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LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 494)

ACQUISITION OF BUSINESS OF ROSETTI HANDBAGS AND ACCESSORIES, LTD. DISCLOSEABLE TRANSACTION

The Directors of Li & Fung Limited wish to announce that a wholly owned subsidiary of Li & Fung Limited has today entered into an asset purchase agreement to acquire from Rosetti Handbags and Accessories, Ltd., a New York Corporation, its business as conducted by its Rosetti handbag Division and Franco Sarto Division and substantially all of their assets for a cash consideration of approximately US\$162 million (HK\$1,264 million).

The acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A circular, providing further details of the acquisition, will be despatched to the shareholders as soon as practicable.

THE ACQUISITION

RH&A Acquisition Corp., a wholly-owned subsidiary of Li & Fung Limited (the "Company"), has today entered into an asset purchase agreement ("Asset Purchase Agreement") to acquire from Rosetti Handbags and Accessories, Ltd., a New York Corporation, (the "Seller") the business of the Seller as conducted by its Rosetti handbag Division and Franco Sarto Division (the "Handbag Divisions") and substantially all of their assets. Completion ("Completion") of the acquisition is subject to a number of conditions including satisfactory completion of the Company's legal, financial and operational due diligence of the Handbag Divisions and is expected to take place by 31 July 2006. The Asset Purchase Agreement will be terminated if the Completion does not occur prior to 30 September 2006.

To the best of knowledge, information and belief of the Directors of the Company having made all reasonable enquiry, the Seller and its ultimate beneficial owners are third parties independent of the Company and any connected persons of the Company (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).

THE CONSIDERATION

The cash consideration of approximately US\$162 million (HK\$1,264 million), to be financed from the Company's internal cash reserves and bank borrowings, was arrived at based on arm's length negotiation between the parties and represents a price earning multiple of approximately 8.1 times of the Handbag Divisions' adjusted earnings after tax at US\$20 million (HK\$156 million) based on unaudited accounts for the year ended 31 December 2005 determined in accordance with the U.S. generally accepted accounting principles. In addition, the Company shall assume the bank loan due by the Seller for financing the working capital of the Handbag Divisions in the aggregate amount of approximately US\$22.2 million (HK\$173 million).

An initial amount of approximately US\$81 million (HK\$632 million) will be payable to the Seller on Completion and the balance of approximately US\$81 million (HK\$632 million) will be payable in three equal annual installments starting from 2007. The consideration will be subject to an upward adjustment if the adjusted earnings before tax ("AEBT") for each of the years ending 30 June 2007, 2008 and 2009 exceed targets. The targets are a certain percentage higher than the AEBT for the twelve-month period ended 31 December 2005. The Seller will be entitled to a multiple of the amount of the AEBT in excess of the respective targets. The consideration will also be subject to a downward adjustment if the AEBT in any of the years referred to above are less than the AEBT for the twelve-month period ended 31 December 2005. Each installment will be reduced by an amount equal to a percentage by which the AEBT for such year is less than the AEBT for the twelve-month period ended 31 December 2005. In any event, the total cash consideration cannot be less than approximately US\$81 million (HK\$632 million) nor can it exceed approximately US\$203 million (HK\$1,583 million) based on the terms as prescribed under the Asset Purchase Agreement.

INFORMATION ON ROSETTI HANDBAGS AND ACCESSORIES, LTD.

Rosetti Handbags and Accessories, Ltd. is one of the leading designers and importers of handbags in America. Its Handbag Divisions are engaged in the business of designing, arranging for the manufacture of, importing, marketing and selling of women's handbags, purses and related accessories under their own brand, licensed and private labels to the U.S. retailers including department stores, mass-merchants and specialty stores. The Handbag Divisions design their lines internally and out-source the production of substantially all finished goods to a network of manufacturers, predominantly in Southern China. The Handbag Divisions have approximately 50 staff in New York City.

The profit before and after tax and extraordinary items attributable to the assets of the Handbag Divisions for the year ended 31 December 2005 based on unaudited accounts (after adjustment of non-recurring expenses) were approximately US\$28.6 million (HK\$223 million) and US\$20 million (HK\$156 million) respectively. The corresponding figures for the year ended 31 December 2004 were approximately US\$33.4 million (HK\$261 million) and US\$23.4 million (HK\$183 million) respectively. The value of the net asset attributable to the Handbag Divisions and to be delivered upon Completion is approximately US\$11.6 million (HK\$90 million). No audited accounts have been prepared for the assets to be acquired.

REASONS FOR THE ACQUISITION

Li & Fung Limited and its subsidiaries (the "Group") is the world's leading buying agency for consumer goods, managing the supply chain for retailers and brands worldwide. 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. It is anticipated that the acquisition will help the Group create additional points of entry into its current customer base and also department stores. It will also provide the Group with new capabilities in the design, marketing and sale of women's handbags, purses and related accessories.

GENERAL

The acquisition constitutes a discloseable transaction 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.

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 US\$1 = HK\$7.8.

By Order of the Board
Victor FUNG Kwok King
Chairman



Hong Kong, 7 July 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."