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LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 494)

PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

Placing Agent

Goldman Sachs 高盛

Goldman Sachs (Asia) L.L.C.

On 13 September 2006, (a) Li & Fung (1937) Limited, as the Vendor and owner of about 33.76% of the issued share capital of Li & Fung Limited, and (b) Goldman Sachs (Asia) L.L.C., as the Placing Agent, have entered into a Placing Agreement with (c) Li & Fung Limited, under which Li & Fung (1937) Limited will sell or procure the sale of, and Goldman Sachs (Asia) L.L.C. will procure investors to purchase or itself purchase, 160,000,000 existing Shares in Li & Fung Limited at a Placing Price of HK\$17.30 per Share. The 160,000,000 existing Shares will be sold to not less than 6 independent professional, institutional and/or individual investors to be procured by Goldman Sachs (Asia) L.L.C..

On the same date, Li & Fung (1937) Limited has also entered into the Subscription Agreement with Li & Fung Limited under which Li & Fung (1937) Limited will subscribe for or procure the subscription of 160,000,000 new Shares in Li & Fung Limited at the same price of HK\$17.30 per Share.

The net proceeds to Li & Fung Limited under the Subscription will be approximately HK\$2,723 million. Li & Fung Limited intends to apply the net proceeds primarily for future business developments and acquisitions.

PLACING AGREEMENT DATED 13 SEPTEMBER 2006

Parties

- (i) Li & Fung (1937) Limited, the controlling shareholder interested in about 33.76% of the issued share capital of the Company, as the Vendor;
- (ii) the Company; and
- (iii) Goldman Sachs (Asia) L.L.C., as the Placing Agent.

Number of Shares to be placed

160,000,000 existing Shares representing about 4.93% of the existing Shares in issue, and 4.70% of the Shares in issue as enlarged by the Subscription.

The placees

Not less than 6 independent professional, institutional and/or individual investors to be procured by the Placing Agent. The placees are independent third parties and are not connected persons of the Company (as defined in the Listing Rules). No placee will become a substantial shareholder of the Company upon completion of the Placing. None of the placees is acting in concert with the Vendor or its associates.

Conditions of Placing

The Placing is conditional upon:

- (1) the Subscription Agreement having been entered into by the parties thereto;
- (2) the Placing Agent having received (i) certified board resolutions of the Vendor and the Company approving the Placing and the entering into of the Placing Agreement; (ii) the Bermuda, Hong Kong and United States legal opinions; and (iii) the Lock-up Deeds of Undertaking (as defined below);

- (3) there not having come to the attention of the Placing Agent prior to completion of the Placing (i) any material breach of representations, warranties or undertakings in the Placing Agreement or any breach of obligations of the Company or the Vendor to be performed by completion of the Placing; or (ii) any change in local or international financial, political, military, economic or market conditions or exchange rates or controls; or (iii) any suspension of dealings in, or cancellation of the listing of, the Shares, other than as a result of the Placing, or (iv) any adverse announcement or ruling of any governmental or regulatory body which would be likely to prejudice materially the success of the Placing; and
- (4) there not having been imposed any moratorium, suspension or material restriction or trading in shares or securities generally on the Stock Exchange prior to completion of the Placing.

Placing Price

HK\$17.30 per Share (exclusive of Hong Kong stamp duty, Stock Exchange trading fees and SFC transaction levy). The Placing Price represents:

1. a discount of about 4.21% to the closing price of HK\$18.06 per Share quoted on the Stock Exchange on 13 September 2006, the trading date immediately before the issue of this announcement;
2. a discount of 3.24% to the average closing price of HK\$17.88 per Share as quoted on the Stock Exchange from 7 September 2006 to 13 September 2006, both dates inclusive, being the last five trading days immediately prior to the issuance of this announcement; and
3. a discount of 5.10% to the average closing price of HK\$18.23 per Share as quoted on the Stock Exchange from 31 August 2006 to 13 September 2006, both dates inclusive, being the last ten trading days immediately prior to the issuance of this announcement.

The Placing Price was determined on an arm's length basis. The Directors are of the opinion that the Placing Price is fair and reasonable.

The Placing Price, net of placing commission (which is inclusive of seller's brokerage and sub-underwriting commission) and other expenses of the Placing is approximately HK\$17.02 per Share.

Rights

The existing Shares will be sold free and clear of all liens, charges and encumbrances, claims, options and third party rights and together with all rights attaching thereto at the date of the Placing Agreement, including the right to receive all dividends or other distributions declared, made or paid on the Placing Shares at any time after the date of the Placing Agreement.

The Placing Agent

Goldman Sachs (Asia) L.L.C. is independent of and not connected with the director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates.

Completion of Placing

It is expected that the Placing will be completed on or around 18 September 2006.

Lock-up

Pursuant to the Placing Agreement,

- (a) the Vendor has undertaken to the Placing Agent that (except for the sale of the Placing Shares pursuant to the Placing Agreement) in the 90 days after the date of the Placing Agreement, it will not and will procure that none of its nominees, companies controlled by it and/or trusts associated with it will (without the prior written consent of the Placing Agent) sell or otherwise transfer or dispose of any Shares or any interests therein or any securities convertible into any such Shares or interests, or enter into any swap agreement that transfers the economic risk of ownership of such Shares, or announce any intention to enter into or effect any such transaction;

- (b) the Company has also undertaken to the Placing Agent that (except for the new Shares or options to be issued pursuant to the Subscription Agreement, any existing or previous employee share option schemes of the Company, or bonus or scrip dividend arrangement in accordance with the Bye-Laws of the Company, or on the exercise of rights existing at the date of the Placing Agreement) in the 90 days after the date of the Placing Agreement, it will not (without the prior written consent of the Placing Agent) (i) allot or issue or grant any option, right or warrant to subscribe any Shares or any interests therein, or any securities convertible into any Shares or interest therein Shares, or (ii) agree to enter into or effect any such transaction with the same economic effect as any of the transaction described in (i) above, or (iii) announce any intention to enter into or effect any such transaction; and
- (c) each of Dr Victor Fung Kwok King, Dr William Fung Kwok Lun and King Lun Holdings Limited will also enter into a lock-up deed of undertaking (the “**Lock-up Deeds of Undertaking**”) to undertake to the Placing Agent that (save as expressly allowed thereunder (if applicable)), in the 90 days after the date of the Placing Agreement, he/it will not (without the prior written consent of the Placing Agent) sell or otherwise transfer or dispose of any Shares or any interests therein, or any securities convertible into any Shares or interest therein Shares, or enter into any swap agreement that transfers the economic risk of ownership of such Shares, or announce any intention to enter into or effect any such transaction.

SUBSCRIPTION AGREEMENT DATED 13 SEPTEMBER 2006

Parties

- (i) Li & Fung (1937) Limited, as the subscriber; and
- (ii) the Company.

Number of new Shares to be subscribed

160,000,000 new Shares, representing about 4.93% of the Company's existing Shares in issue and about 4.70% of the Shares in issue as enlarged by the Subscription.

Subscription price

HK\$17.30 per Share. The total subscription monies receivable by the Company will be the subscription price per Share multiplied by the number of new Shares subscribed less the placing commission and other expenses borne or incurred by the Vendor in relation to the Placing and/or the Subscription. The net proceeds of the Subscription to the Company is estimated to be about HK\$2,723 million and the net subscription price per Share will be about HK\$17.02.

Mandate to issue new shares

The new Shares will be issued under the general mandate granted to the Directors at the last annual general meeting held by the Company on 18 May 2006. Such general mandate has not been utilized since the date of the grant.

Ranking

The new Shares, when fully paid, will rank equally with the existing Shares of the Company in issue.

Conditions of Subscription

The Subscription is conditional upon:

1. completion of the Placing pursuant to the terms of the Placing Agreement;
2. the Listing Committee of the Stock Exchange granting listing of and permission to deal in the new Shares (and such listing and permission not subsequently revoked prior to the delivery of definite share certificate(s) representing the new Shares to be subscribed); and
3. the Executive Director of the Corporate Finance Division of the SFC waiving any obligation of the Vendor and parties acting in concert with it to make a general offer for all the issued Shares as a result of the Subscription.

The Company will apply to the Listing Committee of the Stock Exchange for listing of and permission to deal in the new Shares.

Completion of Subscription

Completion of the Subscription will take place after all the conditions of the Subscription have been satisfied, and in any event no later than 14 days after the date of the Placing Agreement. Should the Subscription be completed after such date, the Company will comply with the relevant requirements for connected transactions under the Listing Rules. Further announcement will be made as and when appropriate.

Takeovers Code Implications

As at the date of this announcement, the Vendor and parties acting in concert with it are interested in 1,285,423,810 Shares, representing approximately 39.61% of the existing issued share capital of the Company. The shareholding interest of the Vendor and parties acting in concert with it will decrease to approximately 34.68% upon completion of the Placing and will then increase to approximately 37.75% upon completion of the Subscription. Accordingly, the Vendor and parties acting in concert with it have an obligation to make a general offer for all the Shares (other than those already held by them) pursuant to Rule 26.1 of the Takeovers Code. The Vendor will apply to the SFC for a waiver in this respect pursuant to Note 6 on dispensation from Rule 26 of the Takeovers Code.

Effect of the Placing and the Subscription

The shareholdings in the Company before and after the Placing and the Subscription are summarised as follows:

	At present		After completion of the Placing but before Subscription		Immediately after completion of the Placing and Subscription	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
The Vendor	1,095,600,000	33.76	935,600,000	28.83	1,095,600,000	32.17
Parties acting in concert with the Vendor:						
King Lun Holdings Limited (Note 1)	54,945,880	1.69	54,945,880	1.69	54,945,880	1.61
Dr William Fung Kwok Lun (Note 2)	79,052,930	2.44	79,052,930	2.44	79,052,930	2.32
J.P. Morgan Trust Company (Jersey) Limited (Note 3)	55,825,000	1.72	55,825,000	1.72	55,825,000	1.64
Subtotal:	1,285,423,810	39.61	1,125,423,810	34.68	1,285,423,810	37.75
Other Directors:						
Bruce Philip Rockowitz (Note 4)	23,124,310	0.71	23,124,310	0.71	23,124,310	0.68
Henry Chan	4,766,000	0.15	4,766,000	0.15	4,766,000	0.14
Danny Lau Sai Wing	8,268,000	0.25	8,268,000	0.25	8,268,000	0.24
Annabella Leung Wai Ping	4,928,000	0.15	4,928,000	0.15	4,928,000	0.14
Lau Butt Farn	2,420,000	0.07	2,420,000	0.07	2,420,000	0.07
Franklin Warren McFarlan (Note 5)	57,200	0	57,200	0	57,200	0
Placees	0	0	160,000,000	4.93	160,000,000	4.70
Public shareholders (other than the Placees)	1,916,333,866	59.05	1,916,333,866	59.05	1,916,333,866	56.27
	<u>3,245,321,186</u>	<u>100</u>	<u>3,245,321,186</u>	<u>100</u>	<u>3,405,321,186</u>	<u>100</u>

Notes:

1. King Lun Holdings Limited is a private company incorporated in the British Virgin Islands and owned as to 50% by J.P. Morgan Trust Company (Jersey) Limited and 50% by Dr William Fung Kwok Lun. King Lun Holdings Limited holds 54,945,880 Shares. It also holds the entire issued share capital of the Vendor.
2. Dr William Fung Kwok Lun holds a personal interest in 79,048,530 Shares and a family interest in 4,400 Shares.
3. J.P. Morgan Trust Company (Jersey) Limited is the trustee of a trust established for the benefit of the family of Dr Victor Fung Kwok King.
4. 712,800 Shares are held by Mr Bruce Philip Rockowitz personally. 22,411,510 Shares are held by Hurricane Millennium Holdings Limited, a company beneficially owned by a trust which has been set up for the benefit of family members of Mr Bruce Philip Rockowitz.
5. These shares are held by a trust established for the benefit of Professor Franklin Warren McFarlan.

Reasons for the Placing and the Subscription

The net proceeds of the issue of the new Shares are estimated to amount to about HK\$2,723 million and will be used by the Company primarily for future business developments and acquisitions. The Company from time to time engages in discussions with different parties on acquisition opportunities under its current three-year plan (2005-2007). Definitive terms on any acquisition opportunities are yet to be concluded.

The Company has not raised any funds by issuing new equity securities in the 12 months preceding this announcement.

The Placing will enlarge the shareholder and capital base of the Company and strengthen its financial position. The Directors believe the terms of the Placing and Subscription are fair and reasonable and are in the interest of the Company and its shareholders as a whole.

Since the completion of the Placing and the Subscription is subject to the satisfaction of a number of conditions, **shareholders and investors are advised to exercise caution when deal in the Company's securities.**

Information on the Company

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

Definitions:

“associates”	has the meaning as ascribed to it under the Listing Rules;
“the Company”	Li & Fung Limited, a company incorporated under the laws of Bermuda whose shares are listed on the Stock Exchange;
“Directors”	the directors for the time being of the Company;
“the Group”	the Company and its subsidiaries;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Placing”	the placing of 160,000,000 existing Shares by the Vendor to independent professional, institutional and/or individual investors to be procured by the Placing Agent under the Placing Agreement;
“Placing Agent”	Goldman Sachs (Asia) L.L.C.;
“Placing Agreement”	the conditional placing agreement dated 13 September 2006 entered into between the Vendor, the Company and the Placing Agent;
“Placing Price”	HK\$17.30 per Share;
“Placing Shares”	160,000,000 Shares to be sold by the Vendor pursuant to the Placing;
“SFC”	the Securities and Futures Commission;
“Shares”	shares of HK\$0.025 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the subscription of 160,000,000 new Shares by the Vendor under the Subscription Agreement and the term “subscribed” shall be construed accordingly;
“Subscription Agreement”	the conditional subscription agreement dated 13 September 2006 entered into by the Vendor and the Company;
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers; and
“the Vendor”	Li & Fung (1937) Limited.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinion expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in the announcement, the omission of which would make any statement in this announcement misleading.

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

<i>Non-Executive Directors:-</i>	<i>Executive Directors:-</i>
Victor Fung Kwok King (<i>Chairman</i>)	William Fung Kwok Lun
Paul Edward Selway-Swift*	(<i>Managing Director</i>)
Allan Wong Chi Yun*	Bruce Philip Rockowitz
Franklin Warren McFarlan*	Henry Chan
Makoto Yasuda*	Danny Lau Sai Wing
Lau Butt Farn	Annabella Leung Wai Ping

* *Independent Non-executive Directors*

By Order of the Board
Victor FUNG Kwok King
Chairman



Member of Li & Fung Group

Hong Kong, 13 September 2006

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

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