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## **CHINA AGROTECH HOLDINGS LIMITED**

**浩倫農業科技集團有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 01073)**

### **INSIDE INFORMATION:**

## **LITIGATIONS AGAINST A HUNAN SUBSIDIARY AND UPDATE OF OPERATION OF THE GROUP**

China Agrotech Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) makes this announcement pursuant to Rule 13.09 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong).

### **Litigations Against a Hunan Subsidiary**

On 21 November 2014, the Company received from the Bailiff Office of Hong Kong (the “Bailiff Office”) legal documents in respect of two litigations delivered to the Bailiff Office, which were redirected from The Intermediate People’s Court of Changsha City of Hunan Province (“Changsha Intermediate Court”) and addressed to Mr. Wu Shaoning (“Mr. Wu”, the chairman and executive director of the Company, as well as the legal representatives of those PRC subsidiaries of the Company being sued as described below). The two litigations are in respect of trade finance indebtedness owed to two PRC banks by an indirect wholly-owned subsidiary of the Company, namely, Hunan Haolun Agrotech Co., Ltd. 湖南浩倫農業科技有限公司 (“Hunan Haolun”), and are detailed as follows:

#### **(1) Lawsuit initiated by Bank of Communications, Hunan Province Branch (“Hunan BoCom”) (hereinafter referred to as “Hunan Lawsuit 1”)**

Hunan BoCom (as plaintiff), being the lender of the relevant trade finance indebtedness, filed a civil petition statement (民事起訴狀) dated 23 May 2014, at Changsha Intermediate Court to sue against (i) Hunan Haolun, as borrower of the relevant trade finance indebtedness, and (ii) Fujian Agrotech Holdings Co., Ltd. 福建浩倫農業科技集團有限公司 (“Fujian Agrotech”, an indirect wholly-owned subsidiary of the Company) and Mr. Wu, both as guarantors of the relevant trade

finance indebtedness (collectively, the “Hunan Lawsuit 1 Defendants”), claiming for payment of an additional security deposit of Rmb30 million in respect of the trade finance facilities of Rmb60 million utilized by Hunan Haolun (in form of promissory bills issued by Hunan BoCom).

In respect of the aforesaid trade finance facilities of Rmb60 million, Hunan Haolun had already paid Rmb30 million as security deposit upon utilization of the trade finance facilities in April 2014 in accordance with the relevant bank facilities contracts, and Hunan Haolun had to repay the net amount (after deduction of the amount of security deposit) of utilized trade finance facilities of Rmb30 million in October 2014.

In the civil petition statement, Hunan BoCom alleged that, subsequent to the issuance of promissory bills in the aggregate sum of Rmb60 million in April 2014, Hunan BoCom had requested Hunan Haolun to provide other additional guarantees acceptable to it, however, Hunan Haolun did not provide such additional guarantees according to its request. Hence, Hunan BoCom requested Hunan Haolun to pay an additional security deposit of Rmb30 million in respect of the utilized trade finance facilities (which was in substance demanding for early settlement of the trade finance indebtedness) (the “Hunan BoCom Indebtedness”), however, the Defendants did not pay the additional security deposit. Hence, Hunan BoCom filed the petition at court to claim for settlement of the Hunan BoCom Indebtedness together with interest charged thereon, as well as the relevant costs incurred in respect of the lawsuit.

In respect of the civil petition statement, Changsha Intermediate Court issued an adjudication order dated 30 May 2014 which empowers it to execute encumbrance on the bank deposits or other assets of the Hunan Lawsuit 1 Defendants of an amount equivalent to the amount of the Hunan BoCom Indebtedness. Changsha Intermediate Court also issued a writ of summons dated 22 September 2014 to schedule the Hunan Lawsuit 1 to be put on trial on 9 March 2015.

**(2) Lawsuit initiated by China Minsheng Bank, Changsha Branch (“Changsha Minsheng Bank”) (hereinafter referred to as “Hunan Lawsuit 2”)**

Changsha Minsheng Bank (as plaintiff), being the lender of the relevant trade finance indebtedness, filed a civil petition statement dated 9 June 2014, at Changsha Intermediate Court to sue against (i) Hunan Haolun, as borrower of the relevant trade finance indebtedness, and (ii) Fujian Agrotech, Mr. Wu, Jiangxi Haolun Agrotech Co., Ltd. 江西浩倫農業科技有限公司 (“Jiangxi Haolun”, an indirect wholly-owned subsidiary of the Company) and Hengyang Laide Biopharmaceutical Co., Ltd. 衡陽萊德生物藥業有限公司 (“Hengyang Laide”, a supplier of the Group, and the Group owns 10% of its equity interest), all as guarantors of the relevant trade finance indebtedness (collectively, the “Hunan Lawsuit 2 Defendants”), claiming for settlement of the indebtedness of Rmb30 million (the “Changsha Minsheng Indebtedness”) in respect of trade finance facilities utilized by Hunan Haolun.

Regarding the Changsha Minsheng Indebtedness, it represented trade finance facilities utilized through three issuance of promissory bills by China Minsheng Bank of Rmb10 million each (net amount after deduction of security deposit) and in December 2013 (due in June 2014), January 2014 (due in July 2014) and January 2014 (due in July 2014) respectively.

In the civil petition statement, Changsha Minsheng Bank claimed that Hunan Haolun had not settled the indebtedness of Rmb10 million in respect of the first issued promissory bill when due in June 2014, and considered that Hunan Haolun was defaulted in payment. Hence, Changsha Minsheng Bank filed the petition at court to claim for settlement of the Changsha Minsheng Indebtedness together with interest charged thereon, as well as the legal costs of Rmb150,000 incurred in respect of the lawsuit, whereas the settlement liability of Hengyang Laide was limited to Rmb10 million in accordance with the relevant guarantee contract.

In respect of the civil petition statement, Changsha Intermediate Court issued an adjudication order dated 16 June 2014 which empowers it to execute encumbrance on the bank deposits or other assets of the Hunan Lawsuit 2 Defendants of an amount equivalent to the amount of the Changsha Minsheng Indebtedness. Changsha Intermediate Court also issued a writ of summons dated 27 August 2014 to schedule the Hunan Lawsuit 2 to be put on trial on 10 March 2015.

Further announcement(s) relating to the legal proceedings of Hunan Lawsuit 1 and Hunan Lawsuit 2 will be made by the Company as and when appropriate.

Moreover, in view of the late awareness of the litigations by the Company arising from the improper delivery procedures of the lawsuit documents by the PRC court and hence the failure of formal receipt of the lawsuit documents by the relevant PRC subsidiaries and the resulting defects of the reporting of the lawsuits to the responsible management, the Company has engaged a PRC legal representative firm (which is situated in Fuzhou City of Fujian Province, the location of the headquarter of the Group's PRC operations) to investigate into whether there are other material lawsuits raised against certain PRC subsidiaries of the Company, including but not limited to direct enquiry of lodged lawsuit documents (if any) from various Intermediate People's Courts located in those PRC cities where the PRC subsidiaries are situated.

## **Update of Operation of the Group**

### *Second Quarter of 2014*

#### *Indebtedness situation:*

Since the second half of 2013, due to the overall downturn of the PRC economy and the progressive credit tightening of the PRC banks, the recovery of funds in the market was sluggish, which resulted in the operation of the Group becoming increasingly difficult and the subsisting of tightening of working capital, such difficult situation was intensified since the second quarter of 2014. The Group's aggregate credit limit from major PRC banks decreased from the peak level of approximately Rmb2.7 billion in 2013 to approximately Rmb2.0 billion in May 2014. By then, if the various banks continued compressing credits, it would have rendered the Group unable to repay its debts and resulted in loans becoming non-performing. Under the situation of credit tightening of the banks, PRC enterprises progressively relied on borrowings from individuals and corporates in the public, which caused the problem of triangular-debts increasingly severe. Besides, in order to obtain continuous support from banks, the bank financing of the Group had to rely upon the cross-guarantees of group companies, as well as the provision of mutual-guarantees with business partners. Under economy downturn and

sluggish operating environment of the industry, the operational and credit risks of the Group were greatly increased.

In order to satisfy the need of credit facilities for normal operation of the Group, the Fujian Province Branch of China Agricultural Bank (“Fujian CAB”), being the largest lending bank of the Group, took the lead in early May 2014 to request the relevant departments of the Fuzhou City government to guide the negotiations with the Fujian Province branches/Fuzhou City branches of various banks (collectively, the “Banks of Fujian Province”, the finance provided by which accounted for over 80% of the Group’s bank finance, while the remaining bank finance was provided by banks of other provinces (the “Banks of Other Provinces”) to subsidiaries located in provinces outside of Fujian Province), through organizing coordination conferences with the Group, with the view to avoid further compressing of the Group’s remaining credit limits by various banks within a certain period, and to request those banks which compressed credit limits to resume them to original levels, as well as aiming at obtaining the assistance of the relevant departments of the Fuzhou City government to resolve the problem of working capital difficulty. In response to the request of Fujian CAB, the relevant departments of the Fuzhou City government promptly held coordination conferences with various lending banks in mid of May 2014, and further issued a government correspondence in late June to request various Banks of Fujian Province to take concerted actions to grant renewals in respect of the Group’s borrowings, and not to compress lending, as well as to take various positive measures to help resolve the current capital difficulty of the Group.

With the active coordination works of the relevant departments of the Fuzhou City government, the various Banks of Fujian Province showed cooperative response in general, and successively provided supportive measures in respect of the Group’s borrowings, such as loan renewals and changing of the type of credit products. According to information obtained from banks, the Group’s borrowings from various Banks of Fujian Province did not show non-performing status up to the end of June 2014.

On the other hand, regarding the loans from the Banks of Other Provinces, such as the situation of the bank loans borrowed by Hunan Haolun as mentioned above, certain bank borrowings of the Group’s subsidiaries located outside of Fujian Province became overdue. Despite this, as the Group obtained supports from the Fuzhou City government and various Banks of Fujian Province, it was expected that the Banks of Fujian Province can release certain amount of working capital shortly to activate the businesses of the Group, and hence it was expected that the Group would be capable of settling the relative small amount of indebtedness of the Banks of Other Provinces which were already due or would be due soon.

#### *Situation of receivables:*

In order to resolve the problem of bank indebtedness as soon as practicable, the Group actively urged payments from customers since April 2014, as well as urged for delivery of goods from those suppliers which the Group provided prepayments for purchase of goods, and to sell those goods promptly thereafter. During the course of execution of such measures, in order to demand early payments from certain customers, the Group provided cut-down treatments in respect of the amounts owed by them. Besides, in order to reduce the backlog of funds prepaid to those suppliers with relatively higher risk, upon the urging for delivery of goods from them, the Group sold those goods at prices lower than costs. Such measures allowed the Group to recover payments from customers and goods from suppliers

amounting to approximately Rmb133 million in the second quarter of 2014, but at the same time resulted in the record of relevant losses amounting to approximately Rmb25 million.

#### *Operation situation:*

As mentioned in the Company's announcement dated 8 July 2014, the supply of goods from suppliers and settlements from customers of the Group were slowed down since 2014. Moreover, as the Group's agricultural resources and non-agricultural resources trading businesses principally relied on the continuous support of trade finance from banks, and hence, under the situation of compression and tightening of credit limits by banks and that liquidity was yet to be released, those businesses, which relied on the availability of trade finance, were reduced accordingly, and the relevant business personnel of the Group was leaving successively where such situation was more serious in those subsidiaries located outside of Fujian Province.

As the Group's situation of tight working capital was intensified in the second quarter of 2014, the Group has been scaling down its operations since the second quarter of 2014 in order to minimize operational risks. Nevertheless, in order to obtain credit support from banks, the Group actively expanded the trading business of fertilizers specifically for tobacco use, through its 70%-owned indirect subsidiary, namely, Fujian Sanming Agrotech Landscaping and Plant Protection Co., Ltd. 福建省三明市浩倫園藝植保有限公司("Fujian Sanming"). On the other hand, other than the reduction of agricultural resources and non-agricultural resources trading operation (except for Fujian Sanming), as the Group's manufacturing operation was loss-making in recent years, the Group disposed of its pesticide manufacturing operation in Shandong Province in June 2014 in order to raise cash to reduce its indebtedness. Furthermore, the pesticide manufacturing operation in Fujian Province was ceased, while the fertilizer manufacturing operation in Jiangxi Province only kept limited production.

In respect of seedling operation, the turnover in the second quarter of 2014 dropped as compared to the same period of the last year. Nevertheless, the operation remained normal.

#### *Third Quarter of 2014*

##### *Indebtedness situation:*

Subsequent to the coordination conferences as organized by the Fuzhou City government, the Group actively communicated with various banks with a view that, on the basis of loans being renewed, the banks can release certain working capital. However, as the PRC economy was still in the downturn trend, the situation of breaking up of capital chain of enterprises in the market was further intensified, and consequently, the Group could not obtain any release of working capital from the banks, while the credit limit from banks was further compressed, in particular, the net credit limit (after deduction of security deposits) decreased from approximately Rmb1.4 billion in June 2014 to approximately Rmb1.1 billion in September 2014. According to recent information obtained from banks, the Group's borrowings from the Banks of Fujian Province showed non-performing status in the aggregate amount of approximately Rmb180 million at the end of September 2014.

As no working capital was released by the banks, it was difficult for the Group to activate its businesses. At the same time, the Banks of Fujian Province intensified its effort to demand repayment from Fujian Chaoda Group Co., Ltd. (“Fujian Chaoda”) and Mr. Kwok Ho (“Mr. Kwok”) who were the largest guarantors for the Group’s borrowings from the Banks of Fujian Province. Nevertheless, upon obtaining the support from Fujian Chaoda and Mr. Kwok to actively negotiate with various banks, the Banks of Fujian Province granted grace treatment in respect of those borrowings which were yet to be renewed. As mentioned in the Company’s announcement dated 29 October 2014, Fujian Chaoda and Mr. Kwok assumed one of the borrowings from the Banks of Fujian Province which amounted to Rmb89 million, and thereafter, they continued to actively negotiate with other Banks of Fujian Province for solutions in respect of those outstanding borrowings of the Group, which were guaranteed by them, during the grace period.

In respect of borrowings from the Banks of Other Provinces, as the Group did not obtain any release of working capital from the Banks of Fujian Province, those subsidiaries of other provinces were faced with increasingly pressure of urging repayment from the Banks of Other Provinces, as well as pressure from creditors in respect of borrowings from individuals and corporates in the public.

#### *Situation of receivables:*

The Group increased further efforts to urge repayments from customers and delivery of goods from suppliers. However, as the effect of overall downturn of the PRC economy was wide-spreading, the upstream and downstream enterprises of the Group were also faced with different extents of capital difficulties, including the bearing of repayment liabilities after the provision of guarantees in respect of the financing of business partners, as well as the emerging of the problems of triangular-debts. Except for Fujian Sanming which received payments from customers and goods from suppliers amounting to approximately Rmb730 million in the third quarter of 2014, other subsidiaries of the Group did not realize any outcome in respect of their actions of urging repayments from customers and delivery of goods from suppliers. As a result, the Group intended to take prompt legal actions for recovery of debts.

#### *Operation situation:*

In general, the Group only relied on Fujian Sanming to maintain its agricultural resources operation. Although the turnover of Fujian Sanming accounted for over 50% of the Group’s turnover from agricultural resources trading operation, the trading business of Fujian Sanming was greatly reduced in the third quarter of 2014 as it was unable to obtain continuous support of credit limits from banks. In respect of the manufacturing operation, as mentioned in the Company’s announcement dated 17 October 2014, the fertilizer manufacturing operation in Jiangxi Province was ceased in the third quarter of 2014. For non-agricultural resources trading operation, in the absence of support of trade finance by the banks, only limited operation was maintained. Moreover, further business and finance personnel of the Group departed.

In respect of the seedling operation, due to the slow recovery of receivables of the subsidiary of Shanxi Province which engaged in the seedling operation, and that the backlog of funds in the market for business purpose was yet to be recovered for repaying bank borrowings, the pressure of the relevant bank to urge repayment from the subsidiary of Shanxi Province was intensified. In the meantime, the

operating and maintenance expenses of certain seedling bases were yet to be settled, and as a result, the seedling operation of the subsidiary of Shanxi Province was almost suspended during the slack season of the industry in the third quarter.

*Fourth Quarter of 2014 (up to the date of this announcement)*

*Indebtedness situation:*

As the PRC economy was still rigorous, the breaking up of capital chain of enterprises was further spread. Despite that both of the discussion meeting of the Fujian Province government relating to financial works and the forum of the Fuzhou City government relating to financial credit of important enterprises held in mid of October 2014 requested the financial institutions to provide continuous support to the Group, however, upon the publication of the Company's announcements in October 2014 in relation to demand letters from certain creditors of the Group and the Company's announcement dated 13 November 2014 in relation to winding up petition against the Company submitted by a creditor at the court of Hong Kong, the PRC banks generally ceased the handling of loan renewals and further, demanded repayment from the Group and the guarantors for the relevant borrowings. Furthermore, certain creditors in respect of borrowings from individuals and corporates in the public also demanded repayments from the relevant subsidiaries of the Group. The Group has engaged a PRC law firm to enquire into details of litigations initiated by creditors of the Group against the relevant subsidiaries and to handle the relevant lawsuits.

*Situation of receivables:*

As the majority of the operations of the Group have been ceased, the recovery of debts was very difficult. Hence, the Group has commenced legal actions for recovery of amounts due from its debtors.

*Operation situation:*

As affected by the winding up petition against the Company, the agricultural resources trading business of Fujian Sanming was almost suspended, and the non-agricultural resources trading business continued to maintain limited operation. As to the seedling operation, as the situation of unsettlement of rental and other operating expenses of the seedling bases was not yet resolved, it only maintained minimal business and the business personnel has also been leaving successively.

In light of the current worsening operating situation and financial position of the Group, and that the Company is subject to winding up petition, the Company will endeavor to negotiate with major creditors for solutions to the indebtedness in future days, including the consideration of the feasibility of debt restructuring proposal, with a view that the winding up petitioner can withdraw the winding up petition against the Company.

## **Continued Suspension in Trading of the Shares**

At the request of the Company, trading in the shares of the Company has been suspended with effect from 1:00 p.m. on 18 September 2014 and will remain suspended until the release of further announcement of inside information in relation to the indebtedness situation of the Group and the publication of the audited annual results of the Company for the year ended 30 June 2014.

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

By order of the Board  
**China Agrotech Holdings Limited**  
**Wu Shaoning**  
*Chairman*

Hong Kong, 28 November 2014

*As at the date of this announcement, the Executive Directors of the Company are Mr. Wu Shaoning, Ms. Chen Xiao Fang, Mr. Zhang Liang and Mr. Xu Jiangtao, and the Independent Non-executive Directors are Mr. Wong Kin Tak and Ms. Zhao Jianhua.*

*\* For identification purpose only*