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LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 494)

ACQUISITION OF THE SOURCING ARM OF KARSTADTQUELLE AG DISCLOSEABLE TRANSACTION

The Directors wish to announce that on 30 September 2006, the Purchaser, a wholly-owned subsidiary of the Company, entered into a conditional Sale and Purchase Agreement with KQ and its wholly-owned subsidiary KQBS. Pursuant to the conditional Sale and Purchase Agreement, the Purchaser has agreed to purchase the entire issued share capital of each of KQIS, Alka Italy and Alka Turkey which together comprise the sourcing arm of KQ for an aggregate consideration of approximately Euro 60 million (HK\$594 million). The Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

A circular, providing further details of the Acquisition, will be despatched to the Shareholders as soon as practicable.

THE CONDITIONAL SALE AND PURCHASE AGREEMENT

Date: 30 September 2006

Purchaser: Centennial (Luxembourg) S.a.r.l., a wholly-owned subsidiary of the Company

Sellers: KQ and its wholly-owned subsidiary KQBS

Asset to be acquired

Pursuant to the conditional Sale and Purchase Agreement, the Purchaser agreed to acquire the entire issued share capital of each of KQIS, Alka Italy and Alka Turkey.

Consideration

The consideration payable by the Purchaser under the Sale and Purchase Agreement is approximately Euro 60 million (HK\$594 million) subject to the finalization of audited completion accounts and will not exceed Euro 70 million (HK\$693 million).

The consideration represents a price earnings ratio of approximately 5.6 times Euro 10,673,000 (HK\$105,663,000) which is the unaudited combined profit after tax of KQIS, Alka Italy and Alka Turkey for the year ended 31 December 2005.

The consideration is to be financed from the Company's internal resources.

The consideration for the Acquisition was arrived at after arm's length negotiations between the parties to the conditional Sale and Purchase Agreement. The Directors consider the terms of the Acquisition to be fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Completion

Completion is conditional upon the approval of the Federal Cartel Office of Germany.

INFORMATION ON THE SELLERS

KQ, listed on the German stock exchange, is the market leader of the department store and mail order business in Germany. KQBS is a wholly-owned subsidiary of KQ. The department stores division is operated under the name of Karstadt whereas the mail order divisions, under Quelle, Neckerman and Specialty Catalogues. KQ also operates Thomas Cook.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Sellers and their ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

INFORMATION ON KQIS, ALKA ITALY AND ALKA TURKEY

KQIS, Alka Italy, Alka Turkey and their affiliates together comprise the sourcing arm of KQ. They serve KQ and its subsidiaries although they also source for independent customers. Their combined profit before and after tax and extraordinary items for the year ended 31 December 2005 according to their audited accounts amounted to Euro 10,942,000 (HK\$108,326,000) and Euro 10,673,000 (HK\$105,663,000) respectively. The corresponding figures for the year ended 31 December 2004 were approximately Euro 15,079,000 (HK\$149,282,000) and Euro 13,609,000 (HK\$134,729,000) respectively.

The value of the net assets attributable to KQIS, Alka Italy and Alka Turkey and to be delivered at 30 September 2006 is approximately Euro 23,900,000 (HK\$236,610,000).

REASONS FOR THE ACQUISITION

The Group is the world's leading buying agency for consumer goods, managing the supply chain for retailers and brands worldwide.

In the views of the Directors, it is anticipated that the Acquisition will bring to the Group substantial additional sourcing volume together with an extensive sourcing network of 22 offices including several in the Eastern European countries. In view of the fact that the Acquisition will take up a new organisation with a staff of close to 1,000 who possess the know-how in dealing with retail and mail order business in Germany, it is anticipated that the Acquisition will offer a wider and deeper penetration into the European market.

The Directors, including independent non-executive directors, of the Company consider that the terms of the Acquisition are fair and reasonable and are in the interests of the Group and the shareholders of the Company as a whole.

On the same date, KQ and a wholly-owned subsidiary of the Company, also entered into a conditional buying agency agreement which is an exclusive agency agreement and allows the Group to carry out all of KQ and its affiliates' direct FOB purchases other than merchandise purchased via importers on a landed basis and branded business. The terms of the buying agency agreement are based on the current arrangement between KQ on the one hand and KQIS, Alka Italy and Alka Turkey on the other; the terms are also comparable to those entered into by the Group with its other customers.

GENERAL

The Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. A circular, providing further details of the Acquisition, will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

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

“Acquisition”	The acquisition by the Purchaser of the entire shareholding of KQIS, Alka Italy and Alka Turkey subject to and upon the terms and conditions as set out in the Sale and Purchase Agreement
“Alka Italy”	Alka Italiana S.r.l., a company organized under the laws of Italy and a wholly-owned subsidiary of KQ
“Alka Turkey”	Alka İc ve Dis Ticaret Limited Sirketi, a company organized under the laws of Turkey
“Company”	Li & Fung Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the Sale and Purchase Agreement
“Directors”	directors of the Company
“KQ”	KarstadtQuelle AG, a stock corporation organized under German law
“KQBS”	KarstadtQuelle Business Services GmbH, a company organized under German law
“KQIS”	KarstadtQuelle International Services AG, a stock corporation organized under the laws of Switzerland and a wholly-owned subsidiary of KQBS
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Purchaser”	Centennial (Luxembourg) S.a.r.l., purchaser to the Sale and Purchase Agreement, a company incorporated in Luxembourg and a wholly-owned subsidiary of the Company
“Sale and Purchase Agreement”	the sale and purchase agreement dated 30 September 2006 and entered into between the Purchaser and the Sellers in relation to the Acquisition
“Shareholders”	shareholders of the Company
“Sellers”	KQ and KQBS, sellers to the Sale and Purchase Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong

BOARD OF DIRECTORS

As at the date hereof, the Board of Directors of the Company comprises the following Directors:–

Non-Executive Directors:–

Victor Fung Kwok King (*Chairman*)
Paul Edward Selway-Swift*
Allan Wong Chi Yun*
Franklin Warren McFarlan*
Makoto Yasuda*
Lau Butt Farn

Executive Directors:–

William Fung Kwok Lun
(*Managing Director*)
Bruce Philip Rockowitz
Henry Chan
Danny Lau Sai Wing
Annabella Leung Wai Ping

* *Independent Non-executive Directors*

Unless otherwise stated, all references in this Announcement to HK\$ are for information only and are referenced to Hong Kong Dollars based on an approximate exchange rate of Euro 1 = HK\$9.9.

By Order of the Board
Victor FUNG Kwok King
Chairman



Hong Kong, 30 September 2006

Website: www.lifung.com
www.irasia.com/listco/hk/lifung

Member of Li & Fung Group

“Please also refer to the published version of this announcement in South China Morning Post.”