

**LI AND FUNG LTD:
THE COMPANY SWEATS IT OUT –
HAS IT LOST THAT \$HK136 MILLION-PLUS IN RECEIVABLES ?**

Last Friday's announcement (May 6, 2016) from Li and Fung Ltd () (Code: 494, Main Board, The Stock Exchange of Hongkong Ltd) is likely to be somewhat troubling for many shareholders of this company because, among other things, it is suggestive that Li and Fung could well be forced to bite the bullet.

The announcement stated, inter alia, that about \$US17.50 million (about \$HK136 million) of Receivables are at risk of not being received from Aéropostale Incorporated, a shopping mall-based, specialty retailer of casual apparel and accessories, based in The United States of America.

If it should come to pass that the \$US17.50 million cannot be recovered, at least, not in full, it would be yet another blow for this trading company that is, already, finding the going difficult.

The announcement of last Friday stated:

'The Company wishes to inform that Aeropostale, Inc. ("ARO"), who is one of the Company's long term customers, has filed for bankruptcy protection (the "Bankruptcy Filing") under Chapter 11 of the U.S. Bankruptcy Code. The Company is one of ARO's key suppliers and serves ARO on an agency and principal basis. In February 2015, the Company signed a 10-year Master Sourcing Agreement with ARO, with ARO agreeing to source a minimum volume from the Company. As of the date of the Bankruptcy Filing, ARO owes to the Company a total accounts receivable of US\$17.5 million which are all overdue. ARO has indicated in the Bankruptcy Filing that they intend to conduct business as usual during the Chapter 11 process while completing a financial and/or operational reorganization. At the moment, the Company also has outstanding orders on hand, work in progress, inventory and advance volume purchase discount (the "Continuing Business Exposure"). The Company expects to be able to continue to supply merchandise to ARO after the Bankruptcy Filing but will seek professional advice to ensure that its future deliveries will be paid. If ARO ceases to trade, the Company may have to make provisions for the Continuing Business Exposure.'

'The Company will continue to monitor the situation closely and will inform the shareholders of any significant development in accordance with the Listing Rules. Meanwhile, shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.'

On studying the above announcement, **TARGET** () notes that 'At the moment, the Company also has outstanding orders on hand, work in progress, inventory and advance volume purchase discount ...' thus, it is clear that the \$US17.50 million, the confirmed amount of money, known to be owed by Aéropostale Incorporated to Li and Fung, is not the whole enchilada.

In the event that the entire \$US17.50 million is unrecoverable, it would not be the end of the world for Li and Fung, but, at the same time, it would not be a very welcome episode in this company's recent business dealings.

Further, some investors might start to speculate as to whether or not there are other 'worms' under rocks in

the Li and Fung ‘forest’ of customers.

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