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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)

Announcement on Receiving A Letter on Post Review and Enquiry on the 2015 Annual Report of the Company from Shanghai Stock Exchange

The board of directors (the “Board”) of Shenji Group Kunming Machine Tool Company Limited (the “Company”) and all members of the Board 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.

On 25 May 2016, the Company received a letter from Shanghai Stock Exchange (the “SSE”), *Letter on Post Review and Enquiry on the 2015 Annual Report of Shenji Group Kunming Machine Tool Company Limited* (Shang Zheng Gong Han [2016] No. 0542 (《關於對沈機集團昆明機床股份有限公司2015年年報的事後審核問詢函》(上證公函【2016】0542號))). The original texts are as follows:

Shenji Group Kunming Machine Tool Company Limited:

According to the requirements of the Issue No.2 of the Content and Format of Disclosure of Information of the Listed Companies – the Content and Format of Annual Report (the “Issue No. 2”) and Shanghai Stock Exchange Industry Information Disclosure Guidelines, the SSE has conducted the post review on the 2015 annual report (the “Annual Report”) of your company and the following issues need to be further disclosed by your company.

I. Landscape of Competition of the Industry and Market Status

1. According to the Annual Report, the Company’s main business includes R&D, design, manufacture and sale of horizontal boring machine, horizontal boring and milling machining center and turbo machines etc. Given sluggish domestic and international economy, sustained weak market demand and increased difficulties in transformation and upgrading, the machine tool industry continued to post obvious decline. Please combine

with the Company's products and services to provide additional disclosure of the macro-economy and the development trend of the industry environment related to the Company's business, and make quantitative analysis.

2. As disclosed in the Annual Report, increasing keen market competition put buyers at the dominant position. They had more choices. The Company maintained the strategy of quick returns and small margins of last year. Please combine with business scale, operating regions and products etc. factors of the Company to provide additional disclosure of the landscape of competition which the Company faced, including industry position, market share, main competitors and other competitive advantages and disadvantages of the Company.
3. As disclosed in the Annual Report, the Company operates several series of products. Most of the main products maintain a leadership position in China. Please analyze the basis of "a leadership position in China" quantitatively.

II. Development Strategies and Operating Plan of the Company

4. As disclosed in the Annual Report, the Company participated in building digital NC lathe manufacturing workshops of Yunnan Machine Tool Works, proposed intellectualization workshop solution and reached out for intelligent manufacturing to promote product intellectualization 2.0 edition and transit to intelligent solutions. Please make additional disclosure of the R & D projects, target, and development related to the intellectualization and their potential effects on the Company's future. Moreover, the Company adopted four strategies breakthrough to achieve a multi-dimensional strategic transformation. Please supplement disclose the specific contents of strategic transition, relevant transition arrangement and the ways of realizing.
5. From 2012, the main business of the Company has been four consecutive years of losses. In the supplementary announcement on the 2014 annual report dated 23 April 2015, it was expected to realize operating revenue of RMB1.374 billion and a gross profit of RMB120 million in 2015, and the comprehensive analysis and estimation indicate that the Company's operating objectives in 2015 was sound and realistic. However, the Annual Report showed that the realized operating revenue was RMB777 million and the net profit attributable to shareholders of the Company was negative RMB196 million in 2015. There are significant differences exist. Please combine with revenue, cost, expenses and taxes etc. relevant factors to explain the reasons for the differences and the reasons for not combining with the actual operation to adjust the business plan in time and prompted the risks adequately.
6. According to the Annual Report, the Company expected to turn a profit in 2016 to achieve operating revenue of RMB840 million and net profit of RMB12 million. Please combine with the current operation of the Company to supplement disclose the expectation basis of next year. Please fully disclose the operation plan of 2016 strictly according to the requirements of term 28 under Issue No. 2, including but not limit to revenue, cost,

expenses and the operation target of next year, such as sales increase, market share increase, cost decrease and R & D plans etc., the Company proposes to take the strategies and action in order to meet the operation target, and the risks and countermeasures which the Company may face in the development strategy and operation, and fully prompt the related risks.

7. Capital plan. It was disclosed in page 124 in the Annual Report that as at the end of 31 December 2015, cash flow of contractual undiscounted financial liabilities due within one year or on demand was RMB1.47 billion which was much higher than cash on hand and at bank of 121 million. Please supplement disclose the capital requirements to maintain the Company's current business and explain the sources, cost and use information of investment capital involved in the Company's operation plan, and fully prompt the related risk.

III. Operation Information

7. During the reporting period, net profit of quarters (excluding extraordinary gains and losses) attributable to equity shareholders of the Company were RMB71,278.67, negative RMB34,530,000, negative RMB23,930,000 and negative RMB160,190,000 respectively. The fluctuation was big. Please combine with overall industry factor, revenue recognition, seasonal characteristics and sales pattern etc. information, comparing with the industry to provide additional disclosure for the reasons of greater volatility in quarterly profitability.
8. Please supplement disclose the elements of the proportion of settlement of production and sales, orders and the labor which drove the operating revenue change. If the proportion of revenue of orders exceed 50%, the Company should supplement disclose the major orders in hand and disclose the previous orders in progress in this year and the proportion of completion of the new orders this year.
9. As disclosed in the Annual Report, a notable decline in the quality of downstream customers of the Company. More and more customers suspending or partially suspending production and the trends were expanded. The Company authorized credit term to customers for one to three months in generally. However, ageing analysis of accounts receivable showed that the proportion accounts receivable due over one year was 60%. Besides, book balance of inventories was RMB955 million. Please combine with the sales pattern, credit policy etc. to provide additional disclosure for reasons of long ageing receivables accounting for bigger proportion for accounts receivable. Whether the provision for bad debts for accounts receivable and provision for inventory impairment were sufficient. Moreover, according to term 27 under Issue No.2, please supplement disclose the amount and proportion of top 5 customers and suppliers.

IV. Other Relevant Financial Information

10. At the end of the reporting period, the carrying amount of goodwill was RMB7, 296,300 which formed in acquisition of Xi'an Ser in 2001. The Annual Report showed that Xi'an Ser had been two consecutive years of losses of RMB16, 300,000 and 21,900,000 respectively. At the end of the period, the net assets of Xi'an Ser were negative. Please provide additional disclosure for the reasons not making impairment of goodwill and its

appropriateness. Please ask accountants issue clear opinions.

11. In 2011, the Company and Schiess entered into the Proprietary Technology and Patent Licensing Contract purchase assembly components of VMG6 prototype machine from Schiess which formed construction in progress of RMB39,084,800 during the period and prepayment of patent license fee of RMB39,656,900 under other non-current assets, and the balance were unchanged in the recent three years. Please explain the reasons of VMG6 prototype machine not transfer of fixed assets for long time and the prepayment of patent license fee was on credit for long time. Please explain the current progress of the machine, the next plan, budget and completion time. Whether a dispute exists and whether impairment exists. Please ask accountants issue clear opinions.
12. During the period, one of the constructions, heavy casting base increased amount of RMB23,015,200. Of which, amount of interest capitalization was RMB9,848,200 which accounted for 42.80%. Please provide additional disclosure for reasons of bigger proportion of interest capitalization and its rationality.
13. According to requirements of term 46 under Issue No. 2, please supplement disclose the information of pledged or frozen status of shares held by shareholders holding 5% or more of the Company's shares.
14. During the period, the account of housing fund under employee benefits payable increased the amount of RMB13,523,300 and the balance at the end was RMB13,412,800 which existed delayed payment. Please supplement explain the reasons of not timely payment of housing fund and its possible effects.

Against the aforementioned problems, according to requirements under the Issue No.2, for the Company believes not applicable or for special reasons indeed inconvenience disclosed, please disclose the detail reasons for not disclosure.

It is requested that your company should disclose the aforementioned issues by 3 June 2016 and reply to us in writing.

After receiving the above letter, the Company has started to prepare the reply and disclosure work according to the requirements

Board of Directors
Shenji Group Kunming Machine Tool Company Limited

Kunming, PRC, 25 May 2016

As at the date of this announcement, the Company's executive directors are Mr. Wang Xing, Mr. Chang Baoqiang, Mr. Zhang Xiaoyi, Mr. Zhang Zeshun and Mr. Jin Xiaofeng; non-executive directors are Mr. Zhang Tao, Mr. Liu Yan and Ms. Liu Haijie; and the independent non-executive directors are Mr. Yang Xiongsheng, Mr. Tang Chunsheng, Mr. Chen Fusheng and Mr. Liu Qiang.