News Release: Ferrotec Holdings Corporation (6890 JASDAQ)

December 27, 2019

Notice of the Filing of Lawsuit against Our Chinese Subsidiary

Our Chinese subsidiary, Hangzhou Semiconductor Wafer Co., Ltd. (hereinafter the "Defendant" or "FTHW"), were filed a lawsuit (hereinafter the "Lawsuit") related to the payment of the construction fee, which is involved in the construction of a semiconductor wafer plant, in a court of jurisdiction of China on November 6, 2019, by China Construction First Group Construction & Development Co., Ltd. (hereinafter the "Plaintiff" or "China Construction First"). The details are as follows.

1. The court where the lawsuit was filed and the date

(1)	Date the lawsuit was filed	November 6, 2019 (date of service of the complaint: December 19, 2019)
(2)	Court in which the lawsuit was filed	Zhejiang Hangzhou Intermediate People's Court, China

2. Outline of the person who filed the lawsuits

(1)	Name	China Construction First Group Construction & Development Co., Ltd.
(2)	Location	Building 17, Wangli Road West, Chaoyang District, Beijing, China
(3)	Title and Name of Representative	Liao Ganglin, Legal representative

3. Contents, the amount of the subject matter, and details of preservation measures of the lawsuits

(1) Contents of the lawsuits	Despite the fact that the plaintiff implemented most of the construction within the contract (including additions and modifications) due to insufficient construction conditions, delay in providing drawings, confusion with subcontractors, and repeated process changes, the defendant paid only 586,516,790.91 yuan (about 9.15 billion yen) out of the total construction cost of 962,283,073.64 yuan (about 15.01 billion yen), the defendant asked to pay receivable construction cost in default of 375,766,282.73 yuan (about 5.86 billion yen) and interest on the construction cost of 10,280,640.98 yuan (about 160 million yen) and expenses related to the lawsuit.
(2) Amount of the subject matter of the lawsuit	386,046,923.71 yuan (Approx. 6.02 billion yen) ① Receivable construction cost: 375,766,282.73 yuan (approx. 5.86 billion yen) ② Interest*: 10,280,640.98 yuan (approx. 160 million yen) *Interest is tentatively as of November 3, 2019, but it must be paid by calculating based on the actual payment date.

	③ Expenses related to the lawsuit Note: Exchange rate 1 yuan = 15.6 yen
(3) Details of preservative disposition	The plaintiff filed for a provisional seizure against FTHW property in conjunction with this prosecution. The Court sent the Notice of Protective Matters to the FTHW on December 18, 2019, and the following preservative disposition has been taken. There is no impediment to FTHW's business operations due to this preservation. ① Temporary foreclosure of the right to use 139,112 square meters of plant land in FTHW (From December 03, 2019 to December 02, 2022) ② Subsidiaries' equity stake held by FTHW : provisional foreclosure of 400 million yuan (Period: December 13, 2019-December 12, 2022)

4. Causes of the lawsuits and the background for filing of the lawsuits

(1) Cause of the lawsuits	Competition for payment of excess construction cost and occupation of construction sites
(2) Background for filing of the lawsuits	FTHW concluded a comprehensive construction contract for a semiconductor large-diameter silicon wafer project with China Construction First on April 23, 2018. However, due to the fact that China Construction First, in coordination with subcontractors, made additions and alterations to the construction by changing the building process that resulted in the initially contracted construction charges being exceeded without any prior consent from the party placing the order for the construction, FTHW withheld payment of the additional altered construction charges deeming that the initially agreed contract price had been greatly exceeded. As a result, China Construction First notified FTHW of the suspension of work on the project on May 26, 2019. Subsequently, the Government of Tangtang New District, Hangzhou, entered into a process of arbitration between the two parties but, after extensive negotiations with China Construction First, the gap between the positions asserted by the two parties regarding the payment of the excess of the initially contracted charges had not been bridged, and so on June 11, 2019 FTHW took over the construction site from China Construction First, and another contractor was selected to continue the construction on the site. As a result of the abovementioned circumstances, a lawsuit was raised by the plaintiff, China Construction First against FTHW on November 6, 2019 alleging that FTHW had postponed payment of the construction charges in bad faith and, further, that FTHW had forcibly occupied the plaintiff's construction site.

5. Overview of the subsidiary

(1)	Name	Hangzhou Semiconductor Wafer Co., Ltd.
(2)	Location	3889 709-18 Dongying Road, Dajiangdong Industrial Cluster, Hangzhou, Zhejiang, China
(3)	Title and Name of Representative	He Xian Han, Legal representative
(4)	Contents of business	Manufacture of semiconductor wafers
(5)	Capital stock	1,819,062 thousand yuan (Approx. 28.37 billion yen) As of September 30, 2019

Note: Exchange rate 1 People = 15.6 Yen

6. Future outlook

We will closely examine the claims of the plaintiff and assert our legitimacy with the results of the appraisal of the estimated value of the construction cost by a neutral third party appraiser appointed by the government concerning the estimated value of additional or altered construction, which is the issue in this lawsuit. While it is difficult to expect the lawsuits to have an impact on our consolidated financial results in the future, we will promptly announce any matters to be disclosed.