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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)**

## **Inside Information Announcement on Previous Years Possibly Suspected of Breach of Financial Regulations**

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.

### **Significant Risk Warning:**

- A delisting risk warning on the A Shares had been implemented in 2016 due to the Company have had a loss for the two most recent consecutive years of 2014 and 2015. If the Company's audited net profit in 2016 is still negative, the Company's A Shares will be suspended listing. Up to now, it is judged that the Company will still have a loss in 2016 and there is no possibility of profit. Under the relevant regulations of Listing Rules of Shanghai Stock Exchange, the Company's A Shares will be suspended listing after disclosure of the 2016 annual report.
- As the inside information disclosed that the Company may be suspected of breach of financial regulations, given that the problem is serious and it involved a longer period, whether the Company can disclose the annual report on schedule exists uncertainty.
- In view of the inside information announced will affect the Company's previous annual reports information, possibly resulting in the Company's net profit in 2013 in negative, and therefore arising the situation that the Company had a loss for five consecutive years from 2012 to 2016, which may have a significant negative impact on the Company. Investors are advised to judge cautiously, invest rationally and pay attention to the investment risk.

### **I. Announcement Matters**

During the process of 2016 annual audit, auditors found that the Company existed the problems of

inventory not real and income intertemporal. The Company immediately launched self-inspection and found that matters of previous years inventory, income and expenses existed major problems of suspected of breach of financial regulations.

## **II. Specific Issues**

### **1. Inventory not real**

As at 19 March 2017, the Company found the problem that the inventory in the years 2013-2016 was not real which involved a total amount of about RMB96 million (the specific amount of the annual report shall prevail).

### **2. Recorded less expenses**

As at 19 March 2017, the Company found that staff early retirement benefits recorded less RMB33 million in the years 2013-2015 (the specific amount of the annual report shall prevail).

### **3. Sales Revenue Recognition**

During the process of audit, auditors found that the recognition of sales revenue in 2016 and previous years existed the problems of suspected of breach of the accounting standards and inventory out of account (finished goods). The Company is doing the best to conduct self-inspection. As at 19 March 2017, the specific amount which affected the Company is under verification.

### **4. Holding subsidiary has the problems of "multiple sets of books" and bills correction**

When auditors audited one of the holding subsidiaries of the Company found that the subsidiary had "multiple sets of books" and recorded borrowings from a third party non-financial institution with a bank acceptance bill, attached bills existed altered marks. Auditors suspected that it's a fictitious business and the source of funding was unknown. The subsidiary did not make a reasonable explanation for this issue.

The total assets of the subsidiary for 2014 and 2015 were RMB346,920,000 and RMB283,310,000, net assets were RMB71,010,000 and RMB33,530,000, sales revenue were RMB107,850,000 and RMB91,980,000 and net profit were negative RMB14,770,000 and negative RMB37,480,000 respectively.

## **III. The Judgment of the Company In Relation to the Major Matters**

1. Up to now, the Company has not yet fully found out the exact impact of breach of financial regulations on the Company's previous annual financial statements. The Company is concentrating on self-inspection and verification and will promptly disclose the results of self-inspection.
2. The Company is currently identifying the causes of the above suspected of breach of financial regulations and assessing whether the above matters are relatively independent or the Company existed serious problems in the internal control.

#### **IV. Measures Taken By the Company**

Given that the above mentioned matters are significant, the Company will disclose the relevant information initiatively and timely, actively cooperate with the regulatory authority to investigate the above matters.

In accordance with the requirements of the Shanghai Stock Exchange and the Yunnan Securities Regulatory Bureau, the Company will carefully verify the relevant information as soon as possible, to ensure the 2016 annual report to be disclosed on schedule. However, given that the problem is serious and it involved a longer period, whether the Company can disclose the annual report on schedule exists uncertainty.

The Company's current production, operation and management are all normal and the Company will make every effort to reduce the impact of related matters.

#### **V. Risk Warning**

The Company has published the Announcement on the Risk of Suspension of Listing of the A Shares of the Company on 5 January, 11 January, 18 January, 16 February, 18 February, 4 March and 15 March 2017 respectively, and published the Announcement on Expected Loss in the Annual Results of 2016 on 23 January 2017.

A delisting risk warning on the A Shares had been implemented in 2016 due to the Company have had a loss for the two most recent consecutive years of 2014 and 2015. If the Company's audited net profit in 2016 is still negative, the Company's A Shares will be suspended listing. Up to now, it is judged that the Company will still have a loss in 2016 and there is no possibility of profit. Under the relevant regulations of Listing Rules of Shanghai Stock Exchange, the Company's A Shares will be suspended listing after disclosure of the 2016 annual report.

As the inside information disclosed that the Company may be suspected of breach of financial regulations, given that the problem is serious and it involved a longer period, whether the Company can disclose the annual report on schedule exists uncertainty.

In view of the inside information announced will affect the Company's previous annual reports information, possibly resulting in the Company's net profit in 2013 in negative, and therefore arising the situation that the Company had a loss for five consecutive years from 2012 to 2016, which may have a significant negative impact on the Company. Investors are advised to judge cautiously, invest rationally and pay attention to the investment risk.

The Company's designated media for information disclosure are China Securities Daily, Shanghai Securities News and Securities Times, and the following websites: <http://www.sse.com.cn> and <http://www.hkex.com.hk>.

Board of Directors  
**Shenji Group Kunming Machine Tool Company Limited**

Kunming, PRC, 20 March 2017

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