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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should 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 Li & Fung Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser.

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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



CONTENT

	<i>Page</i>
Definitions	1
Letter from the Chairman	
Introduction	3
Asset Purchase Agreement	4
Information on the Seller and Handbag Divisions	5
Reasons for and effects of the Acquisition	5
General	6
Appendix – Additional Information	7

DEFINITIONS

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

“Acquisition”	the acquisition of the Business pursuant to the Agreement
“Agreement”	the asset purchase agreement dated 7 July 2006 entered into between the Purchaser and the Seller
“associate”	has the meaning ascribed thereto in the Listing Rules
“Business”	the business of the Seller as conducted by its Handbag Divisions and substantially all of their assets
“Company”	LI & FUNG LIMITED, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Handbag Divisions”	Rosetti handbag Division and Franco Sarto Division of the Seller
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	21 July 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Purchaser”	RH&A Acquisition Corp., a company incorporated in Delaware, US and a wholly-owned subsidiary of the Company
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Seller”	Rosetti Handbags and Accessories, Ltd., a New York corporation
“Shares”	Ordinary shares of HK\$0.025 each of the Company
“Shareholder(s)”	holders of Share(s) of the Company in issue
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US”	The United States of America
“HK\$ and cents”	Hong Kong dollar and cents respectively, the lawful currency of Hong Kong
“US\$”	US dollars, the lawful currency of the US
“%”	per cent

Unless otherwise stated, all references 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\$7.8.

LETTER FROM THE CHAIRMAN

LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

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 director*

Registered Office:

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business:

11th Floor
LiFung Tower
888 Cheung Sha Wan Road
Kowloon
Hong Kong

27 July 2006

To Shareholders,

Dear Sirs or Madam,

ACQUISITION OF BUSINESS OF ROSETTI HANDBAGS AND ACCESSORIES, LTD.

DISCLOSEABLE TRANSACTION

INTRODUCTION

On 7 July 2006, the Purchaser entered into the Agreement to acquire the Business from the Seller for a cash consideration of approximately US\$162 million (HK\$1,264 million).

The Acquisition constitutes a discloseable transaction under Chapter 14 of the Listing Rules. This circular contains details of the Acquisition required to be disclosed under the Listing Rules.

LETTER FROM THE CHAIRMAN

ASSET PURCHASE AGREEMENT

The asset purchase agreement dated 7 July 2006 contains, *inter alia*, terms set out below:–

Parties

Purchaser : RH&A Acquisition Corp., a company incorporated in Delaware, US and a wholly-owned subsidiary of the Company

Seller : Rosetti Handbags and Accessories, Ltd., a New York corporation

Terms

The Purchaser agreed to acquire the Business from the Seller.

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 US 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 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 the 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 Agreement.

LETTER FROM THE CHAIRMAN

Completion

Completion 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 Agreement will be terminated if the Completion does not occur prior to 30 September 2006.

INFORMATION ON THE SELLER AND HANDBAG DIVISIONS

Rosetti Handbags and Accessories, Ltd. is one of the leading designers and importers of handbags in the US. 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 US 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.

To the best of knowledge, information and belief of the Directors 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.

REASONS FOR AND EFFECTS OF THE ACQUISITION

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.

LETTER FROM THE CHAIRMAN

Upon Completion, the value of the net asset to be delivered is approximately US\$11.6 million (HK\$90 million). Whereas the Acquisition will be financed from the Group's internal cash reserves and bank borrowings, the Group's liabilities will be increased by the extent of the bank borrowings for financing the Acquisition and the bank loan assumed from the Seller. Save as the aforesaid, the Group does not expect that there will be any material impact on the earnings, assets and liabilities of the Group.

GENERAL

Applying the relevant percentage ratios resulting from the calculations set out in Listing Rule 14.07, the Acquisition constitutes a discloseable transaction for the Company under the Listing Rules.

Your attention is drawn to the additional information regarding the Group which is required to be included in this circular under the Listing Rules as set out in the Appendix of this circular.

Yours faithfully,
Victor Fung Kwok King
Chairman

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

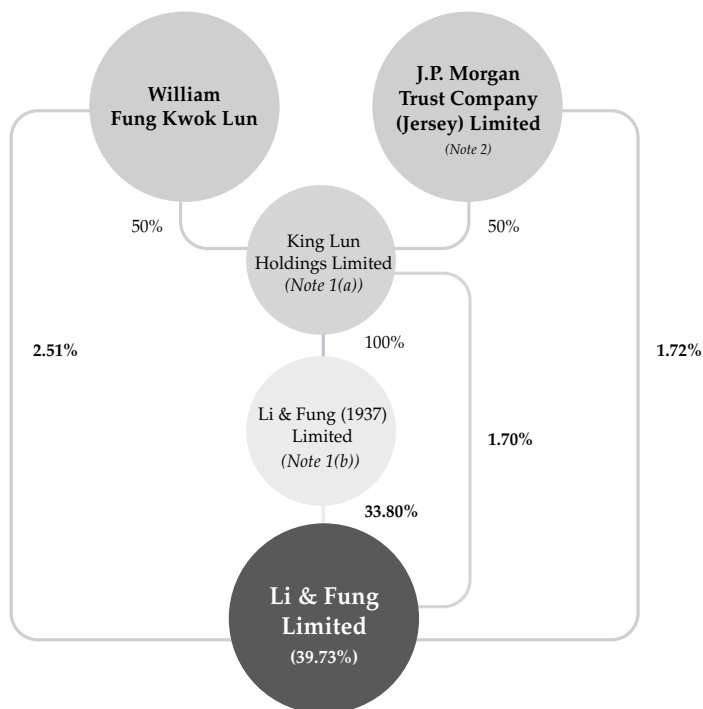
(I) Interests of Directors and the Chief Executive

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 are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which are required to be entered in the register required to be kept under section 352 of the SFO:–

(A) Long Position in Shares and underlying shares of the Company

	Number of Shares					Equity derivatives (share options)	Total	Percentage of issued share capital
	Personal interest	Corporate interest	Family interest	Trust/ similar interest				
Victor Fung Kwok King	-	1,150,545,880 ¹	-	55,825,000 ²	-	1,206,370,880	37.22%	
William Fung Kwok Lun	79,048,530	1,150,545,880 ¹	4,400	-	2,640,000 ³	1,232,238,810	38.01%	
Bruce Philip Rockowitz	712,800	-	-	22,411,510 ⁴	57,145,880 ⁵	80,270,190	2.47%	
Henry Chan	5,016,000	-	-	-	1,760,000 ³	6,776,000	0.20%	
Danny Lau Sai Wing	8,668,000	-	-	-	1,760,000 ³	10,428,000	0.32%	
Annabella Leung Wai Ping	4,928,000	-	-	-	1,760,000 ³	6,688,000	0.20%	
Lau Butt Farn	2,420,000	-	-	-	-	2,420,000	0.07%	
Franklin Warren McFarlan	-	-	-	57,200 ⁶	-	57,200	0.00%	

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



Notes:

- (1) As at the Latest Practicable Date,
- (a) King Lun Holdings Limited (“King Lun”), a private company incorporated in the British Virgin Islands, held 54,945,880 Shares.
- (b) King Lun through its wholly-owned Hong Kong incorporated subsidiary, Li & Fung (1937) Limited, held 1,095,600,000 Shares.

Dr Victor Fung Kwok King and Dr William Fung Kwok Lun are deemed to have interests in the 1,150,545,880 Shares, i.e. the total number of Shares mentioned in notes (1)(a) and (b) above, through their personal or other interests in King Lun as set out below:-

- (i) 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor Fung Kwok King.
- (ii) 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by Dr William Fung Kwok Lun.
- (2) 55,825,000 Shares are held by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor Fung Kwok King.

- (3) These interests represent the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the Interest in Share Options section stated below.
- (4) 22,411,510 Shares are held by Hurricane Millennium Holdings Limited (“HMHL”), 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 interests represent:–
 - (a) the beneficial interest of Mr Bruce Philip Rockowitz in 2,200,000 underlying shares in respect of share options granted by the Company to Mr Bruce Philip Rockowitz; and
 - (b) the deemed interest of Mr Bruce Philip Rockowitz in 54,945,880 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such shares in the Company in ten tranches during the period from 25 December 2004 to 24 December 2019 with each tranche having an exercisable period of six years pursuant to an agreement made between King Lun and HMHL.
- (6) 57,200 Shares in the Company are held by a trust established for the benefit of Professor Franklin Warren McFarlan.

(B) *Short positions 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 King Lun, in which both of them are deemed to have interests as disclosed above, in respect of an aggregate of 54,945,880 underlying shares in the Company, representing 1.70% of the total issued share capital of the Company. Such interest constitutes, for the purposes of the SFO, a short position of King Lun under unlisted physically settled equity derivative which arise under an agreement made between King Lun and HMHL pursuant to which options were granted by King Lun to HMHL to purchase such shares in the Company in ten tranches during the period from 25 December 2004 to 24 December 2019, with each tranche having an exercisable period of six years.

(C) *Interest in Share Options*

Share options granted under the share option scheme adopted on 12 May 2003 and remain outstanding:–

	Number of Share Options Outstanding	Exercise Price HK\$	Grant Date	Exercisable Period
William Fung Kwok Lun	880,000	13.45	20/6/2005	20/6/2007 – 19/6/2010
	880,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	880,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
Bruce Philip Rockowitz	440,000	8.36	23/5/2003	23/5/2005 – 22/5/2008
	440,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	440,000	13.45	20/6/2005	20/6/2007 – 19/6/2010
	440,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	440,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
Henry Chan	440,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	440,000	13.45	20/6/2005	20/6/2007 – 19/6/2010
	440,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	440,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
Danny Lau Sai Wing	440,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	440,000	13.45	20/6/2005	20/6/2007 – 19/6/2010
	440,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	440,000	13.45	20/6/2005	20/6/2009 – 19/6/2012
Annabella Leung Wai Ping	440,000	8.36	23/5/2003	23/5/2006 – 22/5/2009
	440,000	13.45	20/6/2005	20/6/2007 – 19/6/2010
	440,000	13.45	20/6/2005	20/6/2008 – 19/6/2011
	440,000	13.45	20/6/2005	20/6/2009 – 19/6/2012

(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:–

Name of Shareholder	Capacity	Number of Shares	Percentage of issued share capital
Long Positions			
King Lun Holdings Limited	Beneficial owner (54,945,880) Interest of controlled corporation (1,095,600,000) ¹	1,150,545,880 ²	35.50%
J.P. Morgan Trust Company (Jersey) Limited	Trustee (55,825,000) Interest of controlled corporation (1,150,545,880) ²	1,206,370,880 ³	37.22%
The Capital Group Companies, Inc.	Investment Manager	193,728,314	5.97%
Short Positions			
King Lun Holdings Limited	Beneficial owner	54,945,880 ⁴	1.70%
J.P. Morgan Trust Company (Jersey) Limited	Interest of controlled corporation	54,945,880 ⁵	1.70%
Lending Pool			
State Street Corporation	Interest of controlled corporation	226,714,202	6.99%

Notes:

- (1) 1,095,600,000 Shares are held by Li & Fung (1937) Limited which is a wholly owned subsidiary of King Lun.
- (2) (a) 50% of issued share capital of King Lun is owned by J.P. Morgan Trust Company (Jersey) Limited and its interests in 1,150,545,880 Shares is duplicated in the interests of J.P. Morgan Trust Company (Jersey) Limited.
- (b) By virtue of the SFO, each of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun is deemed to be interested in 1,150,545,880 Shares held by King Lun as described in Note (1) under the above section of Interests of Directors and the Chief Executive.

- (3) By virtue of the SFO, Dr Victor Fung Kwok King is deemed to be interested in 1,206,370,880 Shares held by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family of Dr Victor Fung Kwok King.
- (4) This short position represents King Lun's short position in 54,945,880 underlying shares which constitutes unlisted physically settled equity derivatives pursuant to arrangement as described in the above section of Interests of Directors and the Chief Executive.
- (5) J.P. Morgan Trust Company (Jersey) Limited is taken to have short position in the same underlying shares held by its controlled corporation, King Lun.

(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 Director or chief executive of the Company, or his/her respective associates(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:-

Name of Company	Name of Shareholder	%
Dodwell (Mauritius) Limited	Rogers & Co. Ltd.	40
LF Capital (II) Limited	Consolidated Resources Limited Anglo South Africa (Proprietary) Limited	21.6 18.9
Li & Fung (Mauritius) Limited	Rogers & Co. Ltd.	40
Luma Trading Limited	Wael Wagdy Olama	40
Perfect Trading Inc.	Wael Wagdy Olama	36

3. SERVICE CONTRACTS

Under a service contract dated 2 June 1992 between the Company and Dr William Fung Kwok Lun and a service contract dated 2 June 1992 between Li & Fung (B.V.I.) Limited and Dr William Fung Kwok Lun, Dr William Fung Kwok Lun has been appointed to act as Managing Director of the Company, Li & Fung (Trading) Limited, Li & Fung (Properties) Limited and Li & Fung (B.V.I.) Limited, in each case for an initial period of five years from 1 April 1992 and thereafter unless terminated by not less than 12 calendar months' notice in writing expiring at the end of such initial period or any subsequent month.

Save as disclosed above, 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. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened against the Company or any of its subsidiaries.

6. GENERAL

- (a) The secretary of the Company is Ms Terry Wan Mei Chow, 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 Edward Yim Kam Chuen, an associate member of the Hong Kong Institute of Certified Public Accountants.
- (c) The principal share registrar of the Company is The Bank of Bermuda Limited at 6 Front Street, Hamilton HM11, Bermuda, and its branch share registrar is Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.