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福建諾奇股份有限公司

Fujian Nuoqi Co., Ltd.

(a joint stock limited liability company incorporated in the People's Republic of China)

(Stock Code: 1353)

UPDATE ON THE AFFAIRS OF THE GROUP

Reference is made to:

- (i) the holding announcements of the Company dated 25 July 2014 and 31 July 2014 in relation to, among other matters, the Incidents;
- (ii) the Dividend Postponement Announcement;
- (iii) the August Announcement;
- (iv) the announcement of the Company dated 28 August 2014 in relation to, among other matters, the delay in publication of the 2014 Interim Results and the 2014 Interim Report;
- (v) the announcements of the Company dated 24 October 2014 (“**October Announcement**”) and 28 November 2014 in relation to, among other matters, an update of the affairs of the Group; and
- (vi) the announcement of the Company dated 14 November 2014 in relation to, among other matters, the conditions imposed by the Stock Exchange for the resumption of trading in the shares of the Company (“**Resumption Conditions Announcement**”).

This announcement serves as an update on the latest developments in relation to, among other matters, the Demands and the financial position and business operations of the Group. Capitalised terms used herein shall have the same meanings as those defined in the August Announcement and the October Announcement unless otherwise specified.

DEMAND LETTERS FROM FINANCIAL INSTITUTIONS AND OTHER DISPUTES

Demand letters from financial institutions

As at the date of this announcement, no formal court proceedings have been commenced in relation to the pledge agreements regarding Xiamen International Bank Co. Ltd. (“**Xiamen International Bank**”), the China Minsheng Guarantees or the Shandong Trust Pledge Agreements. The Company is continuing to make enquiries with the relevant financial institutions for the provision of the relevant underlying loan agreements and related guarantees and pledge agreements. Further, the Board is seeking professional advice on appropriate actions against appropriate persons to be taken in connection with the Demands and the Group’s losses and damages arising from the Demands or their underlying unauthorised commitments and liabilities. No progress has been made in relation to the Demands.

As disclosed in the August Announcement, Nuoqi Fashion, a wholly-owned subsidiary of the Company, received a demand letter from Xiamen International Bank addressed to Sun Power and copied to Nuoqi Fashion for the accelerated repayment of the bank loans of Xiamen International Bank (“**Xiamen Loans**”) of a principal amount of HK\$197.9 million and all accrued interest thereon owed by Sun Power under the facilities provided by Xiamen International Bank as lender to Sun Power as borrower, which were allegedly secured by a total of RMB160 million cash deposit pledged by Nuoqi Fashion in favour of Xiamen International Bank under various pledge agreements purportedly executed by Mr. Ding Hui without the authority of the Board. The cash deposit of Nuoqi Fashion pledged with Xiamen International Bank was subsequently applied by the Xiamen International Bank in settlement of the Xiamen Loans. On 15 August 2014, the Board issued a demand letter against Sun Power for, among other matters, the payment of damages to the Company arising from the Xiamen Loans, including the loss of Nuoqi Fashion’s cash deposit of RMB160 million in relation to the purported pledge agreements.

Civil actions against the Group

In connection with the Incidents, based on the Group’s recent collation of its internal records, Mr. Ding Hui (an executive Director), Mr. Ding Canyang (an executive Director), the Company and/or its subsidiaries were named as defendants in 39 civil actions brought in various courts in the PRC in the second half of 2014. Among the 39 civil actions:

- (i) 20 cases were brought by suppliers of the Group in relation to their respective claims for outstanding amounts payable by the Group for products purchased by the Group, which amounted to approximately RMB24 million in aggregate;
- (ii) three cases were brought by financial institutions in relation to their respective claims for repayment of loans allegedly borrowed by the Group which related to a total loan amount of approximately RMB35 million;
- (iii) three cases were brought by a financial institution in relation to its claims for enforcement of guarantees allegedly provided by, among other persons, Mr. Ding Hui and/or the Group, which related to a total loan amount of approximately RMB40 million;

- (iv) five cases were brought by individual lenders in relation to their respective claims for the enforcement of guarantees allegedly provided by Mr. Ding Canyang and/or the Group in respect of loans (which amounted to approximately RMB59 million in aggregate) allegedly advanced to entities including, among other persons, Mr. Ding Hui;
- (v) seven cases were brought by various entities in relation to their respective claims for outstanding charges or fees for, among other matters, advertisements, office supplies, office decorative work, office construction design services and administrative services in relation to social insurance payments, which amounted to approximately RMB8 million in aggregate; and
- (vi) one case was brought by a company in the PRC against a subsidiary of the Company in relation to transfer of a piece of land from the Company's subsidiary to the plaintiff in that case at a consideration of approximately RMB36 million.

Based on the Board's current assessment on such claims, it is of the view that the alleged loans, guarantees and land transfer in paragraph (iii), (iv) and (vi) above were made without proper authorisation of the Board. As at the date of this announcement, all the civil actions were awaiting judgment from the relevant PRC court. The Board is seeking legal advice on appropriate actions to be taken in relation to the claims mentioned above and, based on the advice of the Company's PRC legal advisers, it expects that such claims will be handled in the court proceedings proposed to be conducted in relation to the Group's restructuring plans altogether.

Arbitration cases against the Group

In connection with the Incidents, based on the Group's recent collation of its internal records, the Company or its subsidiaries were named as defendants in 68 arbitration cases in the second half of 2014, which were mainly in relation to employment disputes with the Group. The aggregate amount claimed against the Group by the plaintiffs in such cases was approximately RMB1 million. As at the date of this announcement, among the 68 arbitration cases, the relevant arbitration committees had ruled in favour of the plaintiffs in 39 cases, who claimed for outstanding salary and other compensation of approximately RMB0.6 million in aggregate. As at the date of this announcement, the remaining 29 cases were awaiting decisions from the relevant arbitration committee.

Civil actions against Mr. Ding Hui and Mr. Ding Canyang

The Company has been informed that three separate actions were brought against, among other persons, Mr. Ding Hui and Mr. Ding Canyang in the second half of 2014 in relation to:

- (i) a claim for repayment of a loan of approximately RMB10 million allegedly advanced by China Minsheng to Ms. Chen Ruiying, who was allegedly the spouse of Mr. Ding Hui. The loan was allegedly guaranteed by, among other persons, Mr. Ding Hui and Mr. Ding Canyang;
- (ii) a claim for repayment of a loan of approximately RMB10 million allegedly advanced by an individual to Ms. Chen Ruiying and guaranteed by, among other persons, Mr. Ding Canyang; and

- (iii) a claim for repayment of a loan of approximately RMB5 million allegedly advanced by a capital management company to Mr. Ding Hui and Ms. Chen Ruiying and guaranteed by Mr. Ding Canyang.

FINANCIAL POSITION AND BUSINESS OPERATIONS OF THE GROUP

Proposed plan for the resumption of trading

On 7 November 2014, the Board received a letter from the Stock Exchange, in which the Stock Exchange stated the conditions for the resumption of trading in the shares of the Company (“**Resumption Conditions**”), details of which are set out in the Resumption Conditions Announcement. As at the date of this announcement, KPMG, the financial adviser of the Group, is in the course of analysing the Group’s assets and liabilities so as to facilitate the formulation and implementation of possible restructuring plans for the Group, and it has been conducting field work on the assessment of the quality of information available on the Group. As the Company requires additional time to collate its books and records to enable KPMG to complete its financial analysis, KPMG’s analytical work on the Group’s assets and liabilities is still on-going. Based on the Company’s current progress, such collation process is estimated to require an additional month from the date of this announcement to complete and it is expected that KPMG will complete its initial analysis by the end of February 2015. The Board expects to formulate and implement restructuring plans to improve the financial position of the Group, taking into account the findings of KPMG.

The Board is also considering to engage (i) an independent forensic specialist to conduct a forensic review on the nature and scope of the irregular transactions relating to the Incidents and on whether similar irregular transactions have occurred; and (ii) an internal control consultant to review and assess the Company’s structure, in particular, its internal control systems, identify reasons for the occurrence of the Incidents and recommend solutions to improve any internal control deficiencies identified with the purpose of avoiding future occurrence of similar incidents. The Company is taking appropriate steps to fulfill the Resumption Conditions and will keep its shareholders and potential investors informed of the progress as and when appropriate.

Business operation of the Group

As disclosed in the August Announcement, in view of (i) cash flow pressure of the Group resulting from the Group’s cash deposits with certain financial institutions having been applied for repayment of certain loans guaranteed by the Company and the freezing of certain cash deposits of the Group maintained with other banks; (ii) certain retail shops of the Group not having been profit-generating; and (iii) high rental rates for retail shops generally, the Group has closed down certain retail shops for cost control and profit optimisation.

As at the date of this announcement, the Group has 90 retail shops in operation. While the Group continues with its plan to focus mainly on the sale of inventories at its remaining retail shops, a portion of the proceeds from such sale of inventories has been applied to the purchase of new stocks for sale. Once the financial position and cash level of the Group return to a better level, the Group plans to develop production facilities for the manufacture of new products and expand its online sales network.

Postponement of payment of the Final Dividend

As set out in the Dividend Postponement Announcement, the Company is unable to make the payment of the Final Dividend originally scheduled to be distributed on 5 August 2014. The Board intends to propose a resolution, at the next shareholders' meeting of the Company, for the revocation of the Company's previous shareholders' resolution for the payment of the Final Dividend.

2014 Interim Results

The Company requires additional time for the preparation of the consolidated financial statements of the Group for the six months ended 30 June 2014, and publication of the 2014 Interim Results and the despatch of the 2014 Interim Report will be delayed. Further announcement will be made in relation to the publication of the 2014 Interim Results and the despatch of the 2014 Interim Report as and when they become available.

CESSATION OF AUTHORITY OF MR. DING HUI TO BIND THE GROUP

As at the date of this announcement, Mr. Ding Hui has ceased to be a director or legal representative of any subsidiary of the Company. As disclosed in the August Announcement, Mr. Ding Hui no longer has any authority to act or execute documents for and on behalf of the Company and/or the Company's subsidiaries or to bind the Company and/or the Company's subsidiaries, notwithstanding that he remains a director of the Company. However, in view of the current financial position of the Company, convening an extraordinary general meeting to remove Mr. Ding Hui as a director of the Company would impose a financial burden on the Company that is best deferred. Further, the Company considers that there is no imminent necessity to remove Mr. Ding Hui as director of the Company as at the date of this announcement. Accordingly, the Company expects to proceed with the formal removal of Mr. Ding Hui as director of the Company at a later stage.

SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 11:25 a.m. on 23 July 2014, and it will remain suspended pending the release of further information by the Company.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

The Company will disclose any material development in connection with the Incidents, the Demands and other relevant matters by way of further announcement(s) in accordance with regulatory requirements.

By Order of the Board
Fujian Nuoqi Co., Ltd.
Ding Canyang
Executive Director

Hong Kong, 31 December 2014

As at the date of this announcement, the executive Directors are Ding Hui, Ding Canyang and Chen Quanyi; the non-executive Directors are Han Huiyuan and Ding Lixia; and the independent non-executive Directors are Qi Xiaozhai, Hsu Wai Man, Helen and Dai Zhongchuan.