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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

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.

I. Overview

Due to financial irregularities in 2013-2015, the Company received the Decision of Administrative Penalties Issued by CSRC (the Company and Wang Xing and Chang Baoqiang etc. 23 Responsible Persons) on 12 February 2018.

In the special audit for the year 2016, the Company’s auditors found the following accounting errors in the previous years:

- (1) Assets not being transferred in fixed assets in time led to less depreciation and more capitalized loan interest;
- (2) Understatement of the freight and warranty in selling and distribution expenses;
- (3) Intangible assets included expenditures which should be expensed;
- (4) Understatement of termination benefits in general and administrative expenses in 2016;
- (5) At the end of 2016, understatement of inventory impairment at the end of the period.

The correction of accounting errors was considered and approved by the 8th meeting of the 9th board of directors.

II. Specific situation and the impact on the Company

1. Penalty by China Securities Regulatory Commission (“CSRC”): regarding the false increase of the cost of revenue, the inter-period revenue and falsely increased revenue of the Company from 2013 to 2015 of RMB483,080,163.99 should be reduced; business

taxes and surcharges of RMB9,867,912.30, impairment losses of assets of RMB36,857,915.08 and sales expenses of RMB2,589,621.35 should be reduced, and reduced operating costs of RMB235,272,252.56 simultaneously. Regarding understatement of termination benefits and senior management remuneration, increased general and administrative expenses of RMB29,608,616.03 from 2013 to 2015. After adjustment, at the beginning of 2016, the undistributed profits decreased by RMB228,101,078.73.

The Company conducted the errors correction to the above three previous accounting errors based on the results of the self-inspection in the 2016 annual report which published on 24 April 2017. After the CSRC published the inspection results, the Company made additional adjustments according to the inspection results. After adjustments, decreased the profit of RMB29,027,658.95 in the period of 2016, increased undistributed profit of RMB4,597,923.08 at the beginning of 2017, increased accounts receivable of RMB5,801,738.62 at the beginning of the year, increased advances from customers of RMB946,819.48 at the beginning of the year and increased taxes payable at the beginning of the year of RMB256,996.06.

2. Correction of other accounting errors:

According to the requirements of Accounting Standards for Business Enterprises No. 28 - Changes in Accounting Policies and Accounting Estimation, and Corrections of Accounting Errors, the Company corrected the above-mentioned assets not being transferred in fixed assets in time etc. the accounting errors, and the undistributed profits at the beginning of 2017 was totally reduced by RMB123,671,181.56.

3. Adjusted items and amount

Affected items	Opening balance before the adjustment	Cumulated affected amount	Opening balance after the adjustment
Accounts receivable	259,904,634.81	18,969,238.75	278,873,873.56
Inventories	816,377,484.79	-63,912,709.40	752,464,775.39
Fixed assets	509,534,030.42	-47,922,397.96	461,611,632.46
Intangible assets	192,817,805.86	-5,998,752.04	186,819,053.82
Accounts payable	396,549,135.80	10,216,008.98	406,765,144.78
Advances from customers	256,093,986.41	946,819.48	257,040,805.89
Taxes payable	14,826,486.29	256,996.06	15,083,482.35
Long-term employee benefits payable	43,770,952.86	5,371,442.46	49,142,395.32
Provisions	9,946,277.60	1,295,504.91	11,241,782.51
Undistributed profits at the beginning of the year	-232,779,810.15	-123,671,181.56	-356,450,991.71
Operating income	624,778,109.07	21,099,124.06	645,877,233.13
Operating costs	614,902,261.60	49,879,530.09	664,781,791.69
Business taxes and surcharges	12,275,598.43	1,189,726.77	13,465,325.20

Affected items	Opening balance before the adjustment	Cumulated affected amount	Opening balance after the adjustment
Selling and distribution expenses	72,737,122.64	11,511,513.89	84,248,636.53
General and administrative expenses	199,462,959.80	8,316,751.61	207,779,711.41
Financial expenses	55,088,902.60	344,375.00	55,433,277.60
Impairment losses	126,750,277.44	50,830,657.07	177,580,934.51

III. Concluding observations of the independent non-executive directors, supervisory committee and the accounting firm

Explanation of the board of directors on correction of material accounting errors of prior periods has been considered and approved by the 8th meeting of the Board and the 3rd meeting of the supervisory committee. The Board and the supervisory committee considered that the correction of accounting errors of prior periods complied with laws, regulations, and provisions of financial accounting system, objectively and truly reflected the financial position of the Company and did not impair the legitimate rights and interests of the Company and all shareholders.

The independent non-executive directors of the Company considered that the correction of accounting errors complied with the regulations of Accounting Standards for Enterprises and the Rules on Disclosure, Preparation and Report on the Information of Companies with Publicly Issued Securities No.19 - Correction and Relevant Disclosure of Financial Information (《公開發行證券的公司信息披露編報規則第 19 號-財務信息的更正及相關披露》). The consideration and voting procedures of the Board of the Company on the correction of accounting errors complied with the requirements of laws, regulations and the Articles of Association of the Company.

IV. Internet announcement attachments (if applicable)

1. Resolutions of Board meeting
2. Resolutions of the meeting of supervisory committee
3. Opinions of the accounting firm

Board of Directors
Shenji Group Kunming Machine Tool Company Limited

Kunming, PRC, 27 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.