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LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 494)

CONNECTED TRANSACTIONS

DISPOSAL AND LEASEBACK OF PROPERTY

The Board announces that on 22 December 2006, the Group (through its wholly owned subsidiaries) entered into the Agreements to dispose of the Property Companies, the assets of which mainly comprise the Properties, to the Purchaser at an aggregate consideration of HK\$67,972,658, and the Group also leased back Property 1A and Property 1B at an aggregate monthly rental of HK\$657,611 for an unexpired term of 1 year with options to renew in terms set out below.

As the Purchaser is a connected person of the Company by virtue of the relationship set out below, the Disposal constitutes a connected transaction, and the Leaseback will constitute a continuing connected transaction, for the Company under the Listing Rules. As all the applicable percentage ratios for the Disposal and the Leaseback are less than 2.5%, the Disposal and the Leaseback are only subject to the reporting and announcement requirements of the Listing Rules.

THE AGREEMENTS DATED 22 DECEMBER 2006

Parties

Vendors: For the sale of Property 1 Companies and Property 2 Company, Li & Fung (Properties) Limited

For the sale of Property 3 Company, Colby Property Holdings Limited

Both Vendors are indirect wholly owned subsidiaries of the Company.

Purchaser: LF Investment Properties Limited

The Purchaser is indirectly wholly owned by Dr. William Fung Kwok Lun and a trust established for the family of Dr. Victor Fung Kwok King.

Assets to be sold

In respect of the agreement for the sale of Property 1 Companies:

The entire issued share capital of Property 1A Company and Property 1B Company, which are property holding companies, and the principal assets of which are Property 1A and Property 1B, respectively. Property 1A and Property 1B were occupied by the Group prior to the Disposal and are intended to be occupied by the Group pursuant to the Leaseback.

In respect of the agreement for the sale of Property 2 Company:

The entire issued share capital of a property holding company (Property 2 Company). Its principal assets are Property 2, which is currently vacant.

In respect of the agreement for the sale of Property 3 Company:

The entire issued share capital of a property holding company (Property 3 Company). Its principal assets are Property 3, which is currently vacant.

Consideration

The aggregate considerations for the disposal of the Property Companies was HK\$67,972,658, comprising HK\$58,749,393 for Property 1 Companies, HK\$8,478,954 for Property 2 Company and HK\$744,311 for Property 3 Company.

The said considerations were agreed after arm's length negotiations between the vendors and the Purchaser with reference to the agreed price of the Properties plus assets (other than the Properties and fixed assets) minus the liabilities of the Property Companies as shown in their unaudited completion balance sheets as at the date of completion of the Agreements. The agreed price of each of the Properties was computed at an average of the two valuations as at 15 December 2006 prepared by two independent professional valuers, namely, CB Richard Ellis Limited and Jones Lang LaSalle Limited, in respect of each of the Properties. The aggregate of the said average valuations of the Properties is HK\$165.15 million, comprising HK\$152.5 million for Property 1A and Property 1B, HK\$10.9 million for Property 2 and HK\$1.75 million for Property 3. To the best of the Directors' knowledge, the said two independent professional valuers and their respective ultimate beneficial owners are not connected persons of the Company.

If the said balance sheets do not accurately reflect the assets or liabilities of any of the Property Companies, an independent accountant will be appointed to determine whether any adjustments are required to be made to the relevant balance sheet and the consideration. If an adjustment in consideration is so made, a corresponding payment will be made by the relevant vendor to the Purchaser or vice versa.

Prior to the completion of the said disposal, the Purchaser has advanced interest free call loans of HK\$96,877,652 in aggregate to the Property Companies solely for the purpose for them to repay all the outstanding indebtedness owned by them to the Group. Such indebtedness had been fully repaid in cash immediately prior to completion.

Based on the said completion balance sheets and their respective audited accounts for the two years ended 31 December 2005, the book value and net profits before and after taxation and extraordinary items of the Property Companies are as follows:

	Property 1 Companies <i>(HK\$'000)*</i>	Property 2 Company <i>(HK\$'000)</i>	Property 3 Company <i>(HK\$'000)</i>
Book value as at 22 December 2006 (Net assets/(liabilities))	(3,296)	787	298
Net profits before taxation and extraordinary items for the year ended 31 December 2005	4,570	124	12,596
Net profits/(losses) after taxation and extraordinary items for the year ended 31 December 2005	5,336	(48)	12,162
Net profits/(losses) before taxation and extraordinary items for the year ended 31 December 2004	3,389	196	(882)
Net profits/(losses) after taxation and extraordinary items for the year ended 31 December 2004	2,566	196	(882)

* The above financial information for Property 1 Companies are derived by adding the relevant financial information of Property 1A Company and Property 1B Company.

As a result of the Disposal, the Group is expected to record an unaudited gain of approximately HK\$68 million in aggregate after deducting an estimated expenses of approximately HK\$2 million.

Completion

The Disposal was completed immediately after the signing of the Agreements, and the aforesaid considerations had been fully paid in cash to the Group.

LEASEBACK

The Tenant has leased Property 1A and Property 1B since 1 January 2005 and intends to maintain such leases after the Disposal. It was agreed that such leases can be maintained based on the existing terms and rentals. All the terms of such leases are recorded by two tenancy agreements dated 22 December 2006 for the leasing of Property 1A and Property 1B, the principal terms of which are set out below:

- (1) Term: 3 years commenced on 1 January 2005 and expiring on the 31 December 2007 (both dates inclusive);
- (2) Rent: in respect of Property 1A, HK\$657,610 per month;
in respect of Property 1B, HK\$1 per month;
- (3) Deposit: in respect of Property 1A, 6 months' rental;
in respect of Property 1B, HK\$100,000;
- (4) Options to renew: two consecutive options exercisable by the Tenant to renew the tenancies in respect of Property 1A and/or Property 1B for two further terms of 3 years each commencing immediately upon the expiration of the preceding 3 years' term;
- (5) Rent for the renewed terms: in respect of Property 1A, the rent payable during any of the renewed terms shall be equal to the open market rent as at the commencement of the relevant renewed term subject to a maximum rental of not more than HK\$789,132 per month for the first renewed term and of HK\$920,654 per month for the second renewed term; and
in respect of Property 1B, the rent payable during any of the renewed terms shall remain to be HK\$1 per month.

The aforesaid rentals had been agreed by the Tenant and Property 1 Companies before the commencement of the leases on 1 January 2005, when the Property 1 Companies were wholly owned subsidiaries of the Group.

In respect of the initial term under tenancy agreement for Property 1A, the Board decides that for the purpose of the continuing connected transactions arising therefrom, the annual caps for each of the financial year ending 31 December 2007, 2008 and 2009 will be HK\$7,891,320, HK\$9,469,584 and HK\$9,469,584 respectively. The Company will comply with the applicable requirements of the Listing Rules in exercising the aforesaid options to renew the tenancies in respect of Property 1A and Property 1B.

REASONS FOR THE DISPOSAL AND LEASEBACK

The Directors consider that the Disposal and Leaseback allow the Group to achieve its asset light strategy while obtaining long leases for the Group's use. The Board (including three independent non-executive Directors) considers that the terms of the Disposal and the Leaseback are fair and reasonable and the Disposal and the Leaseback are in the interests of the Company and its shareholders as a whole.

USE OF PROCEEDS

The aggregate net proceeds from the Disposal is estimated to be approximately HK\$163 million. Presently, the Group intends to use the said net proceeds to finance its future business expansion and to increase its working capital.

GENERAL

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

To the best knowledge of the Directors, the Purchaser is a property holding company and is indirectly wholly owned by Dr. William Fung Kwok Lun and a trust established for the family of Dr. Victor Fung Kwok King. As Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun are the Chairman and Managing Director of the Company respectively, the Purchaser is thus a connected person of the Company. Accordingly, the Disposal constitutes a connected transaction, and the Leaseback will constitute a continuing connected transaction, for the Company under the Listing Rules. As all the applicable percentage ratios for the Disposal and the Leaseback are less than 2.5%, the Disposal and the Leaseback are only subject to the reporting and announcement requirements of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below, unless the context otherwise requires:

"Agreements"	the three agreements for the sale and purchase of the Property Companies all dated 22 December 2006 between the vendors and the Purchaser as described in this announcement;
"applicable percentage ratio", "associate", and "connected person"	each of them has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"Company"	Li & Fung Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange;
"Directors"	the directors of the Company;
"Disposal"	the disposal of the Property Companies under the Agreements;
"Group"	the Company and its subsidiaries;
"Leaseback"	the leasing of Property 1A and Property 1B by the Tenant, the principal terms of which are set out above;

“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange;
“Properties”	Property 1A, Property 1B, Property 2 and Property 3;
“Property 1A”	Car Park Space Nos. 15-20 on Ground Floor and 7th Floor, Phases I & II, Hong Kong Spinners Industrial Building, 828 Cheung Sha Wan Road, Hong Kong;
“Property 1B”	Roofs, External Walls, Canopy, and certain area on the Ground Floor, of Phase I & II, Hong Kong Spinners Industrial Building, 828 Cheung Sha Wan Road, Hong Kong;
“Property 2”	Block A, Workshops A1, A5 and A7, 8/F, Hong Kong Industrial Centre, 481-489 Cheung Sha Wan Road, Hong Kong;
“Property 3”	Workshop 8, 5/F, Hong Leong Plaza, 33 Lok Yip Road, Fanling, N.T., Hong Kong;
“Property 1 Companies”	Property 1A Company and Property 1B Company;
“Property 1A Company”	Ocean Choice Properties Ltd., a company in the British Virgin Islands and, prior to the Disposal, a wholly owned subsidiary of the Company;
“Property 1B Company”	Interfocus Holdings Ltd., a company in the British Virgin Islands and, prior to the Disposal, a wholly owned subsidiary of the Company;
“Property 2 Company”	Lifung DistriCenters Trading Limited, a company in Hong Kong and, prior to the Disposal, a wholly owned subsidiary of the Company;
“Property 3 Company”	Bacarolle Limited, a company in Hong Kong and, prior to the Disposal, a wholly owned subsidiary of the Company;
“Property Companies”	Property 1 Companies, Property 2 Company and Property 3 Company;
“Purchaser”	LF Investment Properties Limited, the purchaser of the Property Companies;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Tenant”	Li & Fung (Trading) Limited, a wholly owned subsidiary of the Company.

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

* *Independent Non-executive Directors*

Executive Directors:–

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

By Order of the Board
Terry WAN Mei Chow
Company Secretary



Hong Kong, 22 December 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.”