	885,410	67.6
– Manufacturing	<u>134,313</u>	<u>16.0</u>	<u>136,766</u>	<u>13.6</u>	<u>152,061</u>	<u>11.7</u>
	837,241	100.0	1,007,555	100.0	1,308,959	100.0
<i>Less: Inter-segmental elimination</i>	<u>(15,711)</u>		<u>(13,944)</u>		<u>(13,302)</u>	
<i>Total revenue</i>	<u><u>821,530</u></u>		<u><u>993,611</u></u>		<u><u>1,295,657</u></u>	

## LETTER FROM COMMERZBANK

	For the year ended 31 December					
	2005		2006		2007	
	US\$'000	%	US\$'000	%	US\$'000	%
<b>Segment results</b>						
– Logistics	10,365	54.7	12,791	47.3	16,271	41.6
– Distribution	11,856	62.5	11,246	41.5	17,081	43.6
– Manufacturing	3,928	20.7	5,089	18.8	5,763	14.7
– Corporate	<u>(7,186)</u>	<u>(37.9)</u>	<u>(2,068)</u>	<u>(7.6)</u>	<u>11</u>	<u>0.1</u>
<i>Operating profit</i>	<u>18,963</u>	<u>100.0</u>	<u>27,058</u>	<u>100.0</u>	<u>39,126</u>	<u>100.0</u>
<b>Net profit attributable to Shareholders</b>	<u><b>13,333</b></u>		<u><b>23,188</b></u>		<u><b>28,152</b></u>	

*Source: 2006 Annual Report and 2007 Annual Report*

The initial focus of the Group's logistics business was in Asia, particularly Hong Kong, China, Taiwan, Kingdom of Thailand, Malaysia, the Republic of Singapore and the Republic of Philippines, where the Group has developed an extensive in-region logistics and delivery network. With a view to further expanding the Group's logistics business in terms of scope of services and geographical coverage, on 1 December 2006 and 15 August 2007, the Group entered into two sale and purchase agreements in relation to the acquisitions (the "Acquisitions") of the business of Impac Logistic Services LLC and its affiliates ("Impac Logistic Group") and the entire shareholding interest in PB Logistics Limited ("PB Logistics"), respectively (details of which were set out in the Company's circulars to the Shareholders dated 22 December 2006 and 3 September 2007, respectively). Impac Logistic Group, based in the United States of America (the "U.S."), is a logistics provider of a broad array of services to the apparel industry with specialised expertise in "garment on hangers", particularly in New Jersey, Los Angeles and Miami. Its business scope includes full service pick and pack, bulk distribution, fulfillment, catalog distribution, ground and air transportation as well as other value-added information technology services to leading U.S. retailers and manufacturers. PB Logistics, a company incorporated in the United Kingdom (the "UK"), is principally engaged in the provision of supply chain management, international freight, warehousing, transport and pre-retailing services to retailers and suppliers in the UK. The management of the Company considered that the Group, following the Acquisitions, is well positioned to leverage on its strong presence in Asia to capture the potential business in the markets of the U.S., Europe and the UK by extending its logistics services to large retailers and importers there, including those entities under LF 1937 Group.

Given the fact that the 2008 Logistics Agreement will cover the scope of services contemplated under the 2006 Logistics Agreement and the PB Logistics Agreement (as detailed below) for the provision of shipping, handling, and other logistics services, including storage, cargo handling, container devanning, administration, labeling, goods return sorting and deliveries services by the Group to LF 1937 Group, which are under the Group's daily operations and the geographical expansion is in line with the Group's business and corporate strategy, we are of the view that the Proposed Continuing Connected Transaction is in the ordinary and usual course of business of the Group.



**2. Reasons for the Proposed Continuing Connected Transaction**

*The Group's relationship with LF 1937 Group*

LF 1937 is the controlling Shareholder, and together with its associates, LF 1937 Group is engaged in sourcing and export trading and retailing businesses, and each of the different associates of LF 1937 Group will respectively focus on the different segments along the supply chain services such that their respective expertise can be cross-leveraged in order to maximise the overall value of the supply chain management services of LF 1937 Group. The distribution and logistics business of LF 1937 Group is mainly carried out by the Group, whereas its sourcing and export trading and retailing businesses are conducted through other associates of LF 1937. Set out below is a brief description of the two key group members of LF 1937 Group, namely, Li & Fung Limited (“Li & Fung Trading”) and Li & Fung (Retailing) Limited (“Li & Fung Retailing”):

Li & Fung Trading is one of the major blue chip companies in Hong Kong and is also one of the constituent companies of the Hang Seng Index. Li & Fung Trading primarily focuses on the global sourcing of various products, particularly high volume, time sensitive consumer goods including garments, fashion accessories, gifts, handicrafts, home products, promotional merchandise, toys, sporting goods, footwear and travel goods, from appropriate manufacturers and monitoring the production process of various products on behalf of its clients comprising retailers and brand owners in the U.S., Europe, Canada and Australia. According to the relevant published annual reports of Li & Fung Trading, for each of the two years ended 31 December 2007, Li & Fung Trading recorded revenue of approximately HK\$68.0 billion and HK\$92.5 billion, respectively, representing an annual growth rate of approximately 36.0%, while revenue generated from the U.S. and Europe accounted for approximately 72.1%, 17.5% and approximately 64.8%, 25.7% of Li & Fung Trading's audited consolidated revenue for the years ended 31 December 2006 and 2007, respectively. Through a series of acquisitions over the years (such as the acquisition of the sourcing operations of global designer company “Tommy Hilfiger”, beauty and cosmetics company “CGroup”, shoes and accessories group Peter Black International Limited, Regatta, four of Liz Claiborne brands and America Marketing Enterprises in 2007 alone), Li & Fung Trading has established an international clientele with world-wide business coverage.

Li & Fung Retailing is the controlling shareholder of Convenience Retail Asia Limited (“CRA”), the shares of which are listed on the Growth Enterprise Market of the Stock Exchange and which is principally engaged in the operation of one of the leading convenience store chains in Hong Kong and a convenience store chain in the southern region of China under the trade name of “Circle K”. In addition, Li & Fung Retailing also operates Toys “R” Us stores in the Asian market including Hong Kong, China, Taiwan, the Republic of Singapore, Malaysia and the Kingdom of Thailand.

Given the business profile of LF 1937 Group, together with the Group's expertise in logistics business, and its extensive infrastructure following the Acquisitions in the U.S. and Europe, the management of the Company considered that it is a natural development of the Company to expand its logistics services to the associates of LF 1937 on a global basis in order to capture as many business opportunities with LF 1937 Group as possible.

## LETTER FROM COMMERZBANK

### *Background of the Proposed Continuing Connected Transaction*

On 21 December 2006, the Company entered into the 2006 Logistics Agreement, pursuant to which, the Group would provide logistics services such as shipping, handling services as well as a variety of other logistics services, including storage, cargo handling, container devanning, administration, labeling, good return sorting and delivery services to LF 1937 Group for a term of three years from 1 January 2007 to 31 December 2009. The above-mentioned logistics services provided by the Group under 2006 Logistics Agreement constituted continuing connected transactions of the Company under the Listing Rules and the annual caps for each of the three years ended/ending 31 December 2007, 2008 and 2009 amounted to approximately US\$4.98 million (equivalent to approximately HK\$38.81 million), US\$5.47 million (equivalent to approximately HK\$42.56 million) and US\$6.04 million (equivalent to approximately HK\$47.04 million).

In addition, on 14 September 2007, PBL, an indirectly wholly-owned subsidiary of the Company, also entered into the PB Logistics Agreement with PBFA, a wholly-owned subsidiary of Li & Fung Trading pursuant to which, PBL would provide logistics handling, storage, transport, freight and other related services to PBFA for a 12-month period from 1 September 2007 to 31 August 2008. PBFA is principally engaged in the supply chain management for the UK and the Continental European retails groups for footwear, accessories and personal care merchandise. The provision of the Group's logistics services under the PB Logistics Agreement also constituted continuing connected transactions of the Company and the annual caps for the 4-month period ended 31 December 2007 and the 8-month period ending 31 August 2008 amounted to £2.65 million (equivalent to approximately HK\$40.76 million) and £3.65 million (equivalent to approximately HK\$56.13 million), respectively.

Since the 2008 Logistics Agreement covers the scope of services as contemplated under both the 2006 Logistics Agreement and the PB Logistics Agreement with revised annual caps, we concur with the view of the management of the Company that the entering into of the 2008 Logistics Agreement is a natural extension of the Group's business relation with LF 1937 Group to cater for the potential growth opportunity in logistics services offered to LF 1937 Group after the Acquisitions.

### **3. Terms and pricing policy of the 2008 Logistics Agreement**

#### *Major terms of the 2008 Logistics Agreement*

Subject to the Independent Shareholders' approval on the Proposed Continuing Connected Transaction, the 2008 Logistics Agreements and the Proposed Caps, the 2008 Logistics Agreement shall have a term of three years from 1 January 2008 to 31 December 2010 for compliance with the relevant Listing Rules. Upon the 2008 Logistics Agreement becoming unconditional, the previously approved annual caps under the 2006 Logistics Agreement and the PB Logistics Agreement shall cease to have any effect.

## LETTER FROM COMMERZBANK

### *The Group's pricing policy*

In order to flexibly accommodate the different logistics requirement of its customers, the Group has a full menu comprising different logistics services and other value-added services for its customer to choose. In general, the Group has adopted two major pricing policies to charge its customer for the logistics services provided, namely the "cost-plus" basis (under which a fee is charged based on the total cost incurred by the Group plus an agreed margin) and the activity-based pricing (under which a fee is charged according to the activities to be carried out). The Company also has other pricing policies such as fixed minimum fee and percentage of sales value of the product(s) handled. The actual service fee agreed with the customers, however, is based on a number of other factors, including the types of services provided by the Group, the nature of the customers' products, the conditions of the relevant local market and the allocation of risk between the Group and its customers. Under the 2008 Logistics Agreement, it is required that the fee charged by the Group to LF 1937 (and its associates) should be either as market rates or at rates similar to those offered to independent third parties. The management of the Company has confirmed that the service fee charged to the customers (including LF 1937 Group) is based on arm's length commercial negotiation with its customers (including LF 1937 Group), and that the Company will reject any orders (including those from the LF 1937 Group) if the service fees cannot be agreed at a level acceptable to the Group.

The Company has maintained a list of potential connected persons (as defined under the Listing Rules) of the Group which is updated on a regular basis and its accounting system also monitors the monetary amount of the connected transactions with LF 1937 Group to ensure proper compliance with the Listing Rules. The Company also has written internal guidelines requiring the terms of the potential connected transactions between the Group and LF 1937 (including its associates) comparable to other similar bids and quotes for independent third parties so as to allow the management of the Company to assess the fairness of the connected transactions. We have reviewed certain sample copies of logistics services agreements (together with the relevant invoices issued) signed with LF 1937 Group and other independent third parties and noted that the logistic services provided to LF 1937 Group are of terms comparable to those offered to other independent third parties.

Having considered the above, together with (i) the Group's existing internal control/guidelines in place to monitor the connected transactions between the Group and LF 1937 Group; (ii) the requirement of the 2008 Logistics Agreement in relation to the pricing of the Proposed Continuing Connected Transaction; and (iii) the Company's development plan in relation to the future logistics business provided to LF 1937 Group, we are of the view the terms of the 2008 Logistics Agreement are on normal commercial terms and the entering into of the 2008 Logistics Agreement is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

# LETTER FROM COMMERZBANK

## 4. Basis of the Proposed Caps

Set out is a summary of the actual amounts of the continuing connected transaction incurred under the 2006 Logistics Agreement and the PB Logistics Agreement for the three years ended 31 December 2007:

	For the year ended 31 December								
	2005			2006			2007		
	Caps US\$'000	Actual US\$'000	Utilisation %	Caps US\$'000	Actual US\$'000	Utilisation %	Caps US\$'000	Actual US\$'000	Utilisation %
		<i>Audited</i>			<i>Audited</i>			<i>Audited</i>	
Provision of logistics services under									
– 2006 Logistics Agreement	5,811	3,071	52.8	7,937	3,231	40.7	4,984	4,339	87.1
– PB Logistics Agreement	–	–	–	–	–	–	5,278	3,095	58.6
	<u>5,811</u>	<u>3,071</u>	<u>52.8</u>	<u>7,937</u>	<u>3,231</u>	<u>40.7</u>	<u>10,262</u>	<u>7,434</u>	<u>72.4</u>

Based on our discussion with the Company's management, we understand that it is the Company's intention to capitalise on its newly acquired businesses in the U.S. and the UK to extend its logistics services to LF 1937 Group both in terms of geographical coverage and scope of logistics services, in particular, Li & Fung Trading, which has substantial operations in the U.S. and Europe (as detailed above). Accordingly, the Proposed Caps have been determined after taking into consideration of a number of factors including (i) the Group's rapid expansion in logistics services (in terms of both in-country logistics and end-to-end supply chain services); (ii) the estimated amounts of the potential new logistics business with LF 1937 Group and (iii) the business expansion of LF 1937 Group for the three years ending 31 December 2010 as disclosed in the section headed "Letter from the Chairman" of the Circular:

	For the year ending 31 December				
	2008	2008	2009	2009	2010
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	<i>Existing</i>	<i>Revised</i>	<i>Existing</i>	<i>Revised</i>	
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>		
Proposed Caps	<u>12,675</u>	<u>57,343</u>	<u>6,041</u>	<u>88,404</u>	<u>103,195</u>

*Note 1: represents the aggregate annual caps under the 2006 Logistics Agreement and the PB Logistics Agreement*

*Note 2: represents the revised annual caps under the 2008 Logistics Agreement*

*Note 3: represents the annual caps under the 2006 Logistics Agreement only as the PB Logistics Agreement will expire in August 2008*

As illustrated in the above table, the Proposed Cap for the year ending 31 December 2009 is substantially increased by approximately 54.2% (or US\$31.06 million) when compared with that for the year ending 31 December 2008. As advised by the management of the Company, the Proposed Cap for the year ending 31 December 2008 is substantially lower than those for the year

## LETTER FROM COMMERZBANK

ending 31 December 2009 and 2010 because it will take time for the Group's logistics business operations in the U.S. to commence on a full-scale basis, after completion of the system integration/enhancement (such as information technology system and other support functions) later during 2008 and a number of new business projects with LF 1937 Group will commence at different time during in 2008, both resulting in non-whole year impact on the revenue to be generated from the logistics services to be provided to LF 1937 Group. The Proposed Cap for the year ending 31 December 2010 amounted to US\$103.20 million, representing an increase of approximately 16.7% when compared with that for the year ending 31 December 2009. As advised by the Company's management, such increment is arrived at after taking into consideration of (i) the expected growth in the existing logistics business with LF 1937 Group and (ii) the potential additional new business opportunities with LF 1937 Group.

Having reviewed the relevant financial information provided by the Company in relation to the Group's targeted potential new projects/bids with LF 1937 Group and the estimated amounts, based on our discussion with the Company's management regarding its future expansion plan, particularly the logistics services targeted to be provided to LF 1937 Group, we are of the view that it is reasonable for the Group to adopt the above-mentioned bases and assumptions for determining Proposed Caps for the three years ending 31 December 2010.

### **5. Compliance with the Listing Rules**

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Proposed Continuing Connected Transaction under the 2008 Logistic Agreement is subject to, among other things, certain annual review requirements, including the review by the independent non-executive Directors and the Company's auditors of the followings:

- (i) for each of the three years ending 31 December 2010, the relevant amount of the Proposed Continuing Connected Transaction will not exceed the relevant Proposed Caps under the 2008 Logistics Agreement of approximately US\$57.34 million (equivalent to approximately HK\$446.48 million), US\$88.40 million (equivalent to approximately HK\$688.33 million) and US\$103.20 million (equivalent to approximately HK\$803.50 million), respectively;
- (ii) the Proposed Continuing Connected Transaction will be entered into:
  - (a) in the ordinary and usual course of business of the Group;
  - (b) either on normal commercial terms, or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available from independent third parties; and
  - (c) in accordance with the 2008 Logistics Agreement on terms that are fair and reasonable and in the interest of the Shareholders;

## LETTER FROM COMMERZBANK

- (iii) brief details of the Proposed Continuing Connected Transaction will be disclosed in the Company's next and each successive annual report, each accompanied with a statement of the opinion of the independent non-executive Directors on the matters referred to in paragraph (iv) below;
- (iv) the independent non-executive Directors will review annually the Proposed Continuing Connected Transaction and confirm in the Company's annual report for the year in question that such Proposed Continuing Connected Transaction under their review are and have been conducted in the manners as stated in the paragraph (ii) (a) to (c) above;
- (v) the Company's auditors will review annually the Proposed Continuing Connected Transaction and confirm in a letter to the Directors in accordance with Rule 14A.38 of the Listing Rules;
- (vi) during the term of the 2008 Logistics Agreement, the Company will allow and will procure that each member of the Group, and LF 1937 will allow and endeavour to procure the relevant counter parties to the Proposed Continuing Connected Transaction, to allow the auditors of the Company sufficient access to the relevant records of the Proposed Continuing Connected Transaction for the purpose of the review of the Company's auditors on the Proposed Continuing Connected Transaction as referred to in paragraph (v) above. The Board will also state in the relevant annual report(s) as to whether the auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules; and
- (vii) the Company will comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the Group's provision of the logistics services under the 2008 Logistics Agreement exceeds the Proposed Caps, if there is any material amendment to the terms of the 2008 Logistics Agreement.

### CONCLUSION AND ANALYSIS

With an operating history of over 100 years, the Group has established a strong presence in Asia and is one of the leading distributors and logistics service providers in China and is the leading logistics provider in the fast moving consumer goods segment in Malaysia. The Group is currently operating over 80 major distribution centres and depots with total area of approximately 8,000,000 square feet. Given the overall business profile of LF 1937 Group that a large number of the associates of LF 1937 (such as Li & Fung Trading and Li & Fung Retailing) have outsourced their respective logistics services to accommodate their daily operations, and the Group's expertise in the logistics business, we consider that the entering into of the 2008 Logistics Agreement is a natural business development of the Group and is in the normal and ordinary course of the Group's business.

The Group's business, in terms of geographical reach, has been limited within the Asia region prior to the Acquisitions. With the intention to expand into the two largest logistic markets in the world, namely the U.S. and Europe, the Company made the Acquisitions in 2006 and 2007 respectively. The Acquisitions not only have provided the Group with foothold into the two largest logistics markets in the world but also have substantially expanded the Group's geographical coverage to enable it to capture the business opportunities with LF 1937 Group in the U.S. and Europe. Given such substantial increase

## LETTER FROM COMMERZBANK

in the operation size of the Company, the management of the Company have anticipated that the existing annual caps under the 2006 Logistics Agreement and the PB Logistics Agreement will no longer be sufficient.

The logistics services fees charged to LF 1937 Group are determined either at market rates or rates similar to those offered to any other third parties under the 2008 Logistics Agreement. The Company is not required to accept orders from LF 1937 Group if any service fee is not agreed at a level acceptable to the Company. Since the Proposed Caps are determined based on, among others, the potential business opportunities with LF 1937 Group and the Group's expansion plan, we consider that the Proposed Caps have provided flexibility to the Group to accommodate the new potential logistics business with LF 1937 Group in the future and are of the view that the bases and assumptions for determining the Proposed Caps are reasonable.

### RECOMMENDATION

Based on the above principal factors and reasons, we consider the Proposed Continuing Connected Transaction, the Proposed Caps and the entering into of the 2008 Logistics Agreement are in the ordinary and usual course of the business of the Group, the terms of the 2008 Logistics Agreement are on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned, and are in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions with respect to the 2008 Logistics Agreement and the transactions contemplated thereunder at the SGM.

Yours faithfully,  
for and on behalf of  
Commerzbank AG Hong Kong Branch

**Kenneth Chan**  
*Head of Corporate Finance – Asia Pacific*

**Gaston Lam**  
*Corporate Finance – Asia Pacific*

## 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 were taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were 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 Directors	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	—	147,553,661 (Note 1)	—	—	149,959,170	47.55
Dr. William FUNG Kwok Lun	—	—	141,132,371 (Note 1)	—	—	141,132,371	44.75
Benedict CHANG Yew Teck	2,162,573	—	—	2,100,000 (Note 2a)	11,070,000 (Notes 2b & 2c)	15,332,573	4.86
Joseph Chua PHI	1,314,632	—	—	—	2,835,000	4,149,632	1.32
Rajesh Vardichand RANAVAT	345,000	—	—	—	1,770,000	2,115,000	0.67
Jeremy Paul Egerton HOBBINS	—	—	4,922,999 (Note 3)	—	—	4,922,999	1.56
LAU Butt Farn	610,549	—	—	—	—	610,549	0.19
John Estmond STRICKLAND	—	—	—	22,000 (Note 4)	—	22,000	0.00

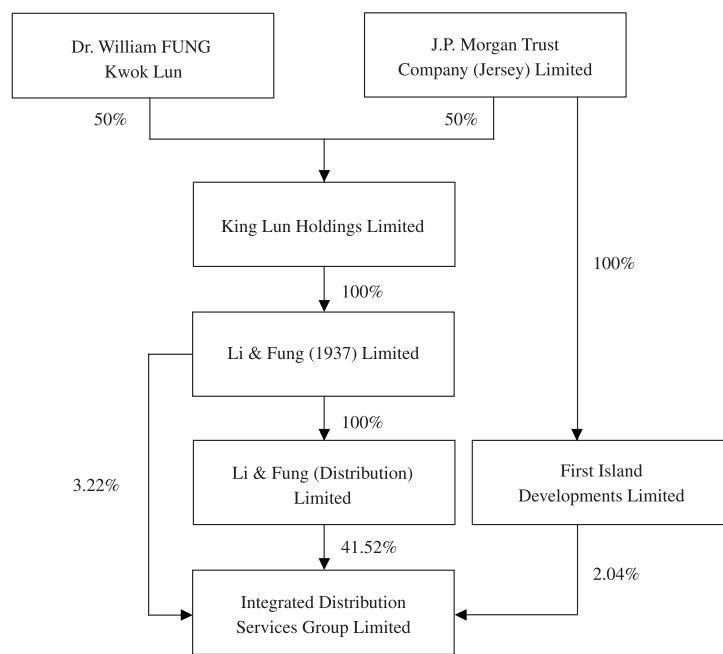


*Notes:*

- (1) King Lun Holdings Limited (“King Lun”) through its wholly owned subsidiary, LF 1937, held 100% interest in Li & Fung (Distribution) Limited (“LFD”). LFD held 130,962,364 Shares, representing approximately 41.52% of the issued share capital of the Company. LF 1937 held 10,170,007 Shares, representing approximately 3.22% of the issued share capital of Company.

King Lun was owned (a) as to 50% by J.P. Morgan Trust Company (Jersey) Limited (which also through First Island Developments Limited indirectly held 6,421,290 Shares, representing approximately 2.04% of the issued share capital of Company), 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 were deemed to have interests in these Shares through their respective interests in King Lun and indirect interests in LFD as set out above.

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



- (2) These interests represented:
- Mr. Benedict CHANG Yew Teck and his wife, LEONG Kim Mei, were joint beneficial owners of these Shares.
  - the beneficial interest of Mr. Benedict CHANG Yew Teck in 4,770,000 underlying Shares deriving from share options granted by the Company to Mr. Benedict CHANG Yew Teck, the details of which are set out in the “Interest in share options” section stated below; and
  - the deemed interest of Mr. Benedict CHANG Yew Teck in 6,300,000 underlying Shares deriving from options granted by LF 1937 to Mikenwill Investments Limited (“Mikenwill”), which was owned by Mr. Benedict CHANG Yew Teck, to require LF 1937 to sell to Mikenwill or its nominee 10,500,000 Shares in five tranches, with the first tranche and second tranche of 2,100,000 Shares each being exercised on 9 January 2007 and 17 September 2007 respectively, and each of the remaining tranches having an exercisable period of one year during the period from 1 January 2008 to 31 December 2010 pursuant to an agreement made between LF 1937 and Mikenwill dated 5 January 2007.
- (3) These Shares were held by Martinville Holdings Limited, which was owned by Mr. Jeremy Paul Egerton HOBBS.
- (4) Mr. John Estmond STRICKLAND and his wife, Mrs. Anthea Evadne STRICKLAND, were 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 at the Latest Practicable Date, to have short position through LF 1937, in which both of them were deemed to have interests as disclosed above, in respect of an aggregate of 6,300,000 underlying Shares in the Company, representing approximately 2 percent of the total issued Shares. Such interest comprised LF 1937's short position in 6,300,000 underlying Shares (being regarded as unlisted physically settled equity derivatives) deriving from an agreement made between LF 1937 and Mikenwill dated 5 January 2007, pursuant to which options were granted by LF 1937 to Mikenwill to require LF 1937 to sell to Mikenwill or its nominee 10,500,000 Shares in five tranches, with the first tranche and second tranche of 2,100,000 Shares each being exercised on 9 January 2007 and 17 September 2007 respectively, and each of the remaining tranches having an exercisable period of one year during the period from 1 January 2008 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.

(C) *Interest in share options*

Share options granted under the share option scheme adopted by the Company on 4 November 2004 (as amended from time to time) and remained outstanding:

<u>Name of Director</u>	<u>Number of Share Options outstanding</u>	<u>Exercise Price</u> <i>HK\$</i>	<u>Grant date</u>	<u>Exercise period</u>
Benedict CHANG	750,000	4.825	14/12/04	01/01/08-31/12/09
Yew Teck	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
	330,000	25.550	12/12/07	01/01/10-31/12/11
	330,000	25.550	12/12/07	01/01/11-31/12/12
	330,000	25.550	12/12/07	01/01/12-31/12/13
Joseph Chua PHI	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
	265,000	15.100	15/12/06	01/01/11-31/12/12
	220,000	25.550	12/12/07	01/01/10-31/12/11
	220,000	25.550	12/12/07	01/01/11-31/12/12
	220,000	25.550	12/12/07	01/01/12-31/12/13
Rajesh Vardichand RANAVAT	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
	130,000	25.550	12/12/07	01/01/10-31/12/11
	130,000	25.550	12/12/07	01/01/11-31/12/12
	130,000	25.550	12/12/07	01/01/12-31/12/13

**(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:

<u>Name of Shareholders</u>	<u>Capacity</u>	<u>Number of Shares</u>	<u>Approximate percentage of issued share capital (%)</u>
<b>Long Positions</b>			
Li & Fung (Distribution) Limited	Beneficial owner	130,962,364	41.52
Li & Fung (1937) Limited	Interest of controlled corporation	130,962,364	44.75
	Beneficial owner	10,170,007	
King Lun Holdings Limited	Interest of controlled corporation	141,132,371	44.75
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	147,553,661	46.78
Brookside Capital Investors, L.P.	Interest of controlled corporation	15,473,000	4.91
Commonwealth Bank of Australia	Interest of controlled corporation	15,459,000	4.90
<b>Short Positions</b>			
Li & Fung (1937) Limited	Beneficial owner	6,300,000 <i>(Note)</i>	2
King Lun Holdings Limited	Interest of controlled corporation	6,300,000 <i>(Note)</i>	2
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	6,300,000 <i>(Note)</i>	2

*Note:*

This short position represented LF 1937's short position in 6,300,000 underlying Shares which constituted unlisted physically settled equity derivatives pursuant to arrangement as described in the above section of "Interests of Directors and the Chief Executives".

Save as disclosed above, the Company had not been notified of any short position being held by any substantial shareholder in the shares or underlying shares of the Company as at the Latest Practicable Date.

**(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 member of the Group, 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>
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
PT. Singa Jaya Kapita	PT. Madari Eka Pratama	15
IDS Performance Services Sdn. Bhd.	Mohd Fauzi Bin Mohd Fadzil	30
IDS Sebor (Sarawak) Holdings Sdn. Bhd.	Perbadanan Pembangunan Ekonomic Sarawak	32.91

**(IV) Material interests**

Save as disclosed under the section headed "Connected Transactions" in the report of the directors and in note 32 to the financial statements in the 2007 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 2007, 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
Commerzbank AG Hong Kong Branch	Commerzbank AG, acting through its Hong Kong branch, a licensed bank under the Banking Ordinance and an authorised financial institutional under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO

Commerzbank 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, Commerzbank 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.

As at the Latest Practicable Date, Commerzbank did not have any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Company were made up.

### 6. MATERIAL ADVERSE CHANGE

The Directors confirm that as at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Group have been made up.

**7. 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. Simon CHAN Kam Chiu, a member of the Institute of Chartered Accountants of Ontario Canada 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 Tricor Abacus 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.

**8. DOCUMENT AVAILABLE FOR INSPECTION**

A copy of the 2008 Logistics 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 16 May 2008.

# NOTICE OF SPECIAL GENERAL MEETING



## INTEGRATED DISTRIBUTION SERVICES GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 2387)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a Special General Meeting of the shareholders of Integrated Distribution Services Group Limited (“the Company”) will be held at Pheasant-Jasmine Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on Friday, 16 May 2008 at the later of 12:25 p.m. and the conclusion of the annual general meeting of the Company (which is scheduled to be held at 12:00 noon on Friday, 16 May 2008) for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution:

#### ORDINARY RESOLUTION

“**THAT** the entering into of the 2008 Logistics Agreement (as defined in the circular to Shareholders of the Company dated 28 April 2008 (the “Circular”)) by the Company (a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification), the Proposed Continuing Connected Transaction (as defined in the Circular) and the Proposed Caps (as defined in the Circular) for each of the three years ending 31 December 2010 set out below be and are hereby approved and confirmed:

<u>Year ending</u> <u>31 December 2008</u>	<u>Year ending</u> <u>31 December 2009</u>	<u>Year ending</u> <u>31 December 2010</u>
US\$57,343,000	US\$88,404,000	US\$103,195,000”

By Order of the Board  
**YUEN Ying Kwai**  
*Company Secretary*

Hong Kong, 28 April 2008



## NOTICE OF SPECIAL GENERAL MEETING

*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, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or any adjourned meeting. The proxy form is also available on the websites of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company at [www.idsgroup.com](http://www.idsgroup.com).
- (3) The chairman of the meeting will demand a poll on the question submitted for determination at the Special General Meeting.