

**ZIWO HOLDINGS LTD.**  
**(Company Registration No. 200800853Z)**  
**(Incorporated in Singapore)**

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**RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE COMPANY'S SECOND QUARTER RESULT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2015**

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The Board of Directors (the “**Board**”) of Ziwo Holdings Ltd. (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) refers to the Company’s Second Quarter Result for financial period ended 30 June 2015 released on 14 August 2015. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 18 August 2015 (each, a “**SGX Query**”) as follows:

**SGX Query 1**

**We refer to the prepaid know-how amounting to RMB 8.5 million written off. Please provide the following information:-**

- (a) Provide breakdown of the expenses comprised in this amount and when incurred**
- (b) Details on what the know-how was relating to**
- (c) Reason for write-off of this prepaid know-how**

**Company’s Response to SGX Query**

- (a) The amount for the prepaid know-how represents the purchase price of the know-how purchased from a third-party in 2011.
- (b) The prepaid know-how relates to the technical know-how for anti-odour fibre material used in the production of 30D filament yarn and formula for SBR.
- (c) The application for registering the prepaid know-how as a patent was submitted since 2011 and application status is still pending. With the cessation of the 30D filament yarn business and in consideration of the long duration of the application process, we are of the opinion that it is improbable that future economic benefits will arise from the prepaid know-how for the foreseeable future.

**SGX Query 2**

**We refer to the impairment allowance of trade receivables of RMB 4.1 million. Please clarify whether this relate to the debts where product defect claim of RMB 38.1 million is provided for.**

**Company’s Response to SGX Query**

The impairment allowance for trade receivables was made in accordance with our Group’s policies for long-standing trade receivables and does not relate to the product defect claim.

### **SGX Query 3**

We refer to the product defect claim of RMB 38.1 million. We note that the customer subsequently filed a legal suit against the Company for defective product claims and based on advice from the Company's legal advisor, an out of court settlement of RMB 38 million was proposed in which the customer has accepted and the Group has paid the amount. Please provide the following information:-

- (a) Whether the Company has announced the legal suit against the Company by the customer for defective product claims. If not announced, explain why this was not announced pursuant to Listing Rule 703.
- (b) Details on when the sales to the customer were made and terms of the sale and whether the customer has paid for the sales.
- (c) Details on where the legal suit was filed
- (d) What steps or due diligence has been undertaken by the Company to verify the amount of damages claimed and that the claim by the customer are accurately reported and reasonable.
- (e) Reason for an out of court settlement
- (f) Details relating to legal advisor, including its experience in PRC litigation, its area of expertise and its opinion on the merits of the claim.
- (g) In relation to the customer, please disclose the following information:-
  - (i) Whether the customer is a major customer
  - (ii) The customer's contribution to the Company's revenue for the past 3 financial periods;
  - (iii) The customer's annual turnover for the past 3 financial periods; and
  - (iv) Details on the customer, including but not limited to, the customer's shareholders and directors, its flagship products, its principal customer segments, its place of operations and the size of the customer's business.
- (h) Please provide the Board's view on the merits of the claim.
  - (i) Pursuant to Rule 1303(3)(c) of the Listing Manual, please provide the Board's view and basis on whether the Company is able to operate as a going concern in light of the claim.
  - (j) Please provide the Board's opinion on whether the Company would still be solvent after the settlement.

## **Company's Response to SGX Query**

- (a) The customer has lodged a compensation claim with the Intermediate People's Court - Case Filing Division on Friday, 19 June 2015. Based on advice from our legal counsel, there is a 7-day procedural review period before the Court formally process the complaint. During this period, the plaintiff has to pay court proceeding fees and may be requested to submit additional documents before the Court will proceed to conduct an assessment of the case. After the Company was notified of the claim, we immediately initiated out-of-court settlement discussion with the customer on Monday, 22 June 2015. The plaintiff subsequently did not proceed with the court proceeding fees and a settlement agreement was signed on the 26 June 2015 within the 7-day period before the complaint was to be formally processed by the Court and further commencement of any court proceedings. As the initial compensation claim was allowed to lapse, no further action was taken by the Court.
- (b) The sales contracts with the customer were dated 27 December 2014, 26 January 2015, 28 February 2015 and 29 March 2015. The sales contracts stipulated that the product quality should adhere to the standards required by the customer; to be delivered to the designated warehouse; discrepancy in weight should not exceed 3% and any failure to fulfil the contractual agreement will result in penalty of 30%. The customer has not paid for the defective products once they were aware of it.
- (c) Fujian Province Quanzhou City Intermediate People's Court.
- (d) The Company has commissioned an independent test on the products sold to the customer with the National Textile and Garment Quality Supervision Testing Center in Fujian and the Fujian Provincial Fibre Inspection Bureau. The test report confirmed that the products sold to the customer were defective. As part of the civil complaint document submitted to the Court, the customer has provided the basis of the claims which included their costs incurred in production of approximately Rmb 21.3 million, the contractual penalty of 30% on contract amount of approximately Rmb 1.4 million, foreseeable loss of profit of approximately Rmb 6.4 million and damages paid to its downstream customer of approximately Rmb 11.2 million. The amount of compensation claimed was subsequently settled for a lower amount after negotiation with the customer. Our legal counsel has provided a formal written legal opinion verifying the reasonableness of the settlement amount.
- (e) Based on the advice from our legal counsel, and to reduce negative publicity and attention from any court proceedings, as well as to avoid incurring further costs and expenses arising from litigation, the Company has opted for an out-of-court settlement.
- (f) Fujian Jinxian Law Firm is our Company's legal counsel. Fujian Jinxian Law Firm has extensive experience in corporate and commercial disputes. They have represented clients in various industries, government agencies, co-operatives and societies and private institutions and enterprises. In 2014, they were awarded "AAAA Trustworthy Law Firm".

Our legal counsel's opinion is that the plaintiff has sufficient grounds for the claim as they have submitted complete records of the transaction and supporting documents of the test report and technical specifications to the Fujian Province Quanzhou City Intermediate People's Court, and has already paid substantial damages to its own downstream customer (with supporting documents). It is their view that the Company is liable under PRC contract law to compensate the customer for any losses, including consequential

damages suffered by them as a result of using the defective products sold by the Company to the customer.

- (g) (i) The customer is a major customer for our 30D filament yarn business.
  - (ii) The customer contributed approximately RMB 1.5 million (2.6%) in FY2013, RMB 1.0 million (2.0%) in FY2014 and RMB 3.9 million (19.8%) in FY2015 to our revenue from the 30D filament yarn segment. It contributed 0.8% in FY2013, 0.5% in FY2014 and 6.5% in FY2015 to the Company's total revenue.
  - (iii) We are unable to obtain the customer's turnover for the past 3 financial periods as these are sensitive financial information and are not publicly available.
  - (iv) Guoyao Technology Ltd. Co. was incorporated in 2011 with registered capital of RMB 50 million, specialising in the manufacturing and development of 3D terylene yarn and mesh that are environmentally-friendly. The legal representative is Mr Ding Jingdong and he is not related to the Chairman and CEO of the Group, Mr Ting Chun Yuen nor to the other Directors of the Group. According to the Company, it is ranked within the top 5 manufacturers in its area of operations. Company's main operations is in Fujian, Jinjiang where the main office building spanning 110,000 m<sup>2</sup> is situated. It also has representative offices in Hebei, Zhejiang, Shaoxing and Guangdong. Products are sold to customers in various industries such as to manufacturer of shoes, clothings, bags and luggages, furnitures, car products, fitness equipment and various lifestyle products.
- (h) The Board has reviewed the relevant supporting documents, including court papers and the settlement agreement submitted by the management to the Board. Taking into consideration the legal opinion from our legal adviser, the Board is of the view that there are sufficient grounds for the claim.
- (i) The Board is of the opinion that the Company is able to continue as a going concern in view of the strong cash position and positive NTA of the subsidiary. However we will reassess the situation in the event that there are further claims and appropriate announcement will be made.
- (j) The Board is of the opinion that the Company would still be solvent after this settlement.

#### **BY ORDER OF THE BOARD**

Ting Chun Yuen  
Executive Chairman and Chief Executive Director  
20 August 2015