COMBINE WILL INTERNATIONAL HOLDINGS LIMITED
聯志國際控股有限公司
(Incorporated in the Cayman Islands on 8 October 2007)
(Company Registration No. MC-196613)

RESPONSES TO SGX QUERIES ON THE THIRD QUARTER FINANCIAL RESULTS ANNOUNCEMENT

The Board of Directors of Combine Will International Holdings Limited (the "**Company**") wishes to announce that the Company has received certain queries from the Singapore Exchange Securities Trading Limited in relation to its financial results announcement for the third quarter and nine months ended 30 September 2011 which was released on 14 November 2011.

The queries from the SGX-ST and the responses from the Company are set out below:

Query (a):

In the balance sheet, prepayments, deposits and other receivables increased 5.8% from HK$173.3 million as at 31 December 2010 to HK$183.5 million as at 30 September 2011.

As prepayments, deposits and other receivables amounting to HK$173.3 million is a significant portion of the Company's net asset value of HK$581.3 million, please:

(i) provide a breakdown of material items and a description of the nature of these items; and

(ii) explain why the Company had to make such significant prepayments, the nature of such prepayments and how this is in accordance to industry practice. Please also disclose if the prepayments were due to the Company's credit risk.

Response:

(i)

	Amount (HKD 'million)	**Description**
Other receivables	72.5	Representing mainly the receivables from our import / export agent, which resulted from the "pay first, refund later" policy of the PRC Government's tax bureau.
Utilities deposits and rental prepayments	13.3	Deposits for water, electricity, warehouses, factory plant and dormitory.
Mould deposits	34.7	Deposits made to mould subcontractors . It is the industry practice to pay approximately 30-40% of the subcontracted price when the purchase orders are

		placed. Also, before the moulds are released to us for testing, we would need to pay approximately 70% of the mould price.
Accrued income	7.8	Mainly interest income from RMB hedging products.
Prepayments	55.2	Mainly prepayments for materials acquisitions and prepayments for fixed assets acquisitions. Due to the requirement from our major customers, our raw materials usually sourced from approved vendors (in particular, customers' certain specified raw materials). In order to secure a smooth production cycle and reduce our exposure to price fluctuations of raw materials, we would from time to time need to prepay for an entire batch of raw materials. This is especially the case for some year-long production orders.
	183.5	

(ii) Prepayments and deposits are made as a usual practice to secure the supply of raw materials at more competitive prices or to ensure certain subcontractors can complete our consigned works on time. The prepayments were not due to the Company's credit risk. If the increase of 5.8% in prepayments and deposits is considered in the light of a corresponding 17.6% increase in turnover, the Management is of the view that it shows that prepayments were not due to the Company's credit risk.

Query (b):

We note in the balance sheet that term loans and long-term borrowings significantly increased by 108% from HK$320 million to HK$665.3 million as at 30 September 2011.

Please explain the need for the significant increase and provide a breakdown on the use of proceeds. Please also provide details on the underlying acquisition expenditure.

Response:

The Group had been going through a period of rapid growth in turnover and correspondingly a rapid expansion of the Group's production facilities in the past 3 years. It is the Board's stated policy to gradually increase both debt and equity long-term financing to enhance long-term financial stability. Shareholders would remember that the Company had recently attempted (though unsuccessful) to raise additional equity capital through a dual-listing of its shares on KOSDAQ of the Korea Stock Exchange. In line with this financial policy, part of the short-term borrowings is being re-financed into long-term loans. Among the increments are approximately HK$326 million loan matched by corresponding amount of deposits, both of which are part of the non-delivery RMB hedging arrangements entered into by the Group (see below for further details on the hedging arrangements). There are also approximately HK$19 million of term loans that are used to partially finance the acquisitions of fixed assets, mainly machinery and equipment in the nine months ended 30 September 2011.

The increase in funds involved in the RMB hedging activities is to minimize the increasing risk that would otherwise result from RMB appreciation. As of 30 September 2011, approximately HKD 550 million has been involved in the RMB hedging products, which are under strict monitoring not to exceed the actual / forecast usage of RMB related expenditure.
As of 30 September 2011, the utilization of IPO Proceeds are as follows (HKD million):

Use of Proceeds	Original Amount	Revised Amount	Amount Utilized	Balance
Investments in additional plant, machinery and production facilities to cater to our business expansion	22.8	45.6	45.6	-
Enhance our research and development capabilities	11.4	11.4	11.4	-
Expand our sales and marketing network	5.7	5.7	5.7	-
Expand our manufacturing facilities for the production of automobile parts	22.8	-	-	-
General working capital	30.0	30.0	30.0	-
Total Net Proceeds	**92.7**	**92.7**	**92.7**	**-**

Query (c):

We note in the balance sheet that trade and bills receivables had increased significantly by 29.8% from HK$317.3 million to HK$411.8 million. In comparison, sales had increased only by 17.6% from HK$351.2 million to HK$412.9 million. The Company explained that the increase in trade receivables was due to customer delivery schedule.

Please explain how the issue about customer delivery schedule which has resulted in the increase of trade receivables and the point in time when the delayed sales were taken up in the Company's income statement. Please also elaborate on how the delayed sales resulted in the increase in trade receivables.

Response:

The Company deals with customers which grant different credit terms. Some of the major customers are operating worldwide just-in-time supply and logistical systems. When deliveries are made to the customers with longer credit terms during a particular accounting reporting period, the trade and bills receivables would increase more significantly than in the other accounting reporting periods in which the bulk of deliveries were made to the customers with shorter credit periods. There are no delayed sales to be taken up in the Company's income statement at any point in time in the future.

Query (d):

We note in the balance sheet that pledged bank deposits increased by 149.8% from HK$228.8 million to HK$571.5 million as at 30 September 2011. The Company explained that this is due to the utilization of RMB hedging products.

Please:

(i) provide details and quantify the underlying hedges;

(ii) disclose how these may impact the Company in its operations and future reporting periods; and

(iii) disclose the risk management measures in place for the Company's hedge management policies.

Response:

(i) As at 30 September 2011, the Group has entered into hedging contracts of approximately HK$550 million in total. The size of the hedge corresponds to the Group's RMB expenditure for the periodswhich are similar to those of the life of the the hedging contracts. These products are constituted by non-delivery loan and deposit agreements in HK$ and RMB respectively as well as interest rate swap agreements with matching periods and amounts. The end results are RMB of contracted amount at pre-determined exchange rate would be available to the Group for its operations. The Company has only entered into a single-design hedging product. The banks are no longer offering such a product and the Company has yet to find another product in substitute. It is expected that these contracts are going to start closing out gradually when attaining their maturity in the coming months.

(ii) As the contracts mature, the corresponding loans and bank deposits would be closed out and removed from the Company's balance sheet. There would be accounting gains in terms of the Company's reporting currency, Hong Kong Dollars, and that would be reflected on the income statement of the respective accounting periods. For existing contracts, any translational gains at each balance sheet date are recognized according to the notional gains calculated based on the contractual provisions.

(iii) The Board of Directors (the "**Board**"), in consultation of the Audit Committee, has laid down guidelines on the acceptable risk profiles of derivative financial products. When a particular product is proposed to the Board and the Audit Committee for approval, detailed studies of the product structures and underlying banking documents would have to be conducted. These guidelines had been followed and external experts had been consulted. The Board also sets an upper limit on the total amount of contractual sums for a particular product. On operational level, designated treasury accountants are responsible for regular monitoring and reporting on the performance of the hedging contracts. The Finance Director is the only person authorized by the Board to give instructions to the banks and to execute the relevant banking documents involved in the entry into the hedging arrangements. The Board believes that the guidelines and procedures adopted currently are adequate in managing the risks involved.

By Order of the Board

Chiu Hau Shun, Simon
Executive Director
21 November 2011