

**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

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**ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (THE “ANNUAL REPORT 2012”)**

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

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The board of directors of Combine Will International Holdings Limited (the “**Company**”) refers to the Annual Report 2012 issued to shareholders on 11 April 2013. Unless otherwise defined, all capitalized terms used in this announcement shall bear the same meanings ascribed to them in the Annual Report 2012.

In relation to the Annual Report 2012, the SGX-ST has raised certain queries and the Company’s responses to the said queries are set out against each of them:

1. *Listing Rule 712 requires an issuer to appoint a suitable auditing firm to meet its audit obligations, having regard to the adequacy of the resources and experience of the auditing firm and the audit engagement partner assigned to the audit, the firm’s other audit engagements, the size and complexity of the listed group being audited, and the number and experience of supervisory and professional staff assigned to the particular audit. The audit firm appointed by the issuer must be registered with ACRA, registered with and/or regulated by an independent audit oversight body acceptable to the Exchange or any other auditing firm acceptable by the Exchange.*

*As RSM Nelson Wheeler (“**RSM NW**”) does not satisfy the requirements under Listing Rule 712, the Company appointed RSM Chio Lim LLP (“**RSM CL**”) as joint auditors in 2012 to meet the requirements under Listing Rule 712.*

*It is disclosed on page 29 of your Annual Report 2012 that the audit fees paid to RSM CL amounted to S\$80,000 (approximately HK\$500,000). On the other hand, RSM NW’s fees amounted to HK\$1,000,000. Please explain the role of RSM CL and how this compares to the role performed by RSM NW and how the appointment of RSM CL has complied with the objective and spirit of Listing Rule 712.*

Company’s response: In performing their roles as joint auditors, RSM CL and RSM NW had worked together from the pre-planning, planning and fieldwork to completion of the audit of the Company, which was in compliance with the “AGS 10 Joint Audits” guidance statement issued by the Institute of Certified Public Accountants of Singapore in December 2012. Pursuant to this guidance statement, joint auditors would have to apply the same auditing principles and guidance as they are jointly and severally responsible for the audit and for the audit opinion expressed on the financial statements. This guidance statement also stipulates that, *inter alia*, joint auditors are to agree in writing on the distribution of work to be performed and ensure that the respective work allocation covers all the audited entity’s significant components of the financial statements. Joint auditors may divide the work in terms of business units, subsidiaries, geographical locations, or items of assets and liabilities or income and expenditure. The audit fees paid to each of RSM NW and RSM CL were determined based on their respective allocated scopes of work, which also took into account the fact that RSM NW had also acted as the statutory auditors of all the Group’s Hong Kong-incorporated companies.

In considering RSM CL’s appointment as joint auditor, the AC had taken into account RSM CL’s adequacy of resources, experience and audit engagements in view of the Group’s operations, the number of supervisory and professional staff assigned to the audit of the Group and their audit arrangements for the Group. In particular, the AC had taken into

account the fact that RSM NW and RSM CL had acted as joint reporting accountants and joint auditors for the Company's initial public offering, with the current audit partner of RSM CL assigned to the Company being the same audit partner who was in charge at that time. Having previously cooperated on the Group's audit during the initial public offering and being members of the same RSM network, the Company is of the view that RSM NW and RSM CL would be well-positioned to work together as joint auditors for the purposes of the Group's annual audit.

Accordingly, after considering all the abovementioned factors, the Company is of the view that the appointment of RSM CL as joint auditors with RSM NW has enabled the Company to meet the objective and spirit of Rule 712.

2. *We note on page 29 of your Annual Report 2012 that the audit fees and non-audit fees paid to RSM NW amounted to HK\$1,000,000 and HK\$669,000 respectively. Please disclose the nature of the non-audit services provided and the reasons which led to the significant payment of non-audit fee of HK\$669,000 to RSM NW.*

Company's response: These non-audit services provided by RSM NW comprised tax advisory fees of HK\$199,000, fees for obtaining factual findings of certain financial information of the Group companies of HK\$189,000, fees for the audit of the Occupational Retirement Scheme of HK\$11,000 and fees for assistance rendered to the Board for the review of the results announcements during the financial year ended 31 December 2012 of HK\$270,000.

3. *The Audit Committee ("AC") has opined that "the non-audit fees that were paid to RSM NW would not affect the independence of RSM NW". Noting that the total fees paid to RSM NW amounted to HK\$1,669,000, which represents 4.9% of the Company's Net Profit, please provide the basis for the AC's opinion and factors reviewed by the AC in forming their opinion that the independence of RSM NW has not been affected.*

Company's response: The Company understands from RSM NW that the total fees paid to RSM NW is insignificant (less than 1%) as compared to RSM NW's total income, and this has complied with the relevant ethical requirements regarding independence in the Code of Ethics for Professional Accountants issued by the International Federation of Accountants. Taking the foregoing confirmation into account, as well as the scope and quantum of fees for non-audit services as elaborated on in the response to Query 2 above, the AC is of the view that the independence of RSM NW has not been affected, notwithstanding the payment of such sum in respect of its total fees.

4. *The Company has submitted to the Exchange that the following significant subsidiaries of the Group were audited by RSM NW (i) Combine Will Industrial Company Limited, (ii) Loong Run Industrial Company Limited, (iii) Unifaith Machine Tools Company Limited, (iv) Hopewell Precision Machine Tools Company Limited. Noting that the Company's compliance with Listing Rule 712 is through the appointment of RSM CL, as RSM NW does not meet the requirements, to provide the AC's views on how the Company has complied with Listing Rule 715(2).*

Company's response: RSM NW has been the existing auditor of the Group since its initial public offering, and in the course of its audit work in respect of the Group, has gained substantive knowledge and experience in the businesses and operations of the Group, including the abovementioned subsidiaries. In considering RSM NW's appointment and subsequent re-appointments, the AC had taken into account RSM NW's adequacy of resources, experience and audit engagements in view of the Group's operations, the number of supervisory and professional staff assigned to the audit of the Group and their audit arrangements for the Group.

Additionally, as joint auditors of the Company and the Group, RSM CL and RSM NW had worked together to jointly express their opinion as to whether the Company's consolidated financial statements give a true and fair view of the Group's financial position and have been prepared in accordance with applicable accounting standards. To this end, RSM CL has also reviewed the audit working papers of RSM NW and ensured compliance with ISA 600 Special

Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors).

Based on the above, and the AC's reliance on the audit report prepared jointly by RSM CL and RSM NW on the consolidated financial statements, the preparation of which was carried out in accordance with International Standards on Auditing, the AC is of the view that the Company has complied with Rule 715(2).

5. *The Company has submitted to the Exchange that Altrust Precision Tooling Company Limited (“APT”) is a significant subsidiary. In this respect, we note the Company’s disclosure that this subsidiary has not been audited. Listing Rule 715(2) requires an issuer to engage a suitable auditing firm for its significant foreign-incorporated subsidiaries and associated companies. Please explain how the Company has complied with Listing Rule 715(2).*

Company’s response: APT is a company that is incorporated in Samoa. Although APT is one of the Group’s significant subsidiaries, there was no statutory audit report issued because it is not required according to the laws of Samoa. However, for the purpose of preparing the consolidation account, APT as well as the other companies in the Group which are not subject to statutory audit requirements have been audited by RSM NW (as mentioned in Note 16 to the financial statements on page 57 of the Annual Report 2012). As such, the Company has complied with Listing Rule 715(2).

6. *The Company has submitted that the following are significant subsidiaries of the Group (i) Combine Will (Dongguan Ind. Co., Limited), (ii) Dongguan Loong Run Toys Company Limited, (iii) Altrust Precision Tooling (Dongguan) Co., Ltd., and (iv) Heyuan Loong Run Toys Company Limited and these were audited by He Cheng Certified Public Accountants (“He Cheng”). We note that the Board and AC had opined that the Company has complied with Listing Rules 712 and 716. Please provide the basis of this opinion and to disclose the factors taken into account by the Board and AC in forming their views. To provide details which supported the decision for the appointments.*

Company’s response: According to Article 165 of the Company Law of the People’s Republic of China (2005 Revision) (中华人民共和国公司法 (2005 修订) 第 165 条) and Article 31 of Accounting Law of the People’s Republic of China (1999 Revision) (中华人民共和国会计法 (1999 修订) 第 31 条), the financial statements of companies incorporated in the People’s Republic of China (the “PRC”) must be audited by auditing firms that are registered in the PRC and whose accountants are members of the China Institute of Certified Public Accountants. Accordingly, the Company had engaged He Cheng as the statutory auditors of these PRC-incorporated subsidiaries (the “PRC Subsidiaries”).

He Cheng was set up in 1995 and has mainly acted as the statutory auditors of companies incorporated in the PRC as well as a provider of other professional services. He Cheng has a staff strength of 38 people, of which six are Certified Public Accountants in the PRC, and it also has approximately 300 audit clients. He Cheng has assigned four professional staff, of whom one is a Certified Public Accountant in the PRC, to audit each of the PRC subsidiaries.

The Board and the AC had formed their views that He Cheng is a suitable auditing firm for the PRC subsidiaries based on the above. Thus, the Company has complied with Rule 712.

The extent of reliance by RSM CL and RSM NW on the audits of He Cheng is not significant. As mentioned in the response to Query 5 above (as well as in Note 16 to the financial statements on page 57 of the Annual Report 2012), for the purpose of consolidation, RSM NW has audited all the companies in the Group. The AC has relied on the audit of the consolidated financial statements carried out by RSM CL and RSM NW, which was carried out in accordance with International Standards on Auditing and has covered all subsidiaries of the Group, including those subsidiaries incorporated in the PRC which had also been audited by PRC-registered auditing firms.

RSM CL and RSM NW have reported their findings to the AC and based on those findings, the AC has satisfied itself that with the current arrangements, as RSM CL and RSM NW had

audited the financial statements of the subsidiaries of the Group for the purposes of the Group's consolidated financial statements, the standards and effectiveness of the audit are not compromised in any way. Thus, the Company has complied with Rule 716.

7. *Please provide further information on the proposed re-appointment of RSM CL as joint auditors with RSM NW.*

With reference to Resolution 5 as set out in the Notice of Annual General Meeting dated 11 April 2013 (the "**Notice of AGM**"), the Company has proposed for shareholders' approval, among others, the re-appointment of RSM NW and RSM CL as joint auditors of the Company and the Group. The Company wishes to provide shareholders with additional information on the appointment of joint auditors.

(1) Background and rationale

Rule 712(2) of the Listing Manual of the SGX-ST (the "**Listing Manual**") provides as follows:-

"The auditing firm appointed by the issuer must be:—

- (a) Registered with the Accounting and Corporate Regulatory Authority ("**ACRA**");
- (b) Registered with and/or regulated by an independent audit oversight body acceptable to the Exchange. Such oversight bodies should be members of the International Forum of Independent Audit Regulators, independent of the accounting profession and directly responsible for the system of recurring inspection of accounting firms or are able to exercise oversight of inspections undertaken by professional bodies; or
- (c) Any other auditing firm acceptable by the Exchange."

RSM International, of which RSM NW and RSM CL are members, is one of the world's leading audit, tax and advisory networks of independently owned and managed professional services firms.

RSM NW has been the existing auditor of the Company since its initial public offering, and in the course of its audit work for the Company, has gained substantive knowledge and experience in the businesses and operations of the Group. RSM NW is a member of the Hong Kong Institute of Certified Public Accountants which is not, however, presently registered with ACRA as required under Rule 712(2)(a) of the Listing Manual. However, RSM CL is registered with ACRA and the partners of RSM CL are practicing members of the Institute of Certified Public Accountants of Singapore, which is a member of the International Federation of Accountants.

In order to continue to tap on the knowledge and experience of RSM NW that has been built up over the years on the Company and the Group, and at the same time comply with the requirements of the SGX-ST in relation to the appointment of a duly registered audit firm, the Company had obtained shareholders' approval for the appointment of RSM CL as a joint auditor with RSM NW at the last annual general meeting held on 27 April 2012. It is proposed that RSM NW and RSM CL are re-appointed in the same capacity at the forthcoming annual general meeting to be held on 26 April 2013 (the "**2013 AGM**") until the conclusion of the next annual general meeting.

Pursuant to the appointment of RSM NW and RSM CL as joint auditors of the Company, there will be no change in RSM NW's scope of work. There will be one audit report issued and signed off jointly by RSM NW and RSM CL, which will comply with the requirements of SGX-ST, as has been the case for the financial statements included in the Annual Report 2012. Both RSM NW and RSM CL will take joint and several responsibility over the auditing requirements of the Company. RSM NW and

RSM CL will conduct the audit of the consolidated financial statements of the Company in accordance with International Standards on Auditing and form an opinion on whether the consolidated financial statements give a true and fair view in accordance with the International Financial Reporting Standards. Additionally, RSM CL will review the working papers prepared by RSM NW and may consider performing additional audit procedures, either on its own or through RSM NW, to ensure compliance in order to fulfill its responsibilities as joint auditors of the Company under the requirements of International Standards on Auditing and comply with the requirements set out by the SGX-ST.

The RSM NW audit partner in charge is Mr. Wong Poh Weng, a Fellow Member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Institute of Chartered Accountants in England and Wales (ICAEW). Mr. Wong has over 40 years of experience, joining Coopers and Lybrand London in 1972, being seconded to Coopers and Lybrand in Hong Kong in 1978 and thereafter becoming a partner in RSM NW in 1986. Mr. Wong has acted as engagement partner on audits of small, international companies and public listed companies as well as reporting accountants on public offerings. The industries covered include financial institutions, insurance, travel agents, legal and other professional firms, trading and manufacturing companies, publishers, oil and gas companies and property developers.

The RSM CL audit partner in charge is Mr. Ng Thiam Soon. Mr. Ng has 23 years of experience, including 11 years with an international public accounting firm in Singapore. Mr. Ng's experience ranges from the audit of emerging businesses to multi-nationals, statutory boards and public listed companies (such as China Dairy Group Ltd, Sincap Group Limited, Singapore Windsor Holdings Ltd and WE Holdings Ltd.). In addition to audit responsibilities, Mr. Ng has been involved in assignments which include the provision of advisory services for clients seeking to list shares on the SGX-ST as well as due diligence reviews for clients making significant investment acquisitions. Mr. Ng has been a Partner in RSM CL since 2003 and is also a leader of the firm's China Practice Group.

RSM NW and RSM CL had on 26 February 2013 given their written consent to be appointed as joint auditors of the Company. Accordingly, the re-appointment of RSM NW and RSM CL as joint auditors will take effect upon the approval of the same by shareholders at the 2013 AGM.

(2) Confirmations under Rule 1203(5) of the Listing Manual

For the purposes of Rule 1203(5) of the Listing Manual:-

- (a) RSM NW has confirmed, by way of its letter dated 26 February 2013, that it is not aware of any professional reasons why RSM CL, being the joint auditor of the Company, should not accept appointment as joint auditor.
- (b) The Directors confirm that there were no disagreements with RSM NW on accounting treatments within the last 12 months from the date of the Notice of AGM.
- (c) The Directors confirm that the Company is not aware of any circumstances connected with the proposed appointment of joint auditors that should be brought to the attention of shareholders which has not been disclosed in this announcement or the Notice of AGM.
- (d) As mentioned above, the reason for the proposed appointment of joint auditors is to ensure that the Company complies with the Listing Manual.
- (e) With the appointment of joint auditors, and for the reasons as set out on page 29 of the Annual Report 2012, the Company confirms that it complies with Rules 712 and 716.

(3) Directors' recommendation

The Directors and the AC, having considered the adequacy of resources and experience of the RSM network firms in Hong Kong and Singapore as stated above, the audit engagement partners to be assigned to the audit, both RSM NW's and RSM CL's proposed audit arrangements for the Company and the Company's size and operations, and the number and experience of the supervisory and professional staff to be assigned to the audit of the consolidated financial statements of the Group, are of the opinion that RSM NW and RSM CL as joint auditors of the Company will be able to meet the audit requirements of the Company and such appointment will comply with Rule 712 of the Listing Manual. Accordingly, the Directors are of the view that the proposed appointment of joint auditors is in the best interest of the Company and recommend that shareholders vote in favour of the same at the 2013 AGM.

By Order of the Board

Chiu Hau Shun, Simon  
Executive Director

25 April 2013