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沈機集團昆明機床股份有限公司

**SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 0300)**

## **THE THIRD QUARTERLY REPORT OF 2014**

### **I. IMPORTANT NOTICE**

- 1.1 The board of directors (the “Board”) and supervisory committee of Shenji Group Kunming Machine Tool Company Limited (the “Company”) and all members of the Board and supervisory committee, senior management officers warrant that there are no false representations, misleading statements and material omissions in this announcement, and are severally and jointly responsible for the authenticity, accuracy and completeness of the content herein.
- 1.2 All directors of the Company attended the meeting and considered the third quarterly report.
- 1.3 Mr. Wang Xing, chairman of the Company, Mr. Zhang Zeshun, the person in charge of accounting affairs, and Ms. Li Hongning, the head of the accounting department have declared that they assure for the truthfulness and completeness of the financial statements contained in this quarterly report.
- 1.4 The financial statements of the third quarterly report were unaudited, but were reviewed by the Audit Committee of the Board of the Company.

## II. MAJOR FINANCIAL INFORMATION AND THE CHANGE OF SHAREHOLDERS OF THE COMPANY

### 2.1 Accounting Data and Financial Highlights

Unit: RMB

	As at the end of the reporting period	As at the end of last year	Increase or decrease as at the end of the reporting period compared with the end of last year (%)
Total assets (dollar)	2,919,989,713.86	2,793,270,204.96	4.54
Net assets attributable to the equity shareholders of the Company	1,273,509,756.66	1,325,736,720.17	-3.94
	From the beginning of the year to the end of the reporting period (Jan.-September, 2014)	From the beginning of last year to the end of the reporting period of last year (Jan.-September, 2013)	Increase or decrease as compared with the same period of last year (%)
Net Cash flows from operating activities (dollar)	-67,116,988.27	-52,911,819.55	Not applicable
	From the beginning of the year to the end of the reporting period (Jan.-September, 2014)	From the beginning of last year to the end of the reporting period of last year (Jan.-September, 2013)	Increase or decrease as compared with the same period of last year (%)
Operating income	637,118,278.25	621,290,008.37	2.55
Net profit attributable to equity shareholders of the Company (dollar)	-44,688,673.01	-67,980,211.09	Not applicable
Net profit excluding non-recurring items attributable to equity shareholders of the Company (dollar)	-55,804,132.12	-70,541,814.69	Not applicable
Weighted average return on net assets (%)	-3.43	-5.29	Increased by 1.86 percentage points
Basic earnings per share (dollar)	-0.084	-0.128	Not applicable
Diluted earnings per share (dollar)	-0.084	-0.128	Not applicable

Excluding non-recurring items and amount

Unit: RMB

Items	Amount (July – Sept.)	From the beginning of the year to the end of the reporting period (Jan. – Sept.)
Disposal of non-current assets	268,241.06	54,250.08
Government grants recognized through profit and loss, excluding those having close relationship with the Group's operation and enjoyed in fixed amount of quantity according to uniform national standard	2,620,109.00	3,388,039.98
Other non-operating income and expenses besides items above	713,658.37	777,077.14
Investment income from disposal of long-term equity investment	-	7,538,290.55
Effect of income tax	-540,301.25	-632,905.08
Effect of minority interests (after tax)	-54,235.76	-9,293.56
Total	3,007,471.42	11,115,459.11

2.2 Total number of shareholders at the end of the reporting period and the number of shares, selling unrestricted shares held by the top ten shareholders:

Unit: share

The total number of shareholders of the Company at the end of the reporting period:41,288 shareholders (including 41,166 A Share holders and 122 H Share holders)							
The number of shares held by the top ten shareholders							
Name of shareholders	Increase/decrease during the period	Total number of shares held at the end of the period	Proportion (%)	Number of selling restricted shares held	Number of shares pledged or frozen		Nature of shareholders
					status	quantity	
HKSCC NOMINEES LIMITED		133,741,628	25.18	0	Unknown		Unknown
Shenyang Machine Tool (Group) Co., Ltd.		133,222,774	25.09	0	Unknown		State-owned legal person
Yunnan Industrial Investment Holding Group Co., Ltd.		38,608,185	7.27	0	Unknown		State-owned legal person

CHAN KWOK TAI EDDIE		3,000,000	0.56	0	Unknown	Unknown
Lin Meiyun		2,524,036	0.48	0	Unknown	Unknown
Zhang Hongsheng		1,983,860	0.37	0	Unknown	Unknown
Hualong Securities LLC customer credit-backed securities trading account		1,410,978	0.27	0	Unknown	Unknown
Haitong Securities Co., customer credit-backed securities trading account		1,269,448	0.24	0	Unknown	Unknown
Chen Feng		1,116,666	0.21	0	Unknown	Unknown
CAI QINGSHAN		1,083,806	0.20	0	Unknown	Unknown
The number of selling unrestricted shares held by the top ten shareholders						
Name of shareholders	Number of selling unrestricted shares held at the end of the period	Type of shares and quantity				
		Type	quantity			
HKSCC NOMINEES LIMITED	133,741,628	Overseas listed foreign shares				
Shenyang Machine Tool (Group) Co., Ltd.	133,222,774	RMB ordinary shares				
Yunnan Industrial Investment Holding Group Co., Ltd.	38,608,185	RMB ordinary shares				
CHAN KWOK TAI EDDIE	3,000,000	Overseas listed foreign shares				
Lin Meiyun	2,524,036	RMB ordinary shares				
Zhang Hongsheng	1,983,860	Overseas listed foreign shares				
Hualong Securities LLC customer credit-backed securities trading account	1,410,978	RMB ordinary shares				
Haitong Securities Co., customer credit-backed securities trading account	1,269,448	RMB ordinary shares				
Chen Feng	1,116,666	RMB ordinary shares				
CAI QINGSHAN	1,083,806	Overseas listed foreign shares				

**Explanation of the connected relationship or acting in concert relationship among the above shareholders:**

The Company was not notified of any connected relationship or acting in concert relationship regulated by “Information Disclosure Management Procedure to Changes of Shareholding of Listed Company” among the shareholders of the Company.

Other than the substantial shareholders disclosed above, as at 30 September 2013, there were no other shareholders whose shareholdings exceeded the amount required to be disclosed under Article 60 of “Administration of the Issuing and Trading of Shares Provisional Regulations” of the PRC and Issue No.2 of “The Content and Format of Disclosure of Information of the Listed Companies” (amended in 2005); and under Section 16(1) of the Securities and Futures Ordinance under the Hong Kong Exchanges and Clearing Limited, the Company was not notified of any interests representing 10% or more of the issued share capital of the Company.

Among top ten shareholders, there are three shareholders holding 5% or more of the Company’s shares. They are HKSCC Nominees Limited, which holds the overseas listed foreign shares; Shenyang Machine Tool (Group) Co., Ltd., which holds the state-owned legal person shares; and Yunnan Industrial Investment Holding Group Co., Ltd., which holds state-owned legal person shares. All of the shares held by these shareholders are not pledged, frozen, nor designated.

*Notes:*

- 1) HKSCC (Nominees) Limited holds shares on behalf of clients. The Company did not receive any notification that any H shareholder held more than 10% in total share capital of the Company. Holders of H Shares held more than 5% in total share capital: Kyu-Ri Kim held 9,434,500 H Shares of the Company on 8 October 2014, representing 6.70% of the issued H Shares of the Company or 1.78% in total share capital of the Company.
- 2) Save as disclosed above, the Directors were not notified by any person (who is not a Director or a chief executive officer) who owns the interest or short position in the shares or underlying shares of the Company that shall be disclosed to the Company in compliance with the requirements contained in Divisions 2 and 3 of Part XV of Securities and Future Ordinance (“SFO”), or the interest or short position that shall be included in the prescribed register in accordance with section 336 of SFO.
- 3) As at 30 September 2014, none of the Directors and the Supervisors had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests or short positions which the Directors or the Supervisors are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

This issue was announced in accordance with the regulation – Notice of Supervising the Shareholders of Listed Companies Implementing the Rules on Lessening Terminated Selling Restricted Shareholding issued by Shanghai Stock Exchange.

### III. SIGNIFICANT EVENTS

#### 3.1 Details and reasons for material changes in the major financial statement items and financial indicators of the Company

√Applicable □Not applicable

Items	As at the end of the reporting period	As at 31 December 2013	Increase/decrease	Change (%)
Bills receivable	115,649,798.83	193,617,520.47	-77,967,721.64	-40.27
Accounts receivable	515,181,061.39	421,649,692.09	93,531,369.30	22.18
Other receivables	19,903,268.70	12,645,899.89	7,257,368.81	57.39
inventories	970,159,777.73	838,202,834.59	131,956,943.14	15.74
Long-term equity investment	13,567,843.85	57,890,592.43	-44,322,748.58	-76.56
Deferred tax assets	76,140,717.86	64,288,487.72	11,852,230.14	18.44
Short-term borrowings	234,414,000.00	299,279,000.00	-64,865,000.00	-21.67
Taxes payable	9,687,751.84	24,202,207.26	-14,514,455.42	-59.97
Long term borrowings	234,119,580.29		234,119,580.29	-
Provisions	139,811.94	7,172,981.31	-7,033,169.37	-98.05
Operating income	637,118,278.25	621,290,008.37	15,828,269.88	2.55
Operating costs	489,443,645.02	519,202,030.12	-29,758,385.10	-5.73
Business taxes and surcharges	5,301,343.37	3,736,804.24	1,564,539.13	41.87
Selling and distribution expenses	67,494,894.27	49,860,176.54	17,634,717.73	35.37
General and administrative expenses	118,015,619.55	102,175,612.79	15,840,006.76	15.50
Financial expenses	13,885,441.89	6,444,800.46	7,440,641.43	115.45
Impairment losses	9,644,810.68	16,098,584.76	-6,453,774.08	-40.09
Investment income	8,648,513.16	-1,368,558.67	10,017,071.83	-
Non-operating income	4,477,547.96	3,525,673.65	951,874.31	27.00
Income tax ("-" for credit)	-9,468,878.57	-6,968,606.45	-2,500,272.12	-
Net profit attributable to equity shareholders of the Company	-44,688,673.01	-67,980,211.09	23,291,538.08	-
Net cash flow from operating activities	-67,116,988.27	-52,911,819.55	-14,205,168.72	-
Net cash flow from investing activities	-36,109,167.06	-57,022,395.23	20,913,228.17	-
Net cash flow from financing activities	82,731,730.37	133,741,466.19	-51,009,735.82	-38.14

- A. The decrease in bills receivable was attributable to cash settlement upon maturity and discounting, as well as a decrease in revenue from sales;
- B. The increase in accounts receivable was attributable to the broader scope and terms of customer credit to strengthen sales, as well as the consolidation of Kunming TOS Machine Tool Manufacturing Co., Ltd. ("Kunming TOS") during the period;
- C. The increase in other receivables was attributable to the development of the market, Actively participate in the bidding, machine exhibition etc. and the contract deposit generated from financial lease from International Far Eastern Leasing Co., Ltd.
- D. The increase in inventories was attributable to the consolidation of Kunming TOS, as well as the increases in raw material purchase and self-made semi-finished goods to cater for subsequent orders;
- E. Reasons for the decrease in long-term equity investment: in 2005, the Company and TOS Varnsdorf, a.s. ("Czech TOS", a company in Czech Republic) jointly established Kunming TOS, previously an associate of the Company jointly controlled by the Company and Czech TOS. Pursuant to the 2013 Amendment to Joint Venture Contract dated 25 December 2013 ("2013 Amendment"), the number of members of the board of directors of Kunming TOS shall be increased by 1 from 6 to 7, of which 4 directors shall be nominated by the Company. As a result, the Company shall represent a majority in the board of directors of Kunming TOS. The 2013 Amendment was considered and approved at the Company's general meeting on 15 May 2014, and the Company obtained a majority of voting rights with effect from the same day. Accordingly, Kunming TOS was incorporated into the scope of consolidation of the Group and the long-term equity investment in Kunming TOS was derecognized with effect from 15 May 2014. As a result, the balance of long-term equity investments recorded a significant decrease during the period;
- F. The increase in deferred tax assets was attributable to the recognition of deferred tax assets due to loss and provision for bad debts during the period;
- G. The decrease in short-term borrowings was attributable to a decrease in short-term borrowing facilities as a result of a change in the Company's loan structure;
- H. The decrease in taxes payable was mainly attributable to a decrease in VAT payable;
- I. The increase in long-term borrowings was attributable to an increase of RMB238.88 million in two-year working capital loans as a result of the expanded financing scale and a change in financing structure;
- J. The decrease in provisions was attributable to the significant warranty expenses incurred;
- K. The increase in operating income was attributable to a slight increase year-on-year in sales volume of machine tools due to the strengthened marketing and sales efforts, as well as a notable increase in processing income from utilization of the Company's excessive capacity;
- L. Operating costs decrease was attributable to the cost decreased as compared with the same period of last year as a result of the increased proportion of sales of higher-margin products, such as floor-type and table-type drilling and milling machines;
- M. The increase in business taxes and surcharges was attributable to an increase in VAT payable, as a result of a year-on-year increase in sales during the period compared with a year-on-year decrease in input VAT;

- N. The increase in selling and distribution expenses was mainly attributable to (i) a year-on-year increase in expenditures due to market front organizational restructuring including additional regional sales centers, staff and efforts as well as a year-on-year increase in salary and fringe benefits for sales staff; and (ii) the amortization of visual identity design fees and machine tool exterior design fees that were transferred to intangible assets at the end of 2013;
- O. The increase in general and administrative expenses was attributable to a significant increase in R&D expenditures as well as the consolidation of Kunming TOS during the period;
- P. The increase in finance expenses was mainly attributable to an increase in interest expenses from the increased bank loans;
- Q. The decrease in impairment losses was attributable to a reduction in provision for bad debts, as a result of the strengthened efforts in recovering accounts receivable and the optimized ageing structure;
- R. Reasons for the increase investment income: in 2005, the Company and Czech TOS jointly established Kunming TOS, previously an associate of the Company. The difference of RMB7.54 million between the carrying amount of fixed assets as the Company's capital contribution and the recognized investment amount was originally included into "Capital reserve - Equity investment reserve". As the Company obtained the control over Kunming TOS on 15 May 2014, the said capital reserve was recognized as other comprehensive income of RMB7.54 million (i.e., the equity investment reserve originally included in other capital reserve) in relation to the Company's equity investment in Kunming TOS before the consolidation day, and was included into the investment income for the period. As a result, the current investment income recorded a substantial increase compared with that of the corresponding period last year;
- S. The increase in non-operating income was mainly attributable to government grants received during the period were more than those received during last period;
- T. The increase in income tax benefit was mainly attributable to an increase in deferred tax benefit, as a result of an increase in deductible temporary differences arising from the uncovered loss during the reporting period;
- U. The year-on-year decrease in net loss attributable to shareholders of the Company was mainly attributable to (i) an increase in profit from principal operations due to a year-on-year increase in operating income as well as the increased proportion of sales of higher-margin products during the period; and (ii) the transfer from capital reserve to investment income in relation to the original equity investment in Kunming TOS, as the Company has obtained the control over it during the period;
- V. The increase in net cash outflows from operating activities was mainly attributable to the decrease of cash collection of sales as well as the payment to suppliers for debts restructuring at the end of 2013.
- W. The net cash outflows from investing activities decreased as compared with the same period of the same period of last year, deducting the cash inflow of RMB22.57 million from the consolidation of Kunming TOS, mainly attributable to the deposit for issuance of bank acceptance bills of RMB23.37 million outflow, as well as the investment of the construction in progress decreased;



- X. The decrease in the net cash inflows as compared with the same period of last due to the payment of loans increase during the period.

### 3.2 Significant events and their effect and explanation of analysis of Solutions

Applicable Not applicable

1. At the third extraordinary general meeting of 2012, it was approved to authorize the Board to handle matters on the issue medium-term notes. On 15 May 2013, the Company amended the proposal of the issue of medium-term notes, based on which the Medium-term Notes Prospectus was finalized. The Company would issue, after announcement, 5-year notes in two tranches with an aggregate principal amount of no more than RMB500 million for the purposes of replenishing working capital and repaying bank loans. During the period, the Company planned to issue the first tranche of 5-year medium-term notes with a principal amount of RMB300 million, and reported its plan through the lead underwriter to the National Association of Financial Market Institutional Investors for approval.
2. The Company and its distributor Beijing Hanhai Hongzheng Machinery Co., Ltd. (“Beijing Hanhai”) signed a Machine Tool Sales Contract in August 2011, and the Company signed a Manufacturer Authorization Letter authorizing Beijing Hanhai to participate in a tender exercise conducted by Jilin Wuyu Electrical Co., Ltd. (“Jilin Wuyu”) using the tool machine, and the Company undertook to assume responsibility for quality assurance of the tool machine. Subsequent to being awarded the tender, Beijing Hanhai signed a Machine Tool Sales Contract with the end-user, Jilin Wuyu. Jilin Wuyu instituted legal proceedings in November 2013 whereby Beijing Hanhai and the Company was named the 1<sup>st</sup> and 2<sup>nd</sup> defendants, respectively. Jilin Wuyu considered that Beijing Hanhai and the Company were unable to resolve product quality issues effectively within the product warranty period, and requested that the product be returned and the amount of RMB11.7325 million paid to Beijing Hanhai be refunded, and liquidated damages of RMB1.235 million be paid; and at the same time requested that the Company assume joint and several liabilities for payment. The Company pointed out in its defence at the trial of first instance that the Company had performed its quality assurance obligations, and that in accordance with the confirmed Service Invoice and Work Completion Invoice for the maintenance service of the Company, it could basically be confirmed that the tool machine under dispute had been functioning normally. Therefore, the Company did not commit any act in breach of the contract and should not assume joint and several liabilities.

As at the date of this financial report, the trial of first instance of the above litigation was still in progress. Having sought legal advice, the management considered that it was unlikely for the litigation to be ruled in favour of Jilin Wuyu.

3. The Company and Yunnan CY (Group) Co., Ltd. were jointly responsible for developing the major national special project on intelligent manufacturing equipment – development and demonstration of high-end CNC lathe manufacturing digital workshop (the “Project”). The Project was approved by the Reply Regarding the Implementation Plan of 2013 Intelligent Manufacturing Equipment Development Project (Fa Gai Ban Gao Ji [2013] No. 2519) issued

by the National Development and Reform Committee and Ministry of Finance and Ministry of Industry and Information Technology, which stated that the Company would be the manufacturer and CY Group would be the demonstrator of the Project.

The government intends to grant RMB40 million for the Project, of which the Company as the manufacturer will receive a grant of RMB20 million and the CY Group Co. Ltd. as the demonstrator will receive a grant of RMB20 million. Part of the grant amounting to RMB14 million has already been transferred to the Company's account at present.

4. On 15 October 2014, the company received the government grants of RMB6.3391 million for undertaking the project of "Precise vertical and horizontal machining center technology innovation platform" and grants of 9.16 million for the project of KHC100/2 Double-precision horizontal machining center". The above amounts were credited to the Company's special account and counted in "deferred income" account according to the progress.

### **3.3 Performance of commitments by the shareholders holding 5% issued shares of the Company**

Applicable Not applicable

Shenyang Machine Tool (Group) Co., Ltd. undertook that it would provide full support to the business development of the Company in terms of technology, business and resources and would consolidate the relevant resources and markets by leveraging on its own unique strengths based on the principles and models favorable to accelerating the growth of the Company within two years after the share transfer and share reform with a view to developing Kunming Machine Tool as an important platform for technological upgrade, business expansion and sector growth to provide comprehensive support and facilitate the sustainable and healthy development of the Company. Currently, Shenyang Machine Tool (Group) Co., Ltd. has introduced production management officers to the Company in order to facilitate the increase in the production management capabilities and provide convenience for the exports of the Company in terms of market expansion.

### **3.4 Warning and explanation of cumulative net profit for the period from the beginning of the year to the end of the next reporting period being projected to be at a loss or expected to have material changes as compared to the corresponding year**

Applicable Not applicable

As compared the reporting period with the same period of last year, the Company's operating income increase slightly and the loss has been changed. Since the market environment and sales scale were similar of last period, the mainly effect will be on the last quarter. Therefore, the final result of the Company will be uncertainty. The Company estimates that the Company will have profit or loss in the next reporting period. **Investors are advised to invest cautiously and pay attention to risks!**

### 3.5 Effect of implementing new accounting standards to consolidated financial statements

In 2014, the Ministry of Finance amended CAS No. 2 – Long-term equity investment, CAS No. 9 – Employee Benefit, CAS No. 30 – Financial Statement Presentation, CAS No. 33 – Consolidated Financial Statements, CAS No. 39 – Fair value Measurement and CAS No. 40 – Joint Venture Arrangement etc.. According to the requirement of the Ministry of Finance, apart from the enterprise should according to "Enterprise Accounting Standards No. 37 - Financial Instruments" in the 2014 and subsequent periods report the financial instruments, the remaining seven criteria are implemented from July 1, 2014 in all enterprises who are implementing accounting standards, and encourage listed overseas enterprises to perform in advance.

The Company has adopted five standards of CAS No. 39 – Fair value Measurement and CAS No. 40 – Joint Venture Arrangement, CAS No. 9 – Employee Benefit, CAS No. 30 – Financial Statement Presentation and CAS No. 33 – Consolidated Financial Statements etc. in 2013. In the interim report, the Company began to execute CAS No. 2 - Long-term equity investment and CAS No. 41 - Disclosure of interests in other entities.

According to the CAS No. 2 – Long-term equity investment, long-term equity investments are the equity investment which the investee has control and significant impact to the invested unit, and the investment in its joint venture equity. For those investments which could not control or combined control the invested unit, and are not quoted in an active market, fair value can not be reliably measured, CAS No. 22 – Financial instruments recognition and measurement is applicable, e.g. accounting from “long-term investment” adjusting to “available-for-sale financial assets”. Specific effects are as follows:

*Unit:RMB*

Effected accounting item	30 June 2014	31 December 2013
Available-for-sale financial assets	1,145,000	1,145,000
Long-term equity investment	-1,145,000	-1,145,000

Save as the information above, the adopted other new standards or amended standards did not have major effects on the consolidated statements of the Company. For details, please refer to the annual report 2013 and “32 Changes in significant accounting policies under II Significant accounting policies of the Company and accounting estimates” in interim report 2014 of the Company.

By order of the Board

**Shenji Group Kunming Machine Tool Company Limited**  
**Wang Xing**  
*Chairman*

Kunming, PRC, 28 October, 2014

*As at the date of this announcement, the Company's executive directors are Mr. Wang Xing, Mr. Zhang Xiaoyi, Mr. Ye Nong and Mr. Zhang Zeshun; non-executive directors are Mr. Zhang Tao, Mr. Guan Xin, Mr. Gao Minghui and Mr. Zhou Donghong; and the independent non-executive directors are Mr. Yang Xiongsheng, Mr. Tang Chunsheng, Mr. Chen Fusheng and Mr. Liu Qiang.*

#### IV. APPENDIX:

##### 4.1 Financial statements

### Consolidated Balance Sheet

As at 30 September 2014

Prepared by: Shenji Group Kunming Machine Tool Company Limited

Unit: RMB

Audited type: unaudited

Items	As at 30 September 2014	As at 31 December 2013
<b>Current assets:</b>		
Cash at bank and on hand	183,408,742.71	181,805,670.00
Financial assets held for trading	0.00	0.00
Bills receivable	115,649,798.83	193,617,520.47
Accounts receivable	515,181,061.39	421,649,692.09
Prepayments	41,806,751.10	49,867,554.97
Interest receivable	0.00	0.00
Dividends receivable	0.00	0.00
Other receivables	19,903,268.70	12,645,899.89
Inventories	970,159,777.73	838,202,834.59
Non-current assets due within one year	0.00	0.00
Other current assets	0.00	71,326.31
Total current assets	1,846,109,400.46	1,697,860,498.32
<b>Non-current assets:</b>		
Available-for-sale financial assets	1,145,000.00	1,145,000.00
Long-term equity investments	13,567,843.85	57,890,592.43
Fixed assets	489,701,995.14	502,762,114.81
Construction in progress	329,938,008.42	299,490,159.28
Construction materials	0.00	0.00
Disposal of fixed assets	0.00	0.00
Intangible assets	79,455,117.96	79,861,501.87
Goodwill	7,296,277.20	7,296,277.00
Long-term deferred expenses	1,019,292.17	1,307,187.73
Deferred income tax assets	76,140,717.86	64,288,487.72
Other non-current assets	75,616,060.80	81,368,385.80
Total non-current assets	1,073,880,313.40	1,095,409,706.64
<b>Total assets</b>	<b>2,919,989,713.86</b>	<b>2,793,270,204.96</b>
<b>Current liabilities:</b>		
Short-term borrowings	234,414,000.00	299,279,000.00

Bills payables	64,168,500.00	67,742,506.00
Accounts payable	492,532,729.39	503,339,606.04
Advanced from customers	266,718,803.71	256,365,206.37
Accrued salary	6,693,662.43	12,787,886.41
Tax payable	9,687,751.84	24,202,207.26
Dividends payable	135,898.49	135,898.49
Other payables	101,013,225.75	121,768,252.44
Non-current liabilities due within one year	418,509.00	418,509.00
Other current liabilities	0.00	0.00
Total current liabilities	1,175,783,080.61	1,286,039,072.01
<b>Non-current liabilities:</b>		
Long-term borrowings	234,119,580.29	0.00
Long-term payables	1,418,099.10	1,492,463.90
Special payables	20,947,539.29	20,947,539.29
Provision	139,811.94	7,172,981.31
Deferred income tax liabilities	0.00	0.00
Other non-current liabilities	123,101,933.10	104,702,441.79
Total non-current liabilities	379,726,963.72	134,315,426.29
Total liabilities	1,555,510,044.33	1,420,354,498.30
<b>Owners' equity (or shareholders' equity):</b>		
Paid-up capital (or share capital)	531,081,103.00	531,081,103.00
Capital reserve	19,765,031.16	27,303,321.72
Surplus reserve	117,337,278.02	117,077,019.33
Undistributed profit	605,326,344.48	650,275,276.12
Total owners' equity attributable to parent company	1,273,509,756.66	1,325,736,720.17
Minority interests	90,969,912.87	47,178,986.49
Total owners' equity	1,364,479,669.53	1,372,915,706.66
Total liabilities and owners' equity	2,919,989,713.86	2,793,270,204.96

Legal representative of the Company:

Wang Xing

The person in charge of accounting affairs:

Zhang Zeshun

The head of the accounting department:

Li Hongning

## Balance Sheet

As at 30 September 2014

Prepared by: Shenji Group Kunming Machine Tool Company Limited

*Unit: RMB,  
Audited type: unaudited*

Items	As at 30 September 2014	As at 31 December 2013
<b>Current assets:</b>		
Cash at bank and on hand	149,319,214.81	167,060,232.54
Financial assets held for trading	0.00	0.00
Bills receivable	73,720,529.88	170,824,626.17
Accounts receivable	404,621,206.15	331,925,136.42
Prepayments	45,165,045.04	33,096,378.41
Interest receivable	0.00	0.00
Dividends receivable	11,000,000.00	11,000,000.00
Other receivables	25,958,326.69	15,690,264.77
Inventories	726,602,761.35	631,067,009.95
Non-current assets due within one year	0.00	0.00
Other current assets	0.00	0.00
Total current assets	1,436,387,083.92	1,360,663,648.26
<b>Non-current assets:</b>		
Long-term equity investments	81,694,080.90	82,583,858.28
Investment properties		
Fixed assets	446,103,363.05	467,223,213.57
Construction in progress	329,543,928.42	299,113,212.28
Construction materials	0.00	0.00
Disposal of fixed assets	0.00	0.00
Intangible assets	65,386,585.86	68,309,304.39
Development expenditure	0.00	0.00
Goodwill	0.00	0.00
Long-term deferred expenses	973,610.17	1,165,250.73
Deferred income tax assets	64,318,963.58	54,243,236.75
Other non-current assets	75,616,060.80	81,368,385.80
Total non-current assets	1,063,636,592.78	1,054,006,461.80
Total assets	2,500,023,676.70	2,414,670,110.06

<b>Current liabilities:</b>		
Short-term borrowings	213,414,000.00	284,279,000.00
Bills payable	50,300,000.00	47,230,000.00
Accounts payable	356,558,804.16	355,444,252.73
Advanced from customers	138,578,147.89	134,336,955.44
Accrued salary	3,279,951.17	10,997,980.36
Tax payable	8,415,175.56	22,465,561.65
Other payables	100,259,475.63	123,094,286.24
Non-current liabilities due within one year	418,509.00	418,509.00
Total current liabilities	871,224,063.41	978,266,545.42
<b>Non-current liabilities:</b>		
Long-term borrowings	234,119,580.29	0.00
Long-term payables	1,418,099.10	1,492,463.90
Special payables	20,947,539.29	20,947,539.29
Provisions	139,811.94	7,172,981.31
Other non-current liabilities	123,101,933.09	104,702,441.79
Total non-current liabilities	379,726,963.71	134,315,426.29
Total liabilities	1,250,951,027.12	1,112,581,971.71
<b>Owners' equity (or shareholders' equity):</b>		
Paid-up capital (or share capital)	531,081,103.00	531,081,103.00
Capital reserve	27,303,321.72	27,303,321.72
Surplus reserve	117,077,019.33	117,077,019.33
Undistributed profit	573,611,205.53	626,626,694.30
Total owners' equity (or shareholders' equity)	1,249,072,649.58	1,302,088,138.35
Total liabilities and owners' equity (or shareholders' equity)	2,500,023,676.70	2,414,670,110.06

Legal representative of the Company:  
The person in charge of accounting affairs:  
The head of the accounting department:

Wang Xing  
Zhang Zeshun  
Li Hongning

## Consolidated Income Statement

Prepared by: Shenji Group Kunming Machine Tool Company Limited

*Unit: RMB*

*Audited type: unaudited*

Items	Amount for the current period (July-September)	Amount for the prior period (July-September)	Amount for the period from the beginning of the year to the end of the reporting period (Jan. – Sept. 2014)	Amount for the period from the beginning of last year to the end of the reporting period last year (Jan. – Sept. 2013)
<b>1. Total Operating income</b>	248,683,929.5	268,072,969.76	637,118,278.25	621,290,008.37
Including: operating income	248,683,929.5	268,072,969.76	637,118,278.25	621,290,008.37
<b>2. Total operating cost</b>	256,658,530.75	294,633,266.99	703,785,754.78	697,518,008.91
Including: Operating cost	188,903,752.1	226,882,966.00	489,443,645.02	519,202,030.12
Business tax and surcharges	1,305,521.08	2,308,007.92	5,301,343.37	3,736,804.24
Sales expenses	26,181,730.42	22,910,326.62	67,494,894.27	49,860,176.54
Administrative expenses	32,219,315.05	38,390,096.32	118,015,619.55	102,175,612.79
Financial expenses	8,048,212.10	4,141,870.13	13,885,441.89	6,444,800.46
Impairment losses assets	0.00	0.00	9,644,810.68	16,098,584.76
Investment income (“-”for loss)	158,703.92	-180,801.43	8,648,513.16	-1,368,558.67
<b>3. Operating profit</b> (“-”for loss)	-7,815,897.33	-26,741,098.66	-58,018,963.37	-77,596,559.21
add : Non-operating income	3,602,674.0	2,925,694.59	4,477,547.96	3,525,673.65
less : Non-operating	665.58	155,798.24	258,180.77	488,443.66



expenses				
<b>4. Total profit</b> (“-”for total loss)	-4,213,888.91	-23,971,202.31	-53,799,596.18	-74,559,329.22
less : Income tax expenses	579,652.31	293,962.30	-9,468,878.57	-6,968,606.45
<b>5. Net profit</b> (“-” for net losses)	-4,793,541.22	-24,265,164.61	-44,330,717.61	-67,590,722.77
Net profit attributable to owners of parent company	-6,151,608.81	-24,370,431.78	-44,688,673.01	-67,980,211.09
Minority interests	1,358,067.59	105,267.17	357,955.40	389,488.32
<b>6. Earnings per share:</b>				
(1) Basic earnings per share (dollar/share)	-0.012	-0.046	-0.084	-0.128
(2) Diluted earnings per share(dollar/share)	-0.012	-0.046	-0.084	-0.128
<b>7. Other comprehensive income</b>				
<b>8. Total comprehensive income</b>	-4,793,541.22	-24,265,164.61	-44,330,717.62	-67,590,722.77
Total comprehensive income attributable to owners of parent company	-6,151,608.81	-24,370,431.78	-44,688,673.01	-67,980,211.09
Total comprehensive income attributable to minority shareholders	1,358,067.59	105,267.17	357,955.40	389,488.32

Legal representative of the Company: Wang Xing  
The person in charge of accounting affairs: Zhang Zeshun  
The head of the accounting department: Li Hongning

## Income Statement

Prepared by: Shenji Group Kunming Machine Tool Company Limited

*Unit: RMB*  
*Audited type: unaudited*

Items	Amount for the current period (July-September)	Amount for the prior period (July-September)	Amount for the period from the beginning of the year to the end of the reporting period (Jan. – Sept. 2014)	Amount for the period from the beginning of last year to the end of the reporting period last year (Jan. – Sept. 2013)
<b>1. Total Operating income</b>	195,293,602.78	240,217,333.03	515,921,789.96	518,073,767.51
Less: Operating cost	150,745,601.95	205,534,927.31	405,666,708.31	438,362,726.41
Business tax and surcharge	881,825.33	2,090,127.57	4,173,917.51	3,304,689.01
Sales expenses	22,787,691.84	21,720,307.40	60,238,887.13	45,415,194.48
Administrative expenses	24,159,946.35	33,723,196.38	90,967,057.99	86,907,807.83
Financial expenses	7,798,815.17	3,709,906.59	12,929,142.57	5,058,577.58
Impairment losses	0.00	0.00	10,335,401.36	16,098,584.76
Investment income (“-”for loss)	158,703.92	-180,801.43	1,110,222.61	-1,368,558.67
<b>2. Operating profit (“-”for loss)</b>	-10,921,573.94	-26,741,933.65	-67,279,102.30	-78,442,371.23
add : Non-operating income	3,474,394.88	2,862,694.59	4,279,268.84	3,415,359.97
less : Non-operating expenses	0.00	88,414.84	91,382.15	421,000.34
<b>3. Total profit (“-”for total loss)</b>	-7,447,179.06	-23,967,653.90	-63,091,215.61	-75,448,011.60
Less: Income tax expenses	55,162.81	549,467.99	-10,075,726.82	-6,997,933.34
<b>4. Net profit (“-” for net losses)</b>	-7,502,341.87	-24,517,121.89	-53,015,488.79	-68,450,078.26
<b>5. Earnings per share:</b>				
(1) Basic earnings per share (dollar/share)	-0.01	-0.05	-0.10	-0.13
(2) Diluted earnings per share (dollar/share)	-0.01	-0.05	-0.10	-0.13
<b>6. Other comprehensive income</b>				
<b>7. Total comprehensive income</b>	-7,502,341.87	-24,517,121.89	-53,015,488.79	-68,450,078.26

Legal representative of the Company: Wang Xing  
The person in charge of accounting affairs: Zhang Zeshun  
The head of the accounting department: Li Hongning

## Consolidated Cash Flow Statement

For nine months ended 30 September 2014

Prepared by: Shenji Group Kunming Machine Tool Company Limited

*Unit: RMB*

*Audited type: unaudited*

Item	For the nine months ended 30 September 2014	For the nine months ended 30 September 2013
<b>1. Cash flow from operating activities:</b>		
Cash receipts from sale of goods and rendering of services	717,789,242.70	499,520,136.19
Cash received from tax refund	0.00	1,122,593.90
Other cash receipts in operating activities	23,365,781.92	105,966,388.27
Subtotal of cash inflows from operating activities	741,155,024.62	606,609,118.36
Cash payments for goods and services acquired	466,674,977.49	304,869,378.99
Cash paid to and on behalf of employees	211,014,797.36	167,176,835.21
Payment of taxes and levy	71,538,980.56	55,662,037.35
Other cash payments in operating activities	59,043,257.48	131,812,686.36
Subtotal of cash outflows from operating activities	808,272,012.89	659,520,937.91
Net cash flow from operating activities	-67,116,988.27	-52,911,819.55
<b>2. Cash flow from investing activities:</b>		
Cash receipts from investment income		678,688.42
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets	206,538.84	1,222,048.00
Net cash receipts from consolidated subsidiaries during the period	22,569,575.21	
Cash receipt from security deposit	77,661,737.08	
Subtotal of cash inflows from investing activities	100,437,851.13	1,900,736.42
Cash paid for acquiring fixed assets, intangible assets and other long-term assets	36,513,406.36	58,923,131.65
Cash paid for security deposit	100,033,611.83	
Subtotal of cash outflows from investing activities	136,547,018.19	58,923,131.65
Net cash flow from investing activities	-36,109,167.06	-57,022,395.23
<b>3. Cash flow from financing activities:</b>		
Cash receipts from borrowings	452,500,000.00	287,365,000.00
Other cash receipts in financing activities		5,960.47
Subtotal of cash inflows from financing activities	452,500,000.00	287,370,960.47
Cash paid for repayment of debts	302,134,307.71	145,000,000.00
Cash paid for distribution of dividends or profits or payment of interest	20,403,961.92	8,629,494.28

Other cash payments in financing activities	47,230,000.00	
Subtotal of cash outflows from financing activities	369,768,269.63	153,629,494.28
Net cash flow from financing activities	82,731,730.37	133,741,466.19
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>	-274,377.08	-212,947.29
<b>5. Net increase in cash and cash equivalents</b>	-20,768,802.04	23,594,304.12
<i>Add:</i> Balance of cash and cash equivalents at the beginning of the period	139,391,654.25	98,887,040.73
<b>6. Balance of cash and cash equivalents at the end of the period</b>	118,622,852.21	122,481,344.85

Legal representative of the Company: Wang Xing  
The person in charge of accounting affairs: Zhang Zeshun  
The head of the accounting department: Li Hongning

## Cash Flow Statement

*For nine months ended 30 September 2014*

Prepared by: Shenji Group Kunming Machine Tool Company Limited

*Unit: RMB*

*Audited type: unaudited*

Item	For the nine months ended 30 September 2014	For the nine months ended 30 September 2013
<b>1. Cash flow from operating activities:</b>		
Cash receipts from sale of goods and rendering of services	602,901,826.04	379,876,435.16
Cash received from tax refund		1,122,593.90
Other cash receipts in operating activities	22,022,508.76	19,118,158.48
Subtotal of cash inflows from operating activities	624,924,334.80	400,117,187.54
Cash payments for goods and services acquired	390,625,957.92	226,942,171.17
Cash paid to and on behalf of employees	189,909,113.58	149,391,177.51
Payment of taxes and levy	58,805,586.41	49,402,456.58
Other cash payments in operating activities	48,584,734.92	30,857,839.51
Subtotal of cash outflows from operating activities	687,925,392.83	456,593,644.77
Net cash flow from operating activities	-63,001,058.03	-56,476,457.23
<b>2. Cash flow from investing activities:</b>		
Cash receipts from investment income	2,000,000.00	678,688.42
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets	206,538.84	153,800.00
Cash receipt from security deposit	60,431,169.18	

Subtotal of cash inflows from investing activities	62,637,708.02	832,488.42
Cash paid for acquiring fixed assets, intangible assets and other long-term assets	36,223,232.02	58,048,969.33
Cash paid for security deposit	81,997,887.53	
Subtotal of cash outflows from investing activities	118,221,119.55	58,048,969.33
Net cash flow from investing activities	-55,583,411.53	-57,216,480.91
<b>3. Cash flow from financing activities:</b>		
Cash receipts from borrowings	431,500,000.00	272,365,000.00
Subtotal of cash inflows from financing activities	431,500,000.00	272,365,000.00
Cash paid for repayment of debts	287,134,307.71	130,000,000.00
Cash paid for distribution of dividends or profits or payment of interest	17,593,801.92	7,826,494.28
Other cash payments in financing activities	47,230,000.00	
Subtotal of cash outflows from financing activities	351,958,109.63	137,826,494.28
Net cash flow from financing activities	79,541,890.37	134,538,505.72
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>	-265,156.89	-212,947.29
<b>5. Net increase in cash and cash equivalents</b>	-39,307,736.08	20,632,620.29
<i>Add:</i> Balance of cash and cash equivalents at the beginning of the period	131,661,936.74	71,927,250.50
<b>6. Balance of cash and cash equivalents at the end of the period</b>	92,354,200.66	92,559,870.79

Legal representative of the Company: Wang Xing  
The person in charge of accounting affairs: Zhang Zeshun  
The head of the accounting department: Li Hongning

#### 4.2 Audit report

If the quarterly report was audited by the auditors, the audit report should be disclosed in Appendix.

Applicable Not applicable