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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)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Hereby sets out the Announcement on Reply to the Enquiry Letter of Securities Regulatory Bureau of Yunnan Province on the Commitment Matters of Shenyang Machine Tool (Group) Company Limited published on the website of Shanghai Stock Exchange (www.sse.com.cn) and China newspapers for reference only.

Board of Directors
Shenji Group Kunming Machine Tool Company Limited

Kunming, the PRC, 25 July 2018

As at the date of this announcement, the Company's executive directors are Mr. Wang He, Mr. Zhang Xiaoyi, Mr. Peng Liangfeng and Ms. Xu Juan; 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.

**Announcement on Reply to the Enquiry Letter of
Securities Regulatory Bureau of Yunnan Province on
the Commitment Matters of Shenyang Machine Tool (Group) Company Limited**

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 started self-inspection on 11 July 2018 on the matters stated in the Enquiry Letter of the Securities Regulatory Bureau of Yunnan Province on the Commitment Matters of Shenyang Machine Tool (Group) Company Limited issued by the Securities Regulatory Bureau of Yunnan Province (No. 220 [2018] Yun Zheng Jian Han). The result of the self-inspection is replied to the Securities Regulatory Bureau of Yunnan Province. The reply is as follows:

China Securities Regulatory Commission Yunnan Securities Regulatory Bureau:

The Company started self-inspection on 11 July 2018 according to the requirements after receiving your Enquiry Letter of the Securities Regulatory Bureau of Yunnan Province on the Commitment Matters of Shenyang Machine Tool (Group) Company Limited. Relevant information is reported as follows:

I. Information disclosure and explanation

On 2 November 2012, Shenyang Machine Tool (Group) Company Limited (“Shenyang Group”) committed to Shenyang Machine Tool Company Limited (“Shenyang Machine Tool”) that it would strive to eliminate the industry competition between Shenyang Machine Tool and Shenji Group Kunming Machine Tool Company Limited (the “Company”) within 60 months from 1 January 2013 through appropriate way in accordance with the requirements under national and relevant district laws and regulations, and strive to settle the industry competition problem between the subordinate non-listed companies of Shenyang Group and Shenyang Machine Tool within 36 months from 1 January 2013. Shenyang Machine Tool published the announcement to disclose the information on the following day.

On 14 December 2015, Shenyang Group changed its commitment of avoiding industry competition to Shenyang Machine Tool, committed that it would strive to settle the industry competition problem between the subordinate non-listed companies of Shenyang Group and Shenyang Machine Tool within 24 months from 1 January 2016. The Commitment of elimination of the industry competition between Shenyang Machine Tool and the Company within 60 months from 1 January 2013 remained unchanged. On 30 December 2015, after consideration and

approval by the 7th EGM of 2015 of Shenyang Machine Tool, the changed commitment took effect. Shenyang Machine Tool published the announcements on 15 December 2015 and 31 December 2015 respectively.

On 24 October 2017, Shenyang Group changed the above commitment again. On 16 November 2017, Shenyang Machine Tool convened the sixth EGM which considered and approved the Proposal on Controlling Shareholder Changing Industry Competition Commitment Letter. Shenyang Machine Tool published the announcements on 28 October 2017 and 17 November 2017 respectively.

The Company was not the directly committed party of the commitment made by the actual controller. When Shenyang Group made the commitment to Shenyang Machine Tool and changed the commitment, the Company did not receive the relevant written information issued by Shenyang Group. Therefore, before disclosure of such information in the annual report of 2016 of the Company, the Company did not disclose the above commitment matters made by Shenyang Group. During the process of conducting 2016 annual report auditing and self-inspection of the commitments of the substantial shareholder, the Company concerned that Shenyang Group as the substantial shareholder of the Company, its commitment of settlement of industry competition to Shenyang Machine Tool indirectly affected the Company. The Company considered that according to the relevant regulations of Shanghai Stock Exchange Listing Rules, Guideline No. 4 for the Supervision of Listed Companies – Commitments and Fulfillment of Commitments of the Actual Controllers, Shareholders, Related Parties, and Acquirers of Listed Companies as Well as the Listed Companies, Hong Kong Listing Rules and the regulation of Article 30 under Issue No.2 of “The Content and Format of Disclosure of Information of the Listed Companies”(amended in 2015), the above commitment belonged to the commitment which the substantial shareholder made to the small and medium shareholders of the Company. In order to ensure the truthfulness, accuracy, completeness and fairness of information disclosure, the Company chose to disclose the commitment matter in the 2016 periodic report. The details of the disclosure were “Elimination of industry competition between the Company and Shenyang Machine Tool within 60 months from 1 January 2013. Shenyang Group currently has no specific transfer plan and will legally transfer the equity of the Company at the time permitted by laws and regulations.”

As stated above, the matter regarding Shenyang Group changing commitment of the industry competition had been considered and approved by the shareholders’ meeting of Shenyang Machine Tool and took effect. However, Shenyang Group did not issue written materials in respect of the changing commitment to the Company. As the matter was special, it is difficult for the Company to master measure of the information disclosure. Therefore, the commitment of settlement of industry competition stated in the annual report of 2016 of the Company was continued to state in the annual report of 2017 of the Company.

II. Whether the commitment disclosed in the Company’s periodic report expired but not implemented

According to the Special Legal Opinions on Related Issues of the Enquiry Letter of the Securities Regulatory Bureau of Yunnan Province on the Commitment Matters of Shenyang Machine Tool (Group) Company Limited issued by Grandall Law Firm (Kunming), the Company considered that Shenyang Group had postponed the commitment of avoiding industry competition when the Company disclosed the information in the periodic report. Therefore, the problem of the commitment expired but not implemented did not exist.

III. Whether the change of Commitment should fulfill the relevant procedure by the Company

According to the Special Legal Opinions on Related Issues of the Enquiry Letter of the Securities Regulatory Bureau of Yunnan Province on the Commitment Matters of Shenyang Machine Tool (Group) Company Limited issued by Grandall Law Firm (Kunming) and the Legal Opinions Regarding the Elimination of Industry Competition between the Shenji Group Kunming Machine Tool Company Limited and Shenyang Machine Tool Company Limited made by Liaoning Chenggong Jinneng Law Firm, the change of commitment did not need to fulfill relevant procedures by the Company. Pursuant to Guideline No. 4 for the Supervision of Listed Companies – Commitments and Fulfillment of Commitments of the Actual Controllers, Shareholders, Related Parties, and Acquirers of Listed Companies as Well as the Listed Companies, “if the relevant party is unable to fulfill the existing commitment(s) in accordance with the foregoing provisions, the related party may submit the changed commitment(s) or exemption of fulfillment of the commitment(s) to the shareholders' meeting for consideration.” As the commitment was made by Shenyang Group to Shenyang Machine Tool, therefore, the change of commitment only needed to fulfill the procedure of consideration by shareholders’ meeting and it did not need to fulfill the relevant procedures by the Company.

IV. Whether the procedure of the change of Commitment of Shenyang Group was legal and valid

According to the Legal Opinion Regarding the Elimination of Industry Competition between the Shenji Group Kunming Machine Tool Company Limited and Shenyang Machine Tool Company Limited made by Liaoning Chenggong Jinneng Law Firm, the procedure of the change of Commitment of Shenyang Group was legal and valid. According to Guideline No. 4 for the Supervision of Listed Companies – Commitments and Fulfillment of Commitments of the Actual Controllers, Shareholders, Related Parties, and Acquirers of Listed Companies as Well as the Listed Companies: “If the commitment(s) cannot be fulfilled or cannot be fulfilled on time due to objective reasons such as change of relevant laws, regulations and policy, natural disasters, etc. which beyond the control of the relevant party(ies), the relevant party(ies) shall promptly disclose relevant information. In addition to objective reasons such as change of relevant laws, regulations and policy, natural disasters, etc. which beyond the control of the relevant party, if the commitment is not fulfilled or the fulfillment of the commitment is not beneficial to protect the interests of the listed company, the relevant party(ies) should fully disclose the reasons, and propose new commitment to replace the original commitment or propose to exempt the obligation of fulfillment

of the commitment to the listed company or other investors. The above change of commitment shall be submitted to the shareholders' meeting for consideration. The listed company shall provide shareholders with online voting methods and relevant party(ies) who made the commitment and related parties should abstain from voting.” In view of factors such as changes in market environment and complex resources integration, Shenyang Group could not thoroughly solve the problem of industry competition between its subordinate companies and Shenyang Machine Tool. On 24 October 2017, Shenyang Group conducted change to the original commitment. The Proposal on Controlling Shareholder Changing the Commitment of Industry Competition was passed at the 5th meeting of the 8th board of directors of Shenyang Machine Tool which held on 26 October, and related directors abstained from voting. On 16 November 2017, the Proposal on Controlling Shareholder Changing the Commitment of Industry Competition was passed at the 6th EGM of 2017, and Shenyang Group abstained from voting. The procedure of the change of Commitment of Shenyang Group was legal and valid. The changed commitment has been effective after approval by the shareholders’ meeting of Shenyang Machine Tool.

V. Whether the Commitment matter violated relevant regulations of information disclosure

As stated above, Shenyang Group made the avoiding industry competition commitment to Shenyang Machine Tool and it did not make the relevant commitment to the Company.

Therefore, such information did not disclose before they disclosed in the annual report of 2016 of the Company. During the process of self-inspection, the Company concerned the commitment matter. The Company considered that Shenyang Group as the substantial shareholder of the Company, its commitment of settlement of industry competition to Shenyang Machine Tool indirectly affected the Company, the commitment belonged to the commitment which substantial shareholder made to small and medium shareholders. Hence, the commitment was disclosed in the annual report of 2016 and annual report of 2017 of the Company. The crux of the commitment is that: whether the controlling shareholder who control two listed companies in the same industry only committed to one of the listed companies to solve the problem of industry competition belonged to making commitment to another listed company? Whether the effectiveness of commitment of controlling shareholder making separate commitment to one of the listed company to solve the problem of industry competition was effective to another listed company? Whether another listed company which indirectly affected by the commitment should disclose such commitment as the shareholder’s commitment? At present, no other similar cases are found in A-share listed companies, and there are no laws and regulations provide specific provisions for similar situation. Due to the uniqueness and particularity of the matter, it is difficult for the Company to master the information disclosure measure when disclosing the above commitments and the subsequent matters of the commitments. The disclosure existed certain flaws. According to the relevant opinions of the Company's lawyers, the Company will make corresponding amendment to the disclosure of the above commitments in the subsequent periodic reports.

The above is the full text of the Reply to the Enquiry Letter of the Securities Regulatory Bureau

of Yunnan Province on the Commitment Matters of Shenyang Machine Tool (Group) Company Limited.

Shenji Group Kunming Machine Tool Company Limited

25 July 2018