
CLOSURE OF PRODUCTION FACILITY OF AUTOMOBILE COMPONENT PARTS IN BEIJING

1. INTRODUCTION

The Board of Directors (the “**Board**”) of China Kunda Technology Holdings Limited (the “**Company**” or together with its subsidiaries, the “**Group**”) wishes to announce that as part of the Group’s efforts to rationalize its business operations, the Group has commenced to undertake the closure of the automobile components production facility of its subsidiary, Beijing Baiju Automobile Component Company Limited (“**BBJ**”) in Beijing, People’s Republic of China (the “**Production Closure**”).

The Production Closure will include, amongst others, the disposal of plant and equipment, staff retrenchment and early termination of lease agreement upon the fulfilment of current outstanding orders to customers.

2. INFORMATION ON BBJ

BBJ was incorporated in the PRC on 15 April 2010 with a registered and paid-up share capital of RMB50 million. The Company and an independent third party, 北京白菊电器有限公司, each owns 57% and 43% of shareholding interests in BBJ respectively. BBJ is principally engaged in the manufacture, assembly and maintenance of automobile components and moulds.

Revenue and net profit contributions by the Automobile Component Parts to the Group for financial years ended 31 March 2016 and 2017, and financial period ended 30 June 2017 (“**1Q2018**”) are set out in the table below:

| % | FY2016 (Audited) | FY2017 (Audited) | 1Q2018 (Unaudited) |
|-------------------------------------------------------|---------------------|-----------------------|-----------------------|
| Revenue (HK\$’000) | | | |
| The Group | 197,850 | 184,729 | 25,227 |
| Automobile Component Parts | 160,271 | 146,314 | 16,775 |
| Percentage contribution of Automobile Component Parts | 81.0% | 79.2% | 66.5% |
| Net profit /(loss) (HK\$’000) | | | |
| The Group | 8,892 | 6,636 | (2,155) |
| Automobile Component Parts | 5,278 | 7,420 | (1,306) |
| Percentage contribution of Automobile Component Parts | 59.4% | 111.8% ⁽¹⁾ | 60.6% |

Note:

⁽¹⁾ The Automobile Component Parts contributed more than 100% of the net profit mainly due to corporate expenses incurred by our Singapore office are not allocated separately into the Group’s two reportable operating segments, In-Mould Decoration (“**IMD**”) and Plastic Injection Parts and Automobile Component Parts respectively. In FY2017, the Group’s net profit of HK\$6.6 million comprised the profit contribution of IMD and Plastic Injection Parts of HK\$2.4 million and Automobile Component Parts segment of HK\$7.4 million respectively, partially offset by the unallocated corporate expenses of HK\$3.2 million.

3. RATIONALE FOR THE PRODUCTION CLOSURE

The Production Closure is in response to the stringent actions taken by the Beijing Municipal Government to control air pollution in Beijing. According to the “Beijing Clean Air Action Plan 2013-2017”, polluting industries should be phased out in Beijing by 2017 via different measures, including relocation and shutting down. By the end of 2016, more than 1,200 plants had relocated out of Beijing.⁽²⁾

As a result, our key customer, Beijing Hyundai had set up plants in Cangzhou and Chongqing respectively, which are more than 100km radius from our existing production facility. Hence, this has put the Group in a less competitive position to secure continual orders from Beijing Hyundai and any existing or new customers in Beijing who have either relocated or plan to relocate away from Beijing.

Coupled with lower sales of Hyundai vehicles in People's Republic of China ("PRC") and declining orders from Beijing Hyundai, our Automobile Component Parts suffered a net loss of HK\$1.3 million in 1Q2018. To minimise losses in our Automobile Component Parts, the Production Closure will allow the Group to redeploy the excess funds which will provide more financial flexibility to allocate its resources more effectively and improve the overall financial performance of the Group. Excluding the net loss of the Automobile Component Parts in 1Q2018, the Group's net loss will decrease from HK\$2.2 million to HK\$0.8 million.

⁽²⁾ <http://zhengwu.beijing.gov.cn/zwzt/sjfsdgn/zxjz/ybxzzy/t1430839.htm>

4. PRELIMINARY ASSESSMENT OF FINANCIAL EFFECTS OF THE PRODUCTION CLOSURE

Based on our preliminary assessment, the Production Closure is expected to result in the following non-recurring expenses which are expected to have material impact to the Group's financial results for the financial year ending 31 March 2018.

4.1 Impairment loss on properties, plant and equipment

The Group is expected to provide an additional impairment loss of approximately HK\$6.0 million on the renovation works of the BBJ's factory and office building.

4.2 Retrenchment fund

Under the PRC Labor Contract Law ("Law"), the amount of severance that must be paid to the employee is based primarily on the employee's wages and years of employment. The Law provides that for each year (which is any period longer than 6 months) the employee has worked for the employer, the employee will be entitled one month's wages. For any period of employment of less than 6 months, the employee will be entitled to half a month's wages. The estimated retrenchment fund is expected to be about HK\$2.8 million.

4.3 Compensation of early termination of lease agreement with landlords

Penalty for early termination of the operating lease agreement is estimated at HK\$1.4 million, and compensation for the installation cost of the high wattage power line which is estimated at HK\$1.2 million.

4.4 One-off mould subsidies to be recovered from the customers

The above non-recurring expenses will be offset by one-off mould subsidies to be recovered from the customers.

BBJ is the sole supplier to customers that customises automobile moulds for use in mass productions thereafter. These automobile moulds form part of a major component of the inventory balances of BBJ. To avoid any supply chain disruption of automobile components by the customers, the Group believes that BBJ will recover from the sale of the mould subsidies to the customers for the automobile moulds used in the production of automobile components.

Based on the estimated recoverable amount of the automobile moulds inventory balance as at 30 June 2017, a one-off profit of HK\$7.0 million would be recorded by BBJ if the sale of its automobile moulds to the customers had been completed as at 30 June 2017.

4.5 Disposal of Plant and Equipment

The net carrying amount of property, plant and equipment of BBJ was HK\$12.7 million, which represented 17.2% of the Group's net assets as at 30 June 2017. As it is the management's intention to progressively dispose of the plant and equipment in BBJ on a

piecemeal basis, any gain or loss from the disposal of plant and equipment will only be determined upon completion of such disposal.

Notwithstanding the preliminary assessment above may subject to changes, the Production Closure is expected to negatively impact the consolidated earnings per share and/or net tangible assets per share of the Group for the current financial year ending 31 March 2018. The Company will make the necessary update announcements as and when there are material developments in relation to the Production Closure.

5. CAUTION IN TRADING

Shareholders are advised to exercise caution in trading their shares. There is no certainty or assurance as at the date of this announcement that the Production Closure will be completed. Shareholders are advised to read this announcement and any further announcements by the Company carefully. Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take.

By Order of the Board

Cai Kaoqun
Executive Chairman and CEO
Singapore, 14 August 2017

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**") for compliance with the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalyst. The Sponsor has not verified the contents of this announcement.

This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.

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