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# N&Q

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 AFFAIRS OF GROUP**

Reference is made to:

- (i) the holding announcements of the Company dated 25 July 2014 and 31 July 2014 in relation to, among others, 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 others, the delay in publication of the 2014 Interim Results and the 2014 Interim Report;
- (v) the announcement of the Company dated 24 October 2014 (“**October Announcement**”) in relation to, among others, the update of affairs of the Group; and
- (vi) the announcement of the Company dated 14 November 2014 in relation to, among others, the conditions imposed by the Stock Exchange for the resumption of trading in the shares of the Company (“**Resumption Condition Announcement**”).

This announcement serves as an update on the latest developments in relation to, among others, the Demand 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**

As at the date of this announcement, save as disclosed below, no formal court proceedings have been commenced in relation to the pledge agreements regarding Xiamen International Bank Co. Ltd. (“**Xiamen International Bank**”), China Minsheng Guarantees and Shandong Trust Pledge Agreements. The Company is making 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 commitment and liabilities.

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 partial settlement of the Xiamen Loans. As at the date of this announcement, the Board has issued a demand letter against Sun Power.

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 41 civil actions brought in various courts in the PRC in the second half of 2014. Among the 41 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) nine cases were brought by financial institutions in relation to their respective claims for repayment of loans alleged to be borrowed or enforcement of guarantees alleged to be provided by Mr. Ding Hui, Mr. Ding Canyang and/or the Group, including but not limited to the Xiamen Loans and the China Minsheng Guarantees, which related to a total loan amount of approximately RMB111 million;
- (iii) five cases were brought by individual lenders in relation to their respective claims for enforcement of guarantee alleged to be provided by Mr. Ding Canyang and/or the Group in respect of loans (which amounted to approximately RMB59 million in aggregate) alleged to be advanced to entities including, among others, Mr. Ding Hui;
- (iv) six cases were brought by various entities in relation to their respective claims for outstanding charges or fees for, among others, advertisements, office supplies, office decorative work and office construction design services, which amounted to approximately RMB6 million in aggregate; and
- (v) 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 relevant claimant at a consideration of approximately RMB36 million.

Based on the Board's preliminary assessment on such claims, it is of the view that the alleged loans, guarantees and land transfer in paragraph (ii), (iii) and (v) above were made without proper authorisation of the Board. 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.

Further, the Company has been informed that two separate actions were brought against, among others, 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 alleged to be advanced by China Minsheng to Ms. Chen Ruiying, who was allegedly the spouse of Mr. Ding Hui. The loan was alleged to be guaranteed by among others, Mr. Ding Hui and Mr. Ding Canyang; and
- (ii) a claim for repayment of a loan of approximately RMB10 million alleged to be advanced by an individual to Ms. Chen Ruiying and guaranteed by, among others, 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 Condition 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. Based on its current assessment, KPMG expects to complete its analysis on the Group's assets and liabilities, including but not limited to the compilation and review of information relating to the financial restructuring of the Group, by the end of 2014. 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 88 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 sound 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 is still in the course of reconsidering the payment of the Final Dividend and further announcement(s) will be issued once the Board has come to a decision.

### **2014 Interim Results**

The Company requires additional time for the preparation of the consolidated management accounts 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 appropriate.

### **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 financial burden on the Company. Further, the Company considers that it is not of 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, 28 November 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.*