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 2018 FINAL RESULTS

The board of directors (the "Board") of Shenji Group Kunming Machine Tool Company Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises, together with the comparative figures in the same period of last year, set out as follows. The annual results of the Group have been reviewed by the Audit and Corporate Governance Committee of the Company (the "Audit and Corporate Governance Committee"). Most members of the Audit and Corporate Governance Committee are independent non-executive Directors of the Company.

The following published results data of the Group as at 31 December 2018 have been compared to the amount set out in the audited financial statements of the Group for the year ended 31 December 2017 by the Company's auditor Da Hua Certified Public Accountants (Special General Partnership), and Da Hua Certified Public Accountants (Special General Partnership) has issued standard unqualified audit report with emphasis of matter paragraphs.

CONSOLIDATED BALANCE SHEET
At 31 December 2018
(Expressed in Renminbi)

Assets	Closing Balance	Opening Balance
Current assets:		
Cash at bank and on hand	75,506,339.54	91,148,044.38
Financial assets measured at fair value with any change in fair value charged to current profit or loss		
Held for trading financial assets		
Derivative financial assets		
Bills receivable and accounts receivable	221,468,560.85	284,228,889.00
Prepayments	22,926,092.96	38,114,906.00
Other receivables	12,398,524.76	19,794,921.53
Inventories	401,945,580.88	561,821,346.40
Contract assets		
Assets held for sale		
Non-current assets due within one year		
Other current assets	5,686,355.64	18,165,469.49
Total current assets	739,931,454.63	1,013,273,576.80
Non-current assets:		
Available-for-sale financial assets		
Held-to-maturity investments		
Debt investments		
Other debt investments		
Long-term receivables		
Long-term equity investments	8,747,249.21	10,039,220.02
Other equity instrument investment		
Other non-current financial assets	612,000.00	612,000.00
Investment properties	14,388,255.72	14,826,693.00
Fixed assets	373,161,637.67	409,396,449.93
Construction in progress	70,645,813.07	54,044,868.15
Productive biological assets		
Oil and gas assets		
Intangible assets	159,087,181.40	178,785,639.52
Development costs	38,116,809.77	4,150,415.13
Goodwill		
Long-term deferred expenses	4,692,958.13	
Deferred tax assets	2,533,005.71	2,393,247.69
Other non-current assets	4,116,091.08	4,116,091.08
Total non-current assets	676,101,001.76	678,364,624.52
Total assets	1,416,032,456.39	1,691,638,201.32

CONSOLIDATED BALANCE SHEET *(CONTINUED)*
At 31 December 2018
(Expressed in Renminbi)

Liabilities and shareholders' equity	Closing Balance	Opening Balance
Current liabilities:		
Short-term loans	241,000,000.00	363,683,036.94
Financial liabilities measured at fair value with any change in fair value charged to current profit or loss		
Held for trading financial liabilities		
Derivative financial liabilities		
Bills payable and accounts payable	303,528,115.97	320,626,464.70
Advances from customers		
Contract liabilities	310,370,448.64	282,852,805.07
Employee benefits payable	47,242,378.23	39,039,042.73
Taxes payable	12,335,198.36	11,643,532.84
Other payables	536,839,983.54	389,284,243.04
Liabilities held for sale		
Non-current liabilities due within one year		45,000,000.00
Other current liabilities		
Total current liabilities	1,451,316,124.74	1,452,129,125.32
Non-current liabilities:		
Long-term loans		1,665,275.66
Debentures payable		
Long-term payable	20,947,539.29	20,947,539.29
Long-term employee benefits payable	37,004,116.91	41,689,562.44
Provisions	8,933,077.54	10,513,913.91
Deferred income	186,672,525.78	195,202,914.02
Deferred tax liabilities		
Other non-current liabilities		
Total non-current liabilities:	253,557,259.52	270,019,205.32
Total liabilities	1,704,873,384.26	1,722,148,330.64
Shareholders' equity:		
Share capital	531,081,103.00	531,081,103.00
Other equity instruments		
Capital reserve	19,765,031.17	19,765,031.17
Less: Treasury stock		
Other comprehensive income		
Specific reserve		
Surplus reserve	117,077,019.33	117,077,019.33
Retained earnings	-956,953,642.25	-706,144,182.57
Total equity attributable to shareholders of the Company	-289,030,488.75	-38,221,029.07
Non-controlling interests	189,560.88	7,710,899.75
Total shareholders' equity	-288,840,927.87	-30,510,129.32
Total liabilities and shareholders' equity	1,416,032,456.39	1,691,638,201.32

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

Item	2018	2017
I. Operating income	494,604,933.27	560,399,237.36
Less: Operating costs	483,044,158.91	582,290,174.33
Business taxes and surcharges	7,261,951.46	7,115,290.08
Selling and distribution expenses	70,193,433.64	85,193,796.00
General and administrative expenses	135,140,686.68	164,273,889.23
R & D expenses	12,927,256.00	5,739,242.43
Financial expenses	28,348,222.90	56,469,493.05
Including:： Interest expenses		
Interest income		
Assets impairment losses	1,175,708.66	18,059,173.52
Credit impairment losses	27,326,664.53	
Add: Other income	16,795,895.16	8,883,770.03
Investment income/loss	190,415.07	-3,107,018.80
Including: Investment (loss)/income from investment in associates and jointly controlled enterprises	-1,291,970.81	-3,107,018.80
Gains from net exposure hedges		
Gains from changes in fair values		
Gain on disposal of assets	931,849.77	802,737.87
II. Operating profit	-252,894,989.51	-352,162,332.18
Add: Non-operating income	2,618,139.21	1,828,974.47
Less: Non-operating expenses	3,193,706.27	1,052,847.51
III. Total profit	-253,470,556.57	-351,386,205.22
Less: Income tax expenses	-139,758.02	747,256.32
IV. Net profit	-253,330,798.55	-352,133,461.54
Including: the net profit realized by the combined party before the business combination under common control		
(I) Classified by operating continuity		
Net profit from continuing operations	-251,511,921.30	-352,133,461.54
Net profit of discontinued operation	-1,818,877.25	
(II) Classified by ownership		
Net profit attributable to:		
Shareholders of the Company	-250,809,459.68	-349,693,190.86
Non-controlling interests	-2,521,338.87	-2,440,270.68

Notes

(Expressed in Renminbi Yuan unless otherwise indicated)

1. Basis of preparation

The consolidated results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2018 but are extracted from those audited consolidated financial statements.

The financial statements have been prepared on a going concern basis. However, the matters of significant doubt which affect the Company's ability to continue as a going concern exist uncertainty.

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance (MOF) of the PRC.

These financial statements also comply with the disclosure requirements of "Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.15: General Provisions on Financial Reports" as revised by the China Securities Regulatory Commission in 2014.

These financial statements also comply with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance relevant disclosure requirements.

2. Segment reporting

(1) The determination basis and accounting policy of the reporting segment

The operating segments are determined based on the structure of the Company's internal organization, management requirements and internal reporting system. The operating segment refers to a component of the Company (the "Component") which satisfies the following conditions at the same time:

i. The Component can generate revenues and incur expenses in daily activities;

ii. The management of the Company assesses the operating results of the segments regularly in order to allocate resources to the segments and evaluates their performance;

iii. The financial status, operating results and cash flow etc. accounting information of the segments can be obtained;

The Company determines the reporting segment based on the operating segment, and the operating segment that satisfies one of the following conditions is determined to be the reporting segment:

i. The segment revenue of operating segment accounts for 10% or more of the total revenue of all segments;
ii. The absolute amount of the profit (loss) of the operating segment accounts for 10% or more of the absoluter amount of the total profit of all profit segments or total losses of all losses segments, whichever is bigger.

When the total amount of external transaction income of the operating segments of the reporting segments as determined by the above accounting policies accounts for less than 75% of the total consolidated income [or total corporate income], the Company should increase the number of reporting segments; include other operating segments which are not included in the reporting segments into the scope of the reporting segments according to the description below, until the proportion reaches 75%.:

i. Identifying the operating segments which are considered by the management that disclosure of such operating segments information is useful to users of accounting information as reporting segments;
ii. The operating segment is combined with one or more other operating segments as a reporting segment, such operating segments have similar economic characteristics and meet the conditions for the consolidation.

The inter-segment transfer price is determined by reference to the market price, and the assets and related expenses for which reporting segment are jointly used are allocated in proportion of income to different segment.

(2) The Company determines the considered factors, the types of products and services of the reporting segment,

The Group has two reportable segments, which are boring machines segment and turbo machines segment, determined based on the structure of its internal organization, management requirements and internal reporting system. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Group’s management to make decisions about resources to be allocated to each segment and assess its performance. It is reminded that the control of turbo machines business is now actually under the responsibility of the bankruptcy administrator.

(3) Financial information of the reporting segment

Item	*Boring machines*		*Turbo machines*		*Elimination between segments*		*Unallocated items*		*Total*	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Operating income from external customers	452,336,231.14	527,577,656.21	42,268,702.13	32,548,458.93					494,604,933.27	560,399,237.36
Inter segment operating income		-551,037.74				-551,037.74				-
Income from investment in associates and jointly controlled enterprises										
Assets impairment loss	34,239,023.93	24,757,217.86	-5,736,650.74	-6,698,044.34					28,502,373.19	18,059,173.52
Depreciation and amortization	51,435,049.38	50,278,430.13	665,937.68	3,499,062.60					52,100,987.06	53,777,492.73
Interest income form bank deposit	775,118.34	891,187.80	2,111.40	24,857.82					777,229.74	916,045.62
Interest expenses	26,524,190.57	44,099,697.08	1,009,461.24	2,316,413.26					27,533,651.81	46,416,110.34
Income before income tax ("-"for loss)	-250,333,860.57	-345,148,148.96	-3,136,696.00	-6,238,056.26					-253,470,556.57	-351,386,205.22
Income tax expense/("-" for tax benefit)	-139,758.02	747,256.32							-139,758.02	747,256.32
Net income/("-" for net losses)	-250,194,102.55	-353,873,095.89	-3,136,696.00	-6,238,056.26					-253,330,798.55	-352,133,461.54
Total assets	1,384,207,422.53	1,547,223,039.55	42,791,899.39	154,898,831.19	-10,966,865.54	-10,483,669.42			1,416,032,456.38	1,691,638,201.32
Total liabilities	1,578,929,385.07	1,508,684,630.62	114,977,133.65	223,947,369.44	-10,966,865.54	-10,483,669.42			1,704,873,384.26	1,722,148,330.64
Other items：	-									-
- Operating income	426,007,391.03	493,404,001.11	42,268,702.13	32,548,458.93		-551,037.74			468,276,093.16	525,952,460.04
- Operating cost	423,842,768.66	507,792,372.32	33,892,203.24	40,193,884.83					457,734,971.90	547,986,257.15
- Long-term equity investment in associates and financial assets available for sale	457,764,426.38								457,764,426.38	10,039,220.02
- The amounts of additions / (decrease) to non-current assets other than long-term equity investments	30,294,580.88	-41,209,342.19	-31,266,232.83	-3,261,879.67					-971,651.95	-44,471,221.86

3. Cash at bank and on hand

Item	31 December 2018	31 December 2017
Cash on hand	173,066.00	158,990.67
Deposits with banks	70,784,613.08	90,104,324.80
Other monetary funds	4,548,660.46	884,728.91
Total	75,506,339.54	91,148,044.38
Of which, total amount of funds deposited overseas		

Details of the restricted monetary capital are as follows:

Item	31 December 2018	31 December 2017
Security deposit for bank acceptance bills	7.15	7.11
Deposit for letter of credit	1,606,126.26	82.17
Deposit for letter of guarantee	2,942,527.05	884,639.63
Frozen bank deposit	9,350,492.02	
Total	13,899,152.48	884,728.91

4. Bills receivable and accounts receivable

Item	31 December 2018	31 December 2017
Bills receivable	27,816,999.24	29,684,093.00
Accounts receivable	193,651,561.61	254,544,796.00
Total	221,468,560.85	284,228,889.00

（1） Classification of bills receivable

Item	31 December 2018	31 December 2017
Bank acceptance notes	23,172,999.24	28,334,093.00
Commercial acceptance notes	4,644,000.00	1,350,000.00
Total	27,816,999.24	29,684,093.00

（2） Accounts receivable

A. Disclosure of accounts receivable by category

Type	2018				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable with individual bad debt provision for expected credit losses	22,527,757.01	4.31	22,527,757.01	100.00	-
Accounts receivable with bad debt provision for excepted credit losses by combination	486,005,815.42	92.88	292,354,253.81	60.15	193,651,561.61
Of which: Combination 1 Aging group	412,222,067.16	78.78	292,354,253.81	70.92	119,867,813.35
Combination 2 related parties	73,783,748.26	14.10		Not making	73,783,748.26
Individually not significant but with individual bad debt provision	14,731,911.42	2.82	14,731,911.42	100.00	
Total	523,265,483.85	100.00	329,613,922.24	62.99	193,651,561.61

Continued:

Type	2017				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Not making （%）	
Accounts receivable with individual bad debt provision for expected credit losses	22,527,757.01	3.94	22,527,757.01	100.00	-
Accounts receivable with bad debt provision for excepted credit losses by combination	535,168,306.00	93.49	280,623,510.00	52.44	254,544,796.00
Of which: Combination 1 Aging group	461,337,065.35	80.59	280,623,510.00	60.83	180,713,555.35
Combination 2 related parties	73,831,240.65	12.90	-	Not making	73,831,240.65
Individually not significant but with individual bad debt provision	14,731,911.42	2.57	14,731,911.42	100.00	-
Total	572,427,974.43	100.00	317,883,178.43	55.53	254,544,796.00

B. Disclosure of accounts receivable by aging

Aging	31 December 2018	31 December 2017
Within 1 year	140,016,478.94	185,405,285.44
1 to 2 years	51,056,271.20	31,250,160.01
2 to 3 years	18,459,074.55	105,478,450.80
Over 3 years	313,733,659.16	250,294,078.18
Total	523,265,483.85	572,427,974.43

5. Short-term loans

Item	31 December 2018	31 December 2017
Loans secured by mortgage	132,000,000.00	21,433,036.94
Guaranteed loans	109,000,000.00	342,250,000.00
Total	241,000,000.00	363,683,036.94

Description of classification of short-term loans:

Shenyang Machine Tool (Group) Company Limited ("Shenyang Group") provided guarantee for the Group's financing facilities to Bank of Communications， and the Company also provided 102 machine equipment as collateral (book value of the machine equipment was RMB23,539,018.19, and evaluation of the machine equipment was RMB31,551,239.00) to obtain banking facilities. As at 31 December 2018, Bank of Communications provided RMB132 million banking facilities to the Company (31 December 2017, RMB141 million. On 26 June 2018, the Company borrowed RMB132 million short- term loan to repay the existing loan.

Shenyang Group provided guarantee for the Company's financing facilities to Hengfeng Bank. As at 31 December 2018, banking facilities was RMB70million (31 December 2017: RMB70 million), the balance of short-term loan used by the Company was RMB70 million as at 31 December 2018 (31 December 2017: RMB70 million).

The subsidiary of the Company, Kunming Kunji General Machine Co., Ltd. provided guarantee for the Company's financing facilities to China Guangfa Bank. As at 31 December 2018, the banking facilities was RMB39 million (31 December 2017: RMB40 million), the balance of short-term loan used by the Company was RMB39 million as at 31 December 2018 (31 December 2017: RMB40 million).

6. Bills payable and accounts payable

Item	31 December 2018	31 December 2017
Bills payable		
Accounts payable	303,528,115.97	320,626,464.70
Total	303,528,115.97	320,626,464.70

(1) Accounts payable

Item	31 December 2018	31 December 2017
Related parties outside the consolidation scope	22,106,351.93	16,411,898.30
Accounts payable for material	253,941,230.12	281,684,503.60
Payable for projects	3,378,164.49	5,213,316.59
Other payables	24,102,369.43	17,316,746.21
Total	303,528,115.97	320,626,464.70

Important accounts payable with an aging over one year

Name	31 December 2018	**Unpaid or not settled reason**
Yunnan CY Group Co., Ltd.	6,095,143.36	Contract not completed
Bo Sen Technology Development Co., Ltd. at Yantai Development Zone	4,390,023.69	Contract not completed
Kunming Da Ban Qiao Forging Co., Ltd	3,966,072.91	Contract not completed
Yunnan CY Group Jinhui Spraying Factory	3,095,478.59	Contract not completed
Chongqing Nachuan Heavy industry Equipment Manufacturing Co., Ltd.	2,912,276.28	Contract not completed
Total	20,458,994.83	—

7. Long-term loans

Types of loans	31 December 2018	31 December 2017
Loans secured by pledge	-	-
Loans secured by mortgage	-	46,665,275.66
Less: guaranteed loans due within one year	-	45,000,000.00
Total	-	1,665,275.66

8. Repurchase, sale and redemption of securities of the Company

During the reporting period, the Company did not redeem any of its shares. The Company or its subsidiaries had not repurchased or sold any of the Company's shares during the year ended 31 December 2018.

9. Retained earnings

Item	**Amount**	Extraction or allocation proportion (%)
Before adjustment, closing balance of retained earnings	-706,144,182.57	—
Adjustment on opening balance of retained earnings ("+" for increase, "-" for decrease -)		—
Opening balance of the retained earnings of the year after adjustment	-706,144,182.57	—
Add: net profit for the year attributable to the shareholders of the parent company	-250,809,459.68	—
Less: statutory surplus reserve		
the discretionary surplus reserve		
Common stock dividends payable		
Closing balance of retained earnings of the year	-956,953,642.25	

10. Dividends

The Board of directors did not propose to distribute a final dividend for 2018 in accordance with the Company's dividend policy after the balance sheet date.

11. Net current assets

	2018	2017
Current assets	739,931,454.63	1,013,273,576.80
Less: current liabilities	1,451,316,124.74	1,452,129,125.32
Net current assets	-711,384,670.11	-438,855,548.52

12. Total assets less current liabilities

	2018	2017
Total assets	1,416,032,456.39	1,691,638,201.32
Less: current liabilities	1,451,316,124.74	1,452,129,125.32
Total assets less current liabilities	-35,283,668.35	239,509,076.00

13. Operating income and operating costs

Item	2018		2017	
	Income	Cost	Income	Cost
Operating income from principal activities	468,276,093.16	457,734,971.90	525,952,460.04	547,986,257.15
Other operating income	26,328,840.11	25,309,187.01	34,446,777.32	34,303,917.18
Total	494,604,933.27	483,044,158.91	560,399,237.36	582,290,174.33

14. Financial expenses

Item	2018	2017
Interest expenses	27,533,651.81	45,865,072.60
Less: Interest income	777,229.74	916,045.62
Exchange gains and losses	1,334,304.44	11,146,025.67
Bank fees & charges	108,354.39	364,895.65
others	149,142.00	9,544.75
Total	28,348,222.90	56,469,493.05

15. Non-operating income

Item	2018	2017	The amount taken into non-recurring profit and loss of the current period
Gain on restructuring of debts	61,412.80	495,619.02	61,412.80
Compensation for breach of contract	810,000.00	896,897.00	810,000.00
Recovery of amounts by winning a case	674,818.00		674,818.00
Returned dividends by Shanghai Stock Exchange	470,388.62		470,388.62
Long-term account payable write-off	436,194.85		436,194.85
Others	165,324.94	436,458.45	165,324.94
Total	2,618,139.21	1,828,974.47	2,618,139.21

16. Income tax (income)/expenses

A. Table of income tax expenses

Item	Amount incurred in this year	Amount incurred in the last year
Current income tax expenses		705,388.63
Deferred income tax expense	-139,758.02	41,867.69
Total	-139,758.02	747,256.32

B. Reconciliation process of accounting profit and income tax expenses

Item	Amount incurred in this year
Total profit	-253,470,556.57
Income tax expenses calculated according to the appropriate/applicable tax rates	-49,756,617.47
The impact of subsidiaries applied for different tax rates	-273,231.28
The impact of adjusted income tax in the previous period	
The impact of non-taxable income	100,000.00
The impact of non-deductible costs, expenses and losses	3,086,404.66
The impact of using deductible loss of the deferred tax assets unrecognized in the previous period	
The impact of the deductible temporary difference or the deductible loss of the deferred tax assets unrecognized in the current period	70,150,511.39
R&D expenses	-23,446,825.32
Income tax expenses	-139,758.02

17. Calculation of basic losses per share and diluted losses per share

(1) Basic losses per share

Basic losses per share is calculated by dividing consolidated net losses of the Company attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding:

	2018	2017
Consolidated net losses attributable to ordinary equity shareholders of the Company (RMB)	(250,809,459.68)	(349,693,190.86)
Weighted average number of ordinary shares outstanding (Shares)	531,081,103	531,081,103
Basic losses per share (RMB/Share)	(0.47)	(0.67)

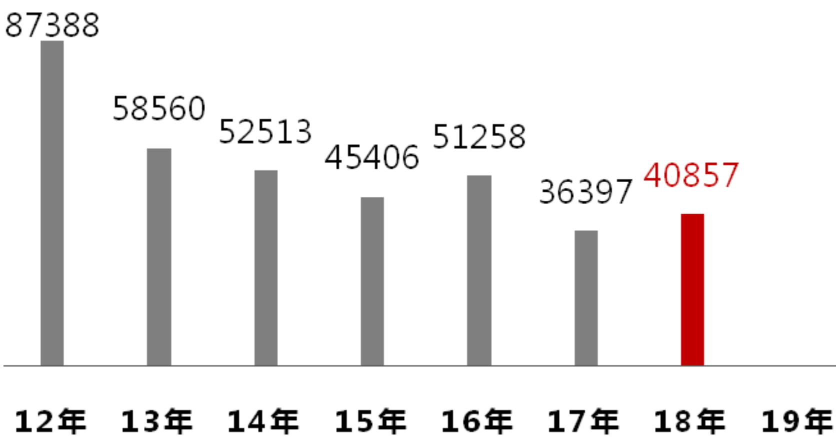
(2) Diluted losses per share

The diluted losses per share are the same as the basic losses per share, because the Company does not have any potential dilutive shares in issue during the year.

RETROSPECT AND PROSPECTS

1. **Machine tool principal business**
The principal business continued to decline since 2012, its scale shrank to half of its size. In 2016, the business was supported by the projects of Yunji and Yunnei and rebounded slightly. In 2018, sales revenue of principal business stopped sliding down and recovered. Comparing to 2017, the sales of revenue increased RMB44.61 million or 12%.

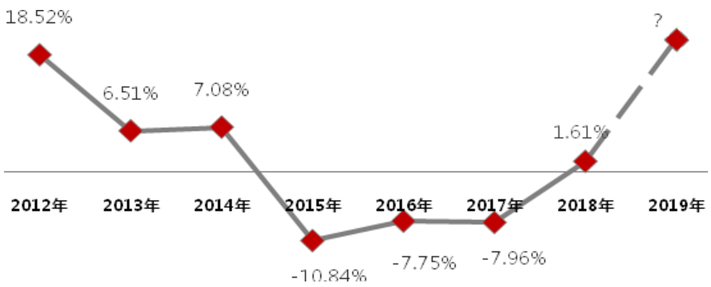
Unit: RMB'0000



Note: machine tool principal business refers to the parent company's non-consolidated data, which has eliminated the business of casting branch.

2. Gross profit margin of machine tool department

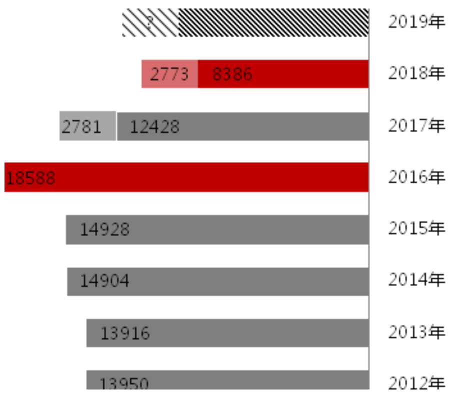
The gross profit margin of principal business segment has been decreased year by year since 2012, and directly fell to negative number by 2015, adequately reflected the weak problems of the Company in cost control and accounting, production, procurement and accounting system control. From the late 2017, the Company began to focus on comprehensive management and carried out work from a series of aspects such as BOM accounting, material collection system and standard cost recognition, and gradually and continuously improved the management.

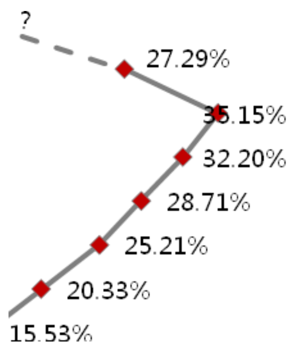


Note: machine tool principal business refers to the parent company's non-consolidated data, which has eliminated the business of casting branch.

3. Control of the general and administrative expenses of the Company (parent company basis)

The general and administrative expenses of the Company increased year by year, which deviated from the decline trend of sales scale. In 2016, the general and administrative expenses reached the maximum number of RMB185.88 million, representing 32 % of the revenue. In 2018, the general and expenses was controlled and decreased largely, including rental, the total amount was RMB111.83, representing 27% of the revenue. Except for the rental, total general and administrative expenses in 2018 was about RMB84 million, representing 20% of the total sales revenue, which has been decreased to the level of 2013.

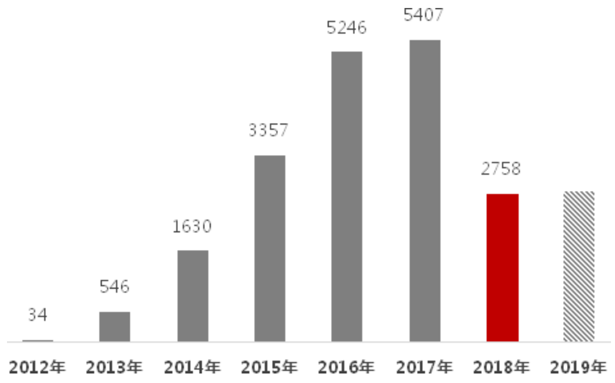




4. Control of finance expenses (parent company basis)

Comparing to 2017, the finance expenses decreased largely in 2018.

Unit: RMB'0000



5. Market share of the Company's product and the direction of development

Product series	Market share	Direction of development
Horizontal machine	40%	As the market of traditional horizontal machine was shrinking gradually. Except for stabling the product quality of horizontal machine, extending the life cycle of traditional boring machine, the Company actively developed the upgrade version of KiMi CNC Horizontal Boring and Milling Machine to maintain its dominant position in the high-voltage switch, valve, reducer and engineering machinery industries.
Planer type boring machine	30%	Planer type boring machine has the characters of flexible configuration and wide adaptability. Within a certain time, it is still the main force of boring machine tool sales. However, the Company needs to upgrade the product structure and introduce a linear guideway type planer machine with strong milling capability to actively develop the domestic and overseas market and to improve the market share.
Machining center	1%	For horizontal machining center products, the Company needs to improve the users' experience, enhance the reliability of the products., optimize product structure, introduce overall advanced technology platform to enter the mainstream consumer manufacturing field, and actively expand market share of flow-type horizontal machining center and carry forward the Company's advantages in the field of precision manufacturing.

Floor-type machine	10%	The traditional floor-type machine, which plays an indelible contribution in the development of the Company, is in a competitive disadvantageous position in the competition with the main opponent static pressure floor-type boring machine. However, the floor-type machine still has strong vitality in private enterprises. The Company will continue to improve the product structure and extend the life cycle of the product and will mainly develop the static pressure floor-type machine to improve the competitiveness of the floor-type machine of the Company.
Gantry machine	1%	The development of gantry machine has broad prospects and is the main equipment for surface processing and contour processing. The development of the Company's gantry machine was later and its market share was low. On the heavy-duty gantry technology platform, the Company's gantry machine has a small gap with its main competitors, mainly at a competitive disadvantage on flow-type gantry machine. in the future, the Company will actively develop flow-type gantry machine, improve users' experience and enhance competitiveness to increase the market share of the gantry machine.

Note: the market share was estimated by the Company, and it may be different from the actual situation. Investors are advised to pay attention.

6. Future development

2019 will be the year of the 80th anniversary of the Company establishment. As a long - established national manufacturing brand, the Company has encountered great survival challenges in recent years. The Company is facing a difficult situation in which various risk factors are superimposed. The management of the Company should unify its thinking, establish a culture of “doing something”, change the work style of “shirking, dragging and lengthening”, go all out and rise to challenges. In 2018, the Company's operations presented good situations through reforms. The gross profit margin was restored to positive figure and the expenses ratio was further optimized. Through the Company’s continuous improvement, a positive promotion effect was produced which maintained a stable and good development situation for the Company.

However, facing the internal and external factors superimposed by various risk factors, if only through internal reforms, it will be difficult to bring the Company into a benign development status. As at the disclosure date of the 2018 annual report, the Company's asset-liability ratio is close to 120%, and the current assets/current liabilities ratio is only 0.51. The Company's financial position exists great risks. At the same time, the risk of various litigation increases. A more difficult problem is that the Company is temporarily unable to fully raise funds for relocation and construction, which has led to the current dilemma. The management of the Company needs to resort to and seek the assistance of the Company's actual controller, the second largest shareholder and all stakeholders, so that it can completely get out of the dilemma!

NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS

I. Number of Shareholders

- Total number of shareholders as at the end of the reporting period	3453(among which , 3342 are holders of A Shares, 111 are holders of H Shares）
- Total number of holders of ordinary shares at the end of the last month before annual report disclosure day	3453(among which , 3342 are holders of A Shares, 111 are holders of H Shares）

II. As at the End of the Reporting Period, Shareholdings of the Top Ten Shareholders or Top Ten Holders with Circulating Shares (Or Selling Unrestricted Shares) and their shareholdings

Unit: share

No.	**Name of shareholders**	Total number of shares held at the beginning of the period	**Change of shareholdings**	**Total number of shares held at the end of the period**	**proportion of shareholdings at the end of the period %**	**Total number of selling restricted shares held at the end of the period**	**Total number of selling unrestricted shares held at the end of the period**
1	HKSCC NOMINEES LIMITED	134,354,498	-	134,354,498	25.30%	-	134,354,498
2	Shenyang Machine Tool (Group) Co., Ltd.	133,222,774	-	133,222,774	25.08%	-	133,222,774
3	Yunnan Industrial Investment Holding Group Co., Ltd.	34,153,444	-	34,153,444	6.34%	-	34,153,444
4	Zhang Haiying	1,846,600	693,400	2,540,000	0.478%	-	2,540,000
5	Zheng Haiyu	1,660,428	673,300	2,333,728	0.439%	-	2,333,728
6	Yu Chengmiao	490,500	1,520,500	2,011,000	0.38%	-	2,011,000
7	Zhang Shun	800,000	1,200,000	2,000,000	0.38%	-	2,000,000
8	Cai Jianxiu	982,700	619,625	1,602,325	0.30%	-	1,602,325
9	CHAN KUNG SUK YUEN	1,306,000	-	1,306,000	0.25%	-	1,306,000
10	Zhu Yushu	1,230,000	-	1,230,000	0.23%	-	1,230,000
Total		310,046,944	4,706,825	314,753,769	59.18%	0	314,753,769

Explanation of the connected relationship among the top five holders of ordinary shares or shareholders holding 10% or more shares of the Company: Except for no connected relationship between state-owned legal person shareholders, the Company was not notified of any connected relationship or acting in concert relationship regulated by "Measure for the Administration of Acquisition of Listed Company" among the top ten shareholders. Other than the substantial shareholders disclosed above, as at 31 December 2018, there were no other shareholders whose shareholdings exceeded the amount required to be disclosed under Article 60 of "Administration of the Issuing and Trading of Shares Provisional Regulations" of the PRC and Issue No.3 of "The Content and Format of Disclosure of Information of the Listed Companies" (amended in 2016); and under Section 16(1) of the Securities and Futures Ordinance under the Hong Kong Exchanges and Clearing Limited, the Company was not notified of any interests representing 10% or more of the issued share capital of the Company. Among top ten shareholders, there are three shareholders holding 5% or more of the Company's shares. They are HKSCC Nominees Limited (hereinafter referred to as "HKSCC Nominees Limited"), which holds the overseas listed foreign shares; Shenyang Machine Tool (Group) Co., Ltd., which holds the state-owned legal person shares; and Yunnan Industrial Investment Holding Group Co., Ltd., which holds state-owned legal person shares.

Except for the shareholder Shenyang Machine Tool (Group) Co., Ltd. who pledged 66,597,570 shares of the Company, the Company was not notified that the shares held by others shareholders were incurred change, pledge, freezing, or escrow.

1) HKSCC (Nominees) Limited holds shares on behalf of clients. The Company did not receive any notification that any H shareholder held more than 10% in total share capital of the Company, neither received any notification that any H shareholder held more than 5% of total H shares of Company.

2) Save as disclosed above, the Directors were not notified by any person (who is not a Director or a chief executive officer) who owns the interest or short position in the shares or underlying shares of the Company that shall be disclosed to the Company in compliance with the requirements contained in Divisions 2 and 3 of Part XV of Securities and Future Ordinance ("SFO"), or the interest or short position that shall be included in the prescribed register in accordance with Section 336 of SFO.

3) As at 31 December 2018, none of the Directors and the Supervisors had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests or short positions which the Directors or the Supervisors are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

   This issue was announced in accordance with the requirements of Notice of Supervising the Shareholders of Listed Companies Implementing the Rules on Lessening Terminated Selling Restricted Shareholding issued by Shanghai Stock Exchange.

SIGNIFICANT EVENTS

1. **Significant risk warning**

   A.Financial risk

   As at 31 December 2018, the total assets of the Company were RMB1.416 billion, of which, shareholders' equity of the Company was negative RMB289 million, the gearing ratio was 120.40%, long-term solvency was week. The current assets of the Company were RMB740 million, current liabilities were RMB1.451 billion, current was only 0.51, the capacity for payment of short-term liabilities was weak. In general, The Company's debt repayment capability to the creditors was relatively weak.， existing the risk of rupture of cash flow. Meanwhile, due to the litigations caused by suppliers and some partners, the Company's multiple bank accounts were frozen, which has caused certain risks to the Company's cash management. Funds transfer exists certain obstacles, and business activities will be affected. The Company is currently actively and properly solving the problem to ensure that normal use of funds will not be affected.

B. The delay of relocation and relevant risks

The lease term for the current the Company's production land and office accommodation was from December 2016 to 30 November 2018 and has expired. The agreed rental was RMB30.46 million per year. The Company has paid the rental for the year 2017 according to the agreement. 2018 to present, the rental has not been paid. According to the agreement, at the same time of renting the venue, the Kunming Rail Transit Group Company Limited (the "Rail Company") has collected a deposit of RMB6 million. However, the relocation compensation fees of RMB48,253,200 have not yet been paid to the Company by the Rail Company.

Currently, the construction of Yanglin Base is progressing slowly. The construction of the first stage focused on heavy-duty processing and assembly plant, stepdown substation 110kv, pump house, water treatment station, bathroom and air compressor station, part of the plant engineering. The construction scale is 30,136 square meters for heavy-duty processing and assembly plant, 1,895.8 square meters for stepdown substation 110kv, 439 square meters for pump house, 718.41 square meters for water treatment station, 1,719.36 square meters for bathrooms and air compressor station. In particular, structural works of heavy-duty assembly plant was completed in June 2012, the substation was completed and passed the acceptance, and was officially put into use in May 2013. The iron foundation construction of heavy-duty assembly plant was completed and passed the acceptance in October 2013. The foundation construction of the Schiess gantry milling machine was completed and passed the acceptance in August 2014. Construction of the surrounding roads and underground pipe network of the heavy-duty assembly plant was completed in November 2014 (not yet accepted).

The construction of the second and third stage focused on (or should focus on) heavy-duty casting workshop, model workshop and model warehouse, canteen and shift dormitory, supporting plant engineering, machining workshop, heat treatment section, office building, canteen, physical and chemical room, plant engineering (roads and squares, greening, public pipelines, information and intelligence). Among them, the construction of the second-stage heavy-duty casting workshop is 39,276.25 square meters, the model workshop and model library are 9,609.59 square meters, and the canteen and shift dormitory are 6,735.54 square meters. Heavy-duty casting workshop, model workshop and model warehouse, canteens and shifting dormitories are all under construction. According to the contractual construction period, the construction and installation engineering should be completed and accepted in

February 2018. However, the capping work has not yet been completed. The third stage of the Base has not yet started construction.

Currently, the funding gap for the first stage and the second stage is about RMB300 million, and the third stage engineering needs RMB280 million, which is mainly used for plant construction and equipment procurement. The specific investment amount has a certain reduction space.

C. The risk of litigations from small and medium stock traders

Up to now, due to equity transfer and false information statements, the Company has received a total of 372 complaints from small and medium shareholders, involving RMB93.02 million in the litigations. In May 2018, 95 cases of equity transfer were heard in court. In January 2019, civil judgements for 18 cases were received, which sentenced the Company and the other three defendants (Shenyang Machine Tool (Group) Co.., Ltd., Zhong De Securities and Tibet Unis-zhuoyuan Equity Investment Co., Ltd. should jointly and severally compensate the plaintiffs' losses of RMB647,395.14 in total. The Company's attorney has appealed the 18 cases.

The relevant information of 372 lawsuits is as follows:

Litigation matter	**Number of cases**	**Litigations targets (RMB)**	**Remarks**
Company's false information statement in equity transfer	157	18,596,668.98	In May 2018, 95 trials were held and 18 judgments have been received.
Company's financial information false statement	215	74,429,307.07	Court trial has yet to commence
Total	***372***	***93,025,976.05***	

D. Risk of suppliers' litigations

Up to now, a total of 19 lawsuits were involved for a total amount of RMB15,433,574.04

E. Risk of subsidiaries bankruptcy liquidations

According to the notice (2018) Xiang 01 Po No .12-1 issued by Hunan Province Changsha Intermediate People's Court (the "Court"), Changsha Ser officially entered the bankruptcy reorganization procedure on July 23, 2018. The Court accepted and through the legal procedures, selected the bankruptcy reorganization administrator (the "Administrator"), namely Lin Lanyan, lawyer of Guangdong Tiandi Zheng Law Firm and her team on August 6, 2018. After entering the bankruptcy reorganization procedure, in accordance with the relevant requirements of the bankruptcy procedures, Changsha Ser has stopped all payment and collection, and the accounts and company’s management rights have been transferred to the Administrator. On October 17, 2018, under the auspices of the Court, the bankruptcy reorganization administrator organized the creditors to convene the first meeting of creditors. The meeting reviewed the 1) work report for the first meeting of creditors issued by the administrator; 2) Report on Declaration of Creditors’ Right and Review report and; 3) Report on property status, and carried out the first confirmation to the company's creditors’ rights and debts. At the same time, the creditors’ meeting decided that the Administrator continued to be responsible for the management of the company. Under the supervision of the Administrator, the company continues to produce and operate to complete the production of products which have been contracted but not yet completed. At present, apart from the company's senior management team and a small number of production personnel, the company has no remaining employees. On January 23, 2019, the Company received the "Reorganization Plan (Draft)" issued by the Administrator, and it is currently known that the court is still evaluating the program.

The final adoption of this program requires the involvement of external restructuring investors. At present, the Company has contacted the reorganization investors under the introduction of the Administrator, However, only after the Court finally passes the reorganization plan can the Company determine whether participate the program.

Currently, Xi’an Ser has only 10 employees, three senior management officers mainly in charge of bankruptcy reorganization of Changsha Ser and the other seven people are staff who remain in service. Their main job is to collect the corresponding receivables. The Administrator of Changsha Ser informed the Company that due to Xi’an Ser owes Changsha Ser about RMB30 million, the Administrator will file a bankruptcy liquidation and reorganization procedure in the Beilin District People’s Court. In order to maximize the possible to maintain the security of the Company's claims, considering that Changsha Ser still owes the Company's original dividends and interest of about RMB20 million, the Company has filed a lawsuit to the Kunming Intermediate People's Court(the “Kunming Court”) to apply for repayment of the arrears and apply for legally freezing certain properties and bank accounts in Xi'an under the name of Xi’an Ser. The Kunming Court has accepted the case in January 2019 and the case was heard in the court.

F. The risk of the Company’s H Shares being delisted by HKEX as the Company not completion of the resumption of trading within the original time

(1) **Resumption progress of H Shares**

The Company’s independent investigation committee has carried out its work on targeting the requirements of H Shares resumption conditions.

i. The Company’s auditor, Da Hua Certified Public Accountants (Special

General Partnership), has completed the audit of the Company for the year 2016 and 2017, and issued Special Audit Report on Involved Matters with Disclaimer of Opinion for the Year 2016 (Da Hua He Zi [2018] no. 003038) and standard unqualified Auditors' Report with emphasis paragraphs for the year 2017 (Da Hua Shen Zi [2018] no. 001105). For the details, please refer to the announcements of the Company. For details, please refer to the Company's announcement.

ii. The team of forensic audit (the "Team") was originally expected to commence field work at the beginning of September 2018 and the investigation was originally expected to be completed in November 2018. However, the field work was delayed as the Company was late in settlement of the installment payment to the Team. The Company paid the said installment payment in November 2018 and the Team commenced the field work at the end of November 2018. The issuance of relevant forensic audit report is delayed. Given that the Company is expecting to publish 2016 annual report and 2017 interim report by end of May 2019, and it will be within 2 months after disclosure of the forensic report, the Company is currently working towards the schedule for the forensic report to be released in March 2019.

iii. It was originally expected that the internal control consultant could issue the first stage report in March 2019. Since the relevant work is still being carried out, it is expected that the work will be completed in April 2019. Thereafter, the Company will make the rectification plans according to the recommendations of the internal control consultant and it is currently expected that the rectification measures can be fully implemented in May 2019. The internal control consultant will carry out follow-up review on the implementation of rectification measures in June 2019. It is expected that the internal control report can be issued in July 2019. The Company is making efforts to conduct the aforesaid forensic investigation and internal control review work according to the above timeframe to fulfill the various conditions of resumption as soon as possible.

iv. The Company's financial Adviser in relation to resumption, Alliance Capital Partners Limited, internal control consultant and the team of forensic audit have discussed and analyzed the related work on the resumption of the Company's H Shares. The Company is actively coordinating with the teams to carry out the related work.

The above timeframe is an expectation of the Company's working time based on latest available information and does not constitute a commitment. The actual working progress will be based on the actual completion time. At that time, the Company will disclose the information according to the actual completion time.

(2) The risk of the Company's H Shares being delisted by HKEX as the Company not completion of the resumption of trading within the original time

The time limit of the resumption of trading of the Company's H Shares is about expired (31 August 2019）.If the Company fails to complete the relevant resumption work before this deadline, the Company's H shares will be delisted by the Hong Kong Stock Exchange.

G. As the Company being investigated by the SFC (Securities and Futures Commission) and the conclusion has yet completed, the subsequent risk may exist

The Company is temporarily unable to judge the measures and risks that may be taken against the Company by the SFC after investigation.

2. Purchase, Sale and Redemption of Securities

During the twelve months ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its issued securities ("securities" having the meaning ascribed thereto under Section 1 of Appendix 16 to Listing Rules) (excluding any issuance of new securities).

3. Code on Corporate Governance Practices

The Board has reviewed the relevant provisions and corporate governance practices under the codes of corporate governance practices adopted by the Company. The Company complies with the relevant provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules and strives to improve corporate governance in practice.

4. Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules. Having made specific enquiries to the directors, the Company confirmed that all directors have complied with the Model Code for the twelve months ended 31 December 2018.

5. Audit and Corporate Governance Committee

The Audit and Corporate Governance Committee has reviewed the accounting principles and methods adopted by the Group with the management of the Company and has discussed with the Board regarding internal control and financial reporting issues, including a review of the consolidated annual results for the year ended 31 December 2018.

The Audit and Corporate Governance Committee has no disagreement regarding the accounting principles and methods adopted by the Group.

By Order of the Board
Shenji Group Kunming Machine Tool Company Limited
Wang He
Chairman

Kunming, the PRC, 29 March 2019

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, Ms. Wu Yu and Mr. Ding Side; and the independent non-executive directors are Mr. Na Chaohong, Mr. Chi Yilin, Ms. Jin Mei and Ms. Tian Ruihua.