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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)**

**Supplementary Announcement on Expected Loss in the Annual Results of 2014**

This announcement is made pursuant to the Rule 13.09(2)(a) and 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance for simultaneous release of information in Shanghai and Hong Kong.

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.

The Company published the announcement (the “Announcement”) on expected loss in the annual results of 2014 on 31st January 2015. According to the request of Shanghai Stock Exchange, the Company now makes the further explanation to the Announcement.

- I. The reasons for the financial officer of the Company not confirming the estimated results and part of directors of the Company not having comments on this issue.  
Since the auditing of the annual report is processing, the financial officer of the Company is communicating with the auditors. Based on the current stage financial information, the auditors’ initial feedback to the financial officer was that the results would be a large loss. Part of directors of the Company considered that before the audit completed, after taking certain measures, the expected loss would be RMB100 million. The financial officer considered that certain deviation existed between the loss and predicted loss of RMB100 million. Therefore, he did not agree with the predicted loss of RMB100 million. Since the uncertainties exist, the auditors also not give more accurate judgments. Thus, part of directors of the Company did not have comments on this issue.
- II. Currently, the Company still exists major uncertainties which affects the accuracy the performance forecast. In the communication with the auditors, agreement has yet been

reached. Since the workloads on final approach of the Company's annual results are large, in previous years, major issues should be completed in early March. Auditors will have audit conclusions in the later March. The presently made annual results forecast preliminarily calculation is based on the current information. There are many uncertainties affecting the accuracy of the forecast, including:

1. Bad debt provision for accounts receivable

The Company should provide accounts receivable list of individually significant with individual bad debt provision, and define the standard and provision interpreted of individually significant with individual bad debt provision. The work needs auditors review the impairment test of accounts receivable with individually significant and the Company should send request letters to the debtors (Company's customers) to obtain counter parties' repayment scheme. This issue and affected amount will exist uncertainty.

2. Deferred tax assets recyclability

Operating results of the company for the year was a loss before tax. So far the company has operating losses for three consecutive years (except for 2013 non-operating income). The company should consider the recyclability of deferred tax assets. For the expected unrealized parts should be written off. Auditors should analyze the profit forecast and assumption provided by the Company, assess deferred tax reversal amount which expected not be used during the tax deductible period after considering relevant assumption rationality. The effect of this issue exists uncertainty.

3. Diminution in value of inventories

Since inventories are measured at the lower of cost and net realizable, for some inventories, currently, the test is proceeding, the effect amount is undetermined as well.

Except for the above matters, other audit issues and amounts also affect the results of 2014. According to the current judgment, the loss maybe increases. However, due to the internal and external work progress need to coordinate, and in accordance with the guidelines on matters affecting the judgment, the overall affected amount is not yet clear.

III. The Company will complete confirmation process of the financial officer and related directors of the Company on the forecast as soon as possible and make the announcement.

Since the audit is in progress, the Company will communicate with the auditors actively and speed up the work progress. Because the above problems exist, now re-estimates may still have a large deviation. Therefore, the Company will issue more accurate supplementary or correction announcement at the end of February or in the early March under the circumstances of relatively clear audit conclusions.

Board of Directors

**Shenji Group Kunming Machine Tool Company Limited**

Kunming, PRC, 11 February, 2015

*As at the date of this announcement, the Company's executive directors are Mr. Wang Xing, Mr. Chang Baoqiang, Mr. Zhang Xiaoyi and Mr. Zhang Zeshun; 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.*