

**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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**RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION  
(SINGAPORE) AND FROM SHAREHOLDERS**

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The Board of Directors (the “**Board**”) of Combine Will International Holdings Limited (the “**Company**”) wishes to respond to comments received from the Singapore Investors Association (Singapore) (“**SIAS**”) and from shareholders of the Company (“**Shareholders**”) in relation to, *inter alia*, the annual report released by the Company in respect of the financial year ended 31 December 2020 (the “**FY2020 Annual Report**”).

Capitalised terms used herein, unless otherwise defined, shall have the definitions ascribed to them in the FY2020 Annual Report.

**SIAS Question (1)**

*Would the board/management provide shareholders with greater clarity on its operations? Specifically:*

- (i) **Capacity:** *In the chairman’s message, it was disclosed the group continued to invest in capacity-building at its two key manufacturing centres in Cangwu, China and Sragen, Indonesia. **What are the capacities at the two sites? Do they have the same (technical) capabilities, in terms of product range, quality and turnaround time/delivery speed?***
- (ii) **Utilisation:** *What was the utilization rate in FY2020?*
- (iii) **“Micro-line”:** *Can management elaborate further on the “micro-line” manufacturing concept that is being implemented at the Cangwu plant? Management has credited the “micro-line” manufacturing concept with a 15-20% improvement in operating efficiencies.*
- (iv) **Automation:** *What is the level of automation at the two plants?*
- (v) **Sragen, Indonesia:** *Did management experience differences in culture and language in the new plant? How did management overcome such challenges to achieve high efficiency at the new plant?*
- (vi) **Major customer:** *In Note 7 (page 76 – Segment information), it is shown that revenue from the top customer (“Customer a”) decreased from HK\$857 million to HK\$575 million in FY2020. **Has management analysed the reasons for the increase in revenue from “Customer b” from HK\$206 million in FY2019 to HK\$222 million in FY2020 while revenue from “Customer a” dropped by a third to HK\$575 million?***

**Company’s Response**

- (i)

The products that the Group manufacture are not homogenous products, vary by range and product launch and are customized in accordance with customer specifications and designs. Hence, we are unable to provide precise figures in terms of product capacity for each factory. However, to provide some indication, the Group is currently able to manufacture 120 million pieces of plastic products in the Cangwu factory and our Indonesia factory can produce 150 million pieces based on injection, spraying, pad-printing and assembly.

As of the end of 2020, the production capabilities in the Cangwu and Indonesia factories are similar

both in terms of product range and quality. However, the turnaround time for the Cangwu factory is shorter than the turnaround time for the Indonesia factory, as the lead-time for the supply of raw materials to the Indonesia factory is longer than that of the Cangwu factory.

As part of our future plans for these two factories, the Group intends to explore the feasibility of: (a) expanding its current capabilities in the Cangwu factory to include die-casting products and/or consumer products; and (b) expanding its current capabilities in the Indonesia factory to include consumer products and paper products.

(ii)

The utilization rate in FY2020 was approximately 85%

(iii)

“Micro-line” is an industry term used by the Group to refer to manufacturing processes which involve shorter assembly lines with multi-tasks for each worker as compared to traditional assembly lines, which are longer with single task for each worker.

To clarify, the Group successfully undertook a pilot production run in FY2020 under a “micro-line” production set-up in the Cangwu factory in order to seek an alternative solution to improve productivity and enhance flexibility. This resulted in a 15 to 20% increase in operating efficiency. The Group is evaluating a further roll-out of such “micro-line” production to be deployed where possible.

(iv)

Due to the Group’s production pattern (customized, high volume, short production time), the application of automation is mainly process oriented. For example, the Group installed robotic arms in injection molding machines, invested in pad-printing machines and automatic screwing machines to replace manual processes, acquired auto-spraying machines so general workers can decorate parts without any special skills, and also acquired auto-packing machines in trial basis.

(v)

There are differences between Chinese culture and Indonesian culture which the Group’s management have been learning and making the relevant adjustments to since the Group started the Indonesian operations in 2017. For example, workers in Indonesia prefer not to perform overtime work and they require breaks and rooms for prayers.

As for language differences, all senior management staff in the Indonesia factory are university graduates with a good command of the English language. Hence, they do not have any problems communicating with the Group’s senior staff in Hong Kong and China. For working-level colleagues who are required to interact with expatriates from China, we have hired interpreters who are fluent in both Bahasa and Mandarin, to overcome the communication issue.

(vi)

The products that the Group supply to Customer a and Customer b fall into two different product categories. For Customer a, we supply corporate premium products. For Customer b, we supply consumer products. During the COVID-19 period and due to trade tensions, the market demand for corporate premium products exported from China have been affected, accounting for the decrease in revenue from Customer a. However, there was strong demand from Customer b as the Group supplies hygiene-related consumer products to Customer b. Hence, the revenue from Customer b increased by 7.8%.

## **SIAS Question (2)**

*The group’s vision can be found on page 1 of the annual report and is reproduced below:*

*We aspire to be a world-class corporation which sets the standards in the manufacturing of plastic, paper, die-cast and electronics products.*

*We aim to be a leader and a key supplier of choice for our customers in providing quality ODM/OEM services for corporate premiums, toys and consumer products.*

*“Paper [products]” has been added to the vision in the 2020 annual report. This relates to the group’s vertical integration into paper products. As noted in the annual report, a new team has been assembled to support the vertical integration into paper printing and product manufacturing at the new paper product manufacturing site in Heyuan. Pilot production has been successfully completed and large-scale production has commenced.*

*The group’s vertical integration into paper products is said to strengthen the group’s OEM/ODM service to our customers and meeting the growing demand for paper products.*

- (i) Can management elaborate further on what these paper products are?**
- (ii) Can management provide shareholders with pictures and details of its paper products at the AGM and in future annual reports so as to allow shareholders to better understand this new business (and its risks)?**

*There has been no mention of a new product line by the company in the past year. The first mention was in the group’s FY2020 results published on 28 February 2021.*

- (iii) What was the amount invested for its new paper manufacturing capability?**
- (iv) What is management’s experience in mass producing these paper products? Is the group selling these paper products to the current major customers?**
- (v) Will this vertical integration into paper products alter the risk profile of the group?**

#### Company’s Response

(i)

The Company invested into the paper product manufacturing operations business in response to the growing needs of our major customers. Paper products that we are making (or are able to make) include puzzles, board games, playing cards and paper pop-up toys, which our customers can assemble to create large and durable toys.

(ii)

As the Company is under contractual obligations to protect the intellectual property of our customers, product pictures are prohibited from being disclosed in our annual reports or websites. To provide more information on this, we have included pictures of the machinery involved in our FY2020 Annual Report and we will endeavor to continue to provide Shareholders with more extensive visuals and details of the equipment and processes in the future.

(iii)

The investment by the Group in its paper manufacturing capability is an enhancement and expansion of our manufacturing capability in agile response to our customers’ request for sustainable products, and it was not and is not envisaged to be a standalone new product line. Nonetheless, with the new capability, we are able to manufacture and supply paper-based products in the event there are good and suitable customers or markets with strong demand. To date, we have invested approximately HK\$45 million in our paper manufacturing capability.

(iv)

The Group entered and developed the paper product business to satisfy the growing needs of our current major customers. The Group has formed a highly experienced management team whose members are recruited from renowned industry players with extensive knowledge in printing and paper products. The team leader, who sits in our executive management team, has over 40 years of experience in the development and production of toys as well as paper products. We are supplying these paper products to our existing customers who have provided us with valuable support and guidance to facilitate our capability expansion.

(v)

The management of the Company believes that the vertical integration into paper products has and will enhance our capabilities to supply to our existing customers while also potentially opening us to new customers and markets. The Company is of the opinion that it does not significantly alter the risk profile of the Group.

### **SIAS Question (3)**

*In the corporate governance report, it is disclosed that the internal audit function carries out reviews and internal control advisory activities aligned to the key risks in the group's business. The audit committee (AC) is satisfied that the internal audit function is independent and effective and that the internal audit function has adequate resources and appropriate standing within the group to perform its functions effectively.*

- (i) **Can the AC clarify if the internal audit function is staffed in-house or outsourced to a reputable accounting/auditing firm? If the former, what is the size of the IA team?***
- (ii) **Can the AC also confirm that the internal audit function complies with the standards set by nationally or internationally recognised professional bodies?***
- (iii) **What were the key findings of the audits performed by the internal auditors based on the approved audit plan?***
- (iv) **Can the AC confirm that the internal audit plan covers the group's operations in Indonesia?***

### **Company's Response**

(i)

Currently, the internal audit function is staffed in-house. The internal audit function comprises a leader who reports to the AC and a designated assistant who coordinates and leads project teams set up to perform internal audit assignments.

(ii)

The AC confirms that the Company has complied with the guidelines set out in the Listing Manual of the Singapore Exchange Securities Trading Limited and the Code of Corporate Governance in relation to the internal audit function.

(iii)

Pursuant to the key findings of the internal audit for FY2020, which related mainly to failure to comply with existing policies and procedures on an operational basis, there were no material deficiencies uncovered.

(iv)

The AC confirms that the internal audit plan covers all operations of the Group, including the Group's operations in Indonesia.

### **Shareholder Question (1)**

*As we can see there is much revenue reduction on a year-on-year basis. Does the management see that there is impact due to developments in Sino-China trade relationships apart from the impact from COVID-19? Does the management have plans for further overseas business expansion to capture new customers in new industries?*

#### **Company's Response**

While the long term outlook remains uncertain due to the current trade tensions, the management anticipates that there may be some short term impact on the demand of products exported from China for certain markets. To this end, the Company's decision to invest in our Indonesia operations has proven to be timely as there have been strong demand from our current as well as potential customers. It is likely that there will be an increase in contribution from our Indonesia operations, with priority given to satisfy the requirements of our current major customers.

### **Shareholder Question (2)**

- (i) What prompted the Company to set up a paper product manufacturing line?*
- (ii) Is there major capital expenditure anticipated by management in the next few years?*
- (iii) Revenue from the largest customer dropped from HKD\$856 million in 2019 to HKD\$575 million in 2020. Is this temporary due to COVID-19 or is it a permanent loss of business?*

#### **Company's Response**

(i)

The Company was prompted to set up and develop a paper product manufacturing line due to the growing demand from our major customers.

(ii)

The Company intends to increase its investment in its cost-efficient manufacturing bases, namely the Cangwu and Indonesia factors, given that our major customers have been expressing great interest in these cost-efficient manufacturing bases.

(iii)

Please refer to the Company's response to SIAS Question (1)(vi).

### **By Order of the Board**

Chiu Hau Shun Simon  
Executive Director

18 April 2021