

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

ANNOUNCEMENT OF FINANCIAL STATEMENT FOR THE FOURTH QUARTER ENDED AND YEAR ENDED 31 DECEMBER 2013 (“THE 4Q2013 RESULTS ANNOUNCEMENT”)

- QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (THE “SGX-ST”)

The board of directors of Combine Will International Holdings Limited (the “**Company**”) refers to the 4Q2013 Results Announcement released on 28 February 2014.

In relation to the 4Q2013 Results Announcement, the SGX-ST has raised certain queries and the Company’s responses to the said queries are set out against each of them:

1. *Paragraph 8 of Appendix 7.2 requires the Company to provide a review of the performance for the group to the extent necessary for a reasonable understanding of the group’s business in relation to the Company’s financial statement for FY2013. Please provide a review of the material items for FY2013.*

Company’s response:

Revenue

In FY2013, the Group’s overall revenue decreased by HK\$106.5 million or 7.0%, from HK\$1,526.5 million in FY2012 to HK\$1,420.0 million in FY2013. A breakdown of the performance by the Group’s 3 business segments is as follows:

Business Segment	(+/-) in HK\$	%	Comments
ODM/OEM	-51.2	-4.4	The decrease in revenue was mainly due to the decrease in customers’ demand and their change in delivery schedules in the first half of the year. Although sales have increased in the second half of the year, such increase cannot fully recover the decrease in sales for the first half of the year.
Moulds and Tooling	-11.3	-6.8	The decrease of revenue was due to shrinking demand from customers.
Machine Sales	-44.0	-23.3	The decrease of revenue was due to the risks and uncertainties of the economic situation in China, therefore customers in this segment have remained cautious and continued to adopt a conservative approach towards capital expenditure.

Increase/Decrease in revenue by geographical segments for FY2013

Region	(+/-) in HK\$	%	Comments
Asia	-146.1	-12.9	The decrease in revenue from Asia was mainly due to the decrease across all business segments.
North America	-42.2	-50.2	The decrease in revenue from North America was mainly due to the decrease across all business segments.
Europe	+81.8	+26.3	The increase in revenue from Europe was mainly due to the increase in the ODM/OEM business segment.

Gross profit and gross profit margin

In FY2013, the Group's gross profit decreased by 56.1% or HK\$100.7 million, generating gross profit margin of 5.6% (FY2012: 11.8%). The breakdown according to business segments is as follows:

Business Segment	(+/-) in HK\$	%	Comments
ODM/OEM	-84.8	-66.1	The decrease in gross profit was mainly due to the increase in direct labour costs as well as competitive price pressures.
Moulds and Tooling	-9.4	-88.5	The decrease in gross profit was due to competitive price pressures.
Machine Sales	-6.5	-16.0	The decrease in gross profit was mainly due to the decrease in sales. However, such decrease had been slightly offset by sales of higher margin products sold to our customers in the second half of the year.

Other Income

The Group's other income increased by HK\$34.9 million or 113.7%, from HK\$30.6 million in FY2012 to HK\$65.5 million in FY2013 mainly due to a HK\$16.9 million gain on disposal of its Hong Kong office premises and HK\$13.8 million interest income from RMB related deposits.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by HK\$1.5 million or 5.4%, from HK\$27.6 million in FY2012 to HK\$26.1 million in FY2013 mainly due to the decrease of sales commission and import and export fees.

Administrative expenses

The Group's administrative expenses decreased by HK\$20.9 million or 18.9%, from HK\$110.6 million in FY2012 to HK\$89.7 million in FY2013 mainly due to HK\$15.2 million exchange gains on RMB related deposits recorded here as an offsetting item, and our efforts to reduce the overhead expenses.

Finance Costs

Finance costs increased by HK\$4.3 million or 23.5%, from HK\$18.7 million in FY2012 to HK\$23.0 million in FY2013 mainly due to an increase in term loan interest expenses.

Income Tax Expenses

Income tax expenses decreased by HK\$14.8 million or 79.2%, from HK\$18.7 million in FY2012 to HK\$3.9 million in FY2013, mainly due to a decrease in profits.

A review of changes in the Group's financial position from FY2012 to FY2013 has been set out in paragraphs 8.8 to 8.12 of the 4Q2013 Results Announcement.

2. *The sales of the Company in FY2013 is flat compared to FY2012. If this is so, please elaborate on the reasons for the increase in short term borrowing from HK\$304 million as at 31 December 2012 to HK\$1,091 million as at 31 December 2013. The Company disclosed that the loan is guaranteed by its group of companies' cross corporate guarantees and the Government of the Hong Kong Special Administrative Region. Please provide background on why the Government of the Hong Kong Special Administrative Region is guaranteeing the Company's loan.*

Company's response:

The Group's short term borrowings increased from HK\$304.3 million as at 31 December 2012 to HK\$1,091.0 million as at 31 December 2013 due to the increase in term loans. The HK\$1,091.0 million group borrowings as at 31 December 2013 comprises of the following:

	HKD (Million)
Term loans	747.5
Short-term borrowings	297.4
Current portion of long-term borrowings (Include Special Loan Guarantee Scheme HK\$3.6 million)	46.1

Total	1,091.0 =====

The Group secured a new term loan of HK\$747.5 million from various banks in 1Q2013 and 2Q2013. The structure of the new term loan involves borrowing in HKD and depositing the same amount in RMB, so that the Group is able to minimize its losses from foreign exchange fluctuations. The Group's total HKD term loans and RMB deposits as of 31 Dec 2013 are HK\$747.5 million and HK\$763.2 million respectively. These are repayable within 3 months from March 2014 to May 2014.

The amount of total borrowings excluding the term loans as at 31 December 2013 is HK\$ 391.3 million, compared to an amount of HK\$398.1 as at 31 December 2012.

There is an amount of HK\$3.6 million in the current portion of long-term borrowings which is guaranteed by the Hong Kong Special Administrative Region ("HKSAR"). In light of the global financial crisis in FY2009, the HKSAR had provided support to affected enterprises by acting as a guarantor to enable them to secure loans from participating lending institutions. Such loans are for the purposes of meeting general business needs in order to tide over liquidity problems during that difficult period. Our Company has secured such a loan from FY2009 and the outstanding balance as of 31 December 2013 is HK\$3.6 million.

3. *We refer to paragraph 9 of the Announcement. Please comment whether the current results are in line with the Company's commentary on prospects or previous quarter outlook in paragraph 10 of its 3Q2013 results announcement dated 12 November 2013 (the "3Q2013 Results Announcement").*

Company's response:

The Company believes that the current results are in line with the previous commentary made in the 3Q2013 Results Announcement. The Group continues to expect an improved overall performance by September 2014.

By Order of the Board

Chiu Hau Shun, Simon
Executive Director

17 March 2014