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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)**

**CONNECTED TRANSACTION**  
**PROVISION OF FINANCIAL ASSISTANCE TO CONNECTED PERSON**

The Board announces that (1) the Substantial Shareholder entered into of the Bank Loan Agreement with the Bank pursuant to which the Bank shall provide the Bank Loan Facility of up to RMB200 million to the Substantial Shareholder subject to the terms of the Bank Loan Agreement; and (2) the Company as borrower and the Substantial Shareholder as lender will enter into the Connected Loan Agreement pursuant to which the Substantial Shareholder shall provide a unsecured loan facility of not more than RMB200 million to the Group subject to the terms of the Connected Loan Agreement.

As the Substantial Shareholder is the substantial shareholder of the Company, the Substantial Shareholder is a connected person of the Company under Chapter 14A of the Listing Rules and the entering into of the Connected Loan Agreement, the provision of Corporate Guarantee and the Property Pledge under the Bank Loan Agreement and the transactions contemplated thereunder also constitute connected transaction on the part of the Company under Chapter 14A of the Listing Rule and will be subject to, among others, the Independent Shareholders' approval at the EGM.

A circular containing, among other matters, (i) details of the Bank Loan Agreement, the Connected Loan Agreement, the Corporate Guarantee and the Property Pledge; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of EGM will be despatched to the Shareholders on or before 20 April 2018.

The Board announces that (1) the Substantial Shareholder entered into of the Bank Loan Agreement with the Bank pursuant to which the Bank shall provide the Bank Loan Facility of up to RMB200 million to the Substantial Shareholder subject to the terms of the Bank Loan Agreement; and (2) the Company as borrower and the Substantial Shareholder as lender will enter into the Connected Loan Agreement pursuant to which the Substantial Shareholder shall provide a unsecured loan facility of not more than RMB200 million to the Group subject to the terms of the Connected Loan Agreement. Key terms of the Bank Loan Agreement and the Connected Loan Agreement are set out below.

## **THE BANK LOAN AGREEMENT**

### **Date**

22 December 2017

### **Parties**

- (i) the Substantial Shareholder as borrower; and
- (ii) the Bank as lender.

The Substantial Shareholder is a company established in the PRC. As the Substantial Shareholder is the substantial shareholder of the Company holding approximately 25.08% equity interests of the Company, the Substantial Shareholder is a connected person of the Company under Chapter 14A of the Listing Rules.

The Bank is a licensed bank in the PRC. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Bank and its ultimate beneficial owner(s) are Independent Third Parties.

### **Subject matter**

Pursuant to the Bank Loan Agreement, the Bank shall provide the Bank Loan Facility of up to RMB200 million to the Substantial Shareholder subject to the terms of the Bank Loan Agreement. The Bank Loan Facility shall be secured by, among others, the corporate guarantee by the Company (the "**Corporate Guarantee**"); and (iii) the pledge of certain properties held by the Group (the "**Property Pledge**"). For the avoidance of doubt, the Corporate Guarantee and the Property Pledge shall be subject to the approval of the Independent Shareholders' approval at the EGM and will only be entered into and become effective with the approval of the Independent Shareholders at the EGM.

The Bank Loan Facility shall be for a term for fifteen months from the date of first drawing of the Bank Loan Facility and the interest rate shall be determined at 4.9875% per annum which

was determined after arm's length negotiations between the parties to the Bank Loan Agreement.

## **THE CONNECTED LOAN AGREEMENT**

### **Date**

Within five (5) Business Days after obtaining Independent Shareholders' approval at the SGM

### **Parties**

- (i) the Company as borrower; and
- (ii) the Substantial Shareholder as lender.

### **Subject matter**

Pursuant to the Connected Loan Agreement, the Substantial Shareholder shall provide the Group a unsecured loan facility of up to RMB200 million (the "**Connected Loan Facility**") subject to the terms of the Connected Loan Agreement.

Any amount(s) to be advanced by the Substantial Shareholder to the Group under the Connected Loan Agreement shall constitute unsecured indebtedness of the Group.

The Connected Loan Facility shall have the same term as the Bank Loan Facility and shall have the same interest rate as the Bank Loan Facility at 4.9875% per annum which was determined after arm's length negotiations with reference to the terms and conditions of the Bank Loan Agreement.

The Company will draw the amount under the Connected Loan Facility equivalent to the amount to be drawn under the Bank Loan Facility immediately after the entering into of the Connected Loan Agreement to repay the existing outstanding indebtedness owed by the Company to the Bank.

Any repayment by the Group to the Bank directly will automatically offset against the indebtedness of the Group under the Connected Loan Facility.

## **THE CORPORATE GUARANTEE AND THE PROPERTY PLEDGE**

As disclosed in the section headed "the Bank Loan Agreement" above, it is a term thereof that (1) the Company will provide the Corporate Guarantee; and (2) the Group will pledge the property under the Property Pledge in favour of the Bank as security for the obligations and liabilities of the Substantial Shareholder under the Bank Loan Agreement. As such, the provision of the Corporate Guarantee and the Property Pledge for the obligations and liabilities

of the Substantial Shareholder, which is a connected person of the Company, constitutes a provision of financial assistance to a connected person and is therefore a connected transaction on the part of the Company. The properties under the Property Pledge are with a total area of approximately 358,991.55 sq. m. and based on the valuation on the properties under the Property Pledge issued by an independent property valuer on 2 February 2017, the market value of such properties is estimated to be approximately RMB138.25 million as at 30 January 2017. For the avoidance of doubt, the Corporate Guarantee and the Property Pledge shall be subject to the approval of the Independent Shareholders' approval at the EGM and will only become effective with the approval of the Independent Shareholders at the EGM.

The Company will execute the Corporate Guarantee in favour of the Bank as security for the obligations and liabilities of the Substantial Shareholder under the Bank Loan Agreement within five Business Days upon the obtaining of the Independent Shareholders' approval at the EGM. There would be no costs to be incurred by the Company to execute the Corporate Guarantee. However, in the unlikely event that the Substantial Shareholder would be in default under the Bank Loan Agreement, the Bank shall be entitled to enforce the Corporate Guarantee and the maximum possible liability of the Company to be borne by the Company would be the outstanding Bank Loan Facilities plus interest accrued thereon.

In the unlikely event that the Company is required to make any payment to the Bank under the Corporate Guarantee, the Substantial Shareholder undertakes that it will waive the same amount under the Connected Loan Agreement owed by the Company to the Substantial Shareholder and will indemnify any damages to be suffered by the Company under the Corporate Guarantee and/or the Property Pledge in the event that the Bank enforces the Corporate Guarantee and/or the Property Pledge.

The properties under the Property Pledge comprise a building (electricity substation) with gross floor area of approximately 1895.85 m<sup>2</sup> located in Songming County, Yunnan Province of the PRC and an industrial land with gross area of approximately 358,991.55 m<sup>2</sup> located in Songming County, Yunnan Province of the PRC. The valuation of the building was approximately RMB4,040,000 and the valuation of the industrial land was approximately RMB134,210,000 as at 30 January 2017 based on the independent property valuation report dated 2 February 2017.

The Directors consider that the terms of the Connected Loan Agreement, the Corporate Guarantee and the Property Pledge are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **Condition precedent**

The entering into of the Bank Loan Agreement, the Connected Loan Agreement and the provision of the Corporate Guarantee and the Property Pledge shall be subject to fulfillment of the following condition:

- (a) all necessary consents and approvals on the part of the Company in relation to the Connected Loan Agreement and the provision of the Corporate Guarantee and the Property Pledge and the transactions contemplated thereunder having been obtained, including the passing of necessary resolution(s) by the Independent Shareholders at the EGM to approve the Connected Loan Agreement, the Corporate Guarantee and the Property Pledge and the transactions contemplated thereunder; and

In the event that the above conditions cannot be fulfilled on or before 31 May 2018 (or such other date as the parties to the Connected Loan Agreement may agree), the Company will not enter into of the Connected Loan Agreement and the Group will not provide the Corporate Guarantee and the Property Pledge.

### **REASONS FOR AND BENEFITS OF ENTERING INTO THE CONNECTED LOAN AGREEMENT AND THE PROVISION OF CORPORATE GUARANTEE AND PROPERTY PLEDGE**

The Group is principally engaged in the research and development, design, manufacture and distribution of machine tool products. The Group's main products consists of, among others horizontal boring machine, large NC floor-type milling and boring machine, NC gantry-type boring and milling machine, NC planer-type boring and milling machine, jig boring machine, horizontal boring and milling machining center and precision rotary table.

Prior to the entering into of the Connected Loan Agreement, the Group entered into a loan facility agreement with the Bank with the same principal amount and pursuant to which the Company also provided property pledge in favour of the Bank. Due to the continuous losses of the Group, bank and financial institutions have lowered down the credit rating of the Company and banks are no longer willing to lend directly to the Company. After arm's length negotiations, the Bank in principal agrees to renew the existing loan by way of the Bank Loan Agreement with the borrower being the Substantial Shareholder (instead of the Company).

In order to maintain the loan facility for the Group, after the Substantial Shareholder having obtained borrowings from the Bank under the Bank Loan Agreement, the Substantial Shareholder will onward lend to the Company the same amount at the same interest rate. Due to the risk control requirements of the Bank, the Company still needs to provide Property Pledge as security for the Bank Loan borrowed by the Substantial Shareholder under the Bank Loan Agreement, which is consistent with the previous security requirements under the existing and previous bank credit arrangement between the Bank and the Company. Therefore, the Company has good reason to consider that the Property Pledge and Connected Loan Agreement are beneficial to the Company and in the interests of the Company and its Shareholders as a whole.

As (i) all the borrowings from the Bank under the Bank Loan Agreement from the Substantial Shareholders would be onward advanced to the Company at the same interest rate and terms under the Connected Loan Agreement; and (ii) the Group will make repayments to the Bank

directly, the default risk on the part of the Substantial Shareholder under the Bank Loan Agreement would in fact be the default risk on the part of the Company to repay under the Loan Agreement. As such, the Company considers that the default risk on the part of the Substantial Shareholder under the Bank Loan Agreement would be relatively low.

In the unlikely event that the Company is required to make any payment to the Bank under the Corporate Guarantee, the Substantial Shareholder undertakes that it will waive the same amount under the Connected Loan Agreement owed by the Company to the Substantial Shareholder and will indemnify any damages to be suffered by the Company under the Corporate Guarantee and/or the Property Pledge in the event that the Bank enforces the Corporate Guarantee and/or the Property Pledge.

Based on above, the Directors (excluding the independent non-executive Directors whose view will be included in the circular of the Company to be despatched in relation to, inter alia, the Connected Loan Agreement, the Corporate Guarantee and the Property Pledge) consider that it is fair and reasonable for the Group to provide the Corporate Guarantee and the Property Pledge in favour of the Bank as security under the Bank Loan Agreement.

## **LISTING RULES IMPLICATIONS**

As the Substantial Shareholder is the substantial shareholder of the Company, the Substantial Shareholder is a connected person of the Company under Chapter 14A of the Listing Rules and the entering into of the Connected Loan Agreement, the provision of Corporate Guarantee and the Property Pledge under the Bank Loan Agreement and the transactions contemplated thereunder also constitute connected transaction on the part of the Company under Chapter 14A of the Listing Rule and will be subject to, among others, the Independent Shareholders' approval at the EGM.

As at the date of this announcement, the Substantial Shareholder and its associates controlled or entitled to exercise control over 133,222,774 A Shares (representing approximately 25.08% of the total Shares in issue of the Company). The Directors confirm that, after due and reasonable enquiries, except the Substantial Shareholder and its associates who have a material interest in the Connected Loan Agreement, the provision of Corporate Guarantee and the Property Pledge and the transactions contemplated thereunder and are therefore required to abstain from voting on the resolution(s) proposed to be approved by the Independent Shareholders at the EGM, no other Shareholders are known to the Directors to have a material interest in the Connected Loan Agreement, the provision of Corporate Guarantee and the Property Pledge and the transactions contemplated thereunder and are required to abstain from voting at the EGM

Each of Mr. Wang He, Mr. Zhang Xiaoyi, Mr. Peng Liangfeng, Mr. Liu Chunshi and Mr. Xia Changtao has abstained from voting at the relevant board resolution(s) approving the Connected Loan Agreement, the Corporate Guarantee and the Property Pledge and the transactions contemplated thereunder.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the terms of the Bank Loan Agreement, the Connected Loan Agreement, the Corporate Guarantee and the Property Pledge and the transactions contemplated thereunder. Central China International Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

An EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Connected Loan Agreement, the Corporate Guarantee and the Property Pledge and the transactions contemplated thereunder.

A circular containing, among other matters, (i) details of the Bank Loan Agreement, the Connected Loan Agreement, the Corporate Guarantee and the Property Pledge; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of EGM will be despatched to the Shareholders on or before 20 April 2018.

## **DEFINITIONS**

“A Shares”		domestic shares of the Company with nominal value of RMB1.00 each, which are subscribed for in RMB
“associates”		has the meaning ascribed to this term under the Listing Rules
“Bank”		The Export-Import Bank of China, a PRC licensed bank and an Independent Third Party
“Bank Loan Agreement”	Loan	the loan agreement entered into between the Bank and the Substantial Shareholder
“Bank Loan Facility”	Loan	the loan facility up to RMB200 million under the Bank Loan Agreement
“Board”		the board of Directors
“Business Day”		a day(s) (excluding Saturday, Sunday or public holiday) on which licensed banks in Hong Kong and the PRC generally open for business throughout their normal business hours
“Company”		Shenji Group Kunming Machine Tool Company Limited, a joint stock limited company incorporated in the PRC, whose H Shares are listed on

	the Main Board of the Stock Exchange and whose A Shares are listed on the Shanghai Stock Exchange
“Connected Loan Agreement”	the loan agreement to be and entered into between the Substantial Shareholder as lender and the Company as borrower
“connected person”	has the meaning ascribed to this term under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held and convened to approve the Connected Loan Agreement, the Corporate Guarantee and the Property Pledge and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors established to advise the Independent Shareholders in respect of the terms of the Connected Loan Agreement, the Corporate Guarantee and the Property Pledge and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than the Substantial Shareholder and its associates
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is(are) independent of and not connected with any connected persons or any of their respective associate(s) (within the meaning of the Listing Rules) of the Group
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Substantial Shareholder”	瀋陽機床（集團）有限責任公司(Shenyang Machine Tool (Group) Company Limited*), an enterprise established in the PRC and a substantial shareholder (as defined in the Listing Rules) of the Company



“PRC”	the People’s Republic of China
“Shareholder(s)”	the registered holder(s) of A Share(s) and/or H Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

*\* The English translation of certain Chinese names or words in this announcement are included for reference purpose only and should not be regarded as the official English translation of such Chinese names or words.*

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

Kunming, PRC, 19 April 2018

*As at the date of this announcement, the Company’s executive directors are Mr. Wang He, Mr. Zhang Xiaoyi and Mr. Peng Liangfeng; non-executive directors are Mr. Liu Chunshi, Mr. Xia Changtao, Mr. Kang Jun and Ms. Wu Yu; and the independent non-executive directors are Mr. Na Chaohong, Mr. Chi Yilin, Ms. Jin Mei and Ms. Tian Ruihua.*