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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 CORRECTION OF ACCOUNTING ERRORS IN PRIOR YEARS

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.

IMPORTANT INFORMATION:

- Impact of correction of accounting errors in prior years on the Company’s profit, total assets and net assets etc.
 1. Accounting treatment of moulding flask at the end of 2012 led to the operating cost was understated by RMB34,860,213.24, and income tax benefit was understated by RMB5,229,031.99 both in the Company’s consolidated income statements for the year ended 31 December 2012. Inventory balance was overstated by RMB34,860,213.24 and deferred tax assets was understated by RMB5,229,031.99. The accounting error resulted in an overstatement of RMB29,631,181.25 on the opening and closing balances of the Company’s shareholders' equity both at consolidated and company level.
 2. As a result of accounting treatment for the repair transaction of moulding flask, revenue was overstated by RMB33,346,375.53, cost of revenue was overstated by RMB34,618,883.73, and income tax benefit was overstated by RMB190,876.22, accounts receivable was overstated by RMB33,346,375.53, other payables was understated by RMB241,329.51, and deferred tax assets was overstated by RMB190,876.22. The accounting error resulted in an understatement of RMB1,081,631.98 in both the Company’s consolidated and company-level shareholders’ equity at 31 December 2013.

I. General information of accounting errors in prior years

1. Accounting treatment of moulding flask as at 31 December 2012

Moulding flask is one of the ancillary materials being used in the Company's production, and according to the Company's accounting policy, the carrying amount of moulding flask should be fully charged to profit or loss upon usage. As at 31 December 2012, the Company recorded certain moulding flasks, which had been used in production and charged to profit or loss, within in work-in-progress at amount of RMB 34,860,213.24, with a corresponding reversal of cost of revenue at the same amount. This accounting treatment is not consistent with the Company's accounting policy.

As a result of this accounting error, cost of revenue was understated by RMB34,860,213.24, and income tax benefit was understated by RMB5,229,031.99 both in the Company's consolidated and company-level income statements for the year ended 31 December 2012. Moreover, inventory balance was overstated by RMB34,860,213.24 and deferred tax assets was understated by RMB5,229,031.99 both on the Company's consolidated and company-level balance sheet as at 31 December 2012. With respect to the statement of changes in equity for the year ended 31 December 2013, the accounting error resulted in an overstatement of RMB29,631,181.25 on the opening and closing balances of the Company's shareholders' equity both at consolidated and company level.

2. Accounting treatment for the repair transaction of moulding flask in the year ended 31 December 2013

In 2013, the Company employed a third party to repair the above-mentioned moulding flasks. The Company entered into two separate agreements for this repair transaction, including an agreement to sell the moulding flasks to the party who was to carry out the repair work, and another agreement to re-purchase these moulding flasks back upon completion of the repair work. For accounting purpose, the Company recorded these two agreements as separate sales and purchase transactions. The Company recorded revenue and cost of revenue in respect of the sales agreement in 2013, and then recorded purchase of moulding flasks in inventories in respect of the purchase agreement in 2014. In 2014, pursuant to the requirement of the relevant accounting standards, and in order to reflect the commercial substance of the underlying transaction, the Company considered that these 2 agreements should be accounted for as a repair transaction, and the related repair & maintenance cost should be recorded in profit or loss in 2013.

As a result of this accounting error, revenue was overstated by RMB33,346,375.53, cost of revenue was overstated by RMB34,618,883.73, and income tax benefit was overstated by RMB190,876.22 both in the Company's consolidated and company-level income statements for the year ended 31 December 2013. Moreover, accounts receivable was overstated by RMB33,346,375.53, other payables was understated by RMB241,329.51, and deferred tax assets was overstated by RMB190,876.22 both on the Company's consolidated and company-level balance sheet as at 31 December 2013. With respect to the statement of

changes in equity for the year ended 31 December 2013, the accounting error resulted in an understatement of RMB1,081,631.98 in both the Company's consolidated and company-level shareholders' equity at 31 December 2013.

The motion was passed at the 6th meeting of the 8th board of directors of the Company, and will be submitted to the shareholders' meeting for consideration and approval.

II. The specific situations and the effects on the Company

1. Effects of correction of the above accounting errors in prior years in the 2013 consolidated income statement and the Group's opening and closing balances of shareholders' equity for 2013 are summarised as follows (expressed in RMB):

The Group

	<i>increase /(decrease)</i>		
	<i>Net profit</i>	<i>Closing balances of shareholders' equity</i>	<i>Opening balances of shareholders' equity</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Net profit and shareholders' equity before adjustment	9,325,291.11	1,372,915,706.66	1,363,590,415.55
- Moulding flasks as at 31 December 2012	-	(29,631,181.25)	(29,631,181.25)
- Repair transaction of moulding flasks in the year ended 31 December 2013	1,081,631.98	1,081,631.98	-
Total	1,081,631.98	(28,549,549.27)	(29,631,181.25)
Net profit and shareholders' equity after adjustment	10,406,923.09	1,344,366,157.39	1,333,959,234.30

The Company

	<i>increase /(decrease)</i>		
	<i>Net profit</i>	<i>Closing balances of shareholders' equity</i>	<i>Opening balances of shareholders' equity</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Net profit and shareholders' equity before adjustment	5,690,167.34	1,302,088,138.35	1,296,397,971.01
- Moulding flasks as at 31 December 2012	-	(29,631,181.25)	(29,631,181.25)

- Repair transaction of moulding flasks in the year ended 31 December 2013	1,081,631.98	1,081,631.98	-
Total	1,081,631.98	(28,549,549.27)	(29,631,181.25)
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Net profit and shareholders' equity after adjustment	6,771,799.32	1,273,538,589.08	1,266,766,789.76
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Affected assets and liabilities items in the consolidated balance sheet as at 31 December 2013:

The Group

	<i>Before adjustment RMB</i>	<i>Adjustment RMB</i>	<i>After adjustment RMB</i>
Accounts receivable	421,649,692.09	(33,346,375.53)	388,303,316.56
Deferred tax assets	64,288,487.72	5,038,155.77	69,326,643.49
Other payables	121,768,252.44	241,329.51	122,009,581.95
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The Company

	<i>Before adjustment RMB</i>	<i>Adjustment RMB</i>	<i>After adjustment RMB</i>
Accounts receivable	331,925,136.42	(33,346,375.53)	298,578,760.89
Deferred tax assets	54,243,236.75	5,038,155.77	59,281,392.52
Other payables	123,094,286.24	241,329.51	123,335,615.75
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Affected income and expenses items in the consolidated income statement for the year ended 31 December 2013:

The Group

		<i>Before adjustment RMB</i>	<i>Adjustment RMB</i>	<i>After adjustment RMB</i>
Operating income	1,062,835,255.27	(33,346,375.53)	1,029,488,879.74	
Operating costs		837,116,958.98	(34,618,883.73)	802,498,075.25
Income tax (benefit) / expense		(660,370.34)	190,876.22	(469,494.12)
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The Company

	<i>Before adjustment RMB</i>	<i>Adjustment RMB</i>	<i>After adjustment RMB</i>
Operating income	916,579,330.62	(33,346,375.53)	883,232,955.09
Operating costs	729,393,037.66	(34,618,883.73)	694,774,153.93
Income tax (benefit) / expense	(457,422.71)	190,876.22	(266,546.49)

2. Impact of the correction of accounting errors in prior years

The above two-mentioned accounting errors in prior years were corrected in 2014, and the Company adopted the retrospective restatement method to adjust relevant items in the Company's consolidated and company-level income statements for the year ended 31 December 2013. For details, please read the 2014 Special Report on Correction of Accounting Errors in Prior Years issued by the Company's auditor - KPMG Huazhen (Special General Partnership).

3. Explanation on nature and reasons of the correction issues by the Board and management of the Company

Regarding the issues of correction of accounting errors in prior years, the board of directors and management of the Company instructed the related financial department, business division for rectification to strengthen the fully communication and information docking management between the business division and the financial department to improve the accuracy of information checking. The Company will organize training for relevant personnel regularly and organize training promptly when large-scale changing of staff. The Board and management of the Company suggested to establish the relevant supervisory department from time to time to review the business division.

III. Conclusive opinions of independent non-executive directors and supervisory committee

When major adjustment occurred in the internal organization of the Company, there was no systematic training for the key link or key positions, nor effective monitoring and control before and after the change. The management and the relevant departments of the Company should conduct a review and summary regarding the correction issue to strengthen management, to improve management awareness and management level and to prevent the occurrence of similar events in the future.

IV. Internet announcement appendix

2014 Special Report on Correction of Accounting Errors in Prior Years

Board of Directors
Shenji Group Kunming Machine Tool Company Limited

Kunming, PRC, 30 March, 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.