

Stock code: 600320 900947

The company referred to: Shanghai Zhenhua Heavy, Zhenhua B share

Shanghai Zhenhua Heavy Industries Co., Ltd.

Annual Report 2016

Important Notice

I. Hereunder, the Board of Directors, the Supervisory Board, directors, supervisors and senior executives of the Company guarantee that the Annual Report is of authenticity, accuracy and integrity; it contains no major omission, false record or serious misleading statement; they will be responsible both individually and jointly for any of above guaranty.

II. All the directors of the company attend meeting of the board of directors.

III. Ernst & Young LLP. (Special general partnership) issued standard unqualified audit report for the Company.

IV. The Company's responsible person Song Hailiang, accounting responsible person Huang Qingfeng and accounting responsible person (accounting chief) Wang Jue hereby declare that the financial reports in this Annual Report are true, accurate and complete.

V. Report period profit distribution preplan or preplan for capital reserve transfer to increase capital stock as audited by the board not to distribute profit; not to convert reserve into capital stock.

VI. Risks declaration of prospective statements

☐ Applicable ☒ Not applicable

VII. Whether non-operational fund occupancy by the controller and its related parties exists with the Company?

No.

VIII. Whether there is external guaranty provision violating regulation or procedural decision-making within the Company?

No.

IX. Significant risk remind

☒ Applicable ☐ Not applicable

The Company has described the risks in the annual report in details and the investors shall pay attention to that. Refer to the related chapters in the directors' report for the description of the risk of the Company.

X. Others

☐ Applicable ☒ Not applicable

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Chapter I Definition

I. Definition

Terms used in this report means the following except for otherwise specified:

| Definition of frequently used terms | | |
|-------------------------------------|-----------|---|
| The Company | Refers to | Shanghai Zhenhua Heavy Industries Co., Ltd. |
| CCCC, controlling shareholder | Refers to | China Communications Co., Ltd. |
| Effective controller | Refers to | China Communications Construction Group |

Chapter II Company Profiles and Key Financial Indicator

I. Company information

| | |
|---|---|
| Statutory company name in Chinese | Shanghai Zhenhua Heavy Industries Co., Ltd. |
| Statutory Chinese Abbreviation of the Company | Shanghai Zhenhua Heavy |
| English name of the Company | SHANGHAI ZHENHUA HEAVY INDUSTRIES CO.,LTD. |
| English Abbreviation of the Company | ZPMC |
| Legal representative | Song Hailiang |

II. Contact information

| | Board secretary | Securities Affair Agent |
|---------|------------------------------|------------------------------|
| Name | Wang Jue | Li Min |
| Address | 3261 Dongfang Road, Shanghai | 3261 Dongfang Road, Shanghai |
| Tel. | 021-50390727 | 021-50390727 |
| Fax | 021-31193316 | 021-31193316 |
| Email | IR@zpmc.com | IR@zpmc.com |

III. Basic information of the Company

| | |
|--------------------|-----------------------------------|
| Registered address | 3470, South Pudong Road, Shanghai |
| Post code | 200125 |

| | |
|----------------|------------------------------|
| Office address | 3261 Dongfang Road, Shanghai |
| Post code | 200125 |
| Website | http://www.zpmc.com |
| Email | zpmc@public.sta.net.cn |

IV. Information disclosure and reference

| | |
|--|--|
| Designated media for information | Shanghai Securities News, Hong Kong Wen Wei Po |
| Website designated by China Security Regulatory Commission for disclosure of annual report | www.sse.com.cn |
| Annual report available at of the Company | Securities and Law Affairs Office |

V. Stock Profiles of the Company

| Stock Profiles of the Company | | | | |
|-------------------------------|--------------------------|------------------------|------------|---------------------|
| Short form of Stock type | Stock exchange listed at | Short form of stock | Share code | Stock before change |
| A-share | Shanghai Stock Exchange | Shanghai Zhenhua Heavy | 600320 | ZPMC Industries |
| B-share | Shanghai Stock Exchange | Zhenhua B-share | 900947 | - |

VI. Others

| | | |
|---|----------------|---|
| CPA's employed by the Company(Domestic) | Title | Ernst & Young (special general partnership) |
| | Office address | Room 01-12, 17th Floor, No.1 Dongfang Dongcheng District, Beijing |
| | CPAs to sign | Yang Lei, Tao Baiyi |

VII. Major Accounting Data and Financial Indicators in Last Three Years

(I) Major accounting data

Unit: Yuan Currency: RMB

| Major accounting data | 2016 | 2015 | Growth over same period prior year (%) | 2014 | |
|-----------------------|------|------|--|------------------|-------------------|
| | | | | After adjustment | Before adjustment |

| | | | | | |
|--|----------------|----------------|--|------------------|-------------------|
| Operating Income | 24,348,087,928 | 23,272,394,677 | 4.62 | 25,477,011,081 | 25,069,421,487 |
| Net Profit attributable to shareholders of the Company | 212,419,946 | 212,411,967 | 0.004 | 202,223,273 | 199,386,986 |
| Net Profit after deducting non-recurring gains/losses | 157,445,435 | -214,409,604 | Not applicable | -79,581,135 | -79,581,135 |
| Net cash generated from operating activities | 1,658,422,636 | -1,831,961,473 | Not applicable | -863,628,925 | -873,383,052 |
| | End of 2016 | End of 2015 | Growth over same period prior year (%) | End of 2014 | |
| | | | | After adjustment | Before adjustment |
| Net asset attributable to shareholders of the Company | 15,196,736,263 | 14,869,572,883 | 2.20 | 14,990,495,511 | 14,780,603,810 |
| Total assets | 60,823,819,098 | 59,020,752,259 | 3.05 | 58,024,869,184 | 56,145,227,254 |

(II) Major Financial Indicators

| Major financial index | 2016 | 2015 | Growth over same period prior year (%) | 2014 | |
|---|------|-------|--|------------------|-------------------|
| | | | | After adjustment | Before adjustment |
| Basic EPS (Yuan/share) | 0.05 | 0.05 | 0.00 | 0.05 | 0.05 |
| Diluted EPS (Yuan/share) | 0.05 | 0.05 | 0.00 | 0.05 | 0.05 |
| Basic EPS after deducting non-recurring gains/losses(Yuan/share) | 0.04 | -0.05 | Not applicable | -0.02 | -0.02 |
| Weighted average net assets earnings (%) | 1.41 | 1.41 | 0.00 | 1.36 | 1.36 |
| Weighted average net assets earnings ratio after deducting non-recurring gains/losses (%) | 1.05 | -1.45 | Increase 2.5 base point | -0.54 | -0.54 |

Description of the main accounting data and financial indicators for the first three years at the end of the reporting period

✓ Applicable ☐ Not applicable

1. The company changed its accounting policies about methods on taxes calculation and report according to the Provision on Value-Added Tax issued by Ministry of Finance in Dec. 2016. It had no impact on the consolidation of 2016 and 2015 financial statement, as well as the net profit and owner's equity. It can be seen on the 19th board meeting announcement.

2. This year, the company acquired 32.51% of the equity of CCCC Tianhe Co., Ltd, and obtained its control rights through a concerted action agreement. Since China Communication Construction Co., Ltd is the controlling shareholder of the Company and CCCC Tianhe Co., Ltd before the acquisition, so this is the acquisition under the same control. The assets and liabilities of CCCC Tianhe acquired are accounted as the historical cost and included in the consolidated financial statements, namely regarded CCCC Tianhe as a part of the Company and the presented in the earliest period. Accordingly, the company has relisted the beginning balance of the corresponding data.

VIII. Accounting data difference in domestic and international accounting standards

(I) Difference of net profit and net assets attributable to shareholders of listed company in the financial report disclosed according to international accounting standards and domestic accounting standards.

☐ Applicable ✓ Not applicable

(II) Difference of net profit and net assets attributable to shareholders of listed company disclosed in accordance with the foreign and domestic accounting standards.

☐ Applicable ✓ Not applicable

(III) Description of the difference between accounting standards at home and aboard.

☐ Applicable ✓ Not applicable

IX. Quarterly Major Financial Indicator in 2016

Unit: Yuan Currency: RMB

| | Q1 (Jan-Mar) | Q2 (Apr-June) | Q3 (July-Sept) | Q4 (October-December) |
|--|-----------------|------------------|-------------------|--------------------------|
| Operating Income | 4,635,581,695 | 7,166,060,906 | 6,590,100,486 | 5,956,344,841 |
| Net Profit attributable to shareholders of the Company | 53,657,723 | 58,635,638 | 43,276,720 | 56,849,865 |
| Net profit attributable to shareholders of listed company after deducting non-recurring gains and losses | 33,458,662 | 77,209,410 | 27,270,343 | 19,507,020 |
| Net cash generated from operating activities | 384,687,691 | -279,931,650 | 4,210,477 | 1,549,456,118 |

Description of difference between quarterly data and disclosed periodic data

☐ Applicable ✓ Not applicable

X. Items and amount of non-recurring gains/losses

✓ Applicable ☐ Not applicable

Unit: Yuan Currency: RMB

| Items of non-recurring gains/losses | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|
| Gains and losses on disposal of non-current assets | 1,340,612 | 9,338,797 | 13,948,136 |
| Government subsidy on current profit and loss statement except for those closely related to the Company's operation, enjoyed by certain state standard or certain quota | 45,042,910 | 22,847,200 | 20,316,889 |
| Current net profit and loss of the subsidiary under the same control of the company from the beginning to the consolidated day | 0 | 55,523,666 | 15,289,013 |
| Gains/losses on fair value movement of tradable financial assets, tradable financial liabilities held except for valid hedging business related with company's normal operation, and investment income acquired from disposal of tradable financial assets, tradable financial liabilities and financial assets available for sale | 23,420,959 | 445,766,951 | 286,253,779 |
| Non-operation revenue/expense apart from above | 6,435,660 | 15,490,536 | 15,164,034 |
| Minor shareholder's equity impact | -6,708,080 | -31,568,397 | -9,922,714 |
| Income tax impact | -14,557,550 | -90,577,182 | -59,244,729 |
| Total | 54,974,511 | 426,821,571 | 281,804,408 |

XI. Items calculated by fair value

✓ Applicable ☐ Not applicable

Unit: Yuan Currency: RMB

| Item name | Beginning Balance | Closing Balance | Current movement | Impact on Current Profit |
|--|-------------------|-----------------|------------------|--------------------------|
| Forward foreign exchange contract-Fair Value appraisal income | 676,082 | 4,615,775 | 3,939,693 | 3,939,693 |
| Forward foreign exchange contract-Fair Value appraisal income loss | -24,918,115 | 0 | 24,918,115 | 24,918,115 |
| Equity Instrument available for sale-Jiangxi Huawu | 337,650,826 | 313,612,402 | -24,038,424 | 1,112,890 |
| Equity Instrument available for sale-Qingdao port | 298,821,560 | 340,253,175 | 41,431,615 | 13,058,634 |

| | | | | |
|---|---------------|---------------|-------------|------------|
| Equity Instrument available for sale-CRSC | 530,976,235 | 615,346,381 | 84,370,146 | 2,814,813 |
| Equity Instrument available for sale-Shenwan Hongyuan | 1,734,399 | 1,366,388 | -368,011 | 24,291 |
| Equity Instrument available for sale-financial products | 46,000,000 | 0 | -46,000,000 | 2,101,669 |
| Total | 1,190,940,987 | 1,275,194,121 | 84,253,134 | 47,970,105 |

XII. Others

☐ Applicable ☒ Not applicable

Chapter III Business Profile

I. The Company engaged in the main business, operation model and industry profile of the Company during the reporting period

The company is a well-known enterprise of heavy equipment manufacturing industry, and state-owned listed company holding A, B shares, headquartered in Shanghai, There are ten production bases in Shanghai, Nantong and other cities. Since 1998, it has been in the first place in global container crane order ranking. To seek for further development, the company actively explored the large steel structure and offshore heavy equipment market while consolidated the port machinery market. The company business scope includes: design, construction, installation and contracting of large port loading system and equipment, offshore heavy equipment, engineering machinery, engineering ships and large metal structural parts and their components and spare parts, ship repair; self-produced crane rental business, sales of the company products; international shipment by available machine special transportation ships, steel structure engineering professional contracting (operate the business if the related license is required).

II. Description of the massive change in main assets of the company during the reporting period

☐Applicable ☒Not applicable

III. Analysis on the core competence during the reporting period

☒Applicable ☐Not applicable

There is no significant change in core competitiveness of the Company during the reporting period.

Chapter IV Discussion and Analysis of the Board of Directors

I. Discussion and analysis of the Board

During the reporting period, facing the complicated situation both at home and abroad, the Company Board of Director and the management led all the employees to deeply implement “4321” and “1521” strategy and fully apply the 24 letters principle: “firm foundations, always innovate, adjust structure, change mode, integrate resources, reinforce management, develop culture and increase quality”. With focus on the enhancement of operation quality and core competitiveness, the Company aim to build a world-class company with international competition strength base on the assurance of the company’s stable and healthy continuous development in new state, reform and development.

During the reporting period, the market structure was effectively adjusted, and the reform as deepened, the layout was gradually optimized and the ability to allocate the global resources was improved. Various business sectors achieved remarkable results while the profit increased steadily. The company made new records in the port machinery market, now the products were sold in 97 countries and regions in the world. Especially, the Quay Cranes occupied the 82% market share in the global market counted by a famous English magazine-World Cargo News, which saw the peak since the company was founded in 1992. Though the global marine industry still developed slowly, the Company even made progress by strategies adjustment, the Company successfully produced 1000t wind turbine installation vessels, crane ships with autopilot and all-direction propeller system as well as programs like the two SEP-650 gained marvelous attention in this market. The big heavy special steel structure projects had more expansion and layout. There were highlights in the system integration and general contracting market. Our investment Portfolio has achieved gradual improvement, the shipping, installation and offshore wind power market have a higher level of potential the electrical market under going a steady development. The layout of the integrated services market was improved further.

II. Operation performance during reporting period

In period of report, the Company realized operation revenue 24.348 billion RMB, increased by 4.62%; realized net profits 212 million RMB which belongs to parent company, nearly the same to 2015.

(I) Major business analysis

P&L and Cash Flow Statement related item movement analysis

Unit: Yuan Currency: RMB

| Item | Report Year | Prior Year | Growth (%) |
|--|----------------|----------------|----------------|
| Operating Income | 24,348,087,928 | 23,272,394,677 | 4.62 |
| Operating Cost | 19,727,663,875 | 19,717,314,855 | 0.05 |
| Selling expenses | 100,435,778 | 79,388,743 | 26.51 |
| Management expenses | 1,759,032,746 | 1,551,222,564 | 13.4 |
| Financial expenses | 1,218,992,788 | 1,532,851,096 | -20.48 |
| Net cash flow from operating activities | 1,658,422,636 | -1,831,961,473 | Not applicable |
| Net cash flow from investment activities | -726,215,078 | 2,565,598,510 | -128.31 |
| Net cash flow from financing activities | 152,344,993 | -318,811,177 | Not applicable |
| R&D expenses | 851,544,356 | 717,412,492 | 18.70 |
| Operation taxes and surcharges | 152,175,837 | 24,550,179 | 519.86 |

| | | | |
|---|---------------|-------------|--------|
| Changes in fair value gains and losses - net | 1,221,116,175 | 637,391,199 | 91.58 |
| Gain on investment | 118,513,425 | 498,236,958 | -76.21 |
| Net profits | 307,344,236 | 194,205,688 | 58.26 |
| Balance arising from the translation of foreign currency financial statements | 25,605,643 | 10,400,161 | 146.20 |
| Total comprehensive income attributed to parent company owners | 327,163,380 | 100,532,162 | 225.43 |
| Minority interest | 94,924,290 | -18,206,279 | - |

1. Revenue and cost analysis

✓ Applicable ☐ Not applicable

1. The operation revenues and costs increased because the selling of new projects increased. The average of gross margin in products increased because of the increase of operating income and the improvement of our management.
2. The sales expenses increased due to the expansion on global market.
3. The management expenses increased because the R&D expense increased this year.
4. The financial expenses decreased because of the decrease of exchange loss and interest cost.
5. The cash flow net amount in operation changed because the raw materials purchasing expenses and payment of engineering expenses increased.
6. The cash flow net amount in investment changed because our bank financial products became due and the profits increased.
7. The cash flow net amount in financing changed because the repayment of bank loan increased this year.
8. The R&D expenses increased because the important R&D projects like automated terminal increased this year.
9. The operation taxes and surcharges increased because the management expenses now are included in the operation taxes and surcharges according to the new accounting rules.
10. The fair value gains and losses – net amount increased because the increase of the products and account receivable depreciation reserves as well as the predictable losses that bring by contracts.
11. The gain on investment decreased because the restriction on bank financial products purchasing which led to profit decrease.
12. The net profit increased because the gross profit of the product increased.
13. The balance arising from the translation of foreign currency financial statements increased due to the changes of exchange rate.
14. The total comprehensive income attributed to parent company owners increased because the fair value of financial assets available for sale increased.
15. The minority interest changed because the total net profit of the non-wholly owned subsidiaries of the Company increased.

(1) Major business by industry, product and region

Unit: Yuan Currency: RMB

| Major business by products | | | | | | |
|------------------------------------|------------------|----------------|------------------|--|---|---|
| By product | Operating Income | Operation cost | Gross margin (%) | Operation revenue increase over prior year (%) | Operation cost increase over prior year (%) | Gross margin increase over prior year (%) |
| Container cranes | 17,082,391,036 | 13,067,811,357 | 23.50 | 13.92 | 8.54 | Increase 3.80 percentage points |
| Bulk-cargo machinery parts | 3,154,983,915 | 3,054,772,000 | 3.18 | 56.70 | 64.02 | Decreased by 4.32 percentage points |
| Heavy equipments | 1,284,872,909 | 1,279,775,256 | 0.40 | -67.76 | -67.60 | Decreased by 0.48 percentage points |
| Steel structure and related income | 1,035,829,290 | 938,105,979 | 9.43 | 25.38 | 17.78 | Increase 5.83 percentage points |
| Construction-transfer projects | 1,005,087,825 | 1,019,082,565 | -1.39 | 95.52 | 127.63 | Decreased by 14.30 percentage points |
| Vessel shipping and others | 580,231,787 | 166,282,313 | 71.34 | -14.77 | -55.84 | Increase 26.65 percentage points |
| Major business by region | | | | | | |
| By region | Operating Income | Operation cost | Gross margin (%) | Operation revenue increase over prior year (%) | Operation cost increase over prior year (%) | Gross margin increase over prior year (%) |
| Mainland, China | 9,057,171,421 | 7,486,770,441 | 17.34 | 9.51 | 11.28 | Decreased by 1.31 percentage points |
| Asia (excluding Mainland, China) | 8,774,618,285 | 7,454,726,034 | 15.04 | 49.88 | 55.99 | Decreased by 3.33 percentage points |
| America | 1,660,773,333 | 1,025,270,894 | 38.27 | -63.54 | -75.11 | Increase 28.68 percentage points |
| Europe | 1,694,807,875 | 1,564,465,012 | 7.69 | -25.15 | -29.01 | Increase 5.02 percentage points |
| Mainland, China (export) | 1,939,957,027 | 1,250,525,343 | 35.54 | 80.9 | 45.75 | Increase 15.55 percentage points |
| Africa | 814,524,109 | 605,690,798 | 25.64 | -2.51 | -7.64 | Increase 4.13 percentage points |
| Oceania | 201,544,712 | 138,380,948 | 31.34 | 24.44 | 6.17 | Increase 11.81 percentage points |

Description of main business by industry, product, and region

✓ Applicable □ Not applicable

Note: the amounts in the “Mainland, China (export)” means operation income exported to the overseas subsidiaries or affiliates, and then sold to the domestic customers.

(2) Production volume and sales volume analysis table

Description of production volume and sales volume

The Company mainly manufactures and sells the large port equipment, heavy equipment and steel structure, the "Accounting Standards- Construction Contract" is applicable. The income shall be confirmed according to the completion percentage method, so this table is not applicable.

(3) Cost analysis statement

Unit: Yuan

| Product category | | | | | | |
|------------------------------------|--|----------------|--------------------------------------|-------------------------------------|---|--|
| Product | Cost composition | Report amount | Report period rate in total cost (%) | Amount in the same period last year | Total cost in the same period last year (%) | Report period amount compared with the same period last year (%) |
| Container cranes | Raw material, labor, production costs | 13,067,811,357 | 66.93 | 12,039,998,425 | 61.83 | 8.54 |
| Bulk-cargo machinery parts | Raw material, labor, production costs | 3,054,772,000 | 15.64 | 1,862,388,384 | 9.56 | 64.02 |
| Heavy equipments | Raw material, labor, production costs | 1,279,775,256 | 6.55 | 3,950,151,042 | 20.29 | -67.60 |
| Steel structure and related income | Raw material, labor, production costs | 938,105,979 | 4.80 | 796,465,278 | 4.09 | 17.78 |
| Construction-transfer projects | Subcontracting expenses, raw materials | 1,019,082,565 | 5.22 | 447,701,799 | 2.30 | 127.63 |
| Vessel shipping and others | Labor, fuel consumption, depreciation etc. | 166,282,313 | 0.85 | 376,525,357 | 1.93 | -55.84 |

Other description of cost analysis

□ Applicable ✓ Not applicable

(4) Main clients and suppliers statement

✓ Applicable ☐ Not applicable

The sales of the first five clients reached to 6,245.59 million yuan which accounted for 26% of the whole sales, and the related sales among them were 0.

The purchase amount of the first five suppliers reached to 1,839.73 million yuan which accounted for 10.13% of the whole, and the related purchase amount among them were 0.

II. Cost

☐ Applicable ✓ Not applicable

III. R&D expenses

R&D expenses breakdown

✓ Applicable ☐ Not applicable

Unit: Yuan

| | |
|--|-------------|
| R&D into cost expenses in reporting year | 851,544,356 |
| R&D into capital expenses in reporting year | 0 |
| R&D expenses total | 851,544,356 |
| Total R&D expenses ratio in operation revenue (%) | 3.5 |
| R&D employees quantity | 1617 |
| R&D employees' ratio in the total employees (%) | 18.25 |
| R&D expenses ratio in capital (%) | 0 |

Deliberation

✓ Applicable ☐ Not applicable

During the reporting period, the company was honored "Key industrial enterprises in well using intellectual property" by MIIT, the "Project of American New Bay Bridge" won the first prize of Shanghai Scientific and Technological Progress. Also, the company founded Shanghai Off-shore Engineer Research Institute with Shanghai Maritime University. This year our center of Lifting and Pipe laying Engineer Offshore was evaluated by the national Ministry of Science and Technology as well the assessments on Shanghai Intelligent Welding and Port Machinery Engineer centers by Shanghai STCSM.

4. Cash flow

✓ Applicable ☐ Not applicable

The net cash flow from operating activities was 1.658 billion Yuan, mainly due to increase orders and payment for the purchase of raw materials and engineering costs. The net cash flows from the investment activities was -0.726 billion Yuan, mainly due to increase payment of the bank financial product due. The net cash flow from the financing activities is 0.152 billion Yuan, mainly due to the increasing repayment of bank loan, and the changes of exchange rate contributed 0.075 billion Yuan changes.

(II) Description of non-major business causing significant change to profit

☐ Applicable ☒ Not applicable

(III) Assets and liabilities analysis

☒ Applicable ☐ Not applicable

1. Assets/liabilities statements

Unit: Yuan

| Item | Closing balance at end of reporting period | Reporting period end over total assets (%) | Closing balance at end of prior period | Prior period end over total assets (%) | Reporting period end over prior period end change ratio (%) |
|---|--|--|--|--|---|
| Cash and cash equivalents | 3,597,044,199 | 5.91 | 2,458,333,716 | 4.17 | 46.32 |
| Non-current assets due within one year | 1,384,438,569 | 2.28 | 2,625,135,212 | 4.45 | -47.26 |
| Long-term equity investment | 2,201,421,453 | 3.62 | 1,597,134,817 | 2.71 | 37.84 |
| Advance payment | 292,941,206 | 0.48 | 423,603,129 | 0.72 | -30.85 |
| Interest payable | 140,195,803 | 0.23 | 289,590,733 | 0.49 | -51.59 |
| Non-current liabilities due within one year | 799,574,356 | 1.31 | 6,837,115,692 | 11.58 | -88.31 |
| Other current liabilities | 3,996,025,335 | 6.57 | 1,995,655,739 | 3.38 | 100.24 |
| Long term loans | 3,925,335,497 | 6.45 | 1,761,904,000 | 2.99 | 122.79 |
| Long-term payable | 1,618,361,164 | 2.66 | 719,861,943 | 1.22 | 124.82 |
| Provision | 293,115,783 | 0.48 | 220,141,178 | 0.37 | 33.15 |
| Other comprehensive income | 322,403,671 | 0.53 | 207,660,237 | 0.35 | 55.26 |
| Minority equity | 1,290,413,687 | 2.12 | 917,076,421 | 1.55 | 40.71 |

Other statement

1. The cash and cash equivalents increased because the account receivable was due and the external payment decreased.
2. The non-current assets due within one year are increased mainly because the receivable of the long-term receivables of the NanjingNing High-tech "construction-transfer" project was due.
3. The long-term equity investment is increased mainly because the Company had more investment in overseas corporate.
4. The deposit received decreased because this item was due, the company closed an account.
5. The interest payable decreased mainly because the Company paid the loan interest this year.

6. Non-current liabilities due within one year decreased because the long-term loan that due within one year was due.
7. The other current liabilities increased because of the issue of short-term bonds.
8. The long-term loan increased because the meet the long-term development,
9. The long-term payable increased because the increase of equipment Leasing.
10. The provision increased because the company accrued the expense of services after sale.
11. The other comprehensive income increased because the fair value of financial assets available for sale increased.
12. The minority equity increased because the capital investment of the minority shareholders increased this year.

2. Restriction on main assets at the reporting period end

✓ Applicable ☐ Not applicable

Restriction on main assets at the reporting period end

| Item | Reporting period end book value | Reasons of restriction |
|--------------------------------------|---------------------------------|----------------------------|
| Cash and cash equivalents | 99,839,013 | Open L/Cs and bond of L/Gs |
| Fixed assets | 2,438,314,390 | For mortgage of loans |
| Restricted long-term account payable | 2,996,201,650 | For pledge of loans |
| Total | 5,534,355,053 | |

3. Others

☐ Applicable ✓ Not applicable

(IV) Industry operating conditions analysis

In 2016, the Company signed the new contract of port machinery with amount of 2.617 billion USD, decreased by 20.46% on yearly basis. The Company signed new contracts of marine engineering products and steel structure with amount of 537 million USD, decreased by 35% on yearly basis. The Company signed new contracts of PPP investment with amount of 10.021 billion Yuan.

The global shipping market is readjusted, the port machinery market is maintaining an usual level, the domestic market needs time to develop. We can see that the needs of traditional port machinery reached saturation when the automatic equipments need is rising. The global market of ore and oil development keeps declining, and it won't be recovered in a short time. When it comes to the situation of steel structure market, it benefits from the blueprint of One Belt One Road. In the meanwhile, the company investment and exploration both at home and aboard are rising that will contribute a lot to the traditional major works.

(V) Investment analysis

1. External equity investment overall analysis

✓ Applicable ☐ Not applicable

| | |
|---------------------------------|---------------|
| Investment amount of period end | 3,514,993,959 |
| Investment amount movement | 705,681,962 |
| Investment amount same | 1,428,141,461 |

| | |
|--------------------------------------|--------|
| period prior year | |
| Investment amount movement ratio (%) | -50.59 |

(1) Major equity investment

☐ Applicable ☒ Not applicable

(2) Major non-equity investment

☐ Applicable ☒ Not applicable

(3) Finance assets measured by fair value

☒ Applicable ☐ Not applicable

Invested companies

Unit: RMB

| Stock code | Short form of stock | Initial investment cost | Equity ratio of period begin (%) | Equity ratio of period end (%) | Book value of period end | Gains and losses of reporting period | Owner's equity movement of reporting period | Accounting account | Source of equity |
|-----------------|---------------------|-------------------------|----------------------------------|--------------------------------|--------------------------|--------------------------------------|---|-----------------------------------|-------------------|
| 300095 | Huawu share | 11,071,606 | 7.22 | 5.90 | 313,612,402 | 1,112,890 | -24,038,424 | Finance assets available-for-sale | Pay in currency |
| 06198 (H-share) | Qingdao Port | 308,515,588 | 2.16 | 2.16 | 340,253,175 | 13,058,634 | 41,431,614 | Finance assets available-for-sale | Market purchasing |
| 03969 (H-share) | CRSC | 617,854,000 | 1.4 | 1.4 | 615,346,381 | 2,814,813 | 84,370,147 | Finance assets available-for-sale | Market purchasing |
| Total | | 937,441,194 | / | / | 1,269,211,958 | 16,986,337 | 101,763,337 | / | / |

Share-participating condition of financial companies

Unit: RMB

| Name of invested company | Initial investment (Yuan) | Equity ratio of period begin (%) | Equity ratio of period end (%) | Book value of period end (Yuan) | Gains and losses of reporting period (Yuan) | Owner's equity movement of reporting period (Yuan) | Accounting account | Source of equity |
|--------------------------|---------------------------|----------------------------------|--------------------------------|---------------------------------|---|--|-----------------------------------|------------------|
| Shenwan Hongyuan | 200,000 | Less than 0.01 | Less than 0.01 | 1,366,388 | 24,291 | -368,011 | Finance assets available-for-sale | Subscription |
| Total | 200,000 | / | / | 1,366,388 | 24,291 | -368,011 | / | / |

(VI) Major assets and equity sales

☐ Major assetsot applicable

(VII)Key subsidiaries and share-participating companies

√ Applicable □ Not applicable

Unit: RMB

| Company | Major product or service | Registered capital | Asset scale | Net profit/(loss) |
|--|--|--------------------|----------------|-------------------|
| Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd. | Design, manufacturing and sales of port machinery, engineering vessel, steel structure and other parts | 50,000,000 HKD | 10,427,736,759 | 3,352,889 |
| Shanghai Zhenhua Shipping Co., Ltd | Operation of sea transportation in coastal waters; ordinary transportation in the middle and lower reaches of Yangtze River; transportation of port machinery. | 120,000,000 | 2,299,892,178 | 54,894,998 |
| Nantong Zhenghua Heavy Equipment Manufacturing Co., Ltd | Installation of heavy port equipment, engineering vessels, heavy metal structure and its parts; Gear box, container yard crane, super heavy-duty bridge steel structure, heavy marine machinery equipment, weaving, installation; lease of cranes; contracting of steel structures etc | 854,936,900 | 2,422,076,284 | -59,150,920 |
| Shanghai Zhenhua Heavy Industries Group (Nantong) Transmitter Co., Ltd | Construction and installation of large-scale port equipment, engineering vessels, offshore heavy equipment, machinery and equipment, wind power generation equipment to use gear box; large slewing bearings, transmission, dynamic positioning, large anchor cutter, offshore oil platform lifting device and components, accessories related weaving. | 300,000,000 | 2,742,735,527 | 22,259,257 |
| Shanghai Zhenhua marine engineering service Co., Ltd (Primitive name: Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd) | International land, air, maritime freight forwarding, business, domestic freight forwarding, undertaking large-scale port equipment, marine equipment, marine engineering materials sales, marine construction and engineering and ship leasing, engaged in import and export of goods and technologies, transit trade, trade between enterprises and trade agents within the free trade zone. | 100,000,000 | 304,927,252 | -18,779,615 |
| Zhenhua Pufeng Wind Energy (HongKong) Co., Ltd | Offshore wind turbine installation | 16,326,531 USD | 17,510,018 | -19,659,559 |
| CCCC Tianhe Co., Ltd | Integration design, R&D and manufacturing of shield machine system with diameter of over 6m; integration design, R&D and manufacturing of tunnel boring machine (TBM) system | 681,627,100 | 2,722,807,116 | 85,197,056 |

| | | | | |
|---|---|---------------|----------------|-------------|
| | with diameter of over 5m; design, R&D and manufacturing of marine machinery and parts, cranes and parts, bridges and high damping bracket for buildings; sales of self-produced products. whole sales and import & export business of marine machinery and parts, cranes and parts, bridges and high damping bracket for buildings (if the state-operated trade commodities, design quota and license management is not involved, the related national rules will prevail); installation, maintenance, leasing, consulting, technical services for our products. (foreign capital proportion is less than 25%) (as for the items requiring the approval, carry out the business activities after obtaining the approval from the authorities) | | | |
| Shanghai Zhenhua Heavy Port Machinery General Equipment Co., Ltd. | Sales of port loading machine, bulk cargo and container machine, port engineering vessels (including floating engineering crane), material handling mechanical products and parts, sales and technical services, installation and maintenance, technical consultation of all types of machine and equipment, key parts of the raw materials and accessories equipment. | 2,184,730,000 | 2,273,914,423 | 12,569,775 |
| Nanjing Ninggao New Channel Construction Co., Ltd | Engaged in construction, investment and management of Ninggao NewChannel project. | 100,000,000 | 3,140,658,145 | 109,557,250 |
| Shanghai Zhenhua Heavy Industries Qidong Marine Co., Ltd | Machinery manufacturing | 303,000,000 | 1,894,868,401 | -6,401,505 |
| Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd | Steel structure fabrication and installation, Foundation construction of offshore wind power facilities, equipment installation and maintenance, submarine cable system construction, maintenance, marine construction, equipment installation and maintenance, and installation of equipment leasing. | 260,000,000 | 1,278,961,358 | 46,943,972 |
| CCCC Estate Yixing Co., Ltd. | Engaged in real estate development. | 900,000,000 | 1,364,677,410 | 4,801,514 |
| CCCC Financial Leasing Co., Ltd | Financing lease | 5,000,000,000 | 22,840,873,119 | 251,014,262 |
| China | Construction of port, waterway, highway | 50,000,000 | 315,835,115 | -16,452,070 |

| | | | | |
|--|-------------|-----|--|--|
| Communications Construction USA Inc. | and bridge. | USD | | |
|--|-------------|-----|--|--|

(VIII) Conditions of the structure of and share-participating companies

☐ Applicable ☒ Not applicable

III. The Company's discussion and analysis of the Company's future development

(I) Sector competition pattern and development trend

☒ Applicable ☐ Not applicable

According to the analysis of port machinery market about purchase orders, the company reached to a peak in 2015 because of the major projects of automatic-port equipment sets. And it back blended to normal amount since changes of global economic and trends of trade. The domestic market keep steady, the Asia market remain firm, the North America market is still in the adjustment period, and markets in Africa and Latin America are full of potentiality, but the Europe and Australia ones are declining.

The world economic and trades conditions are in downturns, Britain exited from EU and other members want to follow it, which makes the situation more puzzling. Many shipping lines are in dilemma. The Hanjin shipping Co. bankrupted, the MAERSK Group needed to be reorganized, the three top shipping companies must consolidated as well as Zhongyuan and Zhonghai. These changes had an influence on the market and investment on port construction. So, the port machinery market will definitely be in huge pressure. The global shipping market is readjusted, the port machinery market is maintaining an usual level, the domestic market needs time to develop. We can see that the needs of traditional port machinery reached saturation. The total needs are declining, so the operation and competitiveness will be worsening.

Though the global needs are declining in the port machinery market, but there are some hot-spots some area. The trend of world economic center transformation to the Asian-Pacific region is more apparent. Chinese economic growth will still remain at about 6.5% in 2017. And the economic growth Southeast Asia will reach to 4.8%, predicted by Asian Development Bank in 2017. With the consolidation of ASEAN economic speeding up and the One Belt One Road strategy, the trading level of 65 countries of Asia, Africa and Europe will be enhanced, that will produce a lot of demands on port machinery. The company thinks that the market will still be in the adjustment, the port machinery work will increase slightly.

The marine market has kept declining over two years, the company now is facing huge pressure on difficulties in manufacturing ships, financing and making new orders. The world economic development is still in the deep adjustment period, the consumption of oil and gas is not so good, now we can see that the supply exceeds demand. The rental of marine equipments became lower and lower so do the newly made ships and the used ones. Even the price of oil and gas increase and the explosion of oil and gas became better, the recovery weak state will continue for a long time because of the surplus of oil platforms and marine supported ships. In general, the low oil price that led to the decline of demand of equipments, the surplus of equipments and huge amount of orders make the world marine equipment market's recovery weak state will continue for a long time. Delay, be put on ice and even cancel projects and orders will become common.

With One Belt One Road strategy and Yangtze River economic belt improvement, solid foundation at home and abroad, the recovery of offshore wind power facilities market, the capacity steel structure market are enhancing. Although the company has its advantage on the steel structure of bridge in high-end market, but it still in the middle and lower reach to the industry chain. There is cut-throat competition in the steel structure of bridge market, and the price of offshore wind power facilities nearly reach to the cost. Also there are some exacting terms in contracts. The lack of structural supply, technology and manufacturing experience in high-end marine region, on advantages in low-end marine region. The financial sector's protection, transportation cost and etc. bring challenges to the steel structural industry.

(II) The Company's sector's protection,

☒ Applicable ☐ Not applicable

The Board systematically and scientifically studied the basic situation both at home and abroad, analyzed domestic reform status, analyzed major competitions and self-owned advantages and disadvantages. The Board clearly set the overall development concept, key tasks and guarantee measures in 2017, focusing on innovating drive, transformation and upgrade, improving the quality and efficiency, which ensures the stable development of the Company in new common state, reform and development.

1. Strategic position: to build the Company into an excellent international company. Build the industry layout of vertical integration, horizontal correlation limited diversification and internationalization. Build No. 1 general contractor of port machinery manufacturing and automated port system; world-famous and domestic leading marine engineering equipment integrator; world-famous and Asia No. 1 marine engineering services and new energy engineering general contractor; world-famous and domestic leading electrical system general contractor; world-famous special overseas developer and industry well-known equipment manufacturer and transit infrastructure investment operator.

2. The overall working concept for 2017: Establish innovative, coordinative, green, open and sharing development concept, surrounding “one center”, promote “three industrialization” target, emphasize the “4 main lines”, establish “6 driving forces” and improve “6 capacities”, insist on “24 word’s principle”, continue to act as a powerful player, lay foundation to become the world excellent company with international competition.

3. 2017 major tasks:

- (1) Continuously develop eight major works and make sure for the stable growth.
- (2) Continuously center on reform and innovation principle and make the business strategies done.
- (3) Continuously center on overall cost efficiency and focus on basis management and benefit increasing.
- (4) Continuously center on solid foundation and improve the operation quality
- (5) Continuously strengthen team building and improve the human resources management ability.
- (6) Continuously strengthen party buildings as a state-own enterprise and fight for corruption.

(III) Business planning

☒ Applicable ☐ Not applicable

In 2017, the Company plans to achieve steady growth in revenue, and signs more new orders, implements “insist on the innovation and development, the coordinated development, the green development, open development and sharing development” ; insist on five development concepts to accelerate the innovation, mergers and acquisitions, digitalization and internationalization development r, focus on reform and innovation, deepen the organizational structure adjustment, reduce the cost and improve the efficiency, consolidate the foundation, enhance the operation quality, accelerate the integration of resources, increase the gross profit margin, to ensure the stable development of the company in new common state, reform and development.

(IV) Possible risks

☒ Applicable ☐ Not applicable

Market risk: the international economy is still in the declining state with limited growth, the slow economic development may become the “new ordinary state” in the domestic market. The industry trend is impacted by the decreasing ore and oil prices. The shipping capacity is excessive and the port machinery market increased a little. The marine heavy industry is in the low position in the market. As for the offshore oil and gas service, the large piece handing and movement transportation market decreases with excessive capacity. The port machinery market is still in main position in scale and profit contribution, but other markets are still being cultivated.

Solution: facing the market challenges at home and abroad, the Company will deepen the reform, consolidate the basic management and enhance the risk resistance, focus on “1.5.2.1” for optimal adjustment of market and business structure; to promote the four transition from selling products to sell excellent products (Technology); from selling equipment to selling system; from selling hardware to selling software (service); from the production mode, management mode, the business model in Industry 2.0 change to new model, profit model innovation in Industry 4.0, promote structure adjustment and resources integration, drive structure adjustment and resource integration; drive enterprise sustainable development by transformation and upgrade.

Financial risks: credit risk and exchange rate risk, increased volatility of the RMB bidirectional fluctuation of exchange rate and large load capacity.

Solution: Develop rational planning for forward rate look, control exchange rate risk, emphasis on research on policies and strategies of foreign exchange risk management, pay close attention to change in exchange rates, regularly complete analysis of exchange rate movements, conduct strict implementation of financial derivatives related to the approval process, produce good statistics on product current exchange rate, further reinforce the basic work of foreign exchange management, and reduce the company's exchange rate risk. By arranging favorable settlement terms in the contract (such as the signing of a contract with the RMB exchange rate pegged, increase the prepayments proportion plus early settlement, etc.), or within the range permitted by the country's financial foreign exchange policy, make use of hedging, foreign exchange factoring and other appropriate financial instruments or means to control and lock the exchange rate risk.

As for credit risk, by reducing raw material reserves, compression of infrastructure spending, adjusting the company's debt structure through a variety of ways (such as medium-term notes, short-term bonds), reducing financing costs, strengthening the collection of accounts receivable, gradually reducing the amount of bank debt, reduce business risks.

(V) Other

☐ Applicable ☒ Not applicable

IV. Explanation of the case and reasons that company does not disclose due to rules not applicable or special reasons

☐ Applicable ☒ Not applicable

Chapter V Substantial Events

I. The plan for the distribution of ordinary profits or the transfer of capital accumulation fund

(I) The formulation, implementation or adjustment of the cash dividends policy

✓ Applicable ☐ Not applicable

According to CSRC Notification on further implementation of issues concerning listed company cash dividends sharing (Zhengjian Fa [2012]37), as proposed by the 10th meeting of the Company's fifth session of Board held on August 21, 2012, amendment would be made to the Articles of Association of the Company concerning profit distribution and cash dividends policy, and as result dividends sharing standard and proportion are clear, related decision making program and mechanism compete, with full maintenance of small shareholders' legitimate rights and interests, giving them full excess to expressing their views and demands.

(II) Profit distribution pre-plan or plan, capital reserve converted into share capital plan or preplan of the Company for last three years (including report period)

Unit: Yuan Currency: RMB

| Bonus Year | Bonus share for every 10 shares (share) | Dividend for every 10 shares (Yuan) (before tax) | Shares converted for every 10 shares (share) | Cash dividend amount (before tax) | Net profit attributable to listed company shareholders in profit-sharing year | The ratio of net profit attributable to listed company shareholders in profit-sharing year (%) |
|------------|---|--|--|-----------------------------------|---|--|
| 2016 | 0 | 0 | 0 | 0 | 212,419,946 | 0 |
| 2015 | 0 | 0 | 0 | 0 | 212,411,967 | 0 |
| 2014 | 0 | 0 | 0 | 0 | 202,223,273 | 0 |

(III) Share repurchase is included in the cash dividend by cash offer

☐ Applicable ✓ Not applicable

(IV) The profit in the report period and the profit that can be distributed by common shareholders of parent company are positive, if the cash profit distribution plan of common stock is not proposed, the company shall disclose the reasons, purpose and use plan of the profit not distributed in details

✓ Applicable ☐ Not applicable

| | |
|--|---|
| Reason for profit in the report period and the profit that can be distributed by common shareholders of parent company are positive but the common stock cash profit distribution plan is not proposed | Purpose and use plan of profits not distributed |
| Although the company made profit in 2016 the company was in the important period of adjustment of the business structure. The bank liability with interest is still large, accounting for a higher proportion of the total liabilities. In order to effectively reduce the turnover of capital and operating risk, and maintain the long-term interest of shareholders. The profits distribution plan in 2016 is:, not distributed or capital reserve for capital stock. | For the daily operation of the company |

II. Commitment performance

(I) Note of the board of directors and the board of supervisors for "non-standard audit report" of the accounting firm.

☐ Applicable ☒ Not applicable

(II) Analysis of the reasons and impact of the board of directors on the changes of accounting policies, accounting estimates and accounting methods

Whether to achieve the original profit forecast and the analysis for reasons

☐ Achieved ☐ Not Achieved ☒ Not applicable

III. Capital occupied situation and clearing arrears progress in the report period

☐ Applicable ☒ Not applicable

IV. Notes of the board of directors for "non-standard audit report" of the accounting firm

☐ Applicable ☒ Not applicable

V. The analysis of reasons and effects on the changes of accounting policies, accounting estimates and the major error correction

(I) The analysis of reasons and effects on the changes of accounting policies and accounting estimates

☒ Applicable ☐ Not applicable

In December 2016, the Ministry of Finance promulgated the Treatment Provisions for Value-added Tax (Cai Kuai [2016] No. 22, relevant taxes accounting documents and accounting policy for presentation shall be changed according to the provisions.

I. The title of "Business tax and Charges" is changed to "Tax and Charges", which accounts consumption tax, urban maintenance and construction tax, resource tax, education surcharges and the property tax, land use tax, vehicle use taxes, stamp duty and other relevant taxes for enterprise 's business activities; the project "Business tax and Charges" is adjusted to "Tax and Charges". Since May 1, 2016, "Tax and Charges" listed in the profit statement is no longer listed in "Management Fee"; the charges produced before May 1, 2016 (with the exception of the the property tax and land use tax have been included in the "Business tax and Charges" related to the investment real estate), are still listed in "Management Fee". Due to the above requirements, the content of the presentation is different between the year 2016 and 2015 of "Tax and Charges" and "Management Fees", but had no effect on for the year 2016 and 2015 merger and net profit and the merger and shareholders' equity.

2. "VAT Payable" account under the "Taxes Payable", "VAT Unpaid", " Pending Deduct VAT on Purchase", "Input Tax on Pending Certification" and "Left the Deductible Tax" shall be listed in the "Other Current Assets" in the balance sheet or "Other Non-current Assets"; the same as "Taxes Payable, Stay - recognition Tax ". Due to the above requirements, the content of the presentation is different between the year 2016 and 2015 of "Other Current Assets" in the balance sheet or "Other Non-current Assets", but in the end of 2015 the merger and the company had no effect on the balance sheet.

(II) The analysis of reasons and effects on the changes of the major error correction

☐ Applicable ☒ Not applicable

(III) Communicate with former accounting firm

☐ Applicable ☒ Not applicable

(IV) Other statement

☐ Applicable ☒ Not applicable

VI Appointment and dismissal of accounting firm

Unit: (10,000) Yuan Currency: RMB

| | | |
|--|----------------------|---------------------|
| | Original appointment | Current appointment |
|--|----------------------|---------------------|

| | | |
|---------------------------------------|--|--|
| Domestic accounting firm | PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd. (Special general partnership) | Ernst & Young (Special general partnership) |
| Domestic accounting firm payment | | 340 |
| Domestic accounting firm audit period | 22 | 1 |

| | | |
|--|---|---------|
| | Name | Payment |
| Internal control audit accounting firm | Ernst & Young (special general partnership) | 40 |

Appointment and dismissal of accounting firm

☒ Applicable ☐ Not applicable

In accordance with relevant provisions of SASAC, the audit team of PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd. (Special general partnership) has provided audit services for the company for many years. By the decision for 11th meeting of the Board of Directors and 2015 Annual General Meeting of Shareholders, Ernst & Young (special general partnership) is hired as company's domestic auditing institution in 2016.

Change to appointment accounting firm during auditing period

☐ Applicable ☒ Not applicable

VII. Face with the risk for suspended marketing

(I) Reasons for suspended marketing

☐ Applicable ☒ Not applicable

(II) To make measures for the company

☐ Applicable ☒ Not applicable

VIII The situations and reasons for delisting

☐ Applicable ☒ Not applicable

VI. Bankruptcy reorganization related matters

☐ Applicable ☒ Not applicable

X. Substantial lawsuits, arbitrations

☒ The Company has major litigation and arbitration. The Company has no major litigation and arbitration.

(I) Lawsuits, arbitrations disclosed in the provisional announcement without subsequent progress

☐ Applicable ☒ Not applicable

(II) Lawsuits, arbitrations not disclosed in the provisional announcement with subsequent progress

☒ Applicable ☐ Not applicable

Unit: Yuan Currency: RMB

| |
|----------------------|
| In the report period |
|----------------------|

| Prosecut or (applicant) | Defenda nt | Party with joint liabilitie s | Type of suing or arbitratio n | Suit (arbitration) profiles) | Suit (arbitration)) amount involved | Suit (arbitratio n) constitutes project liabilities or not | Suit (arbitratio n) progress | Suit (arbitratio n) ruling and impact | Suit (arbitration) ruling implementati on |
|--|---------------|---|--|---|---|--|---------------------------------------|---|---|
| Shanghai Zhenhua Heavy Industries Co., Ltd | Petrofac | No | Arbitratio n | In 2013, the Company has signed the construction and sales contract about a 6000 ton piping ship with Petrofac (JSD6000) Limited (hereinafter referred to as Petrofac). On October 9, 2015, Petrofac issued Contract Termination Letter with the reason that the project is delayed and meets the termination article. Petrofac asked for terminating the contract and requested the Company to return the prepaid payment and interest, as well as assumed the responsibility of the loss caused by the termination of the contract. The | We stand for about \$200 million; Petrofac's counterclaim calls for \$182 million or \$213 million in two different ways. | 0 | Court to be open soon | Not yet ruled | Not yet ruled |

| | | | | | | | | | | |
|--|--|--|--|---|--|--|--|--|--|--|
| | | | | <p>Company rejected the claim. Petrofac honored the demand guarantee from the opening bank in December 2015, with total amount of 44,720,000 USD. The Company established special team and hired senior legal team both at home and abroad to actively advocate the Company's rights and protect the Company's rights from damaged. The Company has applied for arbitration to the London International Arbitration Court in January and asked Petrofac to return the payment of Letter of Guarantee and compensated for the loss of \$200 million. After receiving the arbitration applicant of the Company, Petrofac filled a counterclaim,</p> | | | | | | |
|--|--|--|--|---|--|--|--|--|--|--|

| | | | | | | | | | |
|---------------|--|----|----------|--|--------------------|---|-----------------------|--|--|
| | | | | and asked the Company for compensating about 182 million USD or 213 million USD under the requirements of continuing built ship or not continuing built ship. | | | | | |
| Flour Company | Shanghai Zhenhua Heavy Industries Co., Ltd | No | Lawsuits | In 2008 the Company and Flour Limited (hereinafter referred to as "Fluor") signed an agreement of sales and installation for wind power steel pipe pile products for the British Wind Power Project. In the project construction process, the Company and Fluor, by way of friendly consultations and in the spirit of good cooperation, maintain dispute handling normal communication mechanism. In 2010, for the implementation of the contract, after review by the board of | About £250 million | 0 | Court to be open soon | The quantitative examination of a case has not yet been rendered | The quantitative examination of a case has not yet been rendered |

| | | | | | | | | | |
|--|--|--|---|--|--|--|--|--|--|
| | | | <p>directors of the Company, the Company signed a mutual exemption letter with Fluor, and in 2011 settled the remaining payment. Afterwards, Fluor produced claim to the Company for quality compensation, and requested the Company to cash the pay-on-claim quality guarantee bond, while the Company rejected the claim. On March 20, 2014, Fluor cashed the above amount of 23,409,750 euro letter of guarantee to the bank opened the letter of guarantee. In September 2014, Fluor initiated proceedings for the breach caused by the problems related to the product quality to High Court of Justice, Queen's Bench Division, The</p> | | | | | | |
|--|--|--|---|--|--|--|--|--|--|

| | | | | | | | | | |
|--|--|--|--|---|--|--|--|--|--|
| | | | | <p>Technology and Construction Court (hereinafter referred to as “TCC Court of Britain Queen’s Bench”) and asked the Company for the compensation of 250 million Pounds for additional test and repair cost, project period delay and related loss.</p> <p>(including the cashed letter of guarantee amount of 23,409,750 Euro). The Company didn’t acknowledge the claim for the compensation from Flour. Since then, the Company prepared the evidence disclosure, witness testimony, exchange work and other preparatory work before the court. From February to March, April, June of 2016, British High Court TCC court was in</p> | | | | | |
|--|--|--|--|---|--|--|--|--|--|

| | | | | | | | | | |
|--|--|----|----------|---|--------------------------|---|-----------------------|---------------|---------------|
| | | | | trial for first instance on obligation part. The court trail plan of the first instance's quantitative part will be in trail in May, 2017. | | | | | |
| Shanghai Zhenhua Heavy Industries (Group) Co., Ltd. Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd. | Nantong Huafu Port Co., Ltd. Li Aidong, Zhao Xiaohua | No | Lawsuits | At the end of February 2014, the company completed the increasing assets for original Jiangsu Daoda Ocean Engineering Co., Ltd, the capital of 67% stake, at the same time, before February 28, 2014, the losses of the company is in charged of by the original shareholders - Li Aidong, Zhao Xiaohua of Nantong Huafu Port Co., Ltd. During the subsequent business process, find the disclose false of parts of the company litigation matters or debt leading to produce a series of losses, | RMB 368.722 million Yuan | 0 | Court to be open soon | Not yet ruled | Not yet ruled |

| | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|
| | | | | through the related audit and adjustment, etc, that loss of RMB 368.7222 million Yuan should be in charged in the original shareholders and the lawsuit again after an inconclusive. | | | | | |
|--|--|--|--|--|--|--|--|--|--|

(III) Other statements

☐ Applicable ☒ Not applicable

XI. Punishment and correction of listed company and its directors, supervisors and senior executives, the controlling shareholder, actual controller and purchasers

☐ Applicable ☒ Not applicable

XII. During the period of report, the credit statement for the company, holding shareholder and actual controller

☐ Applicable ☒ Not applicable

XIII. Company equity incentive plan, employee ownership plan or other employee incentive situations and its influence

(I) Incentive awarded for events disclosed in the provisional announcement and without changes or progresses of following-up implementation

☐ Applicable ☒ Not applicable

(II) Incentive awarded for events not disclosed in the provisional announcement

Stock ownership incentive awarded

☐ Applicable ☒ Not applicable

Other descriptions

☐ Applicable ☒ Not applicable

Employee stock ownership plan

☐ Applicable ☒ Not applicable

Other incentive awarded

☐ Applicable ☒ Not applicable

XIV. Magnificent related transactions

(I) Related transactions in connection with routine operations

1. Events disclosed in the provisional announcement and without changes or progresses of following-up implementation

☒ Applicable ☐ Not applicable

| Events overview | Index |
|---|---|
| The twelfth meeting of sixth Board of Directors on June 30, 2016 approved “Proposal to Invest and Establish Chengdong District of Huaiyin and PPP project of surround port”, “Proposal to Invest and Establish Urban life support and infrastructure of Zhenjiang, Jiangsu” | Shanghai Stock Exchange website: www.sse.com.cn and Shanghai Securities News and Hong Kong Wen Wei Po on Jul 2, 2016. |
| The seventeenth meeting of sixth Board of Directors on Dec. 26, 2016 approved “Proposal to Phase I Project of Investemnt in Building Xiangtan Xiashesi Jingyisu River to Huashi Road”. | Shanghai Stock Exchange website: www.sse.com.cn and Shanghai Securities News and Hong Kong Wen Wei Po on December 27, 2016. |

2. Events disclosed in the provisional announcement and without changes or progresses of following-up implementation

☐ Applicable ☒ Not applicable

3. Events not disclosed in the provisional announcement

☒ Applicable ☐ Not applicable

Unit: Yuan Currency: RMB

| Related party transaction | Incidence relation | Type of related party transaction | Type of related transaction | Pricing principle of related transaction | Price of related transaction | Related transaction amount (%) |
|--|--|-----------------------------------|--|--|------------------------------|--------------------------------|
| CCCC Second Harbor Engineering Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 389,557,043 | 1.60 |
| CCCC International Shipping Co., Ltd | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 233,003,192 | 0.96 |
| CHUWA BUSSAN company limited | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 193,053,287 | 0.79 |
| China Road and Bridge Co., Ltd | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 179,013,839 | 0.74 |
| CCCC Third Harbor Engineering Investigation and Design | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 175,876,344 | 0.72 |

| | | | | | | |
|--|--|------------|--|-----------------------|-------------|------|
| Institute Co., Ltd | | | | | | |
| CCCC Tianjin Waterway Bureau Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 155,198,269 | 0.64 |
| China Harbor Engineering Co., Ltd | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 147,800,178 | 0.61 |
| CCCC Tunnel Engineering Co., Ltd | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 144,526,777 | 0.59 |
| CCCC Fourth Harbor Engineering Investigation and Design Institute Co., Ltd | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 121,403,077 | 0.50 |
| Road & Bridge International Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 81,639,431 | 0.34 |
| CCCC Third Harbor Engineering Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 81,407,370 | 0.33 |
| No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 69,043,050 | 0.28 |
| No.2 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 62,720,000 | 0.26 |
| No.2 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 42,279,112 | 0.17 |

| | | | | | | |
|---|--|------------|--|-----------------------|------------|------|
| CCCC-SHEC Second Engineering Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 37,101,137 | 0.15 |
| Friede & Goldman, Llc | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 26,755,168 | 0.11 |
| CCCC Fourth Harbor Engineering Institute Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 26,568,685 | 0.11 |
| CCCC Third Highway Engineering Bureau Co., Ltd | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 22,068,890 | 0.09 |
| CCCC Financing Rental Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 20,652,755 | 0.08 |
| Hainan CCCC Fourth Harbor Construction Co., Ltd | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 19,279,683 | 0.08 |
| CCCC Fourth Harbor Engineering Co., Ltd | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 17,389,362 | 0.07 |
| Jiangsu LongYuan Zhenhua Marine Engineering Co.,Ltd | Joint venture | Sell goods | Purchase port machinery from the Company | Based on market price | 16,648,649 | 0.07 |
| CCCC Second Highway Engineering Bureau Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 11,802,499 | 0.05 |
| China Communications Corporation | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 11,627,327 | 0.05 |
| CCCC East China | Parent company's | Sell goods | Purchase port machinery | Based on | 10,697,446 | 0.04 |

| | | | | | | |
|---|--|-----------------|--|-----------------------|-------------|------|
| Investment Co., Ltd | wholly-owned subsidiary | | from the Company | market price | | |
| CCCC First Harbor Engineering Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 8,219,845 | 0.03 |
| CCCC Highway Bridges National Engineering Research Centre Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 4,829,060 | 0.02 |
| Hong Kong Zhenhua Engineering Co., Ltd. | Parent company's wholly-owned subsidiary | Sell goods | Purchase port machinery from the Company | Based on market price | 134,656 | 0.00 |
| Zhenhua Marine Energy (Hong Kong) Co., Ltd | Joint venture | Other | Lease the ships from the Company | Based on market price | 169,580,194 | 0.70 |
| CCCC Tunnel Engineering Co., Ltd | Parent company's wholly-owned subsidiary | Other | Lease the shield from the Company | Based on market price | 125,440,000 | 0.52 |
| China Communications Corporation | Parent company's wholly-owned subsidiary | Other | Lease the ships from the Company | Based on market price | 1,606,804 | 0.01 |
| CCCC Third Harbor Second Engineering Co., Ltd | Parent company's wholly-owned subsidiary | Other | Lease the shield from the Company | Based on market price | 501,755 | 0.00 |
| CCCC Tianjin Waterway Bureau Co., Ltd. | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 331,677,108 | 1.83 |
| CCCC Second Highway Consultant Co., Ltd. | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 91,221,324 | 0.50 |
| CCCC Fourth Highway Engineering Co., Ltd. | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 75,048,039 | 0.41 |
| CCCC Third | Parent | Accepting | Entrusting | Based on | 64,290,666 | 0.35 |

| | | | | | | |
|---|--|-----------------|-----------------------------------|-----------------------|------------|------|
| Harbor Engineering Co., Ltd. | company's wholly-owned subsidiary | labor | company for processing | market price | | |
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 22,573,250 | 0.12 |
| Shanghai Communications Construction Contracting Co., Ltd | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 21,633,168 | 0.12 |
| Jiangsu LongYuan Zhenhua Marine Engineering Co.,Ltd | Joint venture | Accepting labor | Entrusting company for processing | Based on market price | 14,565,939 | 0.08 |
| China Communications Corporation | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 13,661,221 | 0.08 |
| CCCC Second Highway Engineering Bureau Co., Ltd. | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 7,079,715 | 0.04 |
| CCCC Tianjin Industry and Trade Co., Ltd. | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 296,154 | 0.00 |
| CCCC East China Investment Co., Ltd | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 247,863 | 0.00 |
| CCCC Third Harbor Engineering Investigation and Design Institute Co. Ltd. | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 56,913 | 0.00 |
| Shanghai Jiangtian Industrial Co., Ltd | Parent company's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 25,173 | 0.00 |

| | | | | | | |
|--|---|-----------------|-----------------------------------|-----------------------|---------------|------|
| CTTIC Shanghai Co., Ltd | Parent company 's wholly-owned subsidiary | Accepting labor | Entrusting company for processing | Based on market price | 17,094 | 0.00 |
| CHUWA BUSSAN company limited | Parent company 's wholly-owned subsidiary | Purchase goods | Supply materials to Company | Based on market price | 182,477,645 | 1.01 |
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | Joint venture | Purchase goods | Supply materials to Company | Based on market price | 120,664,901 | 0.66 |
| CCCC Shanghai Equipment Engineering Co., Ltd | Parent company 's wholly-owned subsidiary | Purchase goods | Supply materials to Company | Based on market price | 100,037,221 | 0.55 |
| CCCC Fourth Highway Engineering Co., Ltd. | Parent company 's wholly-owned subsidiary | Purchase goods | Supply materials to Company | Based on market price | 2,993,504 | 0.02 |
| CCCC Tianjin Port & Waterway Prospection & Design Research Institute Co., Ltd. | Parent company 's wholly-owned subsidiary | Purchase goods | Supply materials to Company | Based on market price | 1,084,615 | 0.01 |
| CCCC Tianjin Port Prospection & Design Research Institute Co., Ltd. | Parent company 's wholly-owned subsidiary | Purchase goods | Supply materials to Company | Based on market price | 1,084,615 | 0.01 |
| Nanjing CCCC Weisanlu River Tunnel Co., Ltd | Parent company 's wholly-owned subsidiary | Purchase goods | Supply materials to Company | Based on market price | 72,175 | 0.00 |
| China Communication Materials & Shipment Co., Ltd | Parent company 's wholly-owned subsidiary | Purchase goods | Supply materials to Company | Based on market price | 14,248 | 0.00 |
| Total | | | | / | 3,658,247,435 | 8.61 |

| | |
|---|--|
| Details about the returned sales with high amount | |
| Explanation of related trade | <p>Note: May 9, 2016, the Company 2015 Annual General Meeting approved "Motion on the Company Signing Framework Agreement with CHINA COMMUNICATIONS CONSTRUCTION CO., LTD on Routine Related Transactions." In 2016, our company and its subordinate units and the China Communications Corporation and its subsidiary bodies could undertake related party transactions in the daily operation on annual basis with transaction amount not exceeding 11 billion Yuan. The Annual General Meeting has authorized the Company's management to handle relevant specific matters.</p> |

(II) Associated transactions of asset or equity acquisition, sales

1. Events disclosed in the provisional announcement and without changes or progresses of following-up implementation

☐ Applicable ☒ Not applicable

2. Events disclosed in the provisional announcement and without changes or progresses of following-up implementation

☐ Applicable ☒ Not applicable

3. Events not disclosed in the provisional announcement

☐ Applicable ☒ Not applicable

4. When the performance agreement is concerned, the performance during the reporting period shall be disclosed

☐ Applicable ☒ Not applicable

(III) Major related transactions of common foreign investment

1. Events disclosed in the provisional announcement and without changes or progresses of following-up implementation

☒ Applicable ☐ Not applicable

| Events overview | Index |
|---|---|
| The thirteenth meeting of sixth Board of Directors on Aug. 30th, 2016 approved "Proposals for the Establishment of Zhenhua Huigu (China) Geological Services Co., Ltd", "Proposal for Joint Stock to Latin American's Regional Company" | Shanghai Stock Exchange website: www.sse.com.cn and Shanghai Securities News and Hong Kong Wen Wei Po on August 31, 2016. |
| The thirteenth meeting of sixth Board of Directors on | Shanghai Stock Exchange website: www.sse.com.cn and |

| | |
|---|---|
| Aug. 30th, 2016 approved “Proposals for the Establishment of Zhenhua Huigu (China) Geological Services Co., Ltd”, “Proposal for Joint Stock to Latin American’s Regional Company” | Shanghai Securities News and Hong Kong Wen Wei Po on October 29, 2016. |
| The thirteenth meeting of sixth Board of Directors on Aug. 30th, 2016 approved “Proposals for the Establishment of Zhenhua Huigu (China) Geological Services Co., Ltd”, “Proposal for Joint Stock to Latin American’s Regional Company” | Shanghai Stock Exchange website: www.sse.com.cn and Shanghai Securities News and Hong Kong Wen Wei Po on December 20, 2016. |

2. Events disclosed in the provisional announcement and without changes or progresses of following-up implementation

☐ Applicable ☒ Not applicable

3. Events not disclosed in the provisional announcement

☐ Applicable ☒ Not applicable

(IV) Current accounts of credits and liabilities with related parties

1. Events disclosed in the provisional announcement and without changes or progresses of following-up implementation

☐ Applicable ☒ Not applicable

2. Events disclosed in the provisional announcement and without changes or progresses of following-up implementation

☐ Applicable ☒ Not applicable

3. Events not disclosed in the provisional announcement

☒ Applicable ☐ Not applicable

Unit: Yuan Currency: RMB

| Related party | Incidence relation | The Company providing fund to related party | | | Related party providing fund to the Company | | |
|---------------------------------|--|---|----------------|-----------------|---|----------------|-----------------|
| | | Opening balance | Current amount | Closing balance | Opening balance | Current amount | Closing balance |
| CCCC Financial Co., Ltd | Parent company's wholly-owned subsidiary | 134,534,649 | 528,772,323 | 663,306,972 | 0 | 300,000,000 | 300,000,000 |
| CCCC Financing Rental Co., Ltd. | Parent company's wholly-owned subsidiary | 0 | 0 | 0 | 1,118,000,000 | 2,120,845,793 | 3,238,845,793 |
| CCCC Leasing Jiahuayi Co., Ltd | Parent company's wholly-owned subsidiary | 0 | 0 | 0 | 383,838,000 | -383,838,000 | 0 |

| | | | | | | | |
|--|--|-------------|-------------|-------------|---------------|---------------|---------------|
| | subsidiary | | | | | | |
| CCCC Leasing Jiahuayi Co., Ltd | Parent company ' s wholly-owned subsidiary | 0 | 0 | 0 | 383,838,000 | -383,838,000 | 0 |
| China Communications Corporation | Parent company ' s wholly-owned subsidiary | 0 | 0 | 0 | 104,440,235 | -1,112,929 | 103,327,306 |
| Shanghai Jiangtian Industrial Co., Ltd | Parent company ' s wholly-owned subsidiary | 0 | 0 | 0 | 17,586,085 | -831,502 | 16,754,583 |
| Tianjin Waterway Co., Ltd | Parent company ' s wholly-owned subsidiary | 0 | 0 | 0 | 25,079,494 | 0 | 25,079,494 |
| CHUWA BUSSAN company limited | Parent company ' s wholly-owned subsidiary | 0 | 0 | 0 | 6,269,873 | 0 | 6,269,873 |
| Hong Kong Zhenhua Engineering Co., Ltd. | Parent company ' s wholly-owned subsidiary | 0 | 0 | 0 | 346,005 | 0 | 346,005 |
| Macau Zhenhua Bay Engineering Co., Ltd. | Parent company ' s wholly-owned subsidiary | 0 | 0 | 0 | 6,593 | 0 | 6,593 |
| Total | | 134,534,649 | 528,772,323 | 663,306,972 | 2,039,404,285 | 1,651,225,362 | 3,690,629,647 |
| Reasons of related credits and liabilities | Dividends payable by the Company to related parties, investment of the cancellation of s subsidiary and current amount loan. | | | | | | |

(V) Other

☐ Applicable ☒ Not applicable

XV. Major contracts and their implantation

(1) Entrusting, contracting and leasing

1. Entrusting

☐ Applicable ☒ Not applicable

2. Contracting

☐ Applicable ☒ Not applicable

3. Leasing

✓ Applicable ☐ Not applicable

Unit: Yuan Currency: RMB

| Lessor | Lessee | Lease d assets | Amount involving leased assets | Lease start date | Lease term nation date | Rental income | Rental income determined by Protocol | Rental revenue impact on the company | Whether related party transactions |
|----------------|---|-------------------|--------------------------------------|---------------------|---------------------------|------------------|--|--|---|
| The Company | Shanghai Zhenlong Asset Management Co., Ltd, and other companies | Housing Rental | 284,337,357 | Aug 10, 2012 | 2025/07/09 | 46,314,775 | Protocol agreed | 46,314,775 | No |

Related transactions

(II) Provide guarantee to related parties

✓ Applicable ☐ Not applicable

Unit: Currency: RMB

| Total guaranties for subsidiaries incurred in report period (excluding those for held subsidiaries) | | | | | | | | | | | | |
|---|--|--|------------------|---|-----------------------|-----------------------------------|-----------------------------|--------------------------------------|--------------------------|------------------------------------|------------------------------------|----------------|
| (2)Guaranty | Relationship between guaranty party and listed corporation | Guaranteed party | Guarantee amount | Guaranty current date (agreement sign date) | Guaranteed Start date | Guaranteed Guaranty terminal date | Guaranty classification | Whether the Guarantee is implemented | Whether guaranty overdue | Whether there is counter guarantee | Whether guarantee to related party | Related Relate |
| The Company | Home office | Jiangsu Yanwei Port Co., Ltd | 19,184,000 | 2014 Nov. 11 | 2014 Nov. 11 | 2017 Nov. 11 | Joint and several liability | No | No | No | No | |
| The Company | Home office | Zhenhua Marine Energy (Hongkong) Co., Ltd. | 177,247,287 | 2015 September 14 | 2015 September 14 | 2017 April 14 | General guarantee | No | No | Yes | Yes | Joint venture |
| Total guaranties for subsidiaries incurred in report period (excluding those for held subsidiaries) | | | | 0 | | | | | | | | |
| Total Guarantee balance at the end of report period (A) | | | | 196,431,287 | | | | | | | | |
| Guaranty of the company and subsidiaries | | | | | | | | | | | | |
| Total guaranties for subsidiaries incurred in report period | | | | 1,016,850,000 | | | | | | | | |
| Total guaranties for subsidiary balance at the end of report period (B) | | | | 3,210,021,000 | | | | | | | | |
| Company guaranty total amount (guaranty for subsidiaries) | | | | | | | | | | | | |
| Total guarantee amount (A+B) | | | | 3,406,452,287 | | | | | | | | |
| Proportion of net assets of the Company (%) | | | | 20.66 | | | | | | | | |
| In which: | | | | | | | | | | | | |

| | |
|---|---|
| Amount guaranties to shareholders, effective controller and its related parties (C) | 0 |
| Amount guaranties to shareholders, effective controller and its related parties (C) | 3,387,268,287 |
| Amount of guaranties exceeding 50% of net assets (E) | 0 |
| Total of the above 3 kinds of guarantee(C+D+E) | 3,387,268,287 |
| Guarantee status explanation | Note: the first interim general meeting of stockholders held on September 22, 2008 approved "Proposal of Company Providing Financing Guarantee to Subsidiary Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd.", and agreed to provide financing support to Hong Kong subsidiary. The bank will issue guarantee for the loan with the upper limit of 500 million USD. The Company will provide the guarantee to Hong Kong subsidiary in the report period. The twenty-ninth and thirtieth meeting of fifth Board of Directors meeting approved other guarantes. |

(III) Non-financial companies entrusted investment financing and derivatives

1. Entrusted financing

☒ Applicable ☐ Not applicable

Unit: Yuan Currency: RMB

| Partner | Financing product type | Financing product amount | Starting day | Ending day | Reward | Principal actually covered | Principal actually covered | Related trade or not | The amount of provision for impairment | Related party transaction? | Suit involved or not |
|---|-------------------------------------|--------------------------|---|------------|------------------------|----------------------------|----------------------------|----------------------|--|----------------------------|----------------------|
| A Bank | Bank Financial Product | 100,000,000 | 2016/5/24 | 2016/11/22 | Interest upon maturity | 100,000,000 | 1,969,590 | Yes | 0 | No | No |
| B Bank | Floating proceeds financial product | 44,000,000 | 2015/12/31 | 2016/1/12 | Interest upon maturity | 44,000,000 | 32,547 | Yes | 0 | No | No |
| B Bank | Floating proceeds financial product | 2,000,000 | 2015/12/31 | 2016/3/21 | Interest upon maturity | 2,000,000 | 11,984 | Yes | 0 | No | No |
| B Bank | Floating proceeds financial product | 14,000,000 | 2016/1/8 | 2016/3/31 | Interest upon maturity | 14,000,000 | 87,548 | Yes | 0 | No | No |
| Total | / | 160,000,000 | / | / | / | 160,000,000 | 2,101,669 | / | 0 | / | / |
| Principal not withdrew overdue and accumulated income amount (Yuan) | | | 0 | | | | | | | | |
| Description of the entrusted financing | | | Note: the tenth meeting of sixth Board of Directors meeting and 2015 general meeting of shareholders approved the relevant amount of the entrusted financing issues in the table above by the report day. | | | | | | | | |

2. Entrusted loans

☐ Applicable ☒ Not applicable

3. Investment in other financing investments and derivatives

☐ Applicable ☒ Not applicable

(IV) Other substantial contracts

☒ Applicable ☐ Not applicable

1. On Jan. 9, 2016 the Company published announcement signed general contracting contract of automation loading system with PSA, details see Shanghai Securities News and Hong Kong Wen Wei Po.
2. On July 2, 2016, the Company published announcement signed sales contract of automation container crane with Huaiyin Port East Area and PPP etc., details see Shanghai Securities News and Hong Kong Wen Wei Po.
3. On Jul 2, 2016, the Company published announcement signed sales contract of Zhenjiang School Life Support and Infrastructure, details see Shanghai Securities News and Hong Kong Wen Wei Po.
4. On Dec. 27, 2016, the Company published announcement winning the bid of the First phase of the project of Yisu River to Huashi Road in Xiangtan with Sangong Ju, and CAUPO, details see Shanghai Securities News and Hong Kong Wen Wei Po.

XVI. Other current liabilities

☒ Applicable ☐ Not applicable

1. The Company issued 2,000,000,000 Yuan First short-term financing bonds in April 28, 2016, with term of 1 year and the fixed annual interest rate of 3.7%, principal and interest paid at one time on April 29, 2017.
2. The Company issued 2,000,000,000 Yuan First short-term financing bonds in October 28, 2016. The note term is 270 days, and the annual interest of face value is 3.2%, capital with interest shall be repaid at one time on Friday, July 28, 2017.

Note: The bonds above have no mortgage or security.

XIII. Active fulfillment of social responsibilities

(I) Poverty alleviation work situation of listed company

☐ Applicable ☒ Not applicable

(II) Social responsibility work

☒ Applicable ☐ Not applicable

The Company actively fulfills its social responsibilities, effectively adjusts industrial structure and business arrangement, optimizes development strategy, forms 8 business sectors arrangements; increases investment in R&D; enhances the innovation capacity; promote technological progress; actively promote the overseas center construction, improve the service response speed to the global customers and provide customers with high quality and rapid services.

Company always adheres to the "people-oriented", to safeguard employees' rights and interests, actively build development platform for the worker, encourage the staff innovation, establish the typical innovation, forming a good enterprise atmosphere; attach great importance to link with the community and schools, strengthen smooth and friendly development situation between social enterprises and colleges, promote enterprise culture to further integrate into society; advocate green sustainable development, advocate green production, green office, green propaganda

(III) The explain for environmental protection of the environmental protection department of the company and its subsidiary

☐ Applicable ☒ Not applicable

(IV) Other

☐ Applicable ☒ Not applicable

XVIII. Negotiable company bond

(I) The issuance of bond transfer

☐ Applicable ☒ Not applicable

(II) The status for holder and guarantor of bond transfer during the report period

☐ Applicable ☒ Not applicable

(III) The status for bond transfer

☐ Applicable ☒ Not applicable

The status for bond transfer during the report period

☐ Applicable ☒ Not applicable

(IV) Adjustment of the bond transfer

☐ Applicable ☒ Not applicable

(V) The company's liabilities, the change of credit and the cash arrangement for the repayment of the debt in the next year

☐ Applicable ☒ Not applicable

(VI) Other information about transferring debt

☐ Applicable ☒ Not applicable

Chapter VI Equity Movement and Shareholder's Profile

I. The sheet for change of common stock shares

(1) The sheet for change of common stock shares

1. The sheet for change of common stock shares

During the reporting period, the total number of shares and share capital structure of the Company have not changed.

2. The explain for change of common stock shares

☐ Applicable ☒ Not applicable

3. The impact of the common stock changes on financial indicators such as earnings and net asset per share in the last year and recently (if yes)

☐ Applicable ☒ Not applicable

4. Other content that the company considers necessary or securities regulator to require disclosure

☐ Applicable ☒ Not applicable

(II) Stock with sales limit change

☐ Applicable ☒ Not applicable

II. Issuance and listing of securities

(I) The issuance of securities by the time of the reporting period

☐ Applicable ☒ Not applicable

Description of securities issuance as of the time of reporting period (different interest rates for the period of maturity)

☐ Applicable ☒ Not applicable

(II) The total number of common shares and the changes in the structure of the shareholders and the structure of the company's assets and liabilities

☐ Applicable ☒ Not applicable

(III) The status of existing internal employment stocks

☐ Applicable ☒ Not applicable

III. Particulars about shareholder and effective controller of the Company

(I) Number of shareholders

| | |
|---|---------|
| Number of shareholders at period end | 269,424 |
| Total shareholders end of 5th trading day prior to release day of current annual report | 265,667 |

(II) End to report period, shareholding profile of top 10 shareholders and top 10 current shareholders (or Tradable shareholders)

Unit: share

| Shareholding profile of top 10 shareholders | | | | | | | |
|---|---------------------|-------------------|---|-------------|-------------------------|-------------|--|
| Shareholder's Name | Movement During the | Total shares held | % | Shares held | Share pledged or frozen | Shareholder | |

| (Full name) | Year | | | subject to conditional sales | Share status | Amount | Nature |
|---|------|---------------|-------|------------------------------------|-----------------|--------|--------------------------|
| China Communication Construction Co., Ltd | 0 | 1,265,637,849 | 28.83 | 0 | No | 0 | State legal |
| ZHEN HUA ENGINEERING COMPANY LIMITED | 0 | 749,677,500 | 17.08 | 0 | No | 0 | Overseas legal person |
| Central Huijin Assets Management Co., Ltd | 0 | 74,482,200 | 1.70 | | Unknown | | Unknown |
| China Securities Finance Co., Ltd | 0 | 56,788,474 | 1.29 | | Unknown | | Unknown |
| BOSARE FUNDS- — agricultural bank — BOSARE China Securities Financial Assets Management Plan | 0 | 16,546,600 | 0.38 | | Unknown | | Unknown |
| Dacheng Funds — agricultural bank — Dacheng China Securities Financial Assets Management Plan | 0 | 16,546,600 | 0.38 | | Unknown | | Unknown |
| ICBC Credit Suisse Fund — agricultural bank — ICBC CreditSuisse China Securities Financial Assets Management Plan | 0 | 16,546,600 | 0.38 | | Unknown | | Unknown |
| GF Fund — agricultural bank — GF China Securities Financial Assets Management Plan | 0 | 16,546,600 | 0.38 | | Unknown | | Unknown |
| China Asset Management agricultural bank — China Asset Management China Securities Financial Assets Management Plan | 0 | 16,546,600 | 0.38 | | Unknown | | Unknown |
| Harvest Fund- agricultural bank- Harvest Fund China Securities Financial Assets Management Plan | 0 | 16,546,600 | 0.38 | | Unknown | | Unknown |
| Southern Fund — agricultural bank — Southern Fund China | 0 | 16,546,600 | 0.38 | | Unknown | | Unknown |

| | | | | | | | |
|--|--|--|------|--|---------|--|---------|
| Securities Financial Assets Management Plan | | | | | | | |
| E fund management — agricultural bank—E fund management China Securities Financial Assets Management Plan | 0 | 16,546,600 | 0.38 | | Unknown | | Unknown |
| Yinhua Fund — agricultural bank — Yinhua Fund China Securities Financial Assets Management Plan | 0 | 16,546,600 | 0.38 | | Unknown | | Unknown |
| Lombarda China Fund Management — agricultural bank — Lombarda China Fund Management China Securities Financial Assets Management Pla | 0 | 16,546,600 | 0.38 | | Unknown | | Unknown |
| Particulars about top 10 shareholders of shares not subject to conditional sales | | | | | | | |
| Shareholder name | Shares not subject to conditional sales held at periodv | Type and quantity of shares | | | | | |
| | | Type | | | | | Amount |
| China Communication Construction Co., Ltd | 1,265,637,849 | RMB common shares | | | | | |
| ZHEN HUA ENGINEERING COMPANY LIMITED | 749,677,500 | Shares with foreign investment listed on domestic market | | | | | |
| Central Huijin Assets Management Co., Ltd | 74,482,200 | RMB common shares | | | | | |
| China Securities Finance Co., Ltd | 56,788,474 | RMB common shares | | | | | |
| BOSARE FUNDS - agricultural bank — BOSARE China Securities Financial Assets Management Plan | 16,546,600 | RMB common shares | | | | | |
| Dacheng Funds — agricultural bank — Dacheng China Securities Financial Assets Management Plan | 16,546,600 | RMB common shares | | | | | |
| ICBC Credit Suisse Fund — agricultural bank — ICBC Credit Suisse China Securities Financial Assets Management Plan | 16,546,600 | RMB common shares | | | | | |
| GF Fund — agricultural bank — GF China | 16,546,600 | RMB common shares | | | | | |

| | | | |
|---|--|-------------------|--|
| Securities Financial Assets Management Plan | | | |
| China Asset Management agricultural bank — China Asset Management China Securities Financial Assets Management Plan | 16,546,600 | RMB common shares | |
| Harvest Fund - agricultural bank - Harvest Fund China Securities Financial Assets Management Plan | 16,546,600 | RMB common shares | |
| Southern Fund — agricultural bank — Southern Fund China Securities Financial Assets Management Plan | 16,546,600 | RMB common shares | |
| E fund management—agricultural bank—E fund management China Securities Financial Assets Management Plan | 16,546,600 | RMB common shares | |
| Yinhua Fund—agricultural bank—Yinhua Fund China Securities Financial Assets Management Plan | 16,546,600 | RMB common shares | |
| Zhongou Fund — agricultural bank — Zhongou Fund China Securities Financial Assets Management Plan | 16,546,600 | RMB common shares | |
| Explanation on the above related relationship or consistent action | <p>1. Among above top 10 shareholders, CHINA COMMUNICATIONS CONSTRUCTION CO., LTD. Constitutes related party relationship with ZHEN HUA ENGINEERING COMPANY LIMITED, ZHEN HWA HARBOUR CONSTRUCTION COMPANY LIMITED, with ultimate controller being China Communications Group Corporation. The Company is not aware of whether they have associated relationship among them or belong to the consistent actionists as defined in Administrative Rules on Disclosure of Information on Stock Change of Listed Company' s Shareholders.</p> <p>On January 8, 2014, the Company disclosed the “Announcement on Changes in Shareholders’ Equity”, according to which Hong Kong (ZHEN HUA ENGINEERING COMPANY LIMITED) was to transfer all the shares it held to CCCC International (Hong Kong) Holdings Limited. After the transfer of shares, the controlling shareholder of the Company and the actual controller remain unchanged. The share transfer is required to obtain the SAC of the State Council and other department for approval.</p> | | |

Particulars about top 10 shareholders of shares not subject to conditional sales

☐ Applicable ☒ Not applicable

(III) A strategic investor or a general legal person shall be the top 10 shareholder because of new stocks

☐ Applicable ☒ Not applicable

IV. Controlling shareholders and actual controllers

(I) Particulars about the corporate controlling shareholder

1 Legal representative

☒ Applicable ☐ Not applicable

| | |
|------|---|
| Name | China Communication Construction Co., Ltd |
|------|---|

| | |
|---|--|
| The person in charge of the unit/legal representative | Liu Qitao |
| Date of incorporation | October 8, 2006 |
| Principal business | Engaging in the general contracting of construction projects for ports, channels, highways and bridges both home and abroad, including technical and economic consultation of engineering, feasibility study, survey, construction, supervision, procurement and supply for related complete set of equipment or materials, and equipment installation; undertaking the general contracting of the construction of industrial and civil works, railway, metallurgy, petrochemical, power and water conservancy facilities, channel, mine and municipal works; import and export business; real estate development and property management, investment and management of logistics, transportation, hotel and tourist industries. |

2. Natural person

☐ Applicable ☒ Not applicable

3. Special status of actual controllers not existed

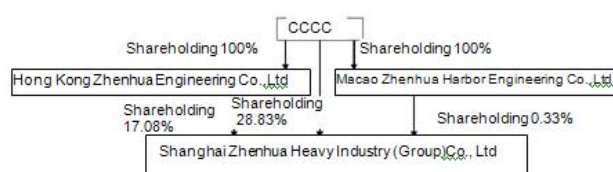
☐ Applicable ☒ Not applicable

4. Changes index and date for actual controllers during the report period

☐ Applicable ☒ Not applicable

5. Block diagram of property right and control relationship between Company and controlling shareholders

☒ Applicable ☐ Not applicable



(III) Particulars about the actual controllers

1 Legal representative

☒ Applicable ☐ Not applicable

| | |
|-------------------------|---|
| Name | China Communication Construction Co., Ltd |
| Legal representative: | Liu Qitao |
| Date of establishment | December 8, 2005 |
| Main operating business | Engaging in the general contracting of construction projects for ports, channels, highways and bridges both home and abroad, including technical and economic consultation of engineering, feasibility study, survey, construction, supervision, procurement and supply for related complete set of equipment or materials, and equipment installation; |

| | |
|--|--|
| | undertaking the general contracting of the construction of industrial and civil works, railway, metallurgy, petrochemical, power and water conservancy facilities, channel, mine and municipal works; import and export business; real estate development and property management, investment and management of logistics, transportation, hotel and tourist industries. |
|--|--|

2. Natural person

☐ Applicable ☒ Not applicable

3. Special status of actual controllers not existed

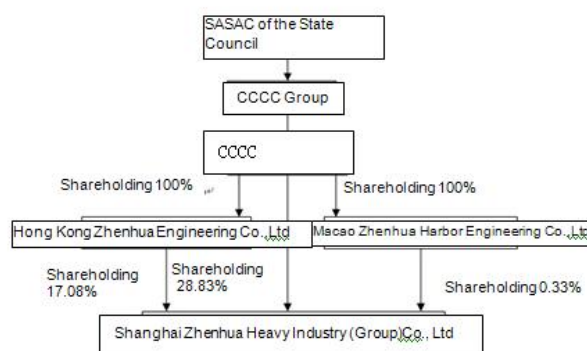
☐ Applicable ☒ Not applicable

4. Changes index and date for actual controllers during the report period

☐ Applicable ☒ Not applicable

5. Block diagram of property right and control relationship between Company and actual controllers.

☒ Applicable ☐ Not applicable



6. The actual controller controls the company through a trust or other asset management style

☐ Applicable ☒ Not applicable

(III). Controlling shareholders and actual controllers

☐ Applicable ☒ Not applicable

V. Other corporate shareholders holding over 10% of the Company's shares

☒ Applicable ☐ Not applicable

Unit: Yuan Currency: RMB

| Corporate shareholders | The person in charge of the unit/legal representative | Date of establishment | Organization code | Registered capital | Main operating business |
|--------------------------------------|---|-----------------------|-------------------|--------------------|---|
| ZHEN HUA ENGINEERING COMPANY LIMITED | Wang Yan | May 14, 1982 | - | 35,000,000 | Marine works, roads and bridges, dredging and site formation, port machinery, |

| | | | | | |
|-------------|--|--|--|--|--------------------|
| | | | | | survey and design. |
| Description | China Communications Construction Co., Ltd. Holds 100% stake of ZHEN HUA ENGINEERING COMPANY LIMITED, the ultimate shareholder is China Communications Construction Group Co., Ltd | | | | |

VI. Share limit reduction

☐ Applicable ☒ Not applicable

Chapter VII Preferred stock information

☐ Applicable ☒ Not applicable

Chapter VIII Directors, Supervisors, Senior Executives and Employees

I. Change of holdings and remuneration

(I) Shareholding changes and remuneration of directors, supervisors and senior executives under employment or retired during report period.

✓ Applicable ☐ Not applicable

Unit: share

| Name | Title (note) | Sex | Age | Start of Tenure | End of Tenure | Shares held at the beginning of year | Shares at end of year | Change in report period | Reason | Total paid by the Company during report period (RMB 10,000) | Whether paid by related parties of the Company |
|----------------|---|-----|-----|-----------------|----------------|--------------------------------------|-----------------------|-------------------------|--------|---|--|
| Song Hailiang | Chairman of the Board | M | 52 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 0 | Yes |
| Zhu Lianyu | Vice Chairman of the Board, Party Secretary | M | 47 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 100.04 | No |
| Huang Qingfeng | Director, President | M | 42 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 100.04 | No |
| Chen Qi | Director | F | 55 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 0 | Yes |
| Yan Yunfu | Director, Chief Engineer | M | 58 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 83.03 | No |
| Liu Qizhong | Director, Vice President | M | 53 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 88.04 | No |
| Dai Wenkai | Director, Vice President | M | 50 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 80.03 | No |
| Wang Jue | Director, CFO, Board Secretary | M | 53 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 83.03 | No |

| | | | | | | | | | | | |
|---------------|---|---|----|----------------|----------------|--------|--------|---|-----|-------|----|
| She Lian | Independent Director | M | 58 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 12 | No |
| Gu Wei | Independent Director | M | 60 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 12 | No |
| Ling He | Independent Director | M | 65 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 12 | No |
| Yang Jun | Independent Director | M | 60 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 12 | No |
| Cui Wei | Supervisor, deputy secretary of the Party committee, commission for Discipline Inspection, trade union chairman | M | 41 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 80.03 | No |
| Zhang Minghai | Supervisor | M | 55 | April 21, 2015 | April 20, 2018 | 20,259 | 20,259 | 0 | N/A | 72.08 | No |
| Xiang Xudong | Supervisor | M | 41 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 69.92 | No |
| Liu Jianbo | Vice president | M | 54 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 83.03 | No |
| Zhou Qi | Vice president | M | 45 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 80.03 | No |
| Chen Bin | Vice president | M | 43 | April 21, 2015 | April 20, 2018 | 89,440 | 89,440 | 0 | N/A | 80.03 | No |
| Shan Jianguo | Vice president | M | 53 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 80.03 | No |
| Zhang Jian | Vice president | M | 48 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 80.03 | No |
| Fei Guo | Chief engineer | M | 55 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 78.03 | No |
| Li Ruixiang | Chief economist | M | 42 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 83.03 | No |
| Sun Li | General counsel | M | 45 | April 21, 2015 | April 20, 2018 | 0 | 0 | 0 | N/A | 78.03 | No |

| | | | | | | | | | | | | |
|---------|-----------------|-------------|---|----|----------------|-------------------|---------|---------|---|-----|----------|----|
| Ge Ming | Former Director | Independent | M | 66 | April 21, 2015 | November 25, 2016 | 0 | 0 | 0 | N/A | 11 | No |
| Total | / | / | / | / | / | / | 109,699 | 109,699 | 0 | / | 1,457.48 | / |

| Name | Main work experience |
|----------------|---|
| Song Hailiang | born in 1965, male, Ph.D., professor-level senior engineer, began his career in July 1987, served as engineer, Design Office director, Vice President, President, member of Party Committee, Vice Secretary of the Party Committee, Chairman of the Board and simultaneously General Manager with CCCC Water Transportation Planning and Design Institute Co., Ltd.; current vice President of China Communications Construction Co., Ltd. and simultaneously General Manager of Equipment Manufacturing Marine Heavy Industry Department and Chairman of the Board of Zhenhua Heavy Industries. |
| Zhu Lianyu | born in 1970, male, Ph.D., professor-level senior engineer; began his career in September 1992, served as engineer, equipment leader of overseas project, vice chief of Marine Machine Department, manager of Enterprise Development Department of CCCC First Harbor Engineering Co., Ltd; general manager of CCCC International Shipping Co., Ltd, general manager of Equipment Manufacturing Marine Heavy Industry Department of China Communications Construction Co., Ltd.; current vice Chairman of the Board and secretary of Party Committee. |
| Huang Qingfeng | born in 1972, male, EMBA, senior engineer; began his career in August 1996, used to be quality project chief, director of field bridge office of quality management department; deputy manager of after-sales department, general manager of Quality Inspection Company; vice director of off-shore office, director of Quality Safety Department, director of Product Service Center and assistant president of the Group; from Jan. 2005 on is VP of the Company and executive vice president and director of Production and Project Management Center since 2014, current director and president of the Company. |
| Chen Qi | born in 1962, female, master degree, senior engineer, was project manager of China Harbor Engineering Co., Ltd. Import and Export Port Machinery Division, China Harbor (Group) Co., Ltd. Industry and Trade Business Unit deputy general manager, General manager; China Communications Construction Co., Ltd Industry and Trade Business Unit general manager; has been director of the Company since 2011, current executive general manager of Equipment Manufacturing Marine Heavy Industry Department of China Communications Construction Co., Ltd. |
| Yan Yunfu | born in 1959, male, EMBA, professor-level senior engineer; served as Vice Chief of Technical Department, Manager of Mechanical Design Department, Vice General Engineer, General Engineer and VP of the Company, President of Land Heavy Industry Equipment Design Institute, is director of board of the Company since 2004, current director and general engineer. |
| Liu Qizhong | born in 1964, male, bachelor degree, senior economist; was Vice Manager, Manager of Operating Department, was director of the Company since 1997, current director and VP of Company. |
| Dai | born in 1967, male, master of physics, EMBA, senior engineer. Began his career in 1993, was Vice Manger and Manager of Operating Department, |

| | |
|-------------|---|
| Wenkai | Vice Chief Economist, Chief Economist; current director and VP of the Company. |
| Wang Jue | born in 1964, male, MBA, CPA and senior accountant, successively held the posts of director and General Accountant of the Financial Office of No.3 Engineering Co., Ltd. Of CCCC Third Harbor Engineering Co., Ltd., Chief of Audit Department, Chief of Financial Department and Vice General Accountant; is the Chief Financial Executive and Secretary of the Board of Directors of the Company since November of 2005; director of Company from 2006 to 2011, current director, CFO and Secretary of the Board of Directors of the Company. |
| She Lian | born in 1959, male, professor, doctoral tutor; from 1995 on, enjoys special government allowances from the State Council since 1995; deputy director and Party Secretary of the Department of Business Administration, Wuhan University of Communications Science; chief editor of "Transportation Enterprise Management" magazine run by Ministry of Transportation; director of Early Warning Management Research Center, Wuhan University of Technology, Professor of Management, doctoral tutor; director of Early Warning Management Research Center, Huazhong University of Science and Technology, Professor of Management, doctoral tutor; Professor of CEIBS Emergency Management Institute incumbent National School of Administration, doctoral tutor, current independent director of the Company. |
| Gu Wei | born in 1957, male, Ph.D., professor and doctoral tutor; since 1982, has been teaching at Shanghai Maritime University; since the year 2000, enjoys special government allowances from the State Council, and the IEEE Society member, MTS Society member and the British Royal Physical Society member, senior member of China Electro technical Society, senior member of Chinese Society of Naval Architects, senior member of Chinese Mechanical Engineering Society; is currently director of the Key Laboratory of the Ministry of Transportation's Shipping Technology and Control Engineering; member of China Electro technical Society's Vessel Electrical Committee; member of the Committee of Experts of Shanghai Jiaotong Electronics Industry Association; procurement consulting expert of Shanghai Municipal Government; member of the Committee of Experts of Ministry of Transport East China Sea Rescue Bureau and other duties; current independent director of the Company. |
| Ling He | born in 1952, male, professor, senior editor (Senior professional title) of Liberation Daily, director of Shanghai Journalists Association, director of Shanghai Institute of Essays, served as member, assistant chief editor, director of Editing Department of the democratic and legal magazine agency, vice director and director of Comment Department of Liberation Daily, main editor of Liberation Daily, chief editor of Liberty Forum; with honor of the first National 100 Journalists, China News first prize for three times, Shanghai News first prize for 15 times, current independent director of the Company. |
| Yang Jun | born in 1957, male, master degree, served as intermediate and Senior court judge of Shanghai Court, president and members of the judicial committee member, Property Trade Operation Director of Shanghai United Property Rights Exchange, now is the assistant president of Shanghai United Property Rights Exchange, general manager of Beijing HQ, director of Financial Property Rights Trade Center, arbitrator of China International Economic and Trade Arbitration Commission, Shanghai International Economic and Trade Arbitration Commission, arbitrator of Shanghai Arbitration Commission, Shanghai Financial Arbitration Court, expert of China domain name dispute resolution center, director of Intellectual Property Association of China Law Society, director of Company Law Research Society of Shanghai Law Society, director of Shanghai Patent / Trademark / Copyright Association, current independent director of the Company. |
| Cui Wei | born in 1976, male, bachelor degree, began his career in 2000, served as deputy director (hosting) of general manager office, legal consultant office of CCCC First Harbor Co., Ltd, director and minister of Party Work Department and President Affair Office of Zhenhua Heavy Industry Co., Ltd, current chief supervisors, deputy secretary of the Party committee, secretary of Commission for Discipline Inspection, chairman of Trade Union |

| | |
|---------------|---|
| Zhang Minghai | born in 1962, male, master degree, professor-level senior engineer; formerly Shanghai Port Machinery Plant Technology Division engineer; mechanical office deputy manager, deputy chief engineer, general manager of Mechanical Office Shore Bridge First Company, of the machinery to do the shore bridge, general manager of Land-base Heavy Industry Co., Ltd. with Shanghai Zhenhua Heavy Industries (Group) Co., Ltd.; currently Land-based Heavy Industry Research Design vice president and also Shore Bridge Design Institute director; chief supervisor of the Company since 2011. |
| Xiang Xudong | born in 1976, male, bachelor degree, senior engineer; served as Vice Director and Vice Manager of Quality Department, General manager of Zhenhua Heavy Industry Inspection Co., Ltd, current employee representative supervisor, Party Secretary and Vice General Manager of Zhenhua Heavy Industry Changxin branch. |
| Liu Jianbo | born in 1963, male, master degree, senior engineer; was engineer at technological office of Shanghai Port Machinery Plant; assistant director in engineering with Technology Office of Shanghai Container Dock Co. Ltd., deputy general manager and general manager of ZPMC Changxing Base; current VP of the Company and chairman of board of Shanghai Zhenhua Marine Engineering Service Co., Ltd. |
| Zhou Qi | born in 1972, male, EMBA, senior engineer; was manager and deputy general engineer, general manager and chief engineer of the Electric Appliance Office of the Company; current VP of the Company and chairman of Company Electric Group. |
| Chen Bin | born in 1974, male, EMBA, senior engineer; project quality leader of Quality Control office, deputy manager of tire crane office of quality control office, manager of quality control office, deputy general manager and general manager of quality control company, vice director of quality and safety office, manager of Quality Safety Office; supervisor of the Company, general manager of Shanghai Zhenhua Shipment Co., Ltd, president assistant of the Company, current VP of Company and general manager of Shanghai Zhenhua Marine Engineering Service Co., Ltd. |
| Shan Jianguo | born in 1964, male, bachelor degree, served in Shanghai Port Machinery Manufacturing Plant, started to work in Shanghai Zhenhua Port Machinery Co., Ltd from 1992, served as engineer, chief engineer of Machinery Office, general manager of Design company, deputy director and director of Machinery Office, manager of budget assessment department, is now the VP and president of Land Heavy Industry Institute. |
| Zhang Jian | born in 1969, male, MBA, served as technician, production planner and assistant of director of No. 2 Panel beater of Shanghai Port Machinery Manufacturing Plant, chief of Changzhou Plant of Shanghai Port Machinery Manufacturing Plant, vice general manager of Shanghai Port Machinery Co., Ltd, vice general manager of Shanghai Port Machinery Heavy Industry Co., Ltd, general manager, assistant of president of Port Machinery Co., Ltd, current VP. |
| Fei Guo | born in 1962, male, EMBA, professor level senior engineer, served as engineer of Shanghai Port Machinery Plant, director of No. 5 electrical office, vice chief engineer, director of Development Office of Shanghai Zhenhua Port Machinery Co., Ltd, VP and executive director of Shanghai Zhenhua Heavy Industry Electric Co., Ltd, current chief engineer of Company. |
| Li | born in 1975, male, bachelor degree, served as vice manager of Manufacturing Department, vice director of Quality Safety Office of Zhangjiagang |

| | |
|----------|---|
| Ruixiang | Base of Shanghai Machinery Plant; manager of Quality Inspection Company, vice director of Quality and Safety Office, vice general manager, generally manager, of machinery supporting base, Party branch secretary and president assistant, current chief economist and general manager of budget assessment department |
| Sun Li | 1. born in 1972, male, EMBA, senior engineer; was project supervisor of Operating Department, vice manager and assistant of General Manager of the Company, Vice President and director of the Company , current Chief Legal Counsel of Company |

Other description

☐ Applicable ☒ Not applicable

(II) Stock ownership incentive awarded for the directors, supervisors and senior executives during the reporting period

☐ Applicable ☒ Not applicable

Office-holding of directors, supervisors and senior executives under employment or retired during report period.

(I) Particulars about office-holding with shareholding companies

☒ Applicable ☐ Not applicable

| Name | Name of shareholder | Title in the shareholding company | Starting date of service term |
|--|---|--|-------------------------------|
| Song Hailiang | China Communication Construction Co., Ltd | Vice president | January 27, 2014 |
| Chen Qi | China Communication Construction Co., Ltd | General manager of Industry and Trade Department | December 29, 2009 |
| Particulars about office-holding with shareholding companies | | | |

(II) Particulars about office-holding with other companies

☒ Applicable ☐ Not applicable

| Name | Name of companies | Title |
|------|-------------------|-------|
|------|-------------------|-------|

| | | |
|--|--|--|
| She Lian | CEIBS Emergency Management Institute Incumbent National School of Administration | Professor, doctoral tutor |
| Gu Wei | Shipping Technology and Engineering key Lab of Ministry of Transportation, Vessel Electrical Committee of China Electro technical Society, Control Committee of Experts of Shanghai Jiaotong Electronics Industry Association; procurement consulting expert of Shanghai Municipal Government; Committee of Experts of Ministry of Transport East China Sea Rescue Bureau and other duties | Director, professor, doctoral tutor, council member, committee member |
| Ling He | Liberation Daily, Shanghai Journalists Association, Shanghai Institute of Essays. | Senior editor (Senior professional title), director |
| Yang Jun | Shanghai United Property Rights Exchange, Financial Property Rights Trade Center, Chin International Economic and Trade Arbitration Commission, Shanghai International Economic and Trade Arbitration Commission, Shanghai Arbitration Commission, Shanghai Arbitration Institute of finance, the Chinese domain name dispute solution center, jurisprudence of China Intellectual Property Association, Company Law Association of Shanghai Law Society, Shanghai Patent/Trademark/Copyright Association. | Assistant president, general manager, director, arbitrator, expert, director |
| Description of position held in other companies and institutions | | |

III. Remuneration of Directors, Supervisors and senior executives

✓ Applicable ☐ Not applicable

| | |
|---|--|
| Decision-making procedures for remuneration of Directors, Supervisors and senior executives | In accordance with the Articles of Association, the remuneration of Directors and Supervisors are subject to the Annual Shareholder's General Meeting and the remuneration of the management are assessed and approved by the President. |
| Calculation basis for remuneration of Directors, Supervisors and senior executives | Basic salary plus performance bonus, combined with assessment utilizing quantizing index of production and operation. |
| Total remuneration received by all directors, | Chairman Song Hailiang, vice chairman Zhu Lianyu and director Chen Qi are not paid by the Company, |

| | |
|---|--|
| supervisors and senior executives | whereas all other director, supervisor and senior executives are paid by the Company |
| Total remuneration received by all directors, supervisors and senior executives at period end | 14.5748 million yuan |

IV. Particulars about changes of directors, supervisors and senior executives

☒ Applicable ☐ Not applicable

| Name | Title | Change | Reason |
|------------|----------------------|--------------|-----------------|
| Zhu Lianyu | Deputy director | Election | Job demand |
| Ge Ming | Independent Director | Leaving post | Personal reason |

V. Punishment in the recent three years by securities regulatory agencies

☐ Applicable ☒ Not applicable

VI. Employee status of the Parent Company and its key subsidiaries

(I) Particulars about employee

| | |
|---|-----------------|
| Number of employees of Parent Company in service | 3,200 |
| Number of employees of key subsidiaries in service | 5,661 |
| Total headcount in employment | 8,861 |
| Number of retired employees with the costborne by the parent company and subsidiaries | 0 |
| In specialties | |
| Classification | Number |
| Production staff | 3,301 |
| Production staff | 211 |
| Technical staff | 4,524 |
| Financial staff | 125 |
| Administrative staff | 700 |
| Total | 8,861 |
| Educational level | |
| Education | Number (person) |
| Doctor | 27 |
| Master | 522 |
| Undergraduate | 3,731 |
| Junior College | 2,684 |
| Technical secondary school | 1,897 |
| Total | 8,861 |

(II) Remuneration policies

√ Applicable ☐ Not applicable

In line with the Company' s development strategy, continuously perfect distribution incentive system, perfect performance assessment system, establish a system linking performance distribution and unit or office performance, staff performance, industrial characters and post value; establish a salary incentive system linking staff achievement, position duty and value contribution and establish a distribution mode integrating with market.

(III) Training program

☒ Applicable ☐ Not applicable

At each year start, the Company sets up all-staff annual educational and training plan and implements according to the plan to improve the competence level and professional quality of staff at various levels. In line with the Company's development strategy, gradually establish a rigid staff training system with systematic, directional and continuous features.

(IV) Labor outsourcing situation

☒ Applicable ☐ Not applicable

| | |
|--------------------------------------|---------------------|
| Labor outsourcing hours | 10058048 hours |
| Total Labor outsourcing remuneration | 324.49 million yuan |

VII. Others

☐ Applicable ☒ Not applicable

Chapter IX Company Governance

I. Company governance profile

☒ Applicable ☐ Not applicable

The Company strictly followed the regulations specified in “Company law”, “Securities Law”, “Stock Listing Rules”, Company Articles of Association” and the legal requirements of China Securities Regulatory Commission in the report period, to standardize the company’s daily operation, further establish and improve the internal control system, improve the internal control management and corporate governance structure, strengthen the insider information management, strengthen the information disclosure, continuously improve the company governance, making efforts to improve the construction of legal person governance structure, and gradually establish a modern enterprise system, earnestly protect the legal rights and interests of the company and all the shareholders, ensuring the sustainable and stable development.

After the inspection, the staffs who know the insider information didn’t trade the stocks of the company before significant price information is disclosed. After the inspection, the staffs who know the insider information didn’t trade the stocks of the company before significant price information is disclosed.

Whether there is any difference between the company governance and the regulation of the China Securities Regulatory Commission, if any, the reason should be explained.

☐ Applicable ☒ Not applicable

II. Shareholders conference

| Session | Date | Query index of the specified website with resolution published | Disclosure date of resolution publication |
|------------------------------|--------------|--|---|
| 2015 shareholders conference | May 09, 2016 | www.sse.com.cn , Enter the stock code | May 10, 2016 |

Description of General Meeting

☐ Applicable ☒ Not applicable

III. Directors duties performance

(I) Participation of directors in the Board of Directors and the shareholders conference

| Director Name | Independent director or not | Participation in the Board of Directors | | | | | | Participation in the shareholders conference |
|---------------|-----------------------------|--|------------------------------|--|---------------------------------|---------------|---|---|
| | | Desired participation time in the Board of Directors | Participation time in person | Participation numbers in communication way | Entrusted participation numbers | Absence times | Not participated in the meeting in person for continuous two times? | Participation time in shareholders conference |
| Song | No | 9 | 1 | 8 | 0 | 0 | No | 1 |

| Hailiang | | | | | | | | |
|----------------|-----|---|---|---|---|---|----|---|
| Zhu Lianyu | No | 9 | 1 | 8 | 0 | 0 | No | 1 |
| Huang Qingfeng | No | 9 | 1 | 8 | 0 | 0 | No | 0 |
| Chen Qi | No | 9 | 1 | 8 | 0 | 0 | No | 1 |
| Yan Yunfu | No | 9 | 1 | 8 | 0 | 0 | No | 0 |
| Liu Qizhong | No | 9 | 1 | 8 | 0 | 0 | No | 0 |
| Dai Wenkai | No | 9 | 1 | 8 | 0 | 0 | No | 0 |
| Wang Jue | No | 9 | 1 | 8 | 0 | 0 | No | 1 |
| She Lian | Yes | 9 | 1 | 8 | 0 | 0 | No | 1 |
| Gu Wei | Yes | 9 | 1 | 8 | 0 | 0 | No | 1 |
| Ling He | Yes | 9 | 1 | 8 | 0 | 0 | No | 0 |
| Yang Jun | Yes | 9 | 1 | 8 | 0 | 0 | No | 0 |
| Ge Ming | Yes | 6 | 1 | 5 | 0 | 0 | No | 0 |

Explanation for not participated in the meeting in person for continuous two times

☐ Applicable ☒ Not applicable

| | |
|--|---|
| Number of directors meeting held in the year | 9 |
| In which: onsite meeting | 1 |
| Meetings held in communication method | 8 |
| Combined with onsite meeting and meetings held in communication method | 0 |

(II) Objection proposed by independent director to the company issues

☐ Applicable ☒ Not applicable

During the report period, the independent directors didn't propose any objection to the proposals of from the board of directors of the year and other proposals not from the board of directors meeting.

(III) Others

☐ Applicable ☒ Not applicable

IV. The special opinions and suggestions put forward by the special committee of the board of directors during the reporting period shall disclose the specific situation

☐ Applicable ☒ Not applicable

V. Description of risk found by the Board of Supervisors

☐ Applicable ☒ Not applicable

VI. If the Company is unable to guarantee its independence and cannot maintain its independent operating capability in respect of its business, personnel, assets, institutions and finance, etc.

☐ Applicable ☒ Not applicable

Corresponding solution, work progress and follow - up work plan exist for the company with competition in the industry

☐ Applicable ☒ Not applicable

VII. Evaluation system of senior executives, the establishment and implementation of incentive system in the report period

☒ Applicable ☐ Not applicable

The Company appoints the directors, supervisors and senior executives in accordance with the provisions of Company Law and the Articles of Association, has built up a preliminary the cultivation, selection, supervision, assessment, reward and punishment, constraint system for the company's senior executives suitable for the actual situation. The Company formulated the administrative methods for relevant senior executives. According to the production and development need of the Company, the senior executives are appointed, resigned and assessed following the principles of "from top to bottom integrating the virtue and talent". The Company assessed the senior executives according to the due diligence and job performance, the company will gradually improve the existing performance evaluation system and salary system, promote medium- and long term incentive system for all senior executives and the core technical personnel of the company, to continue to stimulate the enthusiasm of the senior executives, to create new performance, and ensure the benefit maximization and standardize the operation of the company.

VIII. Disclose the internal control self-assessment report

☒ Applicable ☐ Not applicable

"2016 Company Annual Internal Control Evaluation Report" is published in the Shanghai Stock <http://www.sse.com.cn>

Significant defect of internal control in the report period

☐ Applicable ☒ Not applicable

IX. Internal control audit report description

☒ Applicable ☐ Not applicable

The Company hired Ernst & Young LLP (special general partnership) to audit the effectiveness of the internal control of the financial report on December 31, 2016, issued a standard internal control audit report without advice (see

Appendix).

Disclose the internal control audit report or not: Yes

X. Others

☐ Applicable ☒ Not applicable

Chapter X Company Bond Information

☐ Applicable ☒ Not applicable

Shanghai Zhenhua Heavy Industries Co., Ltd.

Financial statement (audited)

December 31, 2016

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Audit Report

Ernst & Young (2017) Shenzi No.61249778_B01

To the Shareholders of Shanghai Zhenhua Heavy Industries Co., Ltd.,

We have audited the accompanying consolidated as well as company's financial statement of Shanghai Zhenhua Heavy Industries Co., Ltd., including the company's and the consolidated balance sheets as of December 31, 2016, 2016's P&L and company's income statement, shareholders' equity movement statements, cash flow statements and notes to the financial statements.

I. The Management Responsibilities on the Statements

Preparing and fairly stating financial statements are the responsibilities of the management of Shanghai Zhenhua Heavy Industries Co., Ltd.. These responsibilities include: (1) The preparation of financial statements in accordance with the provisions of the corporate accounting standards, and to achieve a fair reflection; (2) Design, implement and maintain the necessary internal controls, to material misstatement due to fraud or error in the financial statements.

II. The CPA's Responsibilities

Our responsibilities are to provide audit opinions based on our auditing. We conducted the audit on the basis of China CPA Norms, which requires us to abide by professional virtues and norms to plan and conduct audit to ensure there exist no serious reporting errors in the financial statements.

The audit includes implementing the audit procedures to acquire financial statements figures and disclosed audit evidence. Audit procedures are chose based on CPA's judgment, including the estimate of risks for possible misreports due to cheating or errors. When estimating risks, certified public accountants consider internal control related to the financial statements preparation and fair presentation, in order to design audit procedures that are appropriate. The audit also includes the evaluating of the appropriateness of utilization of accounting policies and accounting estimates by the management, and the evaluating of the total reporting of the financial statements.

We believe that we have acquired sufficient and appropriate audit evidences, which provide the basis for the auditor's opinions.

Audit Report (continued)

Ernst & Young (2017) Shenzi No.61249778_B01

III. Auditor's Opinions

In our opinion, the accompanying financial statements of Zhenhua Heavy Industries has been prepared according to stipulations of the enterprise accounting norms and present fairly, in all material respects, the financial position of the Consolidation and Zhenhua Heavy Industries as of December 31, 2016 and of the results of its operations and its cash flows in 2016.

Ernst & Young Global Limited

CPA:

The accounting firm (special general partnership)

CPA:

Beijing, China

March 27, 2017

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated balance sheet

Dec. 31, 2016

RMB Yuan

| <u>Assets</u> | <u>Note V</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|---------------|--------------------------|--------------------------|
| Current assets | | | |
| Monetary capital | 1 | 3, 597, 044, 199 | 2, 458, 333, 716 |
| Financial assets measured at fair value with the change | 2 | 4, 615, 775 | 676, 082 |
| accounted in current profit and loss Notes receivable | 3 | 296, 920, 781 | 243, 159, 622 |
| Receivables | 4 | 4, 230, 746, 458 | 3, 894, 762, 468 |
| Prepayment | 5 | 900, 422, 234 | 1, 226, 345, 632 |
| Other Receivables | 6 | 736, 554, 593 | 667, 660, 167 |
| Stock | 7 | 6, 776, 086, 014 | 5, 785, 699, 346 |
| Construction completed account yet has not been settled | 8 | 11, 105, 813, 767 | 11, 217, 591, 856 |
| Non-current assets due within one year | 9 | 1, 384, 438, 569 | 2, 625, 135, 212 |
| Other current assets | 10 | <u>553, 363, 139</u> | <u>553, 205, 272</u> |
| Total current assets | | <u>29, 586, 005, 529</u> | <u>28, 672, 569, 373</u> |
| Non-current assets | | | |
| Financial assets available-for-sale | 11 | 1, 313, 572, 506 | 1, 212, 177, 180 |
| Long-term receivables | 12 | 3, 791, 218, 020 | 3, 558, 501, 537 |
| Long-term stock ownership investment | 13 | 2, 201, 421, 453 | 1, 597, 134, 817 |
| Real estate as investment | 14 | 473, 380, 251 | 361, 172, 808 |
| Fixed assets | 15 | 15, 022, 782, 366 | 15, 655, 536, 876 |
| Projects in process | 16 | 4, 025, 449, 461 | 3, 577, 371, 504 |
| Intangible assets | 17 | 3, 744, 448, 606 | 3, 819, 437, 866 |
| Goodwill | 18 | 149, 212, 956 | 149, 212, 956 |
| Long-term prepaid expenses | 19 | 10, 881, 263 | 4, 592, 043 |
| Deferred corporate tax | 20 | <u>505, 446, 687</u> | <u>413, 045, 299</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated balance sheet (continued)

Dec. 31, 2016

RMB Yuan

| | | |
|--------------------------|-----------------------|-----------------------|
| Total non-current assets | <u>31,237,813,569</u> | <u>30,348,182,886</u> |
| Total assets | <u>60,823,819,098</u> | <u>59,020,752,259</u> |

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated balance sheet (continued)

Dec. 31, 2016

RMB Yuan

| <u>Liabilities and stockholders' equity</u> | <u>Note V</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|---------------|--------------------------|--------------------------|
| Current liabilities | | | |
| Short term loans | 22 | 21,485,919,393 | 18,216,928,490 |
| Financial liabilities measured at fair value with the change accounted in current profit and loss | 23 | – | 24,918,115 |
| Notes payable | 24 | 1,905,121,706 | 1,785,201,236 |
| Payables | 25 | 5,103,018,897 | 5,471,141,022 |
| Pre-received payment | 26 | 292,941,206 | 423,603,129 |
| Construction not completed account | 8 | 2,393,446,122 | 2,866,437,832 |
| Employee remuneration payable | 27 | 264,549,756 | 257,822,610 |
| Tax payables | 28 | 251,000,724 | 251,551,006 |
| Interest payable | 29 | 140,195,803 | 289,590,733 |
| Dividend payable | 30 | 31,701,965 | 32,237,912 |
| Other payables | 31 | 1,225,135,428 | 1,604,523,386 |
| Non-current liabilities due within one year | 32 | 799,574,356 | 6,837,115,692 |
| Other current liabilities | 33 | <u>3,996,025,335</u> | <u>1,995,655,739</u> |
| Total current liabilities | | <u>37,888,630,691</u> | <u>40,056,726,902</u> |
| Non-current liabilities | | | |
| Long-term loans | 34 | 3,925,335,497 | 1,761,904,000 |
| Bond payables | 35 | 1,618,361,164 | 719,861,943 |
| Predicted liabilities | 36 | 293,115,783 | 220,141,178 |
| Deferred profit | 37 | 451,036,024 | 405,425,947 |
| Deferred corporate tax liabilities | 20 | 104,164,573 | 70,042,985 |
| Other non-current liabilities | 38 | <u>56,025,416</u> | – |

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated balance sheet (continued)

Dec. 31, 2016

RMB Yuan

| | | |
|-------------------------------|-----------------------|-----------------------|
| Total non-current liabilities | <u>6,448,038,457</u> | <u>3,177,376,053</u> |
| Total liabilities | <u>44,336,669,148</u> | <u>43,234,102,955</u> |

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated balance sheet (continued)

Dec. 31, 2016

RMB Yuan

| <u>Liabilities and stockholders' equity</u> | <u>Note V</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|---------------|--------------------------|--------------------------|
| Shareholders' equity | | | |
| Share capital | 39 | 4,390,294,584 | 4,390,294,584 |
| Contributed surplus | 40 | 5,526,978,575 | 5,526,978,575 |
| Other comprehensive profits | 41 | 322,403,671 | 207,660,237 |
| Surplus reserves | 43 | 1,603,122,982 | 1,576,100,786 |
| Profit not distributed | 44 | <u>3,353,936,451</u> | <u>3,168,538,701</u> |
| Total shareholders' equity attributed to parent company | | <u>15,196,736,263</u> | <u>14,869,572,883</u> |
| Minority equity | | <u>1,290,413,687</u> | <u>917,076,421</u> |
| Total shareholders' equity | | <u>16,487,149,950</u> | <u>15,786,649,304</u> |
| Total liabilities and shareholders' equity | | <u>60,823,819,098</u> | <u>59,020,752,259</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated balance sheet (continued)

Dec. 31, 2016

RMB Yuan

The notes of the financial statements are part of the financial statements.

Financial statements signed by:

Enterprise principal:
principal:

Accounting principal:

Accounting firm

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated income statement

Year 2016

RMB Yuan

| | <u>Note V</u> | <u>2016</u> | <u>2015</u> |
|---|---------------|--------------------|--------------------|
| Operating revenue | 45 | 24,348,087,928 | 23,272,394,677 |
| Less: Operating cost | 45 | 19,727,663,875 | 19,717,314,855 |
| Operation taxes and surcharges | 46 | 152,175,837 | 24,550,179 |
| Selling expense | 47 | 100,435,778 | 79,388,743 |
| Management expense | 48 | 1,759,032,746 | 1,551,222,564 |
| Financial expenses | 49 | 1,218,992,788 | 1,532,851,096 |
| Assets impairment loss | 50 | 1,221,116,175 | 637,391,199 |
| Add: Changes in fair value gains and losses | 51 | 28,857,808 | (21,225,034) |
| Gain on investment | 52 | 118,513,425 | 498,236,958 |
| In which: Investment gains to affiliated companies and joint ventures | | | |
| Investment gains | | <u>99,395,952</u> | <u>55,252,057</u> |
| Operating profit | | 316,041,962 | 206,687,965 |
| Add: Non-operating income | 53 | 63,643,243 | 70,713,471 |
| In which: Non-current assets disposal income | | 6,649,827 | 14,128,543 |
| Less: Non-operating expense | 54 | 10,824,061 | 5,665,872 |
| In which: Non-current assets disposal loss | | <u>5,309,215</u> | <u>4,789,746</u> |
| Total profit | | 368,861,144 | 271,735,564 |
| Less: Corporate income tax expense | 56 | <u>61,516,908</u> | <u>77,529,876</u> |
| Net profit | | <u>307,344,236</u> | <u>194,205,688</u> |
| In which: Net profit achieved before the merging | | | |
| by the consolidated under the same control | | = | <u>42,357,907</u> |
| Net profit attributable to the | | <u>212,419,946</u> | <u>212,411,967</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd.
Consolidated income statement (continued)
Year 2016
RMB Yuan

parent company shareholders

| | | |
|-------------------|-------------------|---------------------|
| Minority interest | <u>94,924,290</u> | <u>(18,206,279)</u> |
|-------------------|-------------------|---------------------|

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.
Consolidated income statement (continued)
Year 2016
RMB Yuan

| | <u>Note V</u> | <u>2016</u> | <u>2015</u> |
|--|---------------|--------------------|---------------------|
| Net amount after tax of other comprehensive income | | | |
| Other comprehensive income that will be reclassified into gains and losses subsequently | | | |
| Portion of other comprehensive income to be reclassified as profit or loss under equity method | | 4,801,990 | 1,256,397 |
| Fair value change profit or loss of financial assets available for sale | | 84,335,801 | (123,536,363) |
| Conversion difference of foreign currency statements | | <u>25,605,643</u> | <u>10,400,161</u> |
| | 41 | 114,743,434 | (111,879,805) |
| Net amount after tax attributed to minority | 41 | <u>7,765,004</u> | <u>5,309,103</u> |
| Total comprehensive income | | <u>429,852,674</u> | <u>87,634,986</u> |
| In which: | | | |
| Total comprehensive income attributable to the parent company shareholders | | <u>327,163,380</u> | <u>100,532,162</u> |
| Total comprehensive income attributable to the minority | | <u>102,689,294</u> | <u>(12,897,176)</u> |
| Profit per share | 57 | | |
| Basic earnings per share | | <u>0.05</u> | <u>0.05</u> |
| Diluted earnings per share | | <u>0.05</u> | <u>0.05</u> |

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.
Consolidated statement of change in stockholder equity
Year 2016
RMB Yuan

| | Shareholders' equity attributed to parent company | | | | | | | Minority | stockholders' |
|--|---|----------------------|----------------------------|----------------------|-----------------|----------------------|-----------------------|--------------------|-----------------------|
| | Share capital | Contributed surplus | Other comprehensive income | Surplus reserves | Special reserve | Undistributed profit | Subtotal | Equity | equity Total |
| I. Balance at the beginning of current year | <u>4,390,294,584</u> | <u>5,526,978,575</u> | <u>207,660,237</u> | <u>1,576,100,786</u> | <u>—</u> | <u>3,168,538,701</u> | <u>14,869,572,883</u> | <u>917,076,421</u> | <u>15,786,649,304</u> |
| II. Amount of increased/decreased in this year | | | | | | | | | |
| (I) Total comprehensive income | — | — | 114,743,434 | — | — | 212,419,946 | 327,163,380 | 102,689,294 | 429,852,674 |
| (II) Capital increased and reduced by shareholders | | | | | | | | | |
| 1. Capital increased by shareholders | — | — | — | — | — | — | — | 273,048,439 | 273,048,439 |
| (III) Profit distributed | | | | | | | | | |
| 1. Picking surplus reserves | — | — | — | 27,022,196 | — | (27,022,196) | — | — | — |
| 2. Distribution to shareholders | — | — | — | — | — | — | — | (2,400,467) | (2,400,467) |
| (IV) Special reserve | | | | | | | | | |
| 1. Picking in this | — | — | — | — | 26,851,099 | — | 26,851,099 | — | 26,851,099 |

Shanghai Zhenhua Heavy Industries Co., Ltd.
Consolidated statement of change in stockholder equity (continued)
Year 2016
RMB Yuan

| | | | | | | | | | | |
|---|----------------------|----------------------|--------------------|----------------------|--------------|----------------------|-----------------------|----------------------|-----------------------|--|
| year | | | | | | | | | | |
| 2. Use in this year | = | = | = | = | (26,851,099) | = | (26,851,099) | = | (26,851,099) | |
| III. Balance at the end of current year | <u>4,390,294,584</u> | <u>5,526,978,575</u> | <u>322,403,671</u> | <u>1,603,122,982</u> | <u>-</u> | <u>3,353,936,451</u> | <u>15,196,736,263</u> | <u>1,290,413,687</u> | <u>16,487,149,950</u> | |

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.
Consolidated statement of change in stockholder equity
Year 2015
RMB Yuan

| | <u>Shareholders' equity attributed to parent company</u> | | | | | | Minority | stockholders' |
|--|--|----------------------|----------------------------|----------------------|----------------------|-----------------------|--------------------|-----------------------|
| | Share capital | Contributed surplus | Other comprehensive income | Surplus reserves | Undistributed profit | Subtotal | Equity | Total |
| I. Balance at the beginning of current year | <u>4,390,294,584</u> | <u>5,738,241,686</u> | <u>319,540,042</u> | <u>1,554,606,025</u> | <u>2,987,813,174</u> | <u>14,990,495,511</u> | <u>618,105,524</u> | <u>15,608,601,035</u> |
| II. Amount of increased/decreased in this year | | | | | | | | |
| (I) Total comprehensive income | - | - | (111,879,805) | - | 212,411,967 | 100,532,162 | (12,897,176) | 87,634,986 |
| (II) Capital increased and reduced by shareholders | | | | | | | | |
| 1. Capital increased by shareholders | - | - | - | - | - | - | 273,402,314 | 273,402,314 |
| (III) Profit distributed | | | | | | | | |
| 1. Picking surplus reserves | - | - | - | 21,494,761 | (21,494,761) | - | - | - |
| 2. Distribution to shareholders | - | - | - | - | (10,191,679) | (10,191,679) | (21,191,352) | (31,383,031) |
| (IV) Business Combination under Common Control | - | <u>(211,263,111)</u> | - | - | - | <u>(211,263,111)</u> | <u>59,657,111</u> | <u>(151,606,000)</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd.
Consolidated statement of change in stockholder equity (continued)

Year 2015

RMB Yuan

| | | | | | | | | |
|--|----------------------|----------------------|--------------------|----------------------|----------------------|-----------------------|--------------------|-----------------------|
| III. Balance at the end of current year | <u>4,390,294,584</u> | <u>5,526,978,575</u> | <u>207,660,237</u> | <u>1,576,100,786</u> | <u>3,168,538,701</u> | <u>14,869,572,883</u> | <u>917,076,421</u> | <u>15,786,649,304</u> |
|--|----------------------|----------------------|--------------------|----------------------|----------------------|-----------------------|--------------------|-----------------------|

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated Statement of Cash Flows

Year 2016

RMB Yuan

| | <u>Note V</u> | <u>2016</u> | <u>2015</u> |
|--|---------------|-----------------------|------------------------|
| I. Cash generated from operating activities | | | |
| Cash receipt from products sales and labor provision | | 21,354,693,208 | 19,506,900,429 |
| Tax return received | | 917,117,592 | 984,630,764 |
| Net cash from other operating activities | 58 | <u>437,301,182</u> | <u>447,191,781</u> |
| Subtotal of cash receipt from operation activities | | <u>22,709,111,982</u> | <u>20,938,722,974</u> |
| Cash payment of purchase commodity and receiving labor | | 18,154,428,952 | 20,174,319,424 |
| Cash payment to and for the employee | | 1,782,356,763 | 1,753,695,004 |
| Tax payment | | 525,276,408 | 269,565,520 |
| Other cash payments relating to operating activities | 58 | <u>588,627,223</u> | <u>573,104,499</u> |
| Subtotal cash disburse of operating activities | | <u>21,050,689,346</u> | <u>22,770,684,447</u> |
| Net cash flows from operating activities | 59 (1) | <u>1,658,422,636</u> | <u>(1,831,961,473)</u> |
| II. Cash flow of investment | | | |
| Cash receipt of investment return | | 160,000,000 | 8,014,070,972 |
| Cash receipt of obtaining investment gains | | 53,350,539 | 444,664,901 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets | | | |
| Net cash received | | 13,381,153 | 51,566,366 |
| Other cash receipts relating to investing activities | 58 | <u>852,787,742</u> | <u>93,974,040</u> |
| Subtotal of investment cash | | <u>1,079,519,434</u> | <u>8,604,276,279</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd.
Consolidated Statement of Cash Flows (continued)
Year 2016
RMB Yuan

| | | |
|--|-------------------------------------|-------------------------|
| receipt | | |
| Cash payment of construction of fixed assets, project in process and intangible assets | 1, 157, 412, 752 | 2, 068, 707, 329 |
| Cash payment of investment | 1, 157, 412, 752 | 2, 068, 707, 329 |
| Net cash paid for acquiring subsidiaries and other business units | 59 (2) <u> — </u> | <u>76, 606, 000</u> |
| Subtotal of cash disburse of investment activities | <u>1, 805, 734, 512</u> | <u>6, 038, 677, 769</u> |
| Net cash flows from operating activities | <u>(726, 215, 078)</u> | <u>2, 565, 598, 510</u> |

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.
Consolidated Statement of Cash Flows (continued)
Year 2016
RMB Yuan

| | <u>Note V</u> | <u>2016</u> | <u>2015</u> |
|---|---------------|-----------------------|-----------------------|
| III. Cash flow of financing activities | | | |
| Cash received from borrowings | | 36,889,288,147 | 31,419,366,773 |
| Cash received from issuing bonds | | 4,000,000,000 | 2,000,000,000 |
| Receipt of other cash related to financing activities | 58 | <u>3,038,684,232</u> | <u>4,740,276,534</u> |
| Subtotal of cash receipt of financing activities | | <u>43,927,972,379</u> | <u>38,159,643,307</u> |
| Cash to pay the debts | | 40,386,569,653 | 35,746,949,298 |
| Cash payment of dividend distribution or interest | | 1,247,523,244 | 1,591,961,686 |
| Payment of other cash related to financing activities | 58 | <u>2,141,534,489</u> | <u>1,139,543,500</u> |
| Subtotal of cash disburse of financing activities | | <u>43,775,627,386</u> | <u>38,478,454,484</u> |
| Net cash flows from operating activities | | <u>152,344,993</u> | <u>(318,811,177)</u> |
| IV. Influence of exchange rate changed to cash | | <u>74,727,024</u> | <u>40,816,432</u> |
| V. Net increase in cash and cash equivalents | | 1,159,279,575 | 455,642,292 |
| Add: Cash and cash equivalent Closing balance | | <u>2,337,925,611</u> | <u>1,882,283,319</u> |
| VI. Cash and cash equivalent Closing balance | 59 (3) | <u>3,497,205,186</u> | <u>2,337,925,611</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd.
Consolidated Statement of Cash Flows (continued)
Year 2016
RMB Yuan

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Balance sheet of the company

Year 2016

RMB Yuan

| <u>Assets</u> | <u>Note XII</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|-----------------|--------------------------|--------------------------|
| Current assets | | | |
| Monetary capital | | 1, 972, 249, 599 | 1, 905, 662, 392 |
| Financial liabilities measured at fair value with the change accounted in current profit and loss | | 4, 615, 775 | 192, 133 |
| Notes receivable | | 259, 055, 935 | 226, 205, 622 |
| Receivables | 1 | 6, 476, 087, 696 | 6, 782, 715, 639 |
| Prepayment | | 1, 960, 350, 424 | 2, 237, 777, 316 |
| Other receivables | 2 | 13, 878, 003, 016 | 11, 305, 096, 974 |
| Stock | | 5, 589, 869, 550 | 6, 093, 661, 038 |
| Construction completed account yet has not been settled | | 8, 583, 910, 209 | 8, 529, 348, 226 |
| Non-current assets | 10 | <u>173, 417, 465</u> | <u>170, 144, 226</u> |
| Total current assets | | <u>38, 897, 559, 669</u> | <u>37, 250, 803, 566</u> |
| Non-current assets | | | |
| Available-for-sale financial assets | | 356, 606, 562 | 380, 644, 986 |
| Long-term stock ownership investment | 3 | 8, 582, 775, 282 | 7, 390, 184, 826 |
| Real estate as investment | | 473, 380, 251 | 361, 172, 808 |
| Fixed assets | | 5, 633, 993, 352 | 6, 084, 245, 840 |
| Projects in process | | 761, 374, 018 | 759, 763, 993 |
| Intangible assets | | 1, 664, 941, 415 | 1, 691, 754, 895 |
| Deferred corporate tax | | <u>474, 102, 945</u> | <u>398, 842, 987</u> |
| Total non-current assets | | <u>17, 947, 173, 825</u> | <u>17, 066, 610, 335</u> |
| Total assets | | <u>56, 844, 733, 494</u> | <u>54, 317, 413, 901</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd.

Balance sheet of the company (continued)

Year 2016

RMB Yuan

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Balance sheet of the company (continued)

Year 2016

RMB Yuan

| <u>Liabilities and stockholders' equity</u> | <u>Note XII</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|-----------------|--------------------------|--------------------------|
| Current liabilities | | | |
| Short term loans | | 18,095,748,393 | 14,899,812,954 |
| Financial liabilities measured at fair value with the change accounted in current profit and loss fair value with the change | | – | 22,611,400 |
| Notes payable | | 1,860,260,636 | 1,804,985,262 |
| Payables | | 6,072,079,752 | 7,717,863,159 |
| Pre-received payment | | 291,785,327 | 221,831,681 |
| Construction not completed account | | 3,989,249,948 | 3,564,886,225 |
| Employee remuneration payable | | 253,913,374 | 247,867,168 |
| Tax payables | | 101,878,736 | 33,357,053 |
| Interest payable | | 128,368,841 | 274,442,941 |
| Dividend payable | | 352,598 | 352,598 |
| Other payables | | 1,852,554,158 | 1,623,119,170 |
| Non-current liabilities due within one year | | 407,455,030 | 5,514,245,635 |
| Other current liabilities | | <u>3,996,025,335</u> | <u>1,995,655,739</u> |
| Total current liabilities | | <u>37,049,672,128</u> | <u>37,921,030,985</u> |
| Non-current liabilities | | | |
| Long-term loans | | 2,891,136,000 | 778,404,000 |
| Long-term payables | | 905,899,355 | – |
| Predicted liabilities | | 284,982,328 | 213,158,056 |
| Deferred profit | | <u>327,313,110</u> | <u>274,380,601</u> |
| Total non-current liabilities | | <u>4,409,330,793</u> | <u>1,265,942,657</u> |
| Total liabilities | | <u>41,459,002,921</u> | <u>39,186,973,642</u> |
| Shareholders' equity | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd.

Balance sheet of the company (continued)

Year 2016

RMB Yuan

| | | |
|--|-----------------------|-----------------------|
| Share capital | 4,390,294,584 | 4,390,294,584 |
| Contributed surplus | 5,792,527,600 | 5,792,527,600 |
| Other comprehensive income | 264,075,193 | 279,006,839 |
| Surplus reserves | 1,602,614,709 | 1,575,592,513 |
| Profit not distributed | <u>3,336,218,487</u> | <u>3,093,018,723</u> |
| Total shareholders' equity | <u>15,385,730,573</u> | <u>15,130,440,259</u> |
| Total liabilities and shareholders' equity | <u>56,844,733,494</u> | <u>54,317,413,901</u> |

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Income statement of the company

Year 2016

RMB Yuan

| | <u>Note XII</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------|--------------------|--------------------|
| Operating revenue | 4 | 24,248,483,693 | 21,869,889,813 |
| Less: Operating cost | 4 | 20,545,946,108 | 19,069,970,322 |
| Operation taxes and surcharges | | 62,382,292 | 10,246,519 |
| Selling expense | | 81,744,285 | 63,655,157 |
| Management expense | | 1,163,620,534 | 1,054,137,881 |
| Financial expenses | | 1,029,965,201 | 1,311,666,888 |
| Assets impairment loss | | 1,208,850,889 | 634,618,962 |
| Add: Changes in fair value gains and losses | | 27,035,042 | (19,402,267) |
| Gain on investment | 5 | 102,879,065 | 499,257,330 |
| In which: Investment gains to affiliated companies and joint ventures | | | |
| Investment gains | | <u>99,395,952</u> | <u>61,885,725</u> |
| Operating profit | | 285,888,491 | 205,449,147 |
| Add: Non-operating income | | 8,682,882 | 24,915,350 |
| In which: Non-current assets disposal income | | 1,376,710 | 2,991,948 |
| Less: Non-operating expense | | 7,961,979 | 1,940,975 |
| In which: Non-current assets disposal loss | | <u>4,373,646</u> | <u>1,931,654</u> |
| Total profit | | 286,609,394 | 228,423,522 |
| Less: Corporate income tax expense | | <u>16,387,434</u> | <u>13,475,916</u> |
| Net profit | | <u>270,221,960</u> | <u>214,947,606</u> |
| Net amount after tax of other comprehensive income | | | |
| Other comprehensive income that will be reclassified into gains and losses subsequently | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd.
Income statement of the company (continued)
Year 2016
RMB Yuan

| | | |
|--|---------------------------|---------------------------|
| Portion of other comprehensive income to be reclassified as profit or loss under equity method | 4,801,990 | 1,256,397 |
| Fair value change profit or loss of financial assets available for sale | (20,432,661) | (73,498,300) |
| Conversion difference of foreign currency statements | <u>699,025</u> | <u>158,108</u> |
| | (14,931,646) | (72,083,795) |
| Total comprehensive income | <u><u>255,290,314</u></u> | <u><u>142,863,811</u></u> |

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Statement of change in stockholder equity of the company

Year 2016

RMB Yuan

| | Share capital | Contributed surplus | Other comprehensi ve income | Special reserve | Surplus reserves | Undistribut ed profit | Total shareholder's equity |
|---|----------------------|------------------------|-----------------------------------|---------------------|----------------------|--------------------------|----------------------------------|
| I. Balance at the beginning of current year | <u>4,390,294,584</u> | <u>5,792,527,600</u> | <u>279,006,839</u> | <u>—</u> | <u>1,575,592,513</u> | <u>3,093,018,723</u> | <u>15,130,440,259</u> |
| II. Amount of increased/decreas ed in this year | | | | | | | |
| (I) Total comprehensive income | — | — | (14,931,646) | — | — | 270,221,960 | 255,290,314 |
| (II) Profit distribution | | | | | | | |
| 1. Picking surplus reserves | — | — | — | — | 27,022,196 | (27,022,196) | — |
| Special reserve | | | | | | | |
| 1. Picking in this year | — | — | — | 14,726,377 | — | — | 14,726,377 |
| 2. Usage in this year | <u>—</u> | <u>—</u> | <u>—</u> | <u>(14,726,377)</u> | <u>—</u> | <u>—</u> | <u>(14,726,377)</u> |
| III. Balance at the end of current | <u>4,390,294,584</u> | <u>5,792,527,600</u> | <u>264,075,193</u> | <u>—</u> | <u>1,602,614,709</u> | <u>3,336,218,487</u> | <u>15,385,730,573</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd.
Statement of change in stockholder equity of the company (continued)
Year 2016
RMB Yuan

year

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Statement of change in stockholder equity of the company (continued)

Year 2016

RMB Yuan

| | Share capital | Contributed surplus | Other comprehensive income | Surplus reserves | Undistributed profit | Total shareholder's equity |
|---|----------------------|----------------------|----------------------------|----------------------|----------------------|----------------------------|
| I. Balance at the beginning of current year | <u>4,390,294,584</u> | <u>5,789,984,601</u> | <u>351,090,634</u> | <u>1,554,097,752</u> | <u>2,899,565,878</u> | <u>14,985,033,449</u> |
| II. Amount of increased/decreased in this year | | | | | | |
| (I) Total comprehensive income | - | - | (72,083,795) | - | 214,947,606 | 142,863,811 |
| (II) Profit distribution | | | | | | |
| 1. Picking surplus reserves | - | - | - | 21,494,761 | (21,494,761) | |
| (III) Business Combination under Common Control | - | 2,542,999 | - | - | - | 2,542,999 |
| III. Closing balance | <u>4,390,294,584</u> | <u>5,792,527,600</u> | <u>279,006,839</u> | <u>1,575,592,513</u> | <u>3,093,018,723</u> | <u>15,130,440,259</u> |

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Statement of cash flows of the company

Year 2016

RMB Yuan

| | <u>Note XII</u> | <u>2016</u> | <u>2015</u> |
|--|-----------------|-----------------------|------------------------|
| I. Cash generated from operating activities | | | |
| Cash receipt from products sales and labor provision | | 18,091,209,000 | 17,397,816,931 |
| Tax return received | | 822,041,413 | 977,076,832 |
| Description of obtained net cash from other operating activities: | | <u>395,515,334</u> | <u>389,419,585</u> |
| Subtotal of cash receipt from operation activities | | <u>19,308,765,747</u> | <u>18,764,313,348</u> |
| Cash payment of purchase commodity and receiving labor | | 17,894,901,564 | 19,747,089,361 |
| Cash payment to and for the employee | | 965,476,776 | 980,395,055 |
| Tax payment | | 91,325,029 | 47,632,264 |
| Description of other obtained cash payments relating to operating activities: | | <u>432,920,475</u> | <u>560,532,424</u> |
| Subtotal cash disburse of operating activities | | <u>19,384,623,844</u> | <u>21,335,649,104</u> |
| Net cash flows from operating activities | 6 | <u>(75,858,097)</u> | <u>(2,571,335,756)</u> |
| II. Cash flow of investment | | | |
| Cash receipt of investment return | | 100,000,000 | 7,822,070,972 |
| Cash receipt of obtaining investment gains | | 37,716,179 | 439,051,605 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets | | | |
| Net cash received | | 8,290,642 | 39,046,255 |
| Other cash receipts relating to investing activities | | = | <u>98,461,064</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Statement of cash flows of the company (continued)
Year 2016
RMB Yuan

| | | |
|--|----------------------|------------------------|
| Subtotal of investment cash receipt | <u>146,006,821</u> | <u>8,398,629,896</u> |
| Cash payment of construction of fixed assets, project in process and intangible assets | 257,016,945 | 462,866,404 |
| Cash payment of investment | 1,222,623,689 | 3,301,502,230 |
| Net cash paid by obtaining subsidiary and other business entities | = | <u>165,000,000</u> |
| Subtotal of cash disburse of investment activities | <u>1,479,640,634</u> | <u>3,929,368,634</u> |
| Net cash flows from operating activities | <u>1,333,633,813</u> | <u>(4,469,261,262)</u> |

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd
Statement of cash flows of the company (continued)
Year 2016
RMB Yuan

| | <u>Note XII</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------|-----------------------|------------------------|
| III. Cash flow of financing activities | | | |
| Cash received from borrowings | | 32,313,411,400 | 25,288,627,079 |
| Cash received from issuing bonds | | 4,000,000,000 | 2,000,000,000 |
| Receipt of other cash related to financing activities | | <u>1,817,635,793</u> | <u>2,418,923,970</u> |
| Subtotal of cash receipt of financing activities | | <u>38,131,047,193</u> | <u>29,707,551,049</u> |
| Cash to pay the debts | | 35,132,081,497 | 28,697,183,212 |
| Cash payment of dividend distribution or interest | | 1,032,636,806 | 1,263,355,113 |
| Payment of other cash related to financing activities | | <u>526,482,447</u> | <u>1,139,543,500</u> |
| Subtotal of cash disburse of financing activities | | <u>36,691,200,750</u> | <u>31,100,081,825</u> |
| Net cash flows from operating activities | | <u>1,439,846,443</u> | <u>(1,392,530,776)</u> |
| IV. Influence of exchange rate changed to cash | | 35,989,736 | 28,442,821 |
| V. Net increase in cash and cash equivalents | | 66,344,269 | 533,837,551 |
| Add: Cash and cash equivalent Closing balance | | <u>1,806,066,316</u> | <u>1,272,228,765</u> |
| VI. Cash and cash equivalent Closing balance | 6 | <u>1,872,410,585</u> | <u>1,806,066,316</u> |

The notes of the financial statements are part of the financial statements.

Shanghai Zhenhua Heavy Industries Co., Ltd

Notes to financial statements

Year 2016

RMB Yuan

I. Basic information of the group

Shanghai Zhenhua Heavy Industries (Group) Co., Ltd. (hereinafter “the Company”) was established in Shanghai, on September 8, 1997 as part of an exercise to reorganize its predecessor, Shanghai Zhenhua Port Machinery Company Limited. The Company is registered in P. R. China’s Shanghai.

As approved by Zheng Wei Fa Zi (1997) No. 42 document issued by the Securities Commission under the State Council, the Company issued 100 million listed foreign investment shares (B-shares) to overseas investors from July 15, 1997 till July 17, 1997. The B-shares were listed for trading at Shanghai Stock Exchange on Aug. 5, 1997.

As approved by Gongszi Zi (2000) No. 200 of China Securities Regulatory Commission, the Company added issuing of 88 million RMB common shares (A- shares) to domestic investors in Dec. 2000. The A-shares were listed for trading at Shanghai Stock Exchange on Dec 21, 2000.

In accordance with Zhen Jian Fa Xing Zi (2004) No.165 by China Securities Regulatory Commission, the Company issued 114,280,000 A-shares to domestic investors on Dec. 23, 2004. The said issuances were listed at Shanghai Stock Exchange respectively on Dec. 31, 2004 and Jan 31, 2005 for trading.

In accordance with Zhen Jian Fa Xing Zi (2007) No.3466 by China Securities Regulatory Commission, the Company issued 125,515,000 A-shares to domestic investors on October 15, 2007. The said issuances were listed at Shanghai Stock Exchange respectively on October 23, 2007 and January 23, 2008 for trading.

As approved by CSRC Zheng Jian Xuke (2009) No.71 document, the Company issued non-publicly 169,794,680 A-shares on Sep. 22, 2008, to its controller China Communications Construction Co., Ltd. (“China Communications Corporation”). A-shares issued non-publicly are circulation stock with limited sale conditions. From Mar. 20, 2012 on, limitation term expires for above-mentioned A-shares which are listed at Shanghai Stock Exchange for trading.

As of 2016 and Dec. 31, 2015, after all issues of shares and bonus shares distribution, capital stock of the Company is increased to 4,390,294,584 shares, par value per share 1 Yuan, totally 4,390,294,584 Yuan.

Shanghai Zhenhua Heavy Industries Co., Ltd

Notes to financial statements (continued)

Year 2016

RMB Yuan

I. Basic information of the group

On Dec. 18, 2005, China Road and Bridge Construction Group General Company combined with the company's controlling holder China Harbor Construction (Group) General Company after reorganization into China Transportation Construction (Group) Co. Ltd. (hereafter called Communications Group). In accordance with the Reply to Issue Concerning Listing of China Communications Construction Co. Ltd. Entirely after Reorganization on Both Domestic and Overseas Market (Guozi Gaige [2006] No.1063) by State Assets Commission on Aug. 16, 2006, Reply to Issue Concerning Management of State Stock of China Communications Construction Co. Ltd. (Guozi Chanquan [2006] No.1072) on Sep. 30, 2006, which granted the reorganization proposal of Communications Group, and in addition to the Reply to Approve China Communications Construction Co. Ltd.'s Announcement of Purchase Report of Road and Bridge Construction Co. Ltd. and Shanghai Zhenhua Port Machinery (Group) Co. Ltd. and the Exemption of Purchase Offer Obligations (Zhengjian Gongsi Zi [2006] No. 227), on Oct. 8, 2006 Communications Group solely initiated the establishment of China Communications Construction Co. Ltd. (hereinafter called Communications Company), and invested the stock rights of the Company it held into the newly established Communications Company. With completion of reorganization, Communications Company thus becomes the controlling shareholder of the Company.

The company and subsidiaries (hereinafter called "the Company") mainly engage in: design, construction, installation and contracting of large port loading system and equipment, offshore heavy equipment, engineering machinery, engineering ships and large metal structural parts and their components and spare parts; ship repair; self-produced crane rental business, sales of the company products; international shipment by available machine special transportation ships, steel structure engineering professional contracting.

The financial statements have been approved by the company's board of directors on Mar. 27, 2017.

The scope of consolidation of the consolidated statements is confirmed based on the control, refer to the footnote for the year's changing situation and the consolidated subsidiaries consisted in the scope.

II. Basis of preparation of financial statements

The financial statements are prepared on the basis of Enterprise Accounting Standards – Basic Standards issued by the financial department and the subsequently issued and revised guidelines, explanation of the accounting standards, and other related

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
Year 2016
RMB Yuan

stipulations (hereinafter totally called “Enterprise Accounting Standards”).

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
Year 2016
RMB Yuan

II. Basis of Preparation of Financial Statements (continued)

As of December 31, 2016, the Group's current liabilities exceed current assets by about 83 billion Yuan. In the preparation of the financial statements for the year, given the amount of bank credit, financing record the Group has achieved to obtain, good cooperation relationship with banks and financial institutions and the operating performance, the board of directors of the Company considers that the Group is able to continue to acquire sufficient operating cash flow and sources of financing, to ensure funds required for repayment of debt maturity and capital expenditure. Therefore, the board of directors of the Company ensures that the Group will continue to operate, and thus to base the preparation of the financial statements for the year on sustainable operation.

The preparation of the financial statements, in addition to certain financial instruments, are based on the principle of historical cost valuation. If an asset is impaired, the impairment provision shall be made in accordance with the relevant provisions.

III. Major Accounting Policies and Accounting Estimates

The Company determines specific accounting policies and accounting estimates based on actual operating characteristics, which mainly reflects in the provision for bad debts receivable, inventory valuation methods, depreciation of fixed assets, amortization of intangible assets, investment real estate measurement model and income recognition and measurement and so on.

1. Declaration on Abiding by the Enterprise Accounting Standards

The financial statements follow the requirements of enterprise accounting standards, which authentically and completely reflect the consolidated and the Company's financial status on Dec. 31 of 2016 and the consolidated and the Company's operating result and cash flow during 2016.

2. Accounting Period

The Group's accounting period is the calendar year, from January 1 to December 31 each year.

3. Recording Currency

RMB is the monetary currency of the Group and in the preparation of the financial statements. Unless otherwise specified, the amount unit is RMB.

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
Year 2016
RMB Yuan

III. Major Accounting Policies and Accounting Estimates (continued)

3. Recording Currency

The subsidiaries, joint ventures and associated enterprises of the Group shall, on the basis of the main economic environment in which they operate, decide on their own standard currency, and convert them into RMB when preparing financial statements.

4. Corporate Merger Increase

The term "business combination" refers to a transaction or event in which a merger of two or more than two individual enterprises forms a reporting entity. The enterprise merger is divided into enterprise merger under the same control and enterprise merger not under the same control.

Business Combination under Common Control

The merger of enterprises under the same controller refers to the enterprises involved in the merger will be controlled by the same party or the same multiple parties before and after the merger, and which is not temporary. The merger of the enterprise under the same control, the party who gains the control of other enterprises involved in the merger on the combination day shall be the merging party, and the other enterprises involved will be the merged party. The combination date refers to the date on which the merging party actually obtains control of the merged party.

The assets and liabilities the merging party obtains in the merger of enterprises under the same control (including the goodwill formed by the acquisition of the ultimate controlling party of the merged party), shall be processed with relevant accounting treatment according to the date of merger on the basis of the book value of the financial statements from the ultimate controlling party. The difference between the book value of the net assets acquired by the merger party and the merger consideration paid is adjusted to the capital reserve. When capital reserve is not sufficient to compensate, retained interest is thus adjusted.

Corporate Merger under Different Control

The merger of enterprises not under the same controller refers to the enterprises involved in the merger will not be controlled by the same party or the same multiple parties before and after the merger. The merger of the enterprises not under the same control, the party who gains the control of other enterprises involved in the merger on the combination day shall be the purchaser, and the other enterprises involved will be the acquiree. The combination date refers to the date on which the purchaser actually obtains control of the acquiree.

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
Year 2016
RMB Yuan

The identifiable assets, liabilities and contingent liabilities obtained by the purchasers of the merger of enterprises not under the same controller on purchase day

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
Year 2016
RMB Yuan

III. Major Accounting Policies and Accounting Estimates (continued)

4. Corporate Merger Increase (continued)

Corporate Merger under Different Control (continued)

The summation of the fair value of the combined consideration paid by the merger (or fair value of the issued equity securities) and the held fair value of the equity of the acquiree before the purchase day larger than the difference in the fair value of the identifiable net assets of the acquiree is confirmed as goodwill, and subtract the accumulated impairment losses with cost for subsequent measurement. The summation of the fair value of the combined consideration paid by the merger (or fair value of the issued equity securities) and the held fair value of the equity of the acquiree before the purchase day less than the difference in the fair value of the identifiable net assets of the acquiree, firstly double-check the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree, and the fair value of the combined consideration paid (or fair value of the issued equity securities), and the measurement of the held fair value of the equity of the acquiree before the purchase day, after review, if the summation of the fair value of the combined consideration paid by the merger (or fair value of the issued equity securities) and the held fair value of the equity of the acquiree before the purchase day still less than the difference in the fair value of the identifiable net assets of the acquiree, the difference shall be recorded in the current profits and losses.

5. Preparation of Consolidated Statements

The consolidated scope of consolidated financial statements is based on control, including the financial statements of the Company and its subsidiaries as of December 31, 2016. A subsidiary is a subject which is controlled by the Company (including the enterprise, the separable part of the invested entity, and the structural entity controlled by the Company)

When preparing consolidated financial statements, the subsidiary adopts the accounting period and accounting policies consistent with the Company. Assets, liabilities, equity, income, expenses and cash flows arising from all transactions between the Group's internal companies are fully offset at the time of the merger.

The current loss of the minority shareholders of the subsidiary exceeds the share enjoyed by the minority shareholders in the initial shareholders' equity of the subsidiary company, and the balance still reduces the number of shareholders' equity.

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
Year 2016
RMB Yuan

III. Major Accounting Policies and Accounting Estimates (continued)

5. Preparation of Consolidated Statements (continued)

The current loss of the minority shareholders of the subsidiary exceeds the share enjoyed by the minority shareholders in the initial shareholders' equity of the subsidiary company, and the balance still offsets the equity of minority shareholders. When preparing consolidated financial statements, the subsidiary company's financial statements are adjusted on the basis of the fair value of identifiable assets, liabilities and contingent liabilities determined on the date of purchase.

For the subsidiaries acquired through the merger of enterprise under the same control, the operating results and cash flows of the merged party shall be included in the consolidated financial statements at the beginning of the merger period. When preparing the consolidated financial statements, relevant items of the financial statements of the previous period shall be adjusted and the reporting entity formed after the merger is regarded as having been in existence since the ultimate controlling party began to implement control.

If changes in the relevant facts and circumstances lead to changes in one or more of the elements of the control, the Group will reevaluate whether or not the investee is controlled.

6. Cash and Cash Equivalents

Cash refers to the Group's cash in stock and deposits that are available for payment at any time; Cash equivalents refer to investments held by the Group of short-term, highly liquid and readily convertible to known amounts of cash, with an insignificant risk of changes in value.

7. Translation of Foreign Currency Business and Foreign Currency Statements

In the case of a foreign currency transaction, the Group changes the amount of foreign currency into the amount of the recording currency.

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
Year 2016
RMB Yuan

III. Major Accounting Policies and Accounting Estimates (continued)

7. Translation of Foreign Currency Business and Foreign Currency Statements (continued)

At the time of initial confirmation, the foreign currency transaction shall convert the amount of the foreign currency into the amount of the recording currency at the spot rate of the transaction. At the balance sheet date, the currency exchange rate of the currency denominated items shall be translated at the spot exchange rate at sight on the balance sheet date. The resulting settlement and monetary items, except for the translation differences, which belongs to the purchase and construction of qualified assets of specialized foreign currency in accordance with the principle of processing the capitalization of borrowing costs, are included in the current profits and losses. Non-currency items of foreign currency calculated on historical cost basis are still translated at the rate at sight on the date of transaction, not changing the amount of its recording currency. The foreign currency non-monetary items measured at fair value shall be converted at the spot exchange rate on the basis of the fair value determination date, and the resulting difference shall be recorded in the current profits and losses or other comprehensive income according to the nature of the non-monetary items.

In the case of overseas operations, the Group changes its recording currency into RMB in preparing the financial statements: for Assets/liabilities items in the Assets/liabilities statements, exchange rate at sight on the Assets/liabilities statements date is used for translation. In the shareholders' equity, except retained earnings items, other items are translated using the spot exchange rate at the time of incurrence; the income and expense items in the income statement shall be translated at the spot exchange rate of the transaction. Translation of foreign currency financial statements in accordance with the above translation difference is recognized as other comprehensive income. When dealing with overseas operations, other comprehensive income related to the overseas operation shall be transferred into the current profits and losses, part of the disposal is calculated according to the proportion of disposal.

Foreign currency cash flow are translated by the spot exchange rate on the day of cash flows incurrence. Cash flow from offshore subsidiaries are translated by the spot exchange rate on the day of cash flows incurrence. Effect of exchange rate changes on cash amount is shown separately in the cash flow statements as an adjustment item.

8. Financial Instruments

A financial instrument is a contract that forms the financial assets of an enterprise and forms financial liabilities or equity instruments of other enterprises.

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
Year 2016
RMB Yuan

Confirmation and Termination of Financial Instruments

The Group identifies a financial asset or financial liability when becomes a party to a financial instrument contract.

Shanghai Zhenhua Heavy Industries Co., Ltd

Notes to financial statements (continued)

Year 2016

RMB Yuan

III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial Instruments (continued)

Satisfying the following conditions, derecognise a financial asset (or part of a financial asset or a group of similar financial assets), which is to be transferred from its account and balance sheet:

- (1) the right to receive cash flows from financial assets expires;
- (2) The right to receive the cash flow of the financial asset has been transferred, or have assumed the obligation in the "pass-through agreement" to take timely collected cash flow to the third party in full payment; and (a) has transferred substantially almost all the risks and rewards of ownership of the financial asset, or (b) although does not transfer or retain substantially nearly all of the risks and rewards of ownership of the financial asset, but has given up the control over the financial asset.

In the event that the liability of a financial liability has been fulfilled, withdrawn or expired, the financial liabilities will be derecognised. If the existing financial liability is replaced by the same creditors with another financial liabilities of virtually entirely different terms, or the terms of the existing liabilities are almost entirely modified substantially, such substitutions or modifications shall be used for the termination of the original liability and the recognition of the new liabilities and the difference shall be included in current profits and losses.

Buying and selling financial assets in a conventional manner, confirm and terminate the transaction on the basis of trade-date accounting. The conventional way to buy and sell financial assets refers to collecting or delivering financial assets within the time limit prescribed in the law or the prevailing practice in accordance with the terms and conditions of the contract. Trading day is the date on which the Group commits to buy or sell financial assets.

Classification and Measurement of Financial Assets

The Group's financial assets are classified at the beginning of recognition into: Financial assets calculated by fair value whose movement booked into current income statement, held to maturity investment, loans and Receivables, Available-for-sale financial assets. Financial assets are measured at fair value at the time of initial recognition. Of the financial assets whose amount initially recognized fair value and changes into current profit or loss statement, related transaction costs incurred at acquisition are included directly in current profit or loss, other financial assets transaction costs are included in the initially recognized amount. The Group does not

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
Year 2016
RMB Yuan

held maturity investment.

Subsequent measurement of financial assets depends on their classification.

Shanghai Zhenhua Heavy Industries Co., Ltd

Notes to financial statements (continued)

Year 2016

RMB Yuan

III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial Instruments (continued)

Financial assets measured at fair value and whose variation is included in the current profits and losses

Financial assets measured at fair value and whose changes are recorded in the profits and losses of the current period shall include the trading financial assets and the financial assets designated at the time of initial recognition, which are measured at fair value and whose changes are recorded in the profits and losses of the current period. Trading financial assets are financial assets that meet one of the following conditions: getting the financial assets for the purpose of selling in the short term; belonging to the part of a combination of identifiable financial for centralized management, and there is objective evidence that the company has recently adopted a short-term profit approach to manage the portfolio; belonging to the derivatives, but the derivatives that are designated and are effective hedging tool, the derivatives which belong to financial guarantee contracts and the derivatives that are linked to equity instrument investment which has no offer in the active market and its fair value cannot be measured reliably and shall be settled through the delivery of the equity instrument must be excluded. For such financial assets, use fair value to have subsequent measurement, all realized and unrealized gains and losses are included in the current profits and losses. Dividends or interest income related to the financial assets measured at fair value and whose changes are included in the current profits and losses shall be recorded in the profits and losses of the current period.

Classification and measurement of financial assets (continued)

The equity instrument investment that has no offer in the active market and whose fair value cannot be measured reliably shall not be designated as a financial asset that is measured at fair value and its changes are recorded in the current profits and losses.

An enterprise shall not be reclassified as other financial assets after a financial asset is divided at the time of initial confirmation into financial assets measured at fair value and whose changes are recorded in the current profits and losses; other types of financial assets may also not be reclassified as financial assets measured at fair value and whose changes are recorded in the profits and losses of the current period.

In accordance with the above conditions, the Group's financial assets mainly include forward foreign exchange contracts.

Loads and Receivables

Shanghai Zhenhua Heavy Industries Co., Ltd

Notes to financial statements (continued)

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III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial Instruments (continued)

Loans and receivables are non-derivative financial assets which have no quotation on active market, whose collectable amount is fixed or can be determined. For such financial assets, adopt the actual interest rate method in accordance with the amortized cost to have subsequent measurement, gains or losses arising from its amortization or impairment are included in the current profits and losses.

Fair value changes of Available for sale financial assets refer to the non-derivative financial assets that are designated as available for sale at the time of initial recognition, and the financial assets other than those listed above. For such financial assets, use fair value for subsequent measurement. The discount or premium is amortized using the effective interest method and recognized as interest income or expense. In addition to the impairment loss and foreign currency financial assets exchange balance is recognised in profit or loss for the period, the changes in fair value of available for sale financial assets are recognised as other comprehensive income, and the cumulative gain or loss is transferred to the current profits and losses until the financial asset has been derecognised or impaired. Dividends or interest income related to the available for sale financial assets shall be included in the current profits and losses.

Equity instrument investments that are not quoted in an active market and whose fair value cannot be reliably measured shall be measured at cost.

Classification and Measurement of Financial Liabilities.

The Group's financial liabilities are classified at the time of initial recognition as: financial liabilities measured at fair value and whose changes are recorded in the current profits and losses, other financial liabilities, and derivative instruments that are designated as effective hedging instruments. For the financial liabilities measured at fair value and whose changes are included in the current profits and losses, the relevant transaction costs shall be directly included in the current profits and losses, and the related transaction costs of other financial liabilities shall be included in the initial recognition amount. The Group has no derivative instruments designated as effective hedging instruments.

Subsequent measurement of financial liabilities depends on their classification:

Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities

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III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial Instruments (continued)

Financial liabilities measured at fair value and the variations included in the current profits and losses include the financial liabilities of trading financial liabilities and those specified at fair value and whose variations are included in the current profits and losses in the initial recognition. Trading financial assets are financial assets that meet one of the following conditions: undertaking the financial liabilities in order to repurchase in the near future; belonging to the part of a combination of identifiable financial for centralized management, and there is objective evidence that the company has recently adopted a short-term profit approach to manage the portfolio; belonging to the derivatives, but the derivatives that are designated and are effective hedging tool, the derivatives which belong to financial guarantee contracts and the derivatives that are linked to equity instrument investment which has no offer in the active market and its fair value cannot be measured reliably and shall be settled through the delivery of the equity instrument must be excluded. For such financial liabilities, have subsequent measurement in accordance with the fair value, all realized and unrealized gains and losses are included in the current profits and losses.

An enterprise shall not be reclassified as other financial liabilities after a financial liability is divided at the time of initial confirmation into financial liabilities measured at fair value and whose changes are recorded in the current profits and losses; other types of financial liabilities may also not be reclassified as financial liabilities measured at fair value and whose changes are recorded in the profits and losses of the current period.

In accordance with the above conditions, the financial liabilities designated by the Group include the forward foreign exchange contracts.

Other financial liabilities

For such financial liabilities, use the actual interest rate method in accordance with the amortized cost to have subsequent measurement.

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III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial Instruments (continued)

Financial Instruments Offset

When meet the following conditions simultaneously, the net amount after financial assets and financial liabilities offsetting shall be listed in the balance sheet: having the legal right to offset the recognised amount, and that legal rights are currently enforceable; the plan is to be settled in net, or at the same time, realise the financial assets and pay off the financial liabilities.

Financial Guarantee Contract

A financial guarantee contract is a contract signed between the guarantor and the creditor, when the debtor fails to perform the obligations, the guarantor shall perform the obligation or bear the liability in accordance with the contract. The financial guarantee contract is measured at fair value at the time of initial confirmation, does not belong to the financial guarantee contract designated as the financial liabilities measured at fair value and whose changes are included in the current profits and losses, after initial recognition, in accordance with the amount confirmed by the current best estimate of the expenditure required to perform the relevant obligations at the balance sheet date and the balance of the initial recognition amount deducing the accumulative amortization determined in accordance with the revenue recognition principle, have subsequent measurement with the higher of which two.

Derivative Financial Instruments

The Group uses derivative financial instruments such as forward exchange contracts to hedge against exchange rate risk. Derivative financial instruments are measured on the basis of the fair value of the derivative trading contract on the signing day, and have subsequent measurement with its fair value. The derivative financial instrument whose fair value is positive is recognized as an asset, and the one whose fair value is negative is recognised as a liability. However, for the derivative financial instruments that are linked to equity instrument which has no offer in the active market and its fair value cannot be measured reliably and shall be settled through the delivery of the equity instrument shall be measured at cost.

In addition to the part of an effective hedge in a cash flow hedge included in other comprehensive income, and rolled out from the current profits and losses in the event that the hedged item affects the profit or loss, gains or losses arising from changes in fair value of derivative instruments are directly included into the current profits

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and losses.

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III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial instruments (continued)

Financial Assets Impairment

The Group checks up over the carrying value of the financial assets on balance sheet date. If there is objective evidence that particular financial assets are impaired, provision for impairment is made. The objective evidence to prove financial assets impairment refers to the items which actually happened after initial confirmation of financial assets, influenced the estimated future cash flows of the financial assets, and its impact can be reliably measured by the enterprise. Objective evidence of impairment of financial assets, including serious financial difficulties, debt occurred to the issuer or debtor.

Violating the terms of the contract (such as payment of interest or principal default or late), the debtor is likely to collapse or have other financial restructuring, and public data shows the expected future cash flow has been reduced and measurable.

Financial assets measured at amortised cost

In the event of impairment, the book value of the financial asset is reduced through the allowance for project value to the current value of estimated future cash flows (excluding the future credit losses that have not yet occurred), the amount of write downs shall be recorded in the current profits and losses. The present value of the expected future cash flow is determined in accordance with the original effective interest rate of the financial asset discounting (the actual interest rate determined at the time of the initial confirmation), and the value of the underlying collateral is taken into account. The impaired Interest income uses the discount rate used to discount future cash flows in the light of the determination of impairment losses as the interest rates to calculate and determine. For loans and receivables, if there is no real expectation of future recovery and all collateral has been realized or transferred to the Group, transfer the loans and receivables and have associated impairment provision.

If the amount of individual financial assets is significant, individual impairment test is conducted. If there is objective evidence to prove that the impairment has occurred, the impairment loss is calculated in current profit and loss after confirming. The financial assets that are not significant for the individual amount shall include an impairment test or a separate impairment test in a portfolio of financial assets with similar credit risk characteristics. Separate testing of financial assets that have not been impaired (including a single amount of significant and non-significant financial

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assets), shall have an impairment test for a portfolio of financial assets with similar credit risk characteristics. The financial assets that have been recognised for impairment losses are not included in the impairment test of a portfolio of financial assets with similar credit risk characteristics.

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Notes to financial statements (continued)
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III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial Instruments (continued)

Devaluation of Finance Assets (continued)

After the Group confirms the impairment losses on financial assets measured at amortised cost, if there is objective evidence that the financial assets value has been restored, and it is objectively related with the events incurred after the confirmation of the loss, the previously recognized impairment loss is reversed into current profit or loss. However, the book value after the reversal does not exceed the amortized cost of the financial asset at the reversal date, assuming that the impairment provision is not included.

Fair value changes of

If there is objective evidence that the financial asset impairment has occurred, the cumulative losses originally included in other comprehensive income due to the decline in the fair value, shall be transferred out and included in the current profits and losses. The transferred cumulative loss refers to the initial acquisition cost of the financial assets available for sale deduct the retrieved principal and the amortized amount, the balance between the current fair value and the original value of the impairment loss which has been included in the profits and losses.

Objective evidence proving impairment of available-for-sale equity instruments investments includes serious or non-temporary decline in fair value. "Serious" is judged on the basis of the fair value below the cost, and "non-temporary" is judged according to the length of period when the fair value is lower than the cost. If there is any objective evidence of impairment, the roll-out accumulated loss shall be the balance of the acquisition cost after deducting the current fair value and the impairment loss which has been included in the profits or losses. Impairment losses on equity instrument investment available for sale are not reversed through profit or loss, and the increase in fair value after impairment is recognised directly in other comprehensive income.

It needs to judge when determining what is "serious" or "non-temporary". The Group judges on the basis of the level or duration of the fair value below cost combined with other factors.

For the debt instruments investment available for sale, the impairment is assessed in the same manner as the financial assets measured at amortised cost. However, the roll-out accumulated loss is the balance of the amortized cost after deducting the current fair value and the impairment loss that has been included in the profits or losses. The

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impaired Interest income uses the discount rate used to discount future cash flows in the light of the determination of impairment losses as the interest rates to calculate and determine.

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Notes to financial statements (continued)
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III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial Instruments (continued)

For the debt instruments available for sale that have recognized impairment losses, in the subsequent accounting period, the fair value has risen and objectively related to events that occur after the impairment losses were recognised, the previously recognised impairment losses shall be reversed and included in the current profits and losses.

Financial assets measured at cost

If there is objective evidence that shows the impairment of the financial assets, the book value of the financial assets and the balance between the market return rate then in accordance with the similar financial assets and the discounted present value of future cash flows is recognized as impairment loss and shall be included into the profits and losses of the current period. The occurred value decrease loss is not returned in the next period.

Transfer of Financial Assets

When substantially all the risks and rewards of ownership of the financial assets are transferred to the transferee, the Group derecognizes the financial asset; when such risks and rewards retains, the financial asset is not derecognized.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of financial assets, they're disposed by the following circumstances: when the control of the financial asset is given up, derecognize the financial assets and recognize assets and liabilities arising; when the control is not given up, recognize the financial assets and liabilities accordingly by the extent of its continuing involvement in the transferred financial assets.

By continuing to involve in the manner in which financial security is provided for the transferred financial assets, confirm the assets formed by the continuing involvement in accordance with the lower between the book value of the financial asset and the amount of the financial guarantee. The amount of the financial guarantee refers to the maximum amount to be asked to repaid in the received consideration.

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Notes to financial statements (continued)
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III. Major Accounting Policies and Accounting Estimates (continued)

9. Accounts Receivable

Receivables include accounts receivable, other receivables, prepayments and others. The fair value of the contract or agreement receivable from the buyer or the service receiver shall be regarded as the initial recognition amount.

(a) Accounts receivable

Big single amount, provided for bad debt separately

As of accounts receivable with single big amount, individual test is made on value depreciation. When proof shows the Group is not able to collect the account receivable as prescribed, bad debt provision is made.

Standard of single big amount: top 5 of the receivable from third party

Method of bad debt provision being made with big single amount: based on the difference of the present value of the expected future cash flow of the account receivable lower than its book value.

Reason for individual accrual of bad debt provision: proof shows the Group will not be able to the accounts receivable on the basis of former clauses.

Method of accrual of bad debt provision: accrued according to the difference between the present value of its expected future cash flow lower than its book value

Bad debt reserve is calculated as per the credit risk combination

Accounts receivable not with big single amount, together with accounts receivable whose value is not decreased after being individual test, are classified into groups by credit risk features and bad debt provision is made, on the basis of actual loss rate of prior period accounts receivable of the same or similar kind, with similar credit risk features, combining present situation.

Credit risk groups are determined by the following criteria:

Group 1 Accounts receivable from related party

Group 2 Accounts receivable from third party

Method of bad debt provision being made by credit risk groups:

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III. Major Accounting Policies and Accounting Estimates (continued)

9. Accounts Receivable (continued)

Group 1 Bad debt provision shall not be made of accounts receivable from related party except proof shows the Group is not able to collect them.

Group 2 Debt age analysis method (considering future collection)

Accounts receivable (continued)

Bad debt reserve is calculated as per the credit risk combination (continued)

Among the groups, proportion of accrual on aging analysis basis is listed as follows:

| Debt age | Provision proportion |
|------------------------|----------------------|
| One to six months | — |
| Seven to twelve months | 1% |
| One to two years | 15% |
| Two to three years | 30% |
| Three to four years | 50% |
| Four to five years | 75% |
| Above five years | 100% |

(b) Other receivables

Big single amount, provided for bad debt separately

As for other receivables of big single amount, individual impairment test is made. When proof exists to show the Group will not be able to collect them according to prescribed clauses, bad debt provision is made.

Standard of single big amount: top 5 of the receivable from third party

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
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III. Major Accounting Policies and Accounting Estimates (continued)

9. Accounts Receivable (continued)

Method of bad debt provision being made with big single amount: based on the difference of the present value of the expected future cash flow of the other receivables lower than its book value.

(b) Other receivables (continued)

Other accounts receivable for insignificant single amount and single Provision for bad debts

Reason for individual accrual of bad debt provision: proof shows the Group will not be able to the other receivables on the basis of former clauses.

Reason for individual accrual of bad debt provision: proof shows the Group will not be able to the other receivables on the basis of former clauses.

Group assessment for provision for bad debts

Other accounts receivable not with big single amount, together with accounts receivable whose value is not decreased after being individual test, are classified into groups by credit risk features and bad debt provision is made, on the basis of actual loss rate of prior period accounts receivable of the same or similar kind, with similar credit risk features, combining present situation.

Credit risk groups are determined by the following criteria:

Group 1 Guarantee deposit (excluding quality guarantee deposit)

Group 2 Employee individual loans and reserve funds

Group 3 Other accounts receivable

Method of bad debt provision being made by credit risk groups:

Group 1 Except for that the objective evidence proves that the Group can't retake the payment according to the original articles of other receivables, the Group shall not make bad debt provision for the cash deposit (excluding quality cash deposit)

Group 2 Bad debt provision shall not be made of accounts receivable from employee's loan and reserve fund except proof shows the Group is not able to collect

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them.

Group 3 Debt age analysis method

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Notes to financial statements (continued)
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III. Major accounting policies and accounting estimates (continued)

9. Accounts receivable (continued)

(b) Other receivables (continued)

Group assessment for provision for bad debts (continued)

Among the groups, proportion of accrual on aging analysis basis is listed as follows:

| Debt age | Provision proportion |
|------------------------|----------------------|
| One to six months | – |
| Seven to twelve months | 1% |
| One to two years | 15% |
| Two to three years | 30% |
| Three to four years | 50% |
| Four to five years | 75% |
| Above five years | 100% |

10. Inventories

Stock includes raw materials purchased spare parts and semi-products, reported in the lower between cost and cashable net value.

Inventories are initially measured at cost. Inventory costs include purchase costs, processing costs and other costs. The actual cost is determined by the weighted average method when sending out the stock. Turn-over materials include perishables and packing materials etc. Perishables are amortized by turns while packing is amortized at one time.

The inventory system uses a perpetual inventory system.

Shanghai Zhenhua Heavy Industries Co., Ltd
Notes to financial statements (continued)
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III. Major accounting policies and accounting estimates (continued)

10. Inventories (continued)

At the balance sheet date, inventories are measured at the lower of cost and net realizable value, for the cost that is higher than the net realizable value, the provision for depreciation of inventories shall be included in the current profits and losses. If the influence factors of the provision for depreciation of inventories before have disappeared, making the net realizable value of inventories higher than the book value, in the amount of original provision for depreciation of inventories, the previously reduced amount shall be recovered and the reversed amount shall be recorded in the current profits and losses.

Net realizable value is the amount that the estimated selling price of the stock minus the cost that would incur at the time of completion, the estimated cost of sales, and the amount of the relevant taxes and fees in the daily activities. For the provision for loss on decline in value of inventories, raw materials are classified by category, and finished goods are accounted for by a single inventory item.

11. Construction contract

For customized large port equipment with fixed price, because the start and the finishing of the project are in different accounting years, the Company uses building-contract method to calculate the revenue and the cost.

(a) If the selling result of individual building contract can be reliably estimated, the revenue and expenses can be recognized in proportion of completeness on the day of balance sheet. The result of the construction contract can be estimated reliably, which means that the economic benefit associated with the contract is likely to flow into the group. The actual cost of the contract can be measured clearly and reliably. In the case of a fixed cost contract, the following conditions must be satisfied: the total contract revenue can be measured reliably, and the contract completion progress and the cost to be taken for the completion of the contract can be reliably determined. The amount of the total contract income, including the initial revenue stipulated in the contract and income resulting from contract change, claim, award, etc. The Group determines the progress of the Contract Completion by the following methods:

(i) Project progress proportion is made on the report day according to the revenue recognition stage stipulated in the contract. The Company confirmed the following 3 revenue recognition stages:

Stage 1: body steel structure completed and erected;

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Stage 2: manufacturing, installation and initial testing completed, product ex-plant qualification certificate issued, shipping documents acquired, product ready to be shipped;

Stage 3: product finally delivered after being checked and approved by purchaser, final delivery certificate issued by purchaser acquired.

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Notes to financial statements (continued)
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III. Major accounting policies and accounting estimates (continued)

11. Construction contract (continued)

The Group will analyze the building contracts completed in prior year and recognize progress proportion of each revenue recognition stage on the basis of the proportion of the cost of the revenue recognition stage in real total costs and recognize it as the progress proportion at various stages in current period.

(ii) For heavy equipment and construction project, progress of completeness is recognized by the proportion of accumulated cost incurred in total expected cost. The accumulated cost does not include that related to contract future activities.

(iii) Progress of completeness of steel structures is determined by the proportion of cumulative tons of processing completed in total tons of processing.

(b) When individual building contract result is not able to be reliably estimated, the following methods are used:

(i) When contract cost can be covered, contract revenue is recognized according to real contract cost that can be covered, contract cost is recognized as expenses in the period when cost incurs.

(ii) When contract cost cannot be covered, it can be recognized as expenses immediately when it incurs; no contract revenue is confirmed.

(c) When expected total contract cost exceeds total revenue, the expected losses should be immediately recognized as expenses in current period.

(d) When contract value is settled in installments, the settled installment is recognized as settled value, which will be transferred and set off with related accumulated costs and confirmed margin on the day of building contract completed. On the balance sheet day, when the addition of accumulated costs and confirmed margin exceeds the accumulated settled value, the difference is listed as completed but not yet settled item in current assets. Otherwise, it will be listed in settled but not completed item in current liabilities.

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III. Major accounting policies and accounting estimates (continued)

12. Long-term equity investments

Long term equity investment including: Long term equity investment into the Company's subsidiaries, joint venture and associate.

Long term equity investments are initially measured by the initial investment cost on acquisition. Long term equity investments obtained by the merger of the enterprises under the same control take the share of the book value in the consolidated financial statements acquired by the merging party owner on the combination day as the initial investment cost; The difference between the initial investment cost and the book value of the combined consideration is adjusted to the capital reserve.(When capital reserve is not sufficient to compensate, retained interest is thus adjusted); Other comprehensive income of the prior to the date of the merger, when handling the investment, it shall carry out the accounting treatment on the same basis of the relevant assets or liabilities directly disposed of by the invested entity, the investment, it shall carry out the accounting treatment on the same basis of the relevant assets or liabilities directly disposed of by the invested entity, the shareholders' rights and interests recognized by the other changes in the equity of the invested entity other than net gains/losses, other comprehensive income and profit distribution shall be transferred fully into the current profits and losses when handling the investment; In which, if it is still long term equity investment after the disposal, carry forward in proportion, if it is converted to the financial instruments, then carry forward fully.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

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III. Major accounting policies and accounting estimates (continued)

12. Long-term equity investments (continued)

Long term equity investments obtained by the merger of the enterprises not under the same control take the combined cost as the initial investment cost(the merger of enterprises not under the same control realized by two or more transactions of exchanges take the combination costs of the book value of equity investments held by acquiree prior to purchase date and newly increased investment cost on purchase day as the initial investment cost, the costs of consolidation include the summation of the assets paid by the purchaser, the liabilities incurred or assumed, the fair value of the equity securities issued; other comprehensive income of the prior to the purchasing date recognized by the equity method accounting, when handling the investment, it shall carry out the accounting treatment on the same basis of the relevant assets or liabilities directly disposed of by the invested entity, the shareholders' rights and interests recognized by the other changes in the equity of the invested entity other than net gains/losses, other comprehensive income and profit distribution shall be transferred fully into the current profits and losses when handling the investment; In which, if it is still long term equity investment after the disposal, carry forward in proportion, and if it is converted to the financial instruments, then carry forward fully; when equity investments held prior to the purchasing date as financial instrument included in the cumulative changes in fair value of other comprehensive income is counted according to the cost method, it shall be transferred fully into the current profit and loss. Long term equity investments acquired other than long term equity investments formed by the business combination, shall determine the initial investment cost according to the following methods: obtained by making payment in cash, it shall take the actual purchase price paid and the directly related costs and taxes with the acquisition of long term equity investment and other necessary expenses as the initial investment cost; obtained by issuing equity securities, it shall take the fair value of the issuance of equity securities as the initial investment cost.

The Company can measure the long term equity investments which can be controlled by the investment enterprises with the cost method in the individual financial statements of the Company. Control means having the power to decide on investee, and thus obtaining the variable gains from its operation, with the ability to utilize the power of the investee to influence the gains amount.

When the cost method is used, the long-term equity investment is determined by the initial investment cost. The cost of the long-term equity investment shall be adjusted if the investment is added or withdrawn. The cash dividends or profits declared by the invested entity shall be recognized as the current investment income.

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Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

12. Long-term equity investments (continued)

If the group has a joint control or significant influence on the invested entity, the long-term equity investment shall be accounted by the equity method. Co-control means enjoying control over certain arrangement according to contract. Such arranged activities must be decided upon agreement of the Group and the other participants that share the control rights. Significant effect means that the company possesses the right of decision-making participation in the financial and operating policies of the investee but is not able to control or co-control with other party the making of such policies.

When using the equity method, if the initial cost of a long-term equity investment larger than the share of fair value of identifiable net assets of the invested enterprise, it shall be included in the initial investment cost of long-term equity investment; if the initial cost of a long-term equity investment less than the share of fair value of identifiable net assets the invested enterprise, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted.

When using the equity method, after obtaining a long-term equity investment, in accordance with the share of other comprehensive income and net income achieved by the invested enterprise which should be enjoyed or shared, respectively confirm the investment profit and loss and other comprehensive income, and adjust the book value of the long-term equity investment. In confirmation of the share of the net profit or loss of the invested entity, based on the fair value of the identifiable assets of the invested entity when obtaining the investment, in accordance with the Group's accounting policies and accounting periods, offset the internal transaction gains and losses between affiliated enterprises and joint ventures and attribute to the investing party in accordance with the enjoyed proportion (but the loss of internal transactions is an impairment loss of assets, which should be fully recognized), confirm the net profit of the invested entity after adjustment, except for the assets that are invested or sold to form a business. In accordance with the portion of the profits or cash dividends declared by the investee entity, the book value of the long-term equity investment shall be reduced accordingly. The Group confirms the net losses of the invested enterprise, the book value of the long-term equity investment and other long-term interests in the net investment of the invested entity is reduced to zero, except for which the Group bears extra liability for loss. For the other changes in the equity of the invested entity other than net gains/losses, other comprehensive income and profit distribution, the book value of the long-term equity investment shall be adjusted and included in the shareholders' equity.

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Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

12. Long-term equity investments (continued)

For the disposal of long term equity investment, the difference between the book value and the actual purchase price shall be included in the profits and losses of the current period. Long term equity investments accounted for using the equity method, terminating the equity method, other comprehensive income related with the original equity accounting shall carry out the accounting treatment on the same basis of the relevant assets or liabilities directly disposed of by the invested entity, the shareholders' rights and interests recognized by the other changes in the equity of the invested entity other than net gains/losses, other comprehensive income and profit distribution shall be it shall be transferred fully into the current profits and losses; Still using the equity method, other comprehensive income related with the original equity accounting shall carry out the accounting treatment on the same basis of the relevant assets or liabilities directly disposed of by the invested entity and transfer into the current profits and losses in proportion, the shareholders' rights and interests recognized by the other changes in the equity of the invested entity other than net gains/losses, other comprehensive income and profit distribution shall be transferred into the current profits and losses in proportion.

13. Real estate as investment

Investment real estate refers to real estate held for purposes of earning rentals or capital gain, including leased-out land use right and leased-out buildings.

Initial measurement is made by cost. Subsequent expenditure relating to investment real estate, when economic benefits related to such assets are likely to flow into the Group and its cost can be measured reliably, is accounted into the cost of investment real estate. Otherwise, it is included in the current profits and losses statements at the time of incurrence.

Cost models for all investment property are adopted by the Group to undertake follow-up measures. Depreciation or amortization is made for buildings and land use rights according to their estimated useful life and residual value rate. Investment real estate rate and years of estimated useful life and residual value depreciation (amortization) rates are listed below:

Estimated useful life Estimated residual value rate Annual depreciation (amortization) rate

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III. Major accounting policies and accounting estimates (continued)

13. Real estate as investment (continued)

| | | | |
|------------------------|-----------------------|-----------|---|
| Building | 30 years | 0% | 3.3% |
| Land use rights | Land use years | 0% | Decided by estimated net residual value and land use years |

The anticipated service life of investment real estate, estimated net residual values and depreciation (amortization) method is reviewed and made appropriate adjustments at least at each year end.

When purpose of investment property changes to self-use, from the date of change, convert the investment properties to fixed assets or intangible assets. When self-use property changes to the purpose of earning rentals or for capital appreciation from the date of change, convert the fixed assets or intangible assets to investment properties. Upon conversion, book value before the conversion is the recorded as the converted value.

14. Fixed assets

Fixed assets are confirmed when financial benefits related will probably flow into the Group and their costs can be reliably valued. Subsequent expenditure relating to fixed assets, when passing validation, is accounted into the cost of fixed assets, and related book value for the replaced part ceases confirmation. Otherwise, subsequent expenses are booked into current income statement at the time of incurrence.

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III. Major accounting policies and accounting estimates (continued)

14. Fixed assets (continued)

In addition to the formation of the extracted safety production cost, the depreciation of fixed assets is calculated and withdrawn by the average method of years, and the service life, expected net residual value rate and annual depreciation rate of the fixed assets are as follows:

| | Useful life | Estimated residual value rate | Annual depreciation rate |
|---|-------------|--|---|
| House and building | 20-40 years | 0% | 2.5%-5% |
| Manufacturing equipment | 3-20 years | 0%/Based on the price of wasted vessel steel | Calculated in estimated net residual value and estimated service life |
| Office equipment and electrical equipment | 3-5 years | 0% | 20%-33.3% |
| Transportation means (other than vessels) | 5 years | 0% | 20% |
| Vessels | 10-25 years | 5%/10% | 3.6%-9.5% |

Depreciation for fixed assets under financing lease is calculated in accordance with policy for fixed assets. If the acquisition of ownership of the leased asset at the expiration of the lease period can be confirmed rationally, depreciation shall be accrued within the service life of the leased asset. If not, depreciation shall be accrued within lease term or the service life of the leased asset, whichever is shorter.

Double check is made by the group to the estimated life of use, estimated net residual value and method of depreciation at least at the end of each report year and necessary adjustment is made.

15. Construction in progress

Construction in progress is booked as project costs in real expenditure, which includes necessary project expenditure occurred in construction period, capitalized loan expenses which make the construction in progress reach expected status of use and other relevant expenses.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

15. Construction in progress (continued)

When the project under construction reaches the expected condition for use, it is transferred into fixed assets items.

16. Loan expenses

Loan expenses refers to the interest and other relevant costs arising from the loan of Group, including the loan interest, the amortization of the discount or premium, auxiliary expenses and the exchange difference arising from the foreign currency loan.

Loan expenses borrowed to purchase, construct or manufacture assets applicable to be capitalized shall be capitalized. Other loan expenses shall be taken into current profit/loss statement. Assets applicable to be capitalized refers to assets such as fixed assets and investment real estates which take rather long period of time to purchase, construct or manufacture in order to reach their expected state of use or sale.

Loan expense can be capitalized when it meets the following conditions:

- (1) Asset expenditures have incurred;**
- (2) Loan expenses have incurred;**
- (3) Purchasing, building or manufacturing activities start as a necessity to make that asset reach expected usable or salable condition.**

When the purchased, built or manufactured fixed asset reached expected usable or salable condition, stop capitalization. Loan expenses that follow are taken into current profit/loss statement.

The amount of interest capitalization in each accounting period during the capitalization period is determined by the following method:

- (1) Amount of expenses of special loans is determined by the interest expense actually incurred in the current period to less the temporary deposit interest income or the investment income.**

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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III. Major accounting policies and accounting estimates (continued)

16. Loan expenses (continued)

- (2) Amount of expenses of general loans is determined by the weighted average amount of expenses of accumulated asset expenses exceeding that of special loans to multiply the weighted average actual interest rate of the general expenses.

In case purchasing, building or manufacturing activities of assets ceases accidentally for reasons other than reaching expected usable or salable status and term of cease exceeds 3 months on end, capitalization of loan expenses shall be stopped. Loan expenses occurring during the term of cease shall be confirmed and taken into profit/loss statement until purchasing, building or manufacturing activities resume.

17. Intangible assets

Intangible assets are confirmed when financial benefits related will probably flow into the Group and their costs can be reliably valued, and initial measure is taken by cost. However, intangible assets acquired in merger under the same control can be measured reliably, that is, intangible assets are recognized as intangible assets and measured at fair value. The evaluation value confirmed by the state-owned administration department acts as the book value for the intangible assets invested by the state-owned shareholders at the re-structuring of the Company.

Service life of intangible assets shall be confirmed as the term in which they can bring benefits to the company. If the term in which intangible assets bring benefits to the company can be expected, such assets shall be confirmed as intangible assets with uncertain service life.

Service life of intangible assets are as follows:

| | Expected years for use |
|-----------------------|------------------------|
| Rights of land use | Years of land use |
| Software use cost | 5 years |
| Patented technologies | 10 years |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

17. Intangible assets (continued)

Land use right obtained by the Group is usually accounted for as intangible assets. For self-developed and self-constructed buildings, relevant land use right and the buildings shall be regarded as intangible assets and fixed assets respectively. If the price paid for outsourced land and building is difficult to distribute in a reasonable way between the land use rights and the building, they are all regarded as fixed assets.

Intangible assets with limited service life are amortized in straight line method in the expected years for use. Double check is made by the group at least at the end of each year to expected life in use and amortization method of intangible assets with limited use of life and adjustment is thus made.

The Group classifies the expenses of the internal R & D project into expenses in research phase and expenses in development phase. Expenditure in research phase shall be included in the current profits and losses statements at the time of incurrence. Expenses in development stage are capitalized when simultaneously satisfying the following conditions: It is technically feasible to complete the intangible assets to make them usable and marketable; the management has the intention to complete the intangible assets and to use them or to sell them; the ways intangible assets yield financial benefits. It's able to prove the products manufacturing by intangible assets exist in the market, or intangible assets are in the market, or intangible intended to be used for interior; Enough technology and financial resources and other resources support and will enable the completion of the development of the intangible assets and make them to be used to sell; Expenses belonging to the intangible assets can be reliably measured. Expenses of development stage not satisfying the conditions are put into current P&L.

18. Assets impairment

The impairment of assets except inventories, deferred income tax and financial assets is determined as follows:

The Group will determine whether there is sign of impairment for assets on the balance sheet date. If there is sign of impairment, the Group will estimate recoverable amount and conduct impairment test. Impairment test is made at least once at the end of each year for goodwill formed because of enterprise merger no matter whether there is sign of impairment. Impairment test is made at least once each year for the intangible assets not reaching the usable state.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

18. Assets impairment provision (continued)

The collectible amount is the higher between net amount of asset's fair value deducting disposal expenses and the present value of expected future cash flow. Collectible amount is estimated by individual piece of asset. In case collectible amount of individual asset is difficult to value, collectible amount of asset group to which they said individual asset belongs is confirmed. An asset group can be confirmed on the basis that its main cash in-flow is generated independently of other assets or asset groups.

When the collectible amount of the asset or asset group is lower than its carrying value, the Group reduces its carrying value to the recoverable amount, the amount written down is included in the current profits and losses, and the corresponding asset impairment provision is withdrawn.

In terms of goodwill impairment test, the carrying value of goodwill formed by the merger of the enterprise shall be amortized to the relevant asset group by reasonable means from the date of purchase; it shall be amortized to relevant combination of asset groups when it is difficult to amortize the relevant asset group to the relevant asset group. The relevant asset group or combination of asset groups is an asset group or combination of asset groups that can benefit from the synergy effect of the enterprise merger, and is not larger than the reporting subsection determined by the group.

For impairment test of relevant asset groups or combination of asset groups that contain goodwill, if there is a sign of impairment, the impairment test on the asset group or the asset group that does not include goodwill is performed first. Then calculate the recoverable amount and confirm corresponding impairment loss. Next, impairment test is made to relevant asset groups or combination of asset groups that contain goodwill. If the collectible amount is lower than carrying value of the asset. The impairment loss is firstly to compensate the book value of the goodwill amortized in the asset group or portfolio, and then to compensate the book value of other assets in the proportion of the book value of other assets except for the goodwill in the asset group or portfolio.

Once asset impairment provision is made, it shall not be transferred back in the following accounting period.

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Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

19. Long-term unamortized expenses

The long-term unamortized expenses shall be amortized by straight-line method, and the amortization period is as follows:

Amortization period

Improve operation of leased fixed asset

20. Employee remuneration

The employee compensation means all forms of remuneration or compensation that the Group pays for obtaining the service to be provided by the employees or severing labor relation, mainly including short-term compensation, post-employment benefit, dismissal welfare and other long-term employee benefits. The benefits provided by the Group to the employee's spouse, children, dependent, survivor of the deceased employee is also contained in the employee compensation.

Short-term pay

The Group takes the actual short-term remuneration as debt during the accounting period when the employees provide service. It will be booked in the current profit and loss or related assets cost, in which the non-currency benefit is accounted according to the fair value.

Welfare after resignation - defined drawing plan

The Group shall buy endowment insurance and unemployment insurance managed by the local government and open annuity for employees. The corresponding expenditure is included in the current profits and losses statements at the time of incurrence.

21. Estimated liabilities

In addition to contingent consideration or contingent liability of an enterprise merger under non-unitary control, when a contingency related liability meets the following conditions, the Group recognizes it as an estimated liability:

- (1) This liability is the current liability of the Group;**
- (2) The fulfillment of the liability may cause outflow of financial Interest;**

21. Estimated liabilities (continued)

- (3) The amount of the liability can be measured reliably.**

Expected liabilities are initially valued by the best estimates to be spent on fulfillment of related present obligation, combining risks and uncertainty with probabilities and time value of currency. The book value of expected liabilities is double-checked and thus adjusted on B/S day to reflect present best estimates. Where there is conclusive evidence that the carrying value does not reflect the current best estimate, the book value is adjusted in accordance with the current best estimate.

22. Revenue

Revenue is confirmed when related benefits may flow into the Group, sales can be reliably calculated, and the following conditions are met.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

- (a) Revenue from sales of large port equipment, ocean heavy equipment, product of steel structure and construction project is recognized by the proportion of completeness.
- (b) Income from ship transportation is recognized at the completion of the voyage.
- (c) Income is recognized at the time of delivery for the sale of spare goods or parts.
- (d) Interest income is recognized by deposit term and real interest rate.
- (e) Operating leasing income is recognized in leasing period by straight line method.
- (f) Activities under the construction and transfer of contracts usually include construction and transfer. As for constructing item the Group responsible for, in the construction phase, in accordance with the construction contract standards, when the results can be estimated reliably, the construction contract revenue should be valued by the fair value of consideration chargeable, at the same time to confirm the "Long term receivables", to be written off when payment received from the owners.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

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III. Major accounting policies and accounting estimates (continued)

23. Government subsidy

Government subsidies are recognized when they are able to meet the conditions attached and can be received. Where government subsidies are monetary assets, they are measured in amounts received or receivable. Where the government subsidies are non-monetary assets, they shall be measured at fair value; if the fair value cannot be reliably obtained, it shall be measured in nominal amount.

According to government documents, for long-term assets for the purposes of purchasing and constructing or formed in other ways, relevant subsidy shall be recognized as government subsidy related to assets; if it is not clear in the government documents, judgment shall be based on the basic conditions necessary to obtain the subsidy. If the basic condition is that long-term assets are for the purposes of purchasing and constructing or formed in other ways, the subsidy is recognized as government subsidy related to assets. Otherwise, it shall be recognized as government subsidy related to income.

Government subsidy related to the income when used to compensate related expenses or losses in future periods is recognized as deferred income and is booked into current P&L in the period when related expenses are recognized. That used to compensate paid expenses or losses is booked directly into current P&L. If the government subsidy related to the assets is recognized as deferred income and distributed within the life time of the assets, it is booked into current P&L. If the government subsidy is accounted in namely amount, it is booked directly into current P&L

24. Income tax expense

Income tax includes current income tax and deferred income tax. In addition to the goodwill adjustment arising from the merger of the enterprise, or transactions or relevant matters directly included in the shareholder's equity, the income tax expenses or income shall be included in the current profits and losses.

The Group's income tax liabilities or assets formed during the current period and previous period shall be measured by the amount of income tax payable or returned in accordance with the provisions of the Tax Law.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

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III. Major accounting policies and accounting estimates (continued)

24. Income tax expense (continued)

For the margin between the book value and tax base of some asset, liability items and the temporary differences generated from the difference between the book value and tax base of the item that is not recognized as the asset and liability but which tax base can be determined according to tax law, the deferred income tax asset and deferred income tax liabilities are recognized by using the balance sheet liability method.

The deferred income tax liabilities are recognized on the basis of various taxable temporary differences unless:

- (1) Taxable temporary differences arise from the following transaction: The initial recognition of goodwill, or the initial recognition of assets or liabilities arising from transactions with the following characteristics: the transaction is not an enterprise merger, and the accounting profits, taxable income and deductible loss are not affected when the transaction occurs.
- (2) **For investment-related taxable temporary differences of subsidiaries, associates and joint ventures, the time of the temporary difference reversal can be controlled and the temporary difference will not likely be transferred back in the foreseeable future.**

For deductible temporary differences, deductible losses and tax credits can be carried over to future years, and the Group will confirm the deferred income tax assets arising therefrom to the extent that it is likely to obtain the amount of future taxable income that is used to offset temporary differences, deductible losses and tax credits, unless:

- (1) Deductible temporary differences arise from the following transaction: the transaction is not an enterprise merger, and the accounting profits, taxable income and deductible loss are not affected when the transaction occurs.
- (2) Deferred income tax assets generated from investment-related provisional difference of subsidiaries, associates and joint ventures are confirmed as deferred income tax assets, when the temporary difference is able to be transferred back in the foreseeable future and when possible taxable income which is used to compensate the provisional difference can be possibly obtained in future.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

III. Major accounting policies and accounting estimates (continued)

24. Income tax expense (continued)

On B/S day, deferred income tax assets and deferred income tax liabilities are calculated by tax rate applicable to the period of term the assets or liabilities are expected to be collected back in accordance with regulations of tax law, and reflect income tax effect from the way that assets or liabilities are expected to be collected back.

On B/S day, the Group reviews the carrying value of the deferred income tax assets, and if it is likely that taxable income obtained in future periods is not enough to deduct the benefits from carrying value of the deferred income tax assets, the carry value of deferred income tax assets shall be written down. On the balance sheet date, the Group reevaluates unrecognized deferred income tax assets and recognizes the deferred income tax assets to the extent that sufficient taxable income is likely to be transferred back to all or part of the deferred income tax assets.

If there is a legal right to netting the current income tax assets and current income tax liabilities and the deferred income tax is relevant to the same subject of tax and the same tax administration department, then the deferred income tax assets and deferred income tax liabilities shall be presented in net amount after offset.

25. Leases

The finance lease criteria: transfers substantially all the risks and rewards of ownership of an asset leased.

Act as a tenant of operating lease

The rental expenses of operating leases are included in the asset cost or the current P&L according to straight-line method in the lease period.

Act as a leaser of operating lease

The rental income of the operating lease is included in the asset cost or the current P&L according to straight-line method in the lease period.

Act as a tenant of financing lease

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

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III. Major accounting policies and accounting estimates (continued)

25. Leases (continued)

The lower one of the fair value of the leased asset and the minimum rental payment the present value is accounted in the book as the leased assets. The minimum lease payment is the carrying value of long term payable. The difference between the booking value of leased assets and the minimum lease payment is not confirmed as the financing charges. It is amortized within the leasing period according to the actual interest method. Contingent rental is included in the current profits and losses statements at the time of incurrence.

Leaseback

Leaseback for financing purposes will be treated as a whole, which is accounted by mortgage loan, on the condition that asset sale is related to lease transaction and can be repurchased when the lease term expires.

26. Profit distribution

Cash dividends of the Company are recognized as liabilities after approval by the general meeting of shareholders.

27. Safety production costs

The safety production expense extracted in accordance with the regulations shall be included into the cost of relevant products or current profit or loss, and shall also be included into the special reserve; if safety production expense is disbursement cost, it shall deduct the special reserve directly; if safety production expenses are forms into fixed assets, the fixed assets shall be confirmed when reaching expected usable status, deducting equivalent special reserve and the accumulated depreciation shall be confirmed.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

III. Major accounting policies and accounting estimates (continued)

28. Fair Value Measurement

The Group measures derivative financial instruments and listed equity instruments investments at fair value on B/S day. Fair value refers to the price that a market participant gains or pay for sale of an asset or transfer of a liability in an orderly transaction occurring on the measurement date. For relevant assets or liabilities measured by fair value, the orderly transaction for sale of an asset or transfer of a liability is assumed to be conducted in the main market. If it relevant assets or liability measured by fair value do not exist in the market, the transaction is assumed to be conducted in the most advantageous market for relevant assets or liabilities. The main market (or the most advantageous market) is the trading market in which the Group is able to enter on the measurement date. The Group assumes that market participants intend to realize their maximize economic benefits when pricing the assets or liabilities.

For non-financial assets measured by fair value, the ability of market participants to put the assets in best use for economic benefits, or to sell the assets to other market participants that can put the assets in best use for economic benefits.

Estimation technique that is applicable and supported by sufficient available data and other information is adopted. Priority is given to the observed input value, and the unobservable input value is used only if the observable input value cannot be obtained or is not practicable.

For assets and liabilities measured or disclosed at fair value in the financial statements, fair value level shall be determined by the input value of lowest level, which is important for the fair value measurement as a whole: the input value of the first level is the unadjusted quotation on the active market of the same assets or liabilities that can be obtained on the measurement date; the input value of the second level is the input value that may be observed directly or indirectly by the relevant assets or liabilities except the first level input value; the input value of the third level is the unobservable input value of the relevant assets or liabilities.

On B/S day, the Group reevaluates the assets and liabilities that continue to be measured at fair value as recognized in the financial statements to determine whether a conversion has occurred at the fair value level.

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Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

29. Major accounting judgments and estimates

For the preparation of financial statements, the management is required to make judgments, estimates and assumptions that will affect the presentation amount of income, costs, assets and liabilities and disclosure thereof, as well as disclosure of contingent liabilities on B/S day. However, the results of these assumptions and uncertainties may result in significant adjustments to the carrying amount of future affected assets or liabilities.

Uncertainty of estimates

The following key assumptions about the future on the balance sheet date and other key sources of estimate uncertainty may lead to significant adjustments in the carrying amount of assets and liabilities during future accounting periods.

Construction contract

Construction contract is adopted to calculate its revenue and cost for large port equipment and construction projects. During the course of the project, the group shall continuously review and revise the expected total cost of the construction contract based on the situation of actual cost of the construction contract and the actual cost of the similar products in the reference, so that the expected total cost of the contract is approximate to its final actual cost. If there is a discrepancy between the expected total cost and the actual total cost of contracts in the future, the discrepancy will affect the cost confirmed by the Group this year.

At the same time, the Group management regularly performs impairment testing on construction contracts. If the expected total cost of the construction contract exceeds the total contract income, the contract expected loss shall be calculated and withdrawn. Changes of the expected total cost due to continuous review and revision may affect the carrying value of the construction completed amount not closed/construction uncompleted amount closed and impairment losses during the estimated changes.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

29. Major accounting judgments and estimates (continued)

Uncertainty of estimates (continued)

Impairment of receivables

The management of the Group continues to pay attention to the recoverable extent of the receivables, and estimates the bad debt reserves of the accounts receivable based on the analysis of the actual conditions (including but not limited to the repayment capacity of the debtor, the age of the accounts receivable, the collection after the period). In case of any event or change, if the estimate adopted is changed, the estimate shall be adjusted accordingly, and the appropriate bad debt reserve for receivables shall be accrued. If the expected amount is different from the original estimate, the difference will affect the carrying value of the receivable and the impairment loss during the estimated change.

Inventory impairments

The management shall estimate the net realizable value of inventories in time so as to estimate inventory falling price reserves. If any event or circumstance changes, it is necessary to use the estimate to prepare the inventory falling price if the inventory is not likely to realize the relevant value. If the expected amount is different from the original estimate, the difference will affect the carrying value of the inventories and the impairment loss during the estimated change.

Service life and the net residual value of fixed assets

Expected service life and the net residual value of fixed assets are estimated by the Group. These estimates are based on the actual service life and net residual value of fixed assets similar in nature and function. Technological innovation and the actions taken by competitors due to severe industry cycles may cause major changes to such estimates; changes in the economic environment, technical environment and other environmental changes in service life of fixed assets may also lead to significant changes in the expected implementation of the economic benefits associated with fixed assets.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

29. Major accounting judgments and estimates (continued)

Uncertainty of estimates (continued)

Impairment of non-current assets except financial assets (except goodwill)

The Group determines whether there is any indication of possible impairment of non-current assets other than financial assets on the B/S day. For non-current assets except financial assets, when there are indications that its carrying amount is not recoverable, an impairment test is conducted. Impairment is indicated when the carrying value of the asset or asset group is higher than the recoverable amount, that is, the higher one between the net amount of the fair value lessing the disposal expenses and the present value of the expected future cash flows. Net amount gained by fair value lessing disposal expenses shall be determined by the price in sale agreement of similar assets in fair transaction or market price observed lessing the incremental cost attributable to the assets. The management must estimate the expected future cash flow of the asset or asset group and select the appropriate discount rate to determine the present value of the future cash flow when estimating current value of future cash flow.

Goodwill impairments

Impairment test for goodwill shall be conducted at least annually. This requires estimate of the present value of the future cash flows of the asset group or the asset group to which goodwill is distributed. The Group shall estimate the expected future cash flow of asset or asset group and select the appropriate discount rate to determine the present value of the future cash flow when estimating current value of future cash flow.

Income tax and deferred income tax

The Company was recognized as a high-tech enterprise in 2014. The company calculated and paid the enterprise income tax at the rate of 15% according to the relevant income tax laws. According to the relevant regulations, one condition for the qualification of high-tech enterprises is that the proportion of R & D expenditure in sales income must not be lower than the specified proportion, in which the proportion is 3% for enterprise with annual sales income more than 200 million Yuan. If the final determination result given by tax authority in charge is different from that of the company, the difference will affect the income tax expenses of the year.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

29. Major accounting judgments and estimates (continued)

Uncertainty of estimates (continued)

Income tax and deferred income tax (continued)

In addition, the Group calculates enterprise income tax and deferred income tax in accordance with current tax laws and takes into consideration applicable income tax provisions and tax preferences. There is uncertainty in the final tax treatment for some of the transactions and events involved in normal operations. The Group needs to make significant judgments when the income tax is calculated and withdrawn. The Group shall estimate whether additional taxes need to be paid in respect of future tax adjustments for tax purposes so as to confirm corresponding income tax liabilities. If the final determination result of these tax matters is different from the originally entered amount, the difference will affect the amount of income tax and deferred income tax for the period of final determination.

When evaluating temporary differences, the Group also considers the possibility that deferred income tax assets can be recovered. The temporary differences mainly include the effects of deductible losses, asset impairment provision, unrealized profits of internal transactions, expected liabilities that have not been approved before tax, interest not yet paid, wages and salaries, financial assets whose changes are measured at fair value and included in current profits and losses, and changes in the fair value of liabilities. The confirmation of the deferred income tax assets is based on the estimation of the Group and assumes that the deferred income tax assets are reversed through the Group's continuous operation in the foreseeable future. At the same time, the Group also takes into account the deferred tax assets and the tax rate at which the deferred income tax liabilities are reversed. Based on the experience gained by the Company for many years, as well as the continuous input into the research and development projects, the Company is expected to obtain the qualification of high-tech enterprises the year and beyond, and hereby calculate and confirm the deferred income tax assets and deferred income tax liabilities at the preferential tax rate.

The Group has calculated and withdrawn income tax liabilities and deferred income tax items of this year based on current tax laws and current best estimates and assumptions. In the future, tax liabilities and deferred income tax items may need to be adjusted due to changes of tax laws or related circumstances.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

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III. Major accounting policies and accounting estimates (continued)

30. Change to accounting policies and accounting estimates

Change to accounting policies

Change to tax presentation

In 2016, the Group will adjust the “Business tax and additional” items in the income statement to “tax and add - on” items in accordance with the requirements of “VAT Accounting Disposal Regulations” (Financial Accounting[2016] No.22); the taxes on house property, land use tax, vehicle and vessel use tax, stamp duty, etc. arising from the operation activities of the enterprise shall be listed in the “tax and add - on” project as of May 1, 2016, and shall not be listed in the “administrative expenses” project; (except that it was originally included in “Business Tax” and “Additional”) The real estate tax and land use tax related to investment real estate of the project are still listed in the project of “administrative expenses”. The credit balance of the detailed accounting items (“tax for goods to be transferred” etc.) in the accounting item of “tax payable” shall be classified by “tax payable” to “other non - current liabilities” in the balance sheet by the end of 2016; the credit balance of the above detailed items at the end of 2015 shall be presented in the original presentation. As a result of the above requirements, the contents of the “tax and plus” and “overhead” items in 2016 and 2015, the “overhead”, the “tax payable” at the end of 2016 and at the end of 2015 and “other non - current liabilities” are presented differently, but there is no impact on the merger of 2016 and 2015 and the net profit and consolidation of the company and the Company’s Membership Interests.

Shanghai Zhenhua Heavy Industries Co., Ltd

Notes to financial statements

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IV. Taxes

1. Main tax types and the ratio

| | |
|---|---|
| VAT | – The Group’s product sales business is applicable to VAT. Among which, the domestic product sales output tax ratio is 17%, export sales output tax ratio is subject to “exemption, counteraction, refund”, the applicable refunding ratio is 17%, 15% and 13%.The Group’s vessel transport business revenue is applicable to VAT with the tax ratio of 11%; the equipment rental is applicable to VAT with tax ratio of 17%; the equipment rental is applicable to the VAT’s simple collection method, and the tax ratio halved is 2%; the Group’s rental housing is applicable to the VAT’s simple collection method since May 1, 2016, the ratio is 5%; the “Construction-Transfer” project is applicable to VAT, the ratio is 11%. The above output tax shall calculate and pay VAT after deducting the amount of input tax deductible, except for the applicable VAT’s simple collection method. |
| Business tax | – Business tax applied to revenues of the Group from rental housing with rate of 5%. Business tax is applicable to the revenues of “Construction-Transfer” projects with rate of 3%. Business tax shall be replaced by VAT since May 1, 2016. |
| Urban maintenance and construction tax and educational surtax | – The Group calculates and pays by 7% and 3% of the actual payment of turnover tax. |
| Corporate income tax | – Corporate income tax is calculated and paid in accordance with P.R. China Corporate Income Tax Law (“Income Tax Law”).According to the High-tech Enterprise Recognition Management Approaches (Guo Ke Fa Huo [2016] 32,) and the High-tech Enterprise Recognition Management Work Guidelines (Guo Ke Fa Huo [2016] 195) and the Notification on Announcing List of Second Batch of Shanghai Municipality 2014 High-tech Enterprises Recognition, the Company was recognized as a high-tech enterprise in the year2014, and was awarded the High-tech Enterprise Certificate (certificate number: GR201431001646). The certificate is valid for 3 years. According to Article 28 of the Income Tax Law, the Company actually applied a 15% corporate income tax rate this year (2015: 15%). |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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IV. Taxes (continued)

1. Main tax types and the ratio (continued)

The applicable income tax rates of the Company and the controlling subsidiaries are as follows:

| | Registration place | 2016 Applicable tax rate | 2015 Applicable tax rate |
|--|---------------------|--------------------------------|--------------------------------|
| The Company | Pudong New District | 15% | 15% |
| Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd. | Chongming | 25% | 25% |
| Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd. (Note 1) | Hongkong | 16.5% | 16.5% |
| Shanghai Zhenhua Shipping Co. Ltd. | Pudong New District | 25% | 25% |
| Nantong Zhenhua Heavy Industry Equipment Manufacturing Co., Ltd. | Nantong, Jiangsu | 25% | 25% |
| Shanghai Zhenhua Heavy Industries Group (Nantong) Transmission Machinery Co., Ltd. (Note 2) | Nantong, Jiangsu | 15% | 15% |
| Shanghai Zhenhua Heavy Industries Electric Co., Ltd. | Pudong New District | 25% | 25% |
| Nantong Zhenhua Heavy Industry Steel Structure Processing Co., Ltd. | Nantong, Jiangsu | 25% | 25% |
| Jiangyin Zhenhua Port Machinery Steel Structure Manufacturing Co., Ltd. | Jiangyin, Jiangsu | 25% | 25% |
| Shanghai Zhenhua Heavy Industries Steel Structure Co., Ltd. | Pudong New District | 25% | 25% |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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IV. Taxes (continued)

1. Main tax types and the ratio (continued)

| | | | |
|---|---------------------|-------|-------|
| Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd | Yangshan, Shanghai | 25% | 25% |
| Bonded Port | | | |
| Shanghai Zhenhua Testing Technology Consulting Co., Ltd. Pudong New District | | 25% | 25% |
| Shanghai Zhenhua Port Machinery General Equipment Co., Ltd | Pudong New District | 25% | 25% |
| Shanghai Port Machinery Heavy Industries Co., Ltd. | Pudong New District | 25% | 25% |
| Shanghai Zhenhua Heavy Industry (Group) | Jingang, Jiangsu | 25% | 25% |
| Zhangjiagang Port Machinery Co., Ltd. | | | |
| Shanghai Zhenhua Heavy Industries Qidong Ocean Engineering Co., Ltd. (Note 2) | Nantong, Jiangsu | 15% | 15% |
| Jiangsu Daoda Marine Engineering Co., Ltd. | Nantong, Jiangsu | 25% | 25% |
| Jiahua Shipment Co., Ltd (Note 1) | Hongkong | 16.5% | 16.5% |
| Zhenhua Pufeng Wind Power (Hong Kong) Co., Ltd (Note 1) | Hongkong | 16.5% | 16.5% |
| Zhenhua Shende Offshore Installation Co., Ltd (Note 1) | Hongkong | 16.5% | 16.5% |
| CCCC Tianhe | Changshu, Jiangsu | 15% | 25% |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

IV. Taxes (continued)

1. Main tax types and the ratio (continued)

| | Registration place | 2016 Applicable tax rate | 2015 Applicable tax rate |
|--|----------------------------|--------------------------------|--------------------------------|
| CCCC Investment Development Qidong Co., Ltd | Nantong, Jiangsu | 25% | 25% |
| CCCC Liyang City Investment Construction Co., Ltd | Liyang, Jiangsu | 25% | 25% |
| CCCC (Huaian) Construction Development Co., Ltd. | Huaian, Jiangsu | 25% | N.A. |
| CCCC Zhenjiang Construction Investment Management Development Co., Ltd | Zhenjiang, Jiangsu | 25% | N.A. |
| ZPMC Netherlands B.V. (Note 3) | Rotterdam, the Netherlands | 20% | 20% |
| Hotel de Herberg B.V. (Note 3) | Rotterdam, the Netherlands | 20% | 20% |
| ZPMC Espana S.L.(Note 4) Los Barrios | Spain | 28% | 28% |
| ZPMC GmbH Hamburg(Note 5) | Hamburg Germany | 32.28% | 32.28% |
| ZPMC Lanka Company (Private) Limited(Note 6) | Colombo, Sri Lanka | 17.5% | 17.5% |
| ZPMC North Amercia Inc.(Note 7) Co., Ltd. (Note 2) | Delaware, USA | 15% | 15% |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

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IV. Taxes (continued)

1. Main tax types and the ratio (continued)

| | | | |
|---|-------------------------|------------|------------|
| Fujian CCCC Qianda Heavy Industry Co., Ltd. | Minhou, Fujian | 25% | 25% |
| Nanjing Ninggao New Channel Construction Co., Ltd. | Nanjing, Jiangsu | 25% | 25% |

The applicable income tax rates of the Company and the controlling subsidiaries are as follows (continued):

| | | | |
|--|---|------------|------------|
| ZPMC Korea Co., Ltd.(Note 8) | Pusan, Korea | 10% | 10% |
| ZPMC Engineering Africa (Pty) Ltd.(Note 9) | The Republic of South Africa KwaZulu - Natal | 28% | 28% |
| ZPMC Engineering (India) Private Limited(Note 10) | Mahala, India Strabang | 30% | 30% |
| ZPMC Southeast Asia Holding Pte. Ltd.(Note 11) | Singapore | 17% | 17% |
| ZPMC Southeast Asia Pte. Ltd.(Note 11) | Singapore | 17% | 17% |
| ZPMC Engineering (Malaysia) Sdn. Bhd.(Note 12) | Malaysia | 20% | 20% |
| ZPMC Australia Company (Pty) Ltd.(Note 13) | Australia New South Wales | 30% | 30% |
| ZPMC Brazil Holdings Ltda.(Note 14) | Rio de Janeiro, Brazil | 25% | 13% |
| ZPMC Limited Liability | Moscow, Russia | 20% | 20% |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

IV. Taxes (continued)

1. Main tax types and the ratio (continued)

Company(Note 15)

| | | | |
|--|----------------------|------------|-------------|
| ZPMC NA East Coast Inc.(Note 7) | Delaware, USA | 15% | 15% |
| ZPMC NA Huston Inc.(Note 7) | Delaware, USA | 15% | 15% |
| ZPMC Middle East FZE(Note 16) | Dubai, UAE | 0% | N.A. |

The applicable income tax rates of the Company and the controlling subsidiaries are as follows (continued):

| | Registration place | 2016 | 2015 |
|-----------------------------|---------------------------|----------------------------|----------------------------|
| | | Applicable tax rate | Applicable tax rate |
| ZPMC UK LTD(Note 17) | Cardiff, UK | 20% | N.A. |
| ZPMC Brazil Service | Brazilian Santos | 25% | N.A. |

Portuarios LTDA (Note 18)

Note 1: Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd., Jiahua Shipping Co., Ltd, Zhenhua Pufeng Wind Power(Hong Kong) Co., Ltd and Zhenhua Shende Offshore Engineering Installation Co., Ltd. are legal entities registered in Hong Kong, China. Based on Hong Kong's taxation regulations, the Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd actually fits in a profit tax rate of 16.5% (2015: 16.5%).

Note 2: Shanghai Zhenhua Heavy Industry Group (Nantong) Drive Machinery is recognized as hitech enterprise in August, 2013 and won Hi-tech Enterprise Certificate (No. GR201632001352) in 2016 with the valid terms of 3 years. Shanghai Zhenhua Heavy Industries Qidong Ocean Engineering Company is recognized as hi-tech enterprise in November, 2015 and won Hi-tech Enterprise Certificate (No.GF201532000832) with the valid terms of 3 years. CCCC Tianhe Company is recognized as hitech enterprise in August, 2015 and won Hi-tech Enterprise Certificate (No. GF201532000389) with the valid terms of 3 years. According to Article 28 of the Income Tax Law, the Company actually applied a 15% corporate income tax rate this year (2015: Shanghai Zhenhua Heavy Industries Group(Nantong) Transmission Machinery Co., Ltd. and Shanghai Zhenhua Heavy Industries Qidong Ocean Engineering Co., Ltd. is 15%, and CCCC Tianhe Company is 25%).

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

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IV. Taxes (continued)

1. Main tax types and the ratio (continued)

- Note 3: ZPMC Netherlands B.V, Hotel de Herberg B.V. and Daoda (Holland) Marine Technology Co., Ltd are private limited liability companies registered in Holland. According to related provisions of the income tax in Holland, the enterprise revenue tax is collected with the progressive tax rate in excess of specific amount for the profit of the Company. The tax rate is 20% for the profit less than 200000 Euro, and 25% for the profit over 200000 Euro. The actual income tax rate is 20% this year (2015: 20%).
- Note 4: ZPMC España S.L. is the limited liability company registered in Spain. According to related provisions of the income tax in Spain, the enterprise revenue tax is collected with the progressive tax rate in excess of specific amount for the profit of the Company. The tax rate is 25% for the consolidated profits of the Company less than 300000 Euro, and 28% for the profit over 300000 Euro. The actual income tax rate is 28% this year. (2015: The tax rate is 25% for the consolidated profits of the Company less than 300000 Euro, and 30% for the profit over 300000 Euro. The actual income tax rate is 28% in 2015).
- Note 5: ZPMC GmbH Hamburg is registered in Germany, a limited liability company; according to Germany's related provisions of the income tax act, applicable income tax rate for the year is 30.6%, and on the basis of the corresponding income tax amount, 5.5% of solidarity surcharge is imposed; the actual total income tax rate applicable to 32.28% (2015: 32.28%).
- Note 6: ZPMC LANKA COMPANY (PRIVATE) LIMITED is a limited liability company registered in Sri Lanka; according to the related income tax provisions of Sri Lanka, the applicable income tax rate is 17.5% (2015: 17.5%).
- Note 7: ZPMC North Amercian Inc., ZPMC NA East Coast Inc., ZPMC NA Huston Inc., are the limited liability companies registered in USA; according to the related income tax provisions of USA, the applicable income tax rate is 15% (2015: 15%).

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

IV. Taxes (continued)

1. Main tax types and the ratio (continued)

- Note 8: ZPMC Korea Co., Ltd. is limited liability company registered in Korea. According to related provisions of the income tax in Korea, the enterprise revenue tax is collected with the progressive tax rate in excess of specific amount for the profit of the Company. The tax rate is 10% for the profit less than 200 million won, and 20% for the profit between 200 million won and 20,000 million won, and 22% for the profit over 200 million won. The actual income tax rate is 10% this year (2015: 10%).
- Note 9: ZPMC Engineering Africa (PTY) LTD. is a limited liability company registered in Republic of South Africa; according to the related income tax provisions of Republic of South Africa, the applicable income tax rate is 28% (2015: 28%).
- Note 10: ZPMC Engineering (India) Private Limited is a limited liability company registered in India; according to the related income tax provisions of India, the applicable income tax rate is 30% (2015: 30%).
- Note 11: ZPMC Southeast Asia Holding PTE. LTD. is a limited liability company registered in Singapore; according to the related income tax provisions of Singapore, the applicable income tax rate is 17% (2015: 17%).
- Note 12: ZPMC Engineering (Malaysia) Sdn. Bhd. is a limited liability company registered in Malaysia; according to the related income tax provisions of Malaysia, the applicable income tax rate is 20% (2015: 20%).
- Note 13: ZPMC Australia Company (PTY) LTD. is a limited liability company registered in Australia; according to the related income tax provisions of Australia, the applicable income tax rate is 30% (2015: 30%).
- Note 14: ZPMC Brazil Holdings Ltda. is a limited liability company registered in Brazil; according to the related income tax provisions of Brazil, the applicable income tax rate is 25% (2015: 13%).

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

IV. Taxes (continued)

1. Main tax types and the ratio (continued)

- Note 15: ZPMC Limited Liability Company is a limited liability company registered in Russia; according to the related income tax provisions of Russia, the applicable income tax rate is 20% (2015: 20%).
- Note 16: ZPMC Middle East FZE is a limited liability company registered in Dubai, United Arab Emirates; according to the related income tax provisions of Dubai, United Arab Emirates, the applicable income tax rate is 0%.
- Note 17: ZPMC UK LTD is a limited liability company registered in Cardiff; according to the related income tax provisions of Cardiff, the applicable income tax rate is 20%.
- Note 18: ZPMC Brazil Service Portuarios LTDA is a limited liability company registered in Santos Brazil; according to the related income tax provisions of Santos Brazil, the applicable income tax rate is 25%.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements

1. Monetary capital

| | 2016 | 2015 |
|------------------------|----------------------|----------------------|
| Cash on hand | 774,626 | 746,967 |
| Bank deposit | 3,496,430,560 | 2,318,579,147 |
| Other monetary capital | <u>99,839,013</u> | <u>139,007,602</u> |
| | <u>3,597,044,199</u> | <u>2,458,333,716</u> |

As of Dec, 31, 2016, the other monetary capital with restricted is RMB 99,839,013 Yuan, which is the margin deposit that our Group applied to banks for letters of credit and bank guarantees (Dec, 31, 2015: the other monetary capital with restricted is RMB 120,408,105 Yuan, which is the margin deposit that our Group applied to banks for letters of credit and bank guarantees and the foreign exchange settlement capital deposited in bank of RMB 18,599,497 Yuan).

As of Dec, 31, 2016, the monetary capital deposited abroad by the Group is RMB 621,197,660 Yuan (Dec, 31, 2015: RMB 299,033,408 Yuan).

Interest income from bank deposits shall be obtained in accordance with the current interest rate. Deposit term for the short term fixed deposit is 7 days, and the interest income shall be obtained in accordance with the fixed time deposit interest rate.

2. Financial assets measured at fair value and whose variation is included in the current profits and loss

| | 2016 | 2015 |
|--------------------------|------------------|----------------|
| Trading financial assets | | |
| Derivative assets | <u>4,615,775</u> | <u>676,082</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

As of Dec. 31, 2016, in the forward foreign exchange contract established by the derivate financial instruments held by the Group with bank but not due: Total amount of principal in Won for USD contract is Won 15,018,200,000 (2015: USD for RMB contract is USD 50,000,000); agreed exchange rate is 1,145.45 to 1,145.50 (6.3604 to 6.7470, 2015contract is due between Jan. 25, 2017 and Dec. 29, 2017 (January 20, 2016 and August 25, 2016).

Closing fair value estimated gains/losses of above forward foreign exchange contracts are shown in transactional bank confirmed amount or the amount based on end-of market exchange rate.

3. Notes receivable

| | 2016 | 2015 |
|---------------------------|--------------------|--------------------|
| Bank acceptance draft | 286,220,781 | 230,959,622 |
| Commerce acceptance draft | <u>10,700,000</u> | <u>12,200,000</u> |
| | <u>296,920,781</u> | <u>243,159,622</u> |

As of December 31, 2016, no bill receivable is pledged to the Bank.

2. The final has been endorsed or discounted, and notes receivable that the balance sheet date has not expired yet

| | <u>2016</u> | | <u>2015</u> | |
|----------------------|--------------------------|----------------------------|--------------------------|----------------------------|
| | Termination confirmed | Termination unconfirmed | Termination confirmed | Termination unconfirmed |
| Bank acceptance bill | <u>471,132,348</u> | <u>4,390,096</u> | <u>302,708,598</u> | = |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

4. Accounts receivable

Long-term receivables analyzed by age:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Within 6 months | 2,412,791,452 | 2,579,542,464 |
| 7 to 12 months | 762,252,912 | 553,868,900 |
| 1 to 2 years | 864,213,900 | 621,512,391 |
| 2 to 3 years | 363,374,243 | 501,080,688 |
| 3 to 4 years | 383,314,678 | 172,256,976 |
| 4 to 5 years | 136,097,550 | 106,602,535 |
| Over 5 years | <u>648,577,646</u> | <u>496,747,275</u> |
| | 5,570,622,381 | 5,031,611,229 |
| Less: receivables - provisions for bad debt | <u>1,339,875,923</u> | <u>1,136,848,761</u> |
| | <u>4,230,746,458</u> | <u>3,894,762,468</u> |

Change of receivables - provisions for bad debt:

| | Opening balance in current year | Provision in this year | Change back this year | Write-Off in this year | Closing balance in current year |
|-------------|--|---------------------------|--------------------------|---------------------------|---------------------------------------|
| 2016 | 1,136,848,761 | 209,863,641 | (4,997,815) | (1,838,664) | 1,339,875,923 |
| 2015 | 858,128,277 | 287,019,897 | (8,299,413) | - | 1,136,848,761 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

4. Accounts receivable (continued)

| | <u>2016</u> | | | | <u>2015</u> | | | |
|---|------------------------|-----------------|--------------------------------|------------------|------------------------|-----------------|--------------------------------|------------------|
| | <u>Closing balance</u> | | <u>Provision for bad debts</u> | | <u>Closing balance</u> | | <u>Provision for bad debts</u> | |
| | Amount | Proportion % | Amount | Withdrawing % | Amount | Proportion % | Amount | Withdrawing % |
| Accounts receivables that are individually insignificant but provision for bad debts | 159,594,037 | 3 | 159,594,037 | 100 | 257,212,586 | 5 | 257,212,586 | 100 |
| Bad debt reserve is calculated as per the credit risk combination | | | | | | | | |
| -Related party | 567,576,374 | 10 | - | - | 716,117,651 | 14 | - | - |
| -Non-related party | 4,557,809,557 | 82 | 895,607,566 | 20 | 3,895,457,967 | 78 | 716,813,150 | 18 |
| Accounts receivables that are individually insignificant but provision for bad debts is assessed individually | | | | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

y

| | | | | | | | |
|----------------------|------------|----------------------|------------|----------------------|------------|----------------------|------------|
| <u>285,642,413</u> | <u>5</u> | <u>284,674,320</u> | <u>100</u> | <u>162,823,025</u> | <u>3</u> | <u>162,823,025</u> | <u>100</u> |
| <u>5,570,622,381</u> | <u>100</u> | <u>1,339,875,923</u> | <u>24</u> | <u>5,031,611,229</u> | <u>100</u> | <u>1,136,848,761</u> | <u>23</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

4. Accounts receivable (continued)

As of Dec, 31, 2016, situation of the accounts receivables that are individually insignificant but provision for bad debts is assessed individually is as follows:

| | Book value balance | Bad debt provision | Provision ratio | Provision reasons |
|--------------------------|--------------------|--------------------|-----------------|-------------------|
| Accounts receivable 1 | <u>159,594,037</u> | <u>159,594,037</u> | <u>100%</u> | Contract dispute |

As of Dec, 31, 2015, situation of the accounts receivables that are individually insignificant but provision for bad debts is assessed individually is as follows:

| | Book value balance | Bad debt provision | Provision ratio | Provision reasons |
|--------------------------|--------------------|--------------------|-----------------|-------------------------------------|
| Accounts receivable 1 | 149,393,086 | 149,393,086 | 100% | Contract dispute |
| Accounts receivable 2 | <u>107,819,500</u> | <u>107,819,500</u> | <u>100%</u> | Counter-party seriously lacks funds |
| | <u>257,212,586</u> | <u>257,212,586</u> | <u>100%</u> | |

Accounts receivable for which the bad debt reserve is calculated as per the aging analysis method:

| <u>2016</u> | | | | <u>2015</u> | | |
|-----------------|-----------------|--------------------------------|------------|-----------------|--------------------------------|------------|
| | Closing balance | <u>Provision for bad debts</u> | | Closing balance | <u>Provision for bad debts</u> | |
| | Amount | Amount | Proportion | Amount | Amount | Proportion |
| Within 6 months | 2,127,697,593 | - | - | 2,039,019,778 | - | - |
| 7 - 12 months | 691,765,805 | 6,917,658 | 1 | 486,194,724 | 3,811,519 | 1 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

4. Accounts receivable (continued)

| | | | | | | |
|--------------|----------------------|--------------------|------------|----------------------|--------------------|------------|
| 1 - 2 years | 668,819,686 | 100,322,953 | 15 | 540,630,618 | 79,588,609 | 15 |
| 2 - 3 years | 302,286,737 | 90,686,021 | 30 | 173,228,095 | 51,968,428 | 30 |
| 3 - 4 years | 101,304,733 | 50,652,291 | 50 | 115,657,539 | 56,328,769 | 49 |
| 4 - 5 years | 75,625,443 | 56,719,083 | 75 | 51,739,809 | 36,128,421 | 70 |
| Over 5 years | <u>590,309,560</u> | <u>590,309,560</u> | <u>100</u> | <u>488,987,404</u> | <u>488,987,404</u> | <u>100</u> |
| | <u>4,557,809,557</u> | <u>895,607,566</u> | <u>20</u> | <u>3,895,457,967</u> | <u>716,813,150</u> | <u>18</u> |

As of Dec, 31, 2016, situation of the other accounts receivables that are individually not insignificant but provision for bad debts is assessed individually is as follows:

| | Book value balance | Bad debt provision | Provision ratio | Reason |
|--------------------------|--------------------|--------------------|-----------------|-------------------------------------|
| Accounts receivable 1 | 107,819,500 | 107,819,500 | 100% | Counter-party seriously lacks funds |
| Accounts receivable 2 | 50,365,000 | 50,365,000 | 100% | Counter-party seriously lacks funds |
| Accounts receivable 3 | 27,748,069 | 27,748,069 | 100% | Contract dispute |
| Accounts receivable 4 | 21,932,297 | 21,932,297 | 100% | Contract dispute |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

4. Accounts receivable (continued)

| | | | | |
|---------------------------|--------------------|--------------------|-------------|------------------|
| Accounts receivable 5 | 19,480,920 | 18,512,827 | 95% | Contract dispute |
| Accounts receivable 6 | 17,735,070 | 17,735,070 | 100% | Contract dispute |
| Accounts receivable 7 | 10,049,240 | 10,049,240 | 100% | Contract dispute |
| Accounts receivable 8 | 7,664,629 | 7,664,629 | 100% | Contract dispute |
| Accounts receivable 9 | 7,421,237 | 7,421,237 | 100% | Contract dispute |
| Accounts receivable 10 | 7,306,800 | 7,306,800 | 100% | Contract dispute |
| Accounts receivable 11 | 4,557,644 | 4,557,644 | 100% | Contract dispute |
| Accounts receivable 12 | <u>3,562,007</u> | <u>3,562,007</u> | <u>100%</u> | Contract dispute |
| | <u>285,642,413</u> | <u>284,674,320</u> | <u>100%</u> | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

4. Accounts receivable (continued)

As of Dec. 31, 2015, situation of the other accounts receivables that are individually not insignificant but provision for bad debts is assessed individually is as follows:

| | Book value balance | Bad debt provision | Provision ratio | Provision reasons |
|---------------------------|--------------------|--------------------|-----------------|-------------------------------------|
| Accounts receivable 1 | 50,365,000 | 50,365,000 | 100% | Counter-party seriously lacks funds |
| Accounts receivable 2 | 25,974,465 | 25,974,465 | 100% | Contract dispute |
| Accounts receivable 3 | 20,530,426 | 20,530,426 | 100% | Contract dispute |
| Accounts receivable 4 | 18,235,736 | 18,235,736 | 100% | Contract dispute |
| Accounts receivable 5 | 16,150,830 | 16,150,830 | 100% | Contract dispute |
| Accounts receivable 6 | 9,758,221 | 9,758,221 | 100% | Contract dispute |
| Accounts receivable 7 | 7,260,803 | 7,260,803 | 100% | Contract dispute |
| Accounts receivable 8 | 6,946,886 | 6,946,886 | 100% | Contract dispute |
| Accounts receivable 9 | 4,266,328 | 4,266,328 | 100% | Contract dispute |
| Accounts receivable 10 | <u>3,334,330</u> | <u>3,334,330</u> | <u>100%</u> | Contract dispute |
| | <u>162,823,025</u> | <u>162,823,025</u> | <u>100%</u> | |

As of Dec. 31, 2016, the accounts receivable summary analysis of top 5 arrears is shown as following:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
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V. Notes to items in the consolidated financial statements (continued)

4. Accounts receivable (continued)

| Accounting for balance of receivables | | | |
|---------------------------------------|--------------------|---------------------------|---|
| | Balance | Bad debt provision amount | Proportion in total accounts receivable |
| Balance of top 5 account receivables | <u>862,228,750</u> | <u>382,166,701</u> | <u>15%</u> |

As of Dec. 31, 2015, the accounts receivable summary analysis of top 5 arrears is shown as following:

| Accounting for balance of receivables | | | |
|---|----------------------|---------------------------|---|
| | Balance | Bad debt provision amount | Proportion in total accounts receivable |
| Total amount of top 5 account receivables | <u>1,045,784,935</u> | <u>382,306,518</u> | <u>21%</u> |

5. Advanced payment

Long-term payables analyzed by age:

| <u>2016</u> | | | | <u>2015</u> | | | |
|-----------------|--------------------|---------|---|-------------|----------------------|---------|------------|
| | Booking | balance | % | | Booking | balance | % |
| Within one year | 743,820,095 | | | 83 | 994,457,189 | | 81 |
| 1 to 2 years | 72,700,327 | | | 8 | 118,979,425 | | 10 |
| 2 to 3 years | 41,846,911 | | | 4 | 25,983,355 | | 2 |
| Over 3 years | <u>42,054,901</u> | | | <u>5</u> | <u>86,925,663</u> | | <u>7</u> |
| | <u>900,422,234</u> | | | <u>100</u> | <u>1,226,345,632</u> | | <u>100</u> |

As of Dec. 31, 2016, the Company's prepayment with age over a year is RMB 156,602,139 Yuan (Dec.31, 2015: RMB 231,888,443 Yuan), mainly prepayment for the procurement of imported parts, which has not been yet settled because purchased imported parts not delivered.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

5. Advanced payment (continued)

As of Dec. 31, 2016, the summary analysis payment with top five ending balance collected by the party in debt is shown as following:

| | Advanced payment | |
|---------------------------------|--------------------|---------------------|
| | Amount | Proportion in total |
| Total advances balance of top 5 | <u>265,464,546</u> | <u>29%</u> |

As of Dec. 31, 2015, the summary analysis payment with top five ending balance collected by the party in debt is shown as following:

| | Advanced payment | |
|---------------------------------|--------------------|---------------------|
| | Amount | Proportion in total |
| Total advances balance of top 5 | <u>497,490,559</u> | <u>41%</u> |

6. Other accounts receivable

Other accounts receivables analyzed by age:

| | 2016 | 2015 |
|-----------------|-------------|-------------|
| Within 6 months | 722,015,188 | 552,591,379 |
| 7 to 12 months | 3,320,248 | 30,829,138 |
| 1 to 2 years | 5,050,048 | 60,426,009 |
| 2 to 3 years | 17,396,586 | 6,649,212 |
| 3 to 4 years | 3,690,767 | 1,069,700 |
| 4 to 5 years | 223,263 | 4,944,478 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | |
|--------------|-------------------|-------------------|
| Over 5 years | <u>22,533,895</u> | <u>39,212,788</u> |
| | 774,229,995 | 695,722,704 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

6. Other accounts receivable (continued)

| | | |
|---|--------------------|--------------------|
| Less: other receivables - provisions for bad debt | <u>37,675,402</u> | <u>28,062,537</u> |
| | <u>736,554,593</u> | <u>667,660,167</u> |

Change of other receivables - provisions for bad debt:

| | Opening balance in current year | Provision in this year | Change back this year | Write-Off in this year | Closing balance in current year |
|------|---------------------------------------|---------------------------|--------------------------|---------------------------|---------------------------------------|
| 2016 | 28,062,537 | 9,612,865 | - | - | 37,675,402 |
| 2015 | 27,148,264 | 914,273 | - | - | 28,062,537 |

| <u>2016</u> | | | | <u>2015</u> | | | |
|--|------------|------------------------------------|-------------|------------------------|------------|------------------------------------|-------------|
| <u>Closing balance</u> | | <u>Provision for bad debts</u> | | <u>Closing balance</u> | | <u>Provision for bad debts</u> | |
| Amount | Proportion | Amount | Withdrawing | Amount | Proportion | Amount | Withdrawing |
| | % | | % | | % | | % |
| Accounts receivables that are individually insignificant but provision for bad debts | | 23,410,851 | 3 7,023,255 | 30 | | - | - |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

6. Other accounts receivable (continued)

| | | | | | | | | |
|--|--------------------|-----------|-------------------|-----------|--------------------|-----------|-------------------|-----------|
| Bad debt reserve is calculated as per the credit risk combination-Guaranty deposit (excluding quality guarantee deposit) | 227,641,095 | 30 | - | - | 153,602,049 | 22 | - | - |
| -Employee individual loans and reserve funds reserve funds | 119,097,936 | 15 | - | - | 141,150,871 | 20 | - | - |
| -Others | 386,333,011 | 50 | 12,905,045 | 3 | 383,162,682 | 55 | 10,255,435 | 3 |
| Accounts receivables that are individually insignificant but provision for bad debts is assessed individually | <u>17,747,102</u> | <u>2</u> | <u>17,747,102</u> | <u>10</u> | <u>17,807,102</u> | <u>3</u> | <u>17,807,102</u> | <u>10</u> |
| | | | <u>2</u> | <u>0</u> | | | <u>2</u> | <u>0</u> |
| | <u>774,229,995</u> | <u>10</u> | <u>37,675,402</u> | <u>5</u> | <u>695,722,704</u> | <u>10</u> | <u>28,062,537</u> | <u>4</u> |
| | | <u>0</u> | <u>2</u> | | <u>4</u> | <u>0</u> | <u>7</u> | |

As of Dec, 31, 2016, situation of the other accounts payables that are individually insignificant but provision for bad debts is assessed individually is as follows:

| | Book value balance | Bad debt provision | Provision ratio | Provision reasons |
|----------------|-----------------------|-----------------------|-----------------|----------------------|
| Other accounts | <u>23,410,851</u> | <u>7,023,255</u> | <u>30%</u> | Contract |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

payables 1 dispute

In combination, other payables for which the bad debt reserve is calculated as per the aging analysis method:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

6. Other accounts receivable (continued)

| | | | <u>2016</u> | | | <u>2015</u> | | |
|------------------|------|------------------|--------------------|--------------------------------|------------|--------------------|--------------------------------|------------|
| | | | Closing balance | <u>Provision for bad debts</u> | | Closing balance | <u>Provision for bad debts</u> | |
| | | | Amount | Amount | Proportion | Amount | Amount | Proportion |
| Within months | 6 | 357,174,789 | | – | – | 353,228,089 | – | – |
| 7 months | – 12 | 2,872,043 | | 28,720 | 1 | 3,927,262 | 39,271 | 1 |
| 1 years | – 2 | 1,530,100 | | 229,515 | 15 | 15,680,501 | 2,352,075 | 15 |
| 2 years | – 3 | 14,946,482 | | 4,483,945 | 30 | 3,203,485 | 961,037 | 30 |
| 3 years | – 4 | 3,203,035 | | 1,601,517 | 50 | 180,855 | 90,427 | 50 |
| 4 years | – 5 | 180,855 | | 135,641 | 75 | 519,460 | 389,595 | 75 |
| Over years | 5 | <u>6,425,707</u> | | <u>6,425,707</u> | <u>100</u> | <u>6,423,030</u> | <u>6,423,030</u> | <u>100</u> |
| | | | <u>386,333,011</u> | <u>12,905,045</u> | <u>3</u> | <u>383,162,682</u> | <u>10,255,435</u> | <u>3</u> |

As of Dec, 31, 2016, situation of the other accounts receivables that are individually insignificant but provision for bad debts is assessed individually is as follows:

| Book value balance | Bad debt provision | Provision ratio | Provision reasons |
|-----------------------|-----------------------|-----------------|----------------------|
|-----------------------|-----------------------|-----------------|----------------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | |
|-----------------------|-----------|-----------|------|---------------------------------------|
| Other receivables1 | 5,540,286 | 5,540,286 | 100% | Contract cancelled |
| Other receivables2 | 4,214,642 | 4,214,642 | 100% | Bankruptcy of the opposite side |
| Other receivables3 | 3,037,042 | 3,037,042 | 100% | Contract cancelled |
| Other receivables4 | 1,692,765 | 1,692,765 | 100% | Contract cancelled |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

6. Other accounts receivable (continued)

| | | | |
|--------|-------------------|-------------------|-------------|
| Others | <u>3,262,367</u> | <u>3,262,367</u> | <u>100%</u> |
| | <u>17,747,102</u> | <u>17,747,102</u> | <u>100%</u> |

As of Dec, 31, 2015, situation of the other accounts receivables that are individually insignificant but provision for bad debts is assessed individually is as follows:

| | Book value balance | Bad debt provision | Provision ratio | Provision reasons |
|--------------------|-----------------------|-----------------------|-----------------|---------------------------------|
| Other receivables1 | 5,540,286 | 5,540,286 | 100% | Contract cancelled |
| Other receivables2 | 4,214,642 | 4,214,642 | 100% | Bankruptcy of the opposite side |
| Other receivables3 | 3,037,042 | 3,037,042 | 100% | Contract cancelled |
| Other receivables4 | 1,692,765 | 1,692,765 | 100% | Contract cancelled |
| Others | <u>3,322,367</u> | <u>3,322,367</u> | <u>100%</u> | |
| | <u>17,807,102</u> | <u>17,807,102</u> | <u>100%</u> | |

Category of other payables by nature of payment

| | 2016 | 2015 |
|-------------------------------------|-------------|-------------|
| Unsettled tax and surtax receivable | 169,252,637 | 138,270,252 |
| Bid bond payments | 153,797,532 | 45,724,321 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | |
|---|------------|-------------|
| Products or field service temporary loans | 93,565,532 | 93,107,920 |
| Customs guaranty deposit | 71,148,199 | 104,071,196 |
| Export tax rebate | 63,023,350 | 101,381,047 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

6. Other accounts receivable (continued)

| | | |
|---|--------------------|--------------------|
| Employee's loans receivable | 43,553,963 | 48,042,951 |
| Payments deposit for third party receivable | 39,969,061 | 36,490,744 |
| Lease receivables | 33,434,668 | 33,484,980 |
| Deposit receivable | 6,742,361 | 13,806,532 |
| Others | <u>99,742,692</u> | <u>81,342,761</u> |
| | <u>774,229,995</u> | <u>695,722,704</u> |

Other receivables with top five ending balance collected by the party in debt as of December 31, 2016

| | Closing balance | Proportion in other total ending balance receivable (%) | Nature | Account age | Provision for bad debts Closing balance |
|---------------------------|--------------------|--|---------------------------------|------------------|--|
| Other receivables 1 | 71,148,199 | 9 | Customs guarantee deposit | Within 1 year | — |
| Other receivables 2 | 50,000,000 | 6 | Bid bond | Within 1 year | — |
| Other receivables 3 | 50,000,000 | 6 | Bid bond | Within 1 year | — |
| Other | 33,434,668 | 5 | Lease fund | Within 1 year | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

receivables

4

| | | | | |
|-------------|-------------------|----------|----------------------|------------------|
| Other | <u>23,410,851</u> | <u>3</u> | Advance 2 to 3 years | <u>7,023,255</u> |
| receivables | | | money for | |
| 5 | | | another | |

| | | |
|--------------------|-----------|------------------|
| <u>227,993,718</u> | <u>29</u> | <u>7,023,255</u> |
|--------------------|-----------|------------------|

Other receivables with top five ending balance collected by the party in debt as of
December 31, 2015

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

6. Other accounts receivable (continued)

| | Closing balance | Proportion in other total ending balance receivable (%) | Nature | Account age | Provision for bad debts Closing balance |
|---------------------------|--------------------|--|------------------------------------|---------------------|--|
| Other receivables 1 | 90,780,980 | 13 | Customs guarantee deposit | Within 1 year | – |
| Other receivables 2 | 33,484,980 | 5 | Lease fund | Within 1 year | – |
| Share transfer | 1–2 years | | | | |
| Other receivables 3 | 12,444,088 | 2 | and sale of equipment | and over 5 years | 3,944,088 |
| Other receivables 4 | 10,000,000 | 1 | Fixed assets disposal fund | 2–3 years | – |
| Other receivables 5 | <u>5,540,286</u> | <u>1</u> | Advance payment of materials | over 5 years | <u>5,540,286</u> |
| | <u>152,250,334</u> | <u>22</u> | | | <u>9,484,374</u> |

7. Inventories

2016

2015

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | Booking balance | Falling price reserves | Booking balance | Booking balance | Falling price reserves | Booking balance |
|-----------------------------------|--------------------|------------------------------|--------------------|--------------------|------------------------------|--------------------|
| Raw materials and purchased parts | 2,851,653,926 | 141,839,752 | 2,709,814,174 | 4,063,294,032 | 324,784,792 | 3,738,509,240 |
| Unfinished products | 5,190,856,986 | 1,124,585,146 | 4,066,271,840 | 2,279,404,264 | 232,214,158 | 2,047,190,106 |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

7. Inventories (continued)

| | | | | | | |
|-----------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------------------|---------------------------------|
| Merchandise inventory | <u>11,153,985</u> | <u>11,153,985</u> | = | <u>11,153,985</u> | <u>11,153,985</u> | = |
| | <u>8,053,664,89</u> <u>7</u> | <u>1,277,578,88</u> <u>3</u> | <u>6,776,086,01</u> <u>4</u> | <u>6,353,852,28</u> <u>1</u> | <u>568,152,93</u> <u>5</u> | <u>5,785,699,34</u> <u>6</u> |

The Group is in the manufacture of marine heavy equipment products that are already under construction but have not yet signed sales orders.

Conditions of inventory revaluation reserve are as follows:

2016

| | Opening balance in current year | Provision in this year | <u>Deduction in this year</u> Return or resell | Closing balance in current year |
|-------------------------------------|------------------------------------|---------------------------|---|------------------------------------|
| Raw materials and purchased parties | 324,784,792 | 4,565,125 | (187,510,165) | 141,839,752 |
| Unfinished products | 232,214,158 | 892,370,988 | - | 1,124,585,146 |
| Merchandise inventory | <u>11,153,985</u> | = | = | <u>11,153,985</u> |
| | <u>568,152,935</u> | <u>896,936,113</u> | <u>(187,510,165)</u> | <u>1,277,578,883</u> |

2015

| | Opening balance in current year | Provision in this year | <u>Deduction in this year</u> Return or resell | Closing balance in current year |
|---------------|------------------------------------|---------------------------|---|------------------------------------|
| Raw materials | 324,784,792 | - | (48,555,009) | 276,229,783 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

and purchased
parties

| | | | | |
|------------------------|-------------|-------------|--------------|-------------|
| Unfinished products | 130,810,331 | 158,448,216 | (57,044,389) | 232,214,158 |
|------------------------|-------------|-------------|--------------|-------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

7. Inventories (continued)

| | | | | |
|-----------------------|--------------------|--------------------|--------------------|--------------------|
| Merchandise inventory | <u>11,153,985</u> | = | = | <u>11,153,985</u> |
| | <u>515,304,117</u> | <u>158,448,216</u> | <u>105,599,398</u> | <u>568,152,935</u> |

Conditions of inventory revaluation reserve are as follows:

| | Particular basis of determining net realizable value | Reason for impairment provision of the returned or resold inventory in the report year |
|-----------------------------------|---|---|
| Raw materials and purchased parts | the difference between the realizable value of raw material and purchased parts due to lower product sales price and the book value | Steel prices rose or sold abroad |
| Inventories goods | the difference between the realizable value of inventories goods and the book value | None |
| Semi products | the difference between the realizable value of semi products and the book value | None |

8. Construction completed but account not settled/Construction not completed and account settled

Construction completed account yet has not been settled

2016

2015

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | |
|---------------------------------------|----------------|----------------|
| Accumulated cost incurred | 41,699,798,181 | 36,191,103,411 |
| Accumulated margin confirmed | 4,502,784,376 | 3,630,893,816 |
| Less: Accumulated accounts settled | 34,669,961,103 | 28,302,110,279 |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

8. Construction completed but account not settled/Construction not completed and account settled (continued)

| | | |
|--|-----------------------|-----------------------|
| Accumulated expected contract losses confirmed | <u>426,807,687</u> | <u>302,295,092</u> |
| | <u>11,105,813,767</u> | <u>11,217,591,856</u> |

Construction not completed account

2016 2015

| | | |
|---|----------------------|----------------------|
| Accumulated accounts settled | 18,189,689,578 | 22,695,320,583 |
| Less: Accumulated margin confirmed | 2,105,056,605 | 2,354,514,459 |
| Accumulated cost incurred | 13,716,197,938 | 17,575,517,723 |
| Add: Accumulated expected contract losses confirmed | <u>25,011,087</u> | <u>101,149,431</u> |
| | <u>2,393,446,122</u> | <u>2,866,437,832</u> |

Expected contract losses

| 2016 | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|---|---------------------------------|------------------------|-----------------------|---------------------------------|
| Construction completed account not closed | 302,295,092 | 315,817,045 | (191,304,450) | 426,807,687 |
| Account closed construction not completed | <u>101,149,431</u> | <u>73,576,110</u> | <u>(149,714,454)</u> | <u>25,011,087</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | |
|--------------------|--------------------|----------------------|--------------------|
| <u>403,444,523</u> | <u>389,393,155</u> | <u>(341,018,904)</u> | <u>451,818,774</u> |
|--------------------|--------------------|----------------------|--------------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

8. Construction completed but account not settled/Construction not completed and account settled (continued)

| 2015 | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|--|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Construction completed account not closed | 292,239,376 | 191,716,159 | (181,660,443) | 302,295,092 |
| Account closed construction not completed | <u>20,778,569</u> | <u>113,191,465</u> | <u>(32,820,603)</u> | <u>101,149,431</u> |
| | <u>313,017,945</u> | <u>304,907,624</u> | <u>(214,481,046)</u> | <u>403,444,523</u> |

As of Dec. 31, 2016, amount of contracts still in construction (VAT not included) is about 38,629,601,047 Yuan (Dec. 31, 2015: 40,657,492,935 Yuan).

Probable fines in case of delay in delivery as contracted:

| | 2016 | 2015 |
|--------------------------------------|-----------------------|-----------------------|
| Bank issued valid guaranty letter | 19,456,969,669 | 17,808,442,159 |
| Bank didn't issue guaranty letter | <u>281,462,898</u> | <u>1,875,250,415</u> |
| | <u>19,738,432,567</u> | <u>19,683,692,574</u> |

9. Non-current asset due within 1 year

| | 2016 | 2015 |
|---|------|------|
| Long-term receivable due within one year | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | |
|--------------|-------------------------|-------------------------|
| (Note V. 12) | <u>1, 384, 438, 569</u> | <u>2, 625, 135, 212</u> |
|--------------|-------------------------|-------------------------|

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

10. Other current assets

| | 2016 | 2015 |
|-------------------------------------|--------------------|--------------------|
| The input tax amount to be deducted | 553,363,139 | 507,205,272 |
| Bank short-term financing products | = | <u>46,000,000</u> |
| | <u>553,363,139</u> | <u>553,205,272</u> |

11. Financial assets available for sale

| | <u>2016</u> | | | | <u>2015</u> | |
|---------------------------------------|----------------------|--------------------------------|----------------------|----------------------|--------------------------------|----------------------|
| | Booking balance | Provision for impairment | Booking balance | Booking balance | Provision for impairment | Booking balance |
| Available-for-sale equity instruments | | | | | | |
| To be measured per fair value | 1,270,578,346 | - | 1,270,578,346 | 1,169,183,020 | - | 1,169,183,020 |
| To be measured per cost | <u>72,994,160</u> | <u>30,000,000</u> | <u>42,994,160</u> | <u>72,994,160</u> | <u>30,000,000</u> | <u>42,994,160</u> |
| | <u>1,343,572,506</u> | <u>30,000,000</u> | <u>1,313,572,506</u> | <u>1,242,177,180</u> | <u>30,000,000</u> | <u>1,212,177,180</u> |

Financial assets available for sale and measured by fair value:

| | 2016 | 2015 |
|--|-------------|-------------|
| Cost of the equity instrument/amortized cost | 937,641,194 | 937,641,194 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)
of debt instrument

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

11. Financial assets available for sale (continued)

| | | |
|--|----------------------|----------------------|
| Amounts from changes of fair value to be included in other comprehensive income accumulatively | <u>332,937,152</u> | <u>231,541,826</u> |
| Fair value | <u>1,270,578,346</u> | <u>1,169,183,020</u> |

The available-for-sales equity instruments measured at fair value include:

(I) The Group holds 5.9% shares of stock of Jiangxi Huawu Brake Co., Ltd (Dec 31, 2015: 7.22%) and the initial investment cost is 11,071,606Yuan.

The available-for-sales equity instruments measured at fair value is confirmed by the closing price of the last trading day of Shenzhen Stock Exchange. As of Dec 31, 2016, the Company has confirmed the profit of RMB 302,540,796 Yuan available for-sales equity instruments, accounted in other comprehensive profit.

The Group received RMB 1,112,890 Yuan cash dividends from Jiangxi Huawu Brake Co., Ltd, accounted in investment income.

(ii). The Group holds 2.16% (Dec 31, 2015: 2.16%) shares of stock of Qingdao Port International Co., Ltd and the initial investment cost is 308,515,588 Yuan.

The available-for-sales equity instruments measured at fair value is confirmed by the closing price of the last trading day of Hong Kong Stock Exchange. As of Dec 31, 2016, the Company has confirmed the profit of RMB 31,737,587 Yuan available for-sales equity instruments, accounted in other comprehensive profit.

The Group received RMB 13,058,634 Yuan cash dividends from Qingdao Port International Co., Ltd, accounted in investment income.

(iii) The Group holds 1.40 (Dec 31, 2015: 1.40%) shares of stock of CRSC and the initial investment costs RMB 617,854,000 Yuan.

The available-for-sales equity instruments measured at fair value is confirmed by the closing price of the last trading day of Hong Kong Stock Exchange. As of Dec 31, 2016, the Company has confirmed the loss of RMB 2,507,619 Yuan available for-sales equity instruments, accounted in other comprehensive profit.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

The Group received RMB 2,814,813 Yuan cash dividends from CRSC, accounted in investment income.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

11. Financial assets available for sale (continued)

Financial assets available for sale and measured by fair value (continued):

(iv). The Group holds less than 0.01% shares of stock of Shenwan Hongyuan Group and the initial investment cost is RMB 200,000 Yuan.

The available-for-sales equity instruments measured at fair value is confirmed by the closing price of the last trading day of Shenzhen Stock Exchange. As of Dec 31, 2016, the Company has confirmed the profit of RMB 1,166,388 Yuan available for-sales equity instruments, accounted in other comprehensive profit.

The Group received RMB 24,291 Yuan cash dividends from Shenwan Hongyuan Group, accounted in investment income.

Financial assets available for sale and measured by cost:

2016

| | Opening | <u>Booking balance</u> | | Closing | Shareholding ratio | Cash bonuses in this year |
|--|------------|------------------------|---------------|------------|--------------------|---------------------------|
| | | This increase | This decrease | | | |
| 21st Century Science and Technology Investment Co., Ltd. | 30,000,000 | — | — | 30,000,000 | 8.96% | — |
| CCCC Highway Bridges National Engineering Research | | | | | | |
| Centre Co., Ltd. | 13,000,000 | — | — | 13,000,000 | 10% | — |
| CCCC Dredging Technology Equipment | | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

State
Engineering
Research

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

11. Financial assets available for sale (continued)

| | | | | | | |
|--|-------------------|---|---|-------------------|-------|---|
| Center Co., Ltd. | 6,400,000 | — | — | 6,400,000 | 3.2% | — |
| Longchang Lifting Equipment Co., Ltd. of Shanghai Zhenhua Port Machinery (Group) | 800,000 | — | — | 800,000 | 10% | — |
| Shenyang Elevator Co., Ltd of | | | | | | |
| Shanghai Zhenhua Port Machinery (Group) | 1,500,000 | — | — | 1,500,000 | 10% | — |
| Ningbo Transmission Machinery Co., Ltd of Shanghai Zhenhua Port Machinery (Group) | 1,296,000 | — | — | 1,296,000 | 10% | — |
| Hunan Fengri Power & Electric Co., Ltd. | <u>19,998,160</u> | — | — | <u>19,998,160</u> | 6.38% | — |
| | 72,994,160 | — | — | 72,994,160 | | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

11. Financial assets available for sale (continued)

Available-for-sale equity instruments - Provision for impairment

| | | | | |
|--|-------------------|---|---|-------------------|
| 21st Century Science and Technology Investment Co., Ltd. | (30,000,000) | = | = | (30,000,000) |
| | 0 | | | 0 |
| | <u>42,994,160</u> | = | = | <u>42,994,160</u> |

Financial assets available for sale and measured by cost (continued):

2015

| | <u>Booking balance</u> | | | | Shareholding ratio | Cash bonuses in this year |
|--|------------------------|---------------|------------------|------------|--------------------|---------------------------|
| | Opening | This increase | Reclassification | Closing | | |
| Available-for-sale equity instruments - cost | | | | | | |
| 21st Century Science and Technology Investment Co., Ltd. | 30,000,000 | - | - | 30,000,000 | 8.96% | - |
| CCCC Highway Bridges National Engineering Research | | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | | | |
|------------------|------------|---|---|------------|-----|---|
| Center Co., Ltd. | 13,000,000 | – | – | 13,000,000 | 10% | – |
|------------------|------------|---|---|------------|-----|---|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

11. Financial assets available for sale (continued)

CCCC Dredging
Technology
Equipment State
Engineering
Research

| | | | | | | |
|------------------|-----------|---|---|-----------|------|---|
| Center Co., Ltd. | 6,400,000 | – | – | 6,400,000 | 3.2% | – |
|------------------|-----------|---|---|-----------|------|---|

Longchang
Lifting
Equipment Co.,
Ltd. of Shanghai
Zhenhua Port
Machinery
(Group)

| | | | | | | |
|--|---------|---|---|---------|-----|---|
| | 800,000 | – | – | 800,000 | 10% | – |
|--|---------|---|---|---------|-----|---|

Shenyang
Elevator Co.,
Ltd of

Shanghai
Zhenhua Port
Machinery
(Group)

| | | | | | | |
|--|-----------|---|---|-----------|-----|---|
| | 1,500,000 | – | – | 1,500,000 | 10% | – |
|--|-----------|---|---|-----------|-----|---|

Ningbo
Transmission
Machinery Co.,
Ltd of Shanghai
Zhenhua Port
Machinery
(Group)

| | | | | | | |
|--|---------|---------|---|-----------|-----|-----------|
| | 740,000 | 556,000 | – | 1,296,000 | 10% | 9,465,520 |
|--|---------|---------|---|-----------|-----|-----------|

Shenwan
Hongyuan Group

| | | | | | | |
|--|---------|---|-----------|---|--------------------|---|
| | 200,000 | – | (200,000) | – | less than 0.01% | – |
|--|---------|---|-----------|---|--------------------|---|

Hunan Fengri

| | | | | | | |
|--|---|-------------------|---|-------------------|-------|---|
| | – | <u>19,998,160</u> | – | <u>19,998,160</u> | 6.38% | – |
|--|---|-------------------|---|-------------------|-------|---|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Power & Electric
Co., Ltd.

| | | | | |
|------------|------------|-----------|------------|-----------|
| 52,640,000 | 20,554,160 | (200,000) | 72,994,160 | 9,465,520 |
|------------|------------|-----------|------------|-----------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

11. Financial assets available for sale (continued)

Available-for-sale
equity instruments
– Provision for
impairment

| | | | | |
|--|---------------------|-------------------|------------------|---------------------|
| 21st Century Science and Technology Investment Co., Ltd. | <u>(30,000,000)</u> | <u>=</u> | <u>=</u> | <u>(30,000,000)</u> |
| | <u>22,640,000</u> | <u>20,554,160</u> | <u>(200,000)</u> | <u>42,994,160</u> |

The available-for-sale financial assets measured in cost are the non-listed stock investment held by the Group. There is no active market quotation for the investment. The change range of the reasonable count of fair value is higher. The probability of the fair value estimate can't be reasonably confirmed, so the fair value can't be reliably measured. The Group has no plan to dispose the investment.

12. Long-term receivables

| | 2016 | 2015 |
|--|----------------------|----------------------|
| “Construction-Transfer” project accounts receivable | | |
| – Capital | 5,142,731,788 | 5,594,243,805 |
| – Interest receivable | <u>32,924,801</u> | <u>589,392,944</u> |
| | 5,175,656,589 | 6,183,636,749 |
| Less: long-term receivable due within one year | | |
| (Note V.9) | <u>1,384,438,569</u> | <u>2,625,135,212</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

3,791,218,020

3,558,501,537

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

12. Long-term receivables (continued)

The Group in 2013 undertook the Nanjing to Gaochun New Channel project and Nanjing-Gaochun Inter-city Rail Transit Phase II (cross-lake section) project (referred to as "Nanjing High Speed 'Construction - transfer' Item"); total investment of the project 5,918,800,000 Yuan, the construction of Item for a period of 2 years, repurchase period is 2.5 years, return on investment 3 - 5year, bank loans surface 30% over benchmark interest rate. The Group established a wholly owned subsidiary Nanjing Ninggao New Channel Construction Co., Ltd. responsible for the financing and construction management of the said project. By October, 2015, the entire line was open to traffic. The returned payments shall be reclassified to the long term accounts receivable in 2017 according to the contract terms.

The Group undertook Jiangsu Qidong Lvsì port surrounded PPP project in 2015, with total investment of 2 billion Yuan. The project construction period is 2 years, and the repurchase period is 10 years, the return on investment is the bank loans benchmark interest rate increased by 30% for over 5 years. The Group, CCCC Tianjin Waterway Bureau Co., Ltd. and Jiangsu Qidong Lvsì Port Economic Development Zone Management Committee jointly established CCCC Qidong Investment Development Co., Ltd. responsible for the project investment, financing and construction management.

The Group undertook the Phase I of infrastructure and public utilities projects of Jiangsu Zhongguancun Science and Technology Industrial Park in 2015. The project total investment is 3.7 billion Yuan, with project construction period of 2 years, the purchase back period is 4 years, the return on investment is the bank loans benchmark interest rate increased by 30% for over 5 years. The Group, CCCC Shanghai Waterway Bureau Co., Ltd., CCCC East China Investment Co., Ltd., CCCC Second Highway Survey Design and Research Institute Co., Ltd. And Jiangsu Zhongguancun Science and Technology Industrial Park Administrative Committee jointly established CCCC Liyang City Investment Construction Co., Ltd. responsible for the project investment, financing and construction management.

The Group undertook Zhenjiang campus life mating project in 2016, with total investment of 6 billion Yuan. The project construction period is 2 years, and the repurchase period is 3 years, the return on investment is the annual rate 7%. The Group, CCCC The Second Harbor Engineering Bureau Co., Ltd., CCCC East China Investment Co., Ltd., CCCC Highway Planning and Design Institute Co., Ltd., CCCC East China Investment Co., Ltd., and

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Zhenjiang Higher Education Investment Development (Group) Co., Ltd. jointly established CCCC Zhenjiang Investment Construction Management Development Co., Ltd. responsible for the project investment, financing and construction management.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

12. Long-term receivables (continued)

The Group undertook the Huaian City, Huaiyin port east district and transportation infrastructure projects in 2016. The total investment of 2.855 billion Yuan. The project construction period is 2 years, and the repurchase period is 6 years, the return on investment is the bank loans benchmark interest rate for over 5 years. The Group, CCCC The Third Harbor Engineering Bureau Co., Ltd., CCCC The First Highway Survey and Design Institute Co., Ltd., CCCC East China Investment Co., Ltd. and Huaian City Huaiyin Traffic Investment Co., Ltd. jointly established CCCC Huaian Construction Development Co., Ltd. responsible for the project investment, financing and construction management.

As of Dec. 31, 2016, the long-term receivables refer to the investment amount as principal the Group invested in "Construction - Transfer" project, interest receivable subject to confirmation of financing return according to the contract.

As of Dec. 31, 2016, the long-term receivable RMB 2,996,201,650 Yuan is the pledged in full amount to the bank as the guarantee of long-term loan of RMB 727,000,000 Yuan and (Dec 31, 2015: RMB 5,680,467,098 Yuan and long-term loan of RMB 2,187,000,000 Yuan (Note V (34 (ii))).

Long-term receivables analyzed by age:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Within one year | 1,956,609,083 | 844,466,601 |
| 1 to 2 years | 518,450,490 | 3,121,550,855 |
| 2 to 3 years | <u>2,700,597,016</u> | <u>2,217,619,293</u> |
| | 5,175,656,589 | 6,183,636,749 |
| Less: long-term receivable due within one year | <u>1,384,438,569</u> | <u>2,625,135,212</u> |
| | <u>3,791,218,020</u> | <u>3,558,501,537</u> |

13. Long-term equity investments

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

13. Long-term equity investments (continued)

| | 2016 | 2015 |
|---------------|----------------------|----------------------|
| Joint venture | 200,209,849 | 175,387,196 |
| Associates | <u>2,001,211,604</u> | <u>1,421,747,621</u> |
| | <u>2,201,421,453</u> | <u>1,597,134,817</u> |

Joint venture:

2016

| | Opening balance | <u>This change</u> | | | Closing balance | Closing impairment reserve |
|--|--------------------|----------------------------|----------------------------|-----------------------------------|--------------------|----------------------------------|
| | | Increase investmen t | Decrease investmen t | Investmen t profit and loss | | |
| Jiangsu LongYuan Zhenhua Marine Engineering Co.,Ltd | 171,577,489 | — | — | 25,046,722 | 196,624,211 | — |
| ZPMC Mediterranean Liman | | | | | | |
| Makinalari Ticaret Anonim Sirketi | 3,059,427 | — | — | (224,069) | 2,835,358 | — |
| Zhenhua Marine Energy (Hong Kong) Co., Ltd(i) | — | — | — | — | — | — |
| Cranetech Global | <u>750,280</u> | — | — | — | <u>750,280</u> | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Sdn. Bnd.

| | | | | | |
|--------------------|----------|----------|-------------------|--------------------|----------|
| <u>175,387,196</u> | <u>-</u> | <u>-</u> | <u>24,822,653</u> | <u>200,209,849</u> | <u>-</u> |
|--------------------|----------|----------|-------------------|--------------------|----------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

13. Long-term equity investments (continued)

2015

Opening This change Closing Closing

| balance | Increase investment | Decrease investment | Investment profit and loss | balance | impairment reserve | |
|--|---------------------|---------------------|----------------------------|----------------------------|--------------------|----------------------------|
| | Opening balance | | <u>This change</u> | | Closing balance | Closing impairment reserve |
| | | Increase investment | Decrease investment | Investment profit and loss | | |
| Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd | 162,922,641 | - | - | 8,654,848 | 171,577,489 | - |
| ZPMC Mediterranean Liman | | | | | | |
| Makinalari Ticaret Anonim Sirketi | 327,639 | - | - | 2,731,788 | 3,059,427 | - |
| Zhenhua Marine Energy (Hong Kong) Co., | 6,633,668 | - | - | (6,633,668) | - | - |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)
Ltd

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

13. Long-term equity investments (continued)

Cranetech

Global

Sdn.

| | | | | | | |
|-----------|---|-------------------|---|------------------|-------------------|---|
| Bnd. (ii) | = | <u>750,280</u> | = | = | <u>750,280</u> | = |
| | | <u>169,883,94</u> | | | <u>175,387,19</u> | |
| | | <u>8</u> | | <u>4,752,968</u> | <u>6</u> | = |

Joint venture (continued):

(i) On May 5, 2014, the subsidiary of the Company and the partner invested to establish Zhenhua Marine Energy (Hong Kong) Co., Ltd (Zhenhua Marine Energy). The registered capital is 5,969,998 USD; the subsidiary of the Company contributed 3,044,699 USD, holding 51% of the shares. The company focused on the vessel transportation business. Based on the regulations of the shareholder agreement, the significant issues of the company shall be agreed by at least 75% shareholders via voting. The Group has no control rights but joint controls the company together with the partner.

On January 20, 2016, the Group and RBF HK Limited (other shareholder of Zhenhua Marine Energy) signed the exit contract about Zhenhua Marine Energy. The Group has the rights to sell 51% of the total shares of Zhenhua Marine Energy to RBF HK Limited when meeting the related articles of the exit contract; or purchased 32.5% of the total shares of Zhenhua Marine Energy from RBF HK Limited. RBF HK Limited began to execute its right of holding 51% shares of Zhenhua Marine Energy on June 2, 2016, in accordance with the signed exit contract, but ultimately failed to meet all the share delivery conditions of exiting the contract agreement, the purchase rights has been expired on November 23, 2016. As of Dec, 31, 2016, the Group has not exercised its purchasing right to purchase 32.5% shares of Zhenhua Marine Energy held by RBF HK Limited.

The Group considered that the purchasing right of purchasing 32.5% shares of joint venture held by the RBF HK Limited (other shareholder of Zhenhua Marine Energy) was unable to control Zhenhua Marine Energy. As of Dec, 31, 2016, the Group considered that this fair value of this purchasing right wasn't significant.

(ii) On July 30, 2015, the subsidiary of the Company and the partner invested to establish Cranetech Global Sdn. Bhd.. The registered capital is 1,000,000 MYR; the subsidiary of

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

the Company contributed 499,999 MYR, holding 49.99% of the shares. The company focused on the spare parts sales. Based on the regulations of the shareholder agreement, the significant issues of the company shall be agreed by both parties. Therefore, the jointly controls the company together with the partner.

Associates:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

13. Long-term equity investments (continued)

2016

| | Opening balance | <u>This change</u> | | | | Closing balance | Closing Impairmen t reserve |
|---|--------------------|------------------------|----------------------------------|---|---|--------------------|-----------------------------------|
| | | Increase investment | Investment profit and loss | Other comprehensiv e income adjustment | Declaration of cash dividend or profit | | |
| CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd | 15,269,200 | - | 376,318 | - | - | 15,645,518 | - |
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | 14,626,156 | - | 1,978,952 | - | (1,833,066) | 14,772,042 | - |
| CCCC Estate Yixing Co., Ltd. | 174,697,785 | - | 916,743 | - | - | 175,614,528 | - |
| CCCC Financing Rental Co., Ltd. (i) | 1,141,740,698 | 420,000,000 | 75,648,845 | 255,310 | (32,400,000) | 1,605,244,853 | - |
| China Communication s | | | | | | | |
| Construction USA Inc. | 75,413,782 | - | (4,347,559) | 4,546,680 | - | 75,612,903 | - |
| CCCC South American | | | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Regional
Company

| | | | | | | | | |
|-----------|---------------------|-------------------|-------------------|------------------|--------------------|---------------------|---|---|
| SARL (ii) | | <u>114,321,76</u> | | | | | | |
| | = | <u>0</u> | = | = | = | <u>114,321,760</u> | = | = |
| | <u>1,421,747,62</u> | <u>534,321,76</u> | | | <u>(34,233,066</u> | <u>2,001,211,60</u> | | |
| | <u>1</u> | <u>0</u> | <u>74,573,299</u> | <u>4,801,990</u> |) | <u>4</u> | = | = |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

13. Long-term equity investments (continued)

2015

| | Opening balance | <u>This change</u> | | | | Closing balance | Closing Impairment reserve |
|--|--------------------|------------------------|----------------------------------|--|---|----------------------|----------------------------------|
| | | Increase investment | Investment profit and loss | Other comprehensive income adjustment | Declaration of cash dividend or profit | | |
| CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd | 15,079,243 | - | 189,957 | - | - | 15,269,200 | - |
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | 14,349,607 | - | 1,956,549 | - | (1,680,000) | 14,626,156 | - |
| CCCC Estate Yixing Co., Ltd. | 174,686,810 | - | 10,975 | - | - | 174,697,785 | - |
| CCCC Financing Rental Co., Ltd. (i) | 551,350,475 | 540,000,000 | 50,390,223 | - | - | 1,141,740,698 | - |
| China Communications | | | | | | | |
| Construction USA Inc. (iii) | - | <u>76,206,000</u> | <u>(2,048,615)</u> | <u>1,256,397</u> | - | <u>75,413,782</u> | - |
| | <u>755,466,135</u> | <u>616,206,000</u> | <u>50,499,089</u> | <u>1,256,397</u> | <u>(1,680,000)</u> | <u>1,421,747,621</u> | <u>-</u> |

(i) As of May 29, 2015, the Company increased the capital to CCCC Financial Rental Co., Ltd of RMB 540,000,000 Yuan. After the capital increased, the Group's investment costs

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

to CCCC Financial Rental Co., Ltd increased to RMB 1,080,000,000 Yuan. The holding proportion is the same, that is 30%. As of May 31, 2016, the Company increased the capital to CCCC Financial Rental Co., Ltd of RMB 420,000,000 Yuan. After the capital increased, the Group's investment costs to CCCC Financial Rental Co., Ltd increased to RMB 1,500,000,000 Yuan. The holding proportion is the same, that is 30%.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

13. Long-term equity investments (continued)

(ii) As of Dec. 15, 2016, the Company invested 16,480,000 USD (in RMB 114,321,760 Yuan) to share CCCC South American Regional Company SARL. The registration capital is 103,000,000 USD, in RMB 114,321,760 Yuan, holding 16% of the share. The company focuses on port construction business. Based on the regulations of the shareholder agreement, the Company has the right to designate one director to that company and implement significant impact to that company.

(iii) As of Oct. 8, 2015, the Company invested to establish China Communications Construction USA Inc.. The registration capital is 50,000,000 USD, and the Company's investment is 12,000,000 USD, in RMB 76,206,000 Yuan, holding 24% of the share. The company focuses on port construction business.

14. Investment property

Investment property measured at cost:

2016

| | Premises and buildings | Land use right | Total |
|-----------------------------|---------------------------|--------------------|--------------------|
| Original book value | | | |
| Opening balance | 260,039,373 | 209,845,794 | 469,885,167 |
| Fixed assets transfer-in | <u>137,781,316</u> | <u>—</u> | <u>137,781,316</u> |
| Closing balance | <u>397,820,689</u> | <u>209,845,794</u> | <u>607,666,483</u> |
| Accumulated depreciation | | | |
| Opening balance | 63,874,113 | 44,838,246 | 108,712,359 |
| Fixed assets | 9,647,865 | — | 9,647,865 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

transfer-in

| | | | | |
|--------------|----|-------------------|------------------|-------------------|
| Provision | or | <u>10,601,341</u> | <u>5,324,667</u> | <u>15,926,008</u> |
| amortization | | | | |

| | | | | |
|-----------------|--|-------------------|-------------------|--------------------|
| Closing balance | | <u>84,123,319</u> | <u>50,162,913</u> | <u>134,286,232</u> |
|-----------------|--|-------------------|-------------------|--------------------|

Book value

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

14. Real estate as investment (continued)

| | | | |
|-------------------------------------|--------------------|--------------------|--------------------|
| Book value at the end of year | <u>313,697,370</u> | <u>159,682,881</u> | <u>473,380,251</u> |
| Book value at the beginning of year | <u>196,165,260</u> | <u>165,007,548</u> | <u>361,172,808</u> |

2015

| | Premises and buildings | Land use right | Total |
|-------------------------------------|------------------------|--------------------|--------------------|
| Original book value | | | |
| Opening and closing balance | <u>260,039,373</u> | <u>209,845,794</u> | <u>469,885,167</u> |
| Accumulated depreciation | | | |
| Opening balance | 55,489,717 | 39,513,581 | 95,003,298 |
| Provision or amortization | <u>8,384,396</u> | <u>5,324,665</u> | <u>13,709,061</u> |
| Closing balance | <u>63,874,113</u> | <u>44,838,246</u> | <u>108,712,359</u> |
| Book value | | | |
| Book value at the end of year | <u>196,165,260</u> | <u>165,007,548</u> | <u>361,172,808</u> |
| Book value at the beginning of year | <u>204,549,656</u> | <u>170,332,213</u> | <u>374,881,869</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

14. Real estate as investment (continued)

As of Dec. 31, 2016, real estate as investment of not completing the certificate of title is as follows:

| | Book value | Reasons for not completing the certificate of title |
|--------------------|-------------|--|
| House and building | 284,337,357 | Property application procedures are still under approval |

15. Fixed assets

2016

| | Houses and buildings | Machinery equipment | Office electronic equipment | Transportation tools (except for vessel) | Vessel | Total |
|--------------------------------------|----------------------|---------------------|-----------------------------|--|---------------|----------------|
| Original book value | | | | | | |
| Opening balance | 11,616,605,396 | 6,773,564,936 | 230,069,174 | 263,556,659 | 7,044,013,015 | 25,927,809,180 |
| Purchase | 151,768,037 | 35,813,084 | 16,754,535 | 25,392,444 | 96,717,619 | 326,445,719 |
| Construction in progress transfer-in | 21,998,269 | 28,683,570 | — | — | 299,120,833 | 349,802,672 |
| Transfer-out to the | (137,781,316) | — | — | — | — | (137,781,316) |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | | | |
|------------|---------------------|--------------------|------------------|---------------------|--------------------|---------------------|
| investment | |) | | | |) |
| property | | | | | | |
| Dispositio | <u>(1,607,253)</u> | <u>(119,329,31</u> | <u>(5,728,31</u> | <u>(15,671,365)</u> | <u>(9,995,664)</u> | <u>(152,331,912</u> |
| n or | | <u>6)</u> | <u>4)</u> | | | <u>)</u> |
| scrapping | | | | | | |
| Closing | <u>11,650,983,1</u> | <u>6,718,732,2</u> | <u>241,095,3</u> | <u>273,277,738</u> | <u>7,429,855,8</u> | <u>26,313,944,3</u> |
| balance | <u>33</u> | <u>74</u> | <u>95</u> | | <u>03</u> | <u>43</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

15. Fixed assets (continued)

Accumulated depreciation

| | | | | | | |
|---|----------------------|----------------------|--------------------|---------------------|----------------------|-----------------------|
| Opening balance | 2,733,703,550 | 4,473,964,112 | 159,312,835 | 183,537,690 | 2,721,754,117 | 10,272,272,304 |
| Provision | 381,944,729 | 428,237,329 | 17,429,109 | 16,885,021 | 324,332,721 | 1,168,828,909 |
| Transfer-out to the investment property | (9,647,865) | - | - | - | - | (9,647,865) |
| Disposition or scrapping | <u>(481,275)</u> | <u>(111,702,878)</u> | <u>(5,448,937)</u> | <u>(15,331,361)</u> | <u>(7,326,920)</u> | <u>(140,291,371)</u> |
| Closing balance | <u>3,105,519,139</u> | <u>4,790,498,563</u> | <u>171,293,007</u> | <u>185,091,350</u> | <u>3,038,759,918</u> | <u>11,291,161,977</u> |
| Book value at the end of year | <u>8,545,463,994</u> | <u>1,928,233,711</u> | <u>69,802,388</u> | <u>88,186,388</u> | <u>4,391,095,885</u> | <u>15,022,782,366</u> |
| Book value at the beginning of year | <u>8,882,901,846</u> | <u>2,299,600,824</u> | <u>70,756,339</u> | <u>80,018,969</u> | <u>4,322,258,898</u> | <u>15,655,536,876</u> |

2015

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

15. Fixed assets (continued)

| | Houses and buildings | Machinery equipment | Office electronic equipment | Transportati on tools (except for vessel) | Vessel | Total |
|---|-------------------------|------------------------|-----------------------------------|--|----------------------|-----------------------|
| Original book value | | | | | | |
| Opening balance | 11,604,062,941 | 7,619,840,761 | 224,037,856 | 299,095,591 | 5,787,470,598 | 25,534,507,747 |
| Purchase | – | 92,012,999 | 22,587,196 | 10,147,948 | 92,568,573 | 217,316,716 |
| Constructi on in progress transfer-i n | 22,188,417 | 79,192,802 | 348,905 | 806,376 | 1,163,973,844 | 1,266,510,344 |
| Projects in process transfer-i n this year | – | (854,863,281) | – | – | – | (854,863,281) |
| Dispositio n or scrapping | <u>(9,645,962)</u> | <u>(162,618,345)</u> | <u>(16,904,783)</u> | <u>(46,493,256)</u> | – | <u>(235,662,346)</u> |
| Closing balance | <u>11,616,605,396</u> | <u>6,773,564,936</u> | <u>230,069,174</u> | <u>263,556,659</u> | <u>7,044,013,015</u> | <u>25,927,809,180</u> |
| Accumulate d depreciati on | | | | | | |
| Opening balance | 2,367,995,928 | 4,298,721,160 | 147,156,907 | 216,008,230 | 2,434,066,353 | 9,463,948,578 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | | | |
|-----------|-------------|-------------|------------|-----------|-------------|---------------|
| Provision | 368,126,953 | 553,828,270 | 22,112,064 | 3,396,292 | 287,687,764 | 1,235,151,343 |
|-----------|-------------|-------------|------------|-----------|-------------|---------------|

Projects in
process

| | | | | | | |
|-----------------------------|---|---------------|---|---|---|---------------|
| transfer-in in this year | - | (233,392,840) | - | - | - | (233,392,840) |
|-----------------------------|---|---------------|---|---|---|---------------|

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

15. Fixed assets (continued)

| | | | | | | |
|--|------------------------------------|------------------------------------|---------------------------------|-----------------------|------------------------------------|-------------------------------------|
| Dispositio n or scrapping | <u>(2, 419, 331)</u> | <u>(145, 192, 478)</u> | <u>(9, 956, 136)</u> | <u>(35, 866, 832)</u> | = | <u>(193, 434, 777)</u> |
| Closing balance | <u>2, 733, 703, 55</u> <u>0</u> | <u>4, 473, 964, 11</u> <u>2</u> | <u>159, 312, 83</u> <u>5</u> | <u>183, 537, 690</u> | <u>2, 721, 754, 11</u> <u>7</u> | <u>10, 272, 272, 30</u> <u>4</u> |
| Book value | | | | | | |
| Book value at the end of year | <u>8, 882, 901, 84</u> <u>6</u> | <u>2, 299, 600, 82</u> <u>4</u> | <u>70, 756, 339</u> | <u>80, 018, 969</u> | <u>4, 322, 258, 89</u> <u>8</u> | <u>15, 655, 536, 87</u> <u>6</u> |
| Book value at the beginning of year | <u>9, 236, 067, 01</u> <u>3</u> | <u>3, 321, 119, 60</u> <u>1</u> | <u>76, 880, 949</u> | <u>83, 087, 361</u> | <u>3, 353, 404, 24</u> <u>5</u> | <u>16, 070, 559, 16</u> <u>9</u> |

As of Dec. 31, 2016, the fixed assets are regarded as loan mortgage:

| | | | <u>Loan</u> | |
|------------------------|-------------------------|-------------------------|----------------------|-------------------------|
| | Original price | Book value | Property | Amount |
| Machinery equipment | 1, 403, 907, 681 | 555, 450, 350 | Long term payable | 575, 223, 848 |
| Vessel | <u>2, 532, 724, 844</u> | <u>1, 882, 864, 040</u> | Long term payable | <u>1, 507, 146, 538</u> |
| | <u>3, 936, 632, 525</u> | <u>2, 438, 314, 390</u> | | <u>2, 082, 370, 386</u> |

As of Dec. 31, 2015, the fixed assets are regarded as loan mortgage:

| | | | <u>Loan</u> | |
|--|----------------|------------|-------------|--------|
| | Original price | Book value | Property | Amount |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | |
|------------------------|-------------|-------------|-----------------|-------------|
| Machinery equipment | 688,768,652 | 542,853,378 | Short term loan | 500,000,000 |
|------------------------|-------------|-------------|-----------------|-------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

15. Fixed assets (continued)

| | | | | |
|--------|----------------------|----------------------|-------------------|----------------------|
| Vessel | <u>1,050,416,521</u> | <u>1,036,238,241</u> | Long term payable | <u>779,232,000</u> |
| | <u>1,739,185,173</u> | <u>1,579,091,619</u> | | <u>1,279,232,000</u> |

As of Dec. 31, 2016 and Dec. 31, 2015, book value of the fixed assets for operating lease:

| | | |
|--------|----------------------|----------------------|
| | 2016 | 2015 |
| Vessel | <u>1,882,864,040</u> | <u>1,036,238,241</u> |

As of Dec. 31, 2016, fixed assets status of not completing the certificate of title is as follows:

| | | |
|--------------------|---------------|--|
| | Book value | Reasons for not completing the certificate of title |
| House and building | 3,579,676,294 | Property application procedures are still under approval |

16. Construction in progress

| | <u>Dec. 31, 2016</u> | | | <u>Dec. 31, 2015</u> | | |
|--|----------------------|--------------------------|------------|----------------------|--------------------------|-----------------|
| | Booking balance | Provision for impairment | | Booking balance | Provision for impairment | Booking balance |
| Nantong base infrastructure construction | 53,892,601 | - | 53,892,601 | 29,440,311 | - | 29,440,311 |
| Changxing base infrastructure | 16,743,055 | - | 16,743,055 | 32,251,760 | - | 32,251,760 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)
construction

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

16. Construction in progress (continued)

| | | | | | | |
|--|----------------------|----------|----------------------|----------------------|----------|----------------------|
| Base heavy machinery and engineering equipment in construction | 3,202,580,355 | – | 3,202,580,355 | 2,889,709,277 | – | 2,889,709,277 |
| Office buildings and ancillary facilities | – | – | – | 606,274 | – | 606,274 |
| Shield machine parts project | 55,402,134 | – | 55,402,134 | – | – | – |
| Nanhui base infrastructure construction | 5,888,313 | – | 5,888,313 | 3,893,441 | – | 3,893,44 |
| Large mechanical transformation and upgrading project | <u>690,943,003</u> | <u>–</u> | <u>690,943,003</u> | <u>621,470,441</u> | <u>–</u> | <u>621,470,441</u> |
| | <u>4,025,449,461</u> | <u>–</u> | <u>4,025,449,461</u> | <u>3,577,371,504</u> | <u>–</u> | <u>3,577,371,504</u> |

Changes of the important projects under construction in 2016 are as follows:

| | Budget | Opening balance | This increase | Transfer-in of fixed assets | Fixed assets transfer-in this year (note V.15) | Intangible assets transfer-in this year (note V.17) | Closing balance |
|--|---------------|-----------------|---------------|-----------------------------|---|--|-----------------|
| Nantong base infrastructure construction | 6,465,698,000 | 29,440,311 | 28,515,986 | – | (4,063,696) | – | 53,892,601 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

n

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

16. Construction in progress (continued)

| | | | | | | | |
|---|---------------------------|--------------------|--------------------|---|---------------------------|--------------------|---------------------------|
| Changxing base infrastruct ure constructio n | 8,645,540,0 00 | 32,251,760 | 6,100,428 | - | (21,609,133) | - | 16,743,055 |
| Base heavy machinery and engineering equipment in constructio n | 3,916,155,8 61 | 2,889,709,2 77 | 639,000,626 | - | (322,437,12 3) | (3,692,425) | 3,202,580,3 55 |
| Office buildings and ancillary facilities | 5,000,000 | 606,274 | - | - | (606,274) | - | - |
| Shield machine parts project | 99,956,500 | - | 55,402,134 | - | - | - | 55,402,134 |
| Nanhui base infrastruct ure constructio n | 504,500,500 | 3,893,441 | 1,994,872 | - | - | - | 5,888,313 |
| Large mechanical transformat ion and upgrading project | 700,000,000 | <u>621,470,441</u> | <u>70,559,008</u> | = | <u>(1,086,446)</u> | = | <u>690,943,003</u> |
| | <u>3,577,371,5 04</u> | | <u>801,573,054</u> | = | <u>(349,802,67 2)</u> | <u>(3,692,425)</u> | <u>4,025,449,4 61</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Changes of the important projects under construction in 2015 are as follows:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

16. Construction in progress (continued)

| | Budget | Opening balance | This increase | Transfer-i n of fixed assets | Fixed assets transfer-in this year | Intangible assets transfer-in this year | Closing balance |
|---|---------------|--------------------|------------------|------------------------------------|--|--|--------------------|
| | | | | (note V. 15) | (note V. 15) | (note V. 17) | |
| Nantong base infrastructure construction | 6,465,698,000 | 22,012,970 | 20,262,621 | - | (12,835,280) | - | 29,440,311 |
| Changxing base infrastructure construction | 8,645,540,000 | 361,078,310 | 152,687,101 | - | (17,014,084) | (464,499,567) | 32,251,760 |
| Base heavy machinery and engineering equipment in construction | 3,419,155,861 | 2,422,182,764 | 1,699,302,521 | - | (1,231,776,008) | - | 2,889,709,277 |
| Office buildings and ancillary facilities | 5,000,000 | 355,140 | 5,136,106 | - | (4,884,972) | - | 606,274 |
| Nanhui base infrastructure construction | 504,500,500 | 3,157,532 | 735,909 | - | - | - | 3,893,441 |
| Large mechanical transformat ion | | | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | | | | |
|--------------------------------|----------------------|----------------------|--------------------|------------------------|----------------------|----------------------|-------------|
| and upgrading project | 630,699,732 | — | — | 621,470,411 | — | — | 621,470,441 |
| Information system development | 5,581,847 | — | <u>5,581,847</u> | — | — | <u>(5,581,847)</u> | — |
| | <u>2,808,786,716</u> | <u>1,883,706,105</u> | <u>621,470,441</u> | <u>(1,266,510,344)</u> | <u>(470,081,414)</u> | <u>3,577,371,504</u> | |
| | <u>16</u> | <u>05</u> | <u>1</u> | <u>4)</u> | <u>4)</u> | <u>04</u> | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

16. Construction in progress (continued)

Changes of the important projects under construction in 2016 are as follows:

| | Proportion of project investment to budget | Project progress (Note 1) | Accumulative amount of interest capitalization | Among which: interest capitalization for the current year | Interest capitalization rate for the current year | Financial sourcing |
|--|--|---------------------------|--|---|---|----------------------------|
| Nantong base infrastructure construction | 99% | 99% | — | — | — | Owned funds and bank loans |
| Changxing base infrastructure construction | 82% | 82% | 23,531,836 | — | — | Owned funds and bank loans |
| Base heavy machinery and engineering equipment in construction | 87% | 87% | 96,492,705 | — | — | Owned funds and bank loans |
| Owned funds and bank loans | | | | | | |
| Office buildings and ancillary facilities | 100% | 100% | — | — | — | Owned funds |
| Shield machine parts project | 55% | 55% | 268,297 | 268,297 | 4.75% | Bank loans |
| Nanhui base infrastructure construction | 91% | 91% | — | — | — | Owned funds |
| Large mechanical transformation and upgrading project | | | | | | |
| | 99% | 99% | — | — | — | Owned funds |
| | | | <u>120,292,838</u> | <u>268,297</u> | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

16. Construction in progress (continued)

| | Proporti on of project investme nt to budget | Project progress (Note 1) | Accumula tive amount of interest capitali zation | Among which: interest capitali zation for the current year | Interest capitali zation rate for the current year | Financia l sourcing |
|--|---|---------------------------------|--|---|--|---------------------------|
| Nantong base infrastructure construction | 99% | 99% | — | — | — | Owned funds |
| Changxing base infrastructure construction | 82% | 82% | 23,531,836 | — | — | Owned funds |
| Base heavy machinery and engineering equipment in construction | 82% | 82% | 96,492,705 | — | — | Owned funds |
| engineering equipment in construction | | | | | | |
| Office buildings and ancillary facilities | 99% | 99% | — | — | — | Owned funds |
| Nanhui base infrastructure construction | 90% | 90% | — | — | — | Owned funds |
| Large mechanical transformation and upgrading project | 0% | 0% | — | — | — | Owned funds |
| Information system development | 100% | 100% | — | — | — | Owned funds |
| | | | <u>120,024,541</u> | — | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

16. Construction in progress (continued)

Note 1: Project progress is estimated based on budget and accumulated input.

17. Intangible assets

2016

| | Land use right | Software usage fee | Patent right | Total |
|--------------------------------------|----------------------|--------------------|-------------------|----------------------|
| Original book value | | | | |
| Opening balance | 4,246,345,484 | 46,219,868 | 65,201,810 | 4,357,767,162 |
| Construction in progress transfer-in | — | 3,692,425 | — | 3,692,425 |
| Purchase | <u>16,129,485</u> | <u>2,206,555</u> | <u>—</u> | <u>18,336,040</u> |
| Closing balance | <u>4,262,474,969</u> | <u>52,118,848</u> | <u>65,201,810</u> | <u>4,379,795,627</u> |
| Accumulated amount of amortization | | | | |
| Opening balance | 467,548,195 | 33,094,826 | 37,686,275 | 538,329,296 |
| Provision or amortization | <u>87,762,464</u> | <u>2,667,970</u> | <u>6,587,291</u> | <u>97,017,725</u> |
| Closing balance | <u>555,310,659</u> | <u>35,762,796</u> | <u>44,273,566</u> | <u>635,347,021</u> |
| Book value | | | | |
| Book value at the end of year | <u>3,707,164,310</u> | <u>16,356,052</u> | <u>20,928,244</u> | <u>3,744,448,606</u> |
| Book value at the | <u>3,778,797,289</u> | <u>13,125,042</u> | <u>27,515,535</u> | <u>3,819,437,866</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)
beginning of year

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

17. Intangible assets (continued)

2015

| | Land use right | Software usage fee | Patent right | Total |
|---|----------------------|-----------------------|-------------------|----------------------|
| Original book value | | | | |
| Opening balance | 3,781,845,917 | 38,176,745 | 65,201,810 | 3,885,224,472 |
| Projects in process | 464,499,567 | 5,581,847 | 470,081,414 | |
| Purchase | = | <u>2,461,276</u> | = | <u>2,461,276</u> |
| Closing balance | <u>4,246,345,484</u> | <u>46,219,868</u> | <u>65,201,810</u> | <u>4,357,767,162</u> |
| Accumulated amount of amortization | | | | |
| Opening balance | 381,984,998 | 31,798,450 | 31,098,984 | 444,882,432 |
| Provision or amortization | <u>85,563,197</u> | <u>1,296,376</u> | <u>6,587,291</u> | <u>93,446,864</u> |
| Closing balance | <u>467,548,195</u> | <u>33,094,826</u> | <u>37,686,275</u> | <u>538,329,296</u> |
| Book value | | | | |
| Book value at the end of year | <u>3,778,797,289</u> | <u>13,125,042</u> | <u>27,515,535</u> | <u>3,819,437,866</u> |
| Book value at the beginning of year | <u>3,399,860,919</u> | <u>6,378,295</u> | <u>34,102,826</u> | <u>3,440,342,040</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

17. Intangible assets (continued)

In 2016, the Group totally expended RMB 851,544,356 Yuan on R&D (2015:717,412,492 Yuan, see Note V (48)). The expenses are not capitalized. Above mentioned intangible assets do not include any expenditure on R&D.

As of Dec. 31, 2016, there is no mortgage of the loan in the intangible assets.

As of Dec. 31, 2016, intangible assets of not completing the certificate of title is as follows:

| | Book value | Reasons for not completing the certificate of title |
|-----------------|-------------|--|
| Land use rights | 463,005,986 | Property application procedures are still under approval |

18. Goodwill

2016

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|--|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Shanghai Zhenhua Heavy Industries Qidong Marine Co., Ltd | <u>149,212,956</u> | = | = | <u>149,212,956</u> |

2015

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|---|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Shanghai Zhenhua Heavy Industries | <u>149,212,956</u> | = | = | <u>149,212,956</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Qidong Marine
Co., Ltd

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

18. Goodwill (continued)

The goodwill added in report period is caused by purchase shares of Shanghai Zhenhua Heavy Industries Qidong Ocean Engineering Co., Ltd. in 2014.

As of Dec, 31, 2016, the Group did not accrue the goodwill impairment preparation. In impairment testing, the book value of the goodwill is allocated to asset group benefited from synergistic effect of expected enterprise consolidation.

The collectable amount in assets group is measured based on five-year period approved by management and in cash flow forecast method. Cash flow over 5-year period is calculated based on estimated growth rate.

Key hypotheses of future cash flow discount method:

| | |
|----------------------------------|---------------|
| Growth rate in predictive period | 7.41%-12.50% |
| Sustainable growth rate | 3% |
| Gross profit rate | 11.75%-13.70% |
| Discount rate | 11% |

The weighted average growth rate adopted by management is in accordance with the forecast data in industrial report and does not exceed the industrial long-term average growth rate. The management determines gross rate according to forecast to historical experience and market development and adopts pre tax rate which can reflect related assets group with specific risks as discount rate. Above hypothesis is used to analyze collectable amount of assets group.

19. Long-term unamortized expenses

2016

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

19. Long-term unamortized expenses (continued)

| | Opening balance | Addition report year | Deduction report year | Other decrease | Closing balance |
|---|--------------------|-------------------------|--------------------------|-------------------|--------------------|
| Fixed assets under operating lease | <u>4,592,043</u> | <u>9,545,510</u> | <u>(3,256,290)</u> | <u>-</u> | <u>10,881,263</u> |

2015

| | Opening balance | Addition report year | Deduction report year | Other decrease | Closing balance |
|---|--------------------|-------------------------|--------------------------|-------------------|--------------------|
| Fixed assets under operating lease | <u>-</u> | <u>4,604,044</u> | <u>(12,001)</u> | <u>-</u> | <u>4,592,043</u> |

20. Deferred corporate tax assets and liabilities

Deferred corporate tax assets before offset

| | <u>2016</u> | | <u>2015</u> | |
|-----------------------------------|---|-------------------------------------|---|-------------------------------------|
| | Deductible temporary difference and losses | Deferred corporate tax assets | Deductible temporary difference and losses | Deferred corporate tax assets |
| Assets impairment provision | 3,034,109,090 | 455,116,363 | 2,071,800,834 | 310,888,702 |
| Profit not realized in | 141,961,692 | 22,041,889 | - | - |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

internal
trading

| | | | | |
|-------------|---------------|--------------|---------------|--------------|
| Expected | 285, 223, 845 | 42, 783, 577 | 214, 619, 364 | 32, 339, 037 |
| liabilities | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

20. Deferred corporate tax assets and liabilities (continued)

| | | | | |
|---|----------------------|--------------------|----------------------|--------------------|
| Salaries and wages unpaid | 27,802,006 | 4,170,301 | 286,998,209 | 43,049,731 |
| Unpaid interest | 128,368,841 | 19,255,326 | 274,442,941 | 41,166,441 |
| Fair value change that the financial debts are measured at fair value change with its change accounted in current profit and loss | — | — | 24,918,115 | 3,772,318 |
| Fair value changes of available-for-sale financial assets | — | — | 96,571,793 | 15,934,346 |
| Deferred income | 47,536,247 | 7,130,437 | 53,508,679 | 12,307,170 |
| Deductible deficit | <u>6,815,216</u> | <u>1,022,282</u> | <u>123,919,655</u> | <u>18,918,211</u> |
| | <u>3,671,816,937</u> | <u>551,520,175</u> | <u>3,146,779,590</u> | <u>478,375,956</u> |

Deferred corporate tax liabilities before offset:

| | | | | |
|--------------|------------------------|---------------------------|------------------------|---------------------------|
| | Tax payable | Tax payable | Tax payable | Tax payable |
| | provisional difference | corporate tax liabilities | provisional difference | corporate tax liabilities |
| Fixed assets | 409,482,226 | 74,116,286 | 359,472,141 | 59,312,902 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)
depreciation

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

20. Deferred corporate tax assets and liabilities (continued)

| | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| Fair value change that the financial debts are measured at fair value change with its change accounted in current profit and loss | 4,615,775 | 692,369 | 676,082 | 108,672 |
| Fair value changes of available-for-sale financial assets | 332,937,152 | 50,495,661 | 328,113,620 | 49,370,483 |
| Asset evaluation increment from enterprise merger not under the same control | <u>166,224,963</u> | <u>24,933,745</u> | <u>177,210,567</u> | <u>26,581,585</u> |
| | <u>913,260,116</u> | <u>150,238,061</u> | <u>865,472,410</u> | <u>135,373,642</u> |

Net value of deferred corporate tax assets and deferred corporate tax liabilities after offset:

| <u>2016</u> | | <u>2015</u> | |
|---|--|---|--|
| Deferred corporate tax assets and liabilities closing offset amount | Deferred corporate tax assets and liabilities closing balance after offset | Deferred corporate tax assets and liabilities closing offset amount | Deferred corporate tax assets and liabilities closing balance after offset |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | |
|--|-------------------|--------------------|-------------------|--------------------|
| Deferred corporate tax assets | <u>46,073,488</u> | <u>505,446,687</u> | <u>65,330,657</u> | <u>413,045,299</u> |
| Deferred corporate tax liabilities | <u>46,073,488</u> | <u>104,164,573</u> | <u>65,330,657</u> | <u>70,042,985</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

20. Deferred corporate tax assets and liabilities (continued)

Details of unacknowledged deferred corporate tax assets:

| | 2016 | 2015 |
|--------------------|-------------------------|-------------------------|
| Deductible deficit | <u>1, 276, 126, 566</u> | <u>1, 352, 502, 582</u> |

Deductible loss of unacknowledged deferred corporate tax assets will be mature in the year as follows:

| | 2016 | 2015 |
|------|-------------------------|-------------------------|
| 2016 | – | 132, 359, 784 |
| 2017 | 185, 000, 368 | 239, 989, 509 |
| 2018 | 262, 745, 183 | 262, 745, 183 |
| 2019 | 341, 404, 744 | 341, 568, 548 |
| 2020 | 373, 462, 715 | 375, 839, 558 |
| 2021 | <u>113, 513, 556</u> | – |
| | <u>1, 276, 126, 566</u> | <u>1, 352, 502, 582</u> |

21. Assets impairment provision

2016

| | Opening balance | This provision | <u>This decrease</u> | Closing balance |
|-----------|--------------------|-------------------|---|--------------------|
| | | | transfer-back Reseller/cancel after verification | |
| Provision | 1, 164, 911, 298 | 219, 476, 506 | (4, 997, 815) | (1, 838, 664) |
| | | | | 1, 377, 551, 325 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)
for bad
debts

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

21. Assets impairment provision (continued)

| | | | | | |
|---|-------------------------|-------------------------|------------------------|------------------------|-------------------------|
| In which: | 1, 136, 848, 7 | | | | 1, 339, 875, 9 |
| Receivables | 61 | 209, 863, 641 | (4, 997, 815) | (1, 838, 664) | 23 |
| Other receivables | 28, 062, 537 | 9, 612, 865 | — | — | 37, 675, 402 |
| Expected contract loss | 403, 444, 523 | 389, 393, 155 | (186, 569, 706) | (154, 449, 198) | 451, 818, 774 |
| Inventory falling price reserves | 568, 152, 935 | 896, 936, 113 | (93, 122, 078) | (94, 388, 087) | 1, 277, 578, 883 |
| Provision for impairment of financial assets available-for-sale | <u>30, 000, 000</u> | = | = | = | <u>30, 000, 000</u> |
| | <u>2, 166, 508, 756</u> | <u>1, 505, 805, 774</u> | <u>(284, 689, 599)</u> | <u>(250, 675, 949)</u> | <u>3, 136, 948, 982</u> |

2015

| | Opening balance | This provision | <u>This decrease</u> | | Closing balance |
|-------------------------|-----------------|----------------|----------------------|------------------------------------|-----------------|
| | | | transfer-back | Reseller/cancel after verification | |
| Provision for bad debts | 885, 276, 541 | 289, 433, 716 | 9, 798, 959 | 1, 164, 911, 298 | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

In which:

| | | | | | |
|----------------------|-------------|-------------|-------------|---|---------------|
| Receivables | 858,128,277 | 287,019,897 | (8,299,413) | - | 1,136,848,761 |
| Other receivables | 27,148,264 | 2,413,819 | (1,499,546) | - | 28,062,537 |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

21. Assets impairment provision (continued)

| | | | | |
|---|----------------------|--------------------|----------------------|----------------------|
| Expected contract loss | 313,017,945 | 304,907,624 | (214,481,046) | 403,444,523 |
| Inventory falling price reserves | 515,304,117 | 158,448,216 | (105,599,398) | 568,152,935 |
| Provision for impairment of financial assets available-for-sale | <u>30,000,000</u> | <u>=</u> | <u>=</u> | <u>30,000,000</u> |
| | <u>1,743,598,603</u> | <u>752,789,556</u> | <u>(115,398,357)</u> | <u>2,166,508,756</u> |

22. Short term loans

| | | |
|-----------------------|-----------------------|-----------------------|
| | 2016 | 2015 |
| Pledged loans(i) | 4,390,096 | – |
| Mortgage loans(ii) | 2,863,171,000 | 2,842,115,536 |
| Guaranteed loans(iii) | – | 500,000,000 |
| Credit loans | <u>18,618,358,297</u> | <u>14,874,812,954</u> |
| | <u>21,485,919,393</u> | <u>18,216,928,490</u> |

As of Dec. 31, 2016, the annual interest rate of the above loans is from 0.81% – 5.65%, (Dec. 31, 2015: 1.12% – 6.00%).

(i). As of Dec. 31, 2016, RMB 4,390,096 Yuan (Dec. 31, 2015: none) of bank pledged loan is the bank acceptance bill discount, see Note V (3).

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

(ii). As of Dec. 31, 2016, bank guarantee loan USD 191,500,000 in RMB1,328,435,500 Yuan (Dec. 31, 2015: USD 207,260,000, in RMB 1,345,863,536Yuan), is the bank loan by the Company's subsidiary guaranteed with the letters of guarantee issued, within the credit lines awarded to the Company.

As of Dec. 31, 2016, bank guarantee loan USD 91,500,000, in RMB634,735,500 Yuan (Dec. 31, 2015: USD 195,000,000, in RMB 1,266,252,000Yuan), is the bank loan of the Company's subsidiary, guaranteed by the Company, and the Company will provide the credit guarantee.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

22. Short term loans (continued)

As of Dec. 31, 2016, the bank guarantee loan of 900,000,000 Yuan is the loan borrowed from the subsidiary, and the Company provides the guarantee (Dec. 31, 2015: 230,000,000 Yuan is the loan borrowed from the subsidiary, and the Company provides the credit guarantee.

(iii). As of Dec. 31, 2015, the bank mortgage loan of 500,000,000 Yuan is obtained by mechanical equipment with book value of 542,853,378 Yuan (Original price of 688,768,65 Yuan) (Note V (15)) selling to CCCC Financial Rental Co., Ltd and bank in way of rental after sales. The loan term is 1 year. The loan has been paid back on Dec. 6, 2016.

23. Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities

| | 2016 | 2015 |
|-------------------------------|------|-------------------|
| Trading financial liabilities | | |
| Financial derivative assets | = | <u>24,918,115</u> |

24. Notes payable

| | 2016 | 2015 |
|-----------------------|----------------------|----------------------|
| Bank acceptance draft | <u>1,905,121,706</u> | <u>1,785,201,236</u> |

25. Accounts payable

| | 2016 | 2015 |
|--|---------------|---------------|
| Material purchase and product manufacturing payables | 4,853,217,936 | 5,221,670,634 |
| Equipment purchase payables | 121,413,650 | 136,011,638 |
| Infrastructure building | 86,257,192 | 73,171,633 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

payables

| | | |
|--------------------|----------------------|----------------------|
| Retention payables | 37,826,248 | 34,726,344 |
| Port use payables | <u>4,303,871</u> | <u>5,560,773</u> |
| | <u>5,103,018,897</u> | <u>5,471,141,022</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

25. Accounts payable (continued)

Accounts payable analyzed by age:

| | <u>2016</u> | | <u>2015</u> | |
|-----------------|----------------------|---------------------|----------------------|---------------------|
| | Amount | Proportion in total | Amount | Proportion in total |
| Within one year | 3,749,654,509 | 73% | 4,233,618,165 | 77% |
| Above one year | <u>1,353,364,388</u> | <u>27%</u> | <u>1,237,522,857</u> | <u>23%</u> |
| | <u>5,103,018,897</u> | <u>100%</u> | <u>5,471,141,022</u> | <u>100%</u> |

By Dec. 31, 2016, accounts payable aging above 1 year mainly being payables of imported parts.

26. Prepayment received

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|--------------------|--------------------|
| Goods sale prepayment received | <u>292,941,206</u> | <u>423,603,129</u> |

Prepayment received analyzed by age:

| | <u>Dec. 31, 2016</u> | | <u>Dec. 31, 2015</u> | |
|-----------------|----------------------|---------------------|----------------------|---------------------|
| | Amount | Proportion in total | Amount | Proportion in total |
| Within one year | 268,730,790 | 92% | 348,798,640 | 82% |
| Above one year | <u>24,210,416</u> | <u>8%</u> | <u>74,804,489</u> | <u>18%</u> |
| | <u>292,941,206</u> | <u>100%</u> | <u>423,603,129</u> | <u>100%</u> |

By Dec. 31, 2016, accounts payable aging above 1 year mainly being payables of hull

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

construction payments and spare parts payments received in advance that has not been settled yet.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

27. Salary payable

| | 2016 | 2015 |
|---|--------------------|--------------------|
| Short-term pay | 263,414,249 | 256,306,845 |
| Welfare after resignation – defined drawing plan | <u>1,135,507</u> | <u>1,515,765</u> |
| | <u>264,549,756</u> | <u>257,822,610</u> |

Short-term pay listing:

2016

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|---|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Salary, bonus, allowance and subsidy | 222,647,867 | 1,223,482,995 | (1,217,155,923) | 228,974,939 |
| Staff welfare | – | 24,847,047 | (24,847,047) | – |
| Social security | 747,129 | 123,657,388 | (123,783,841) | 620,676 |
| Including: medical insurance | 614,763 | 104,976,902 | (105,076,510) | 515,155 |
| Labor injury fund | 98,397 | 8,787,233 | (8,812,499) | 73,131 |
| Birth insurance | 33,969 | 9,893,253 | (9,894,832) | 32,390 |
| Housing fund | 435,294 | 113,233,900 | (113,205,494) | 463,700 |
| Labor union fund and staff education expenditure | 32,476,555 | 19,136,815 | (18,258,436) | 33,354,934 |
| Others | – | <u>8,424,852</u> | <u>(8,424,852)</u> | – |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | |
|--------------------|----------------------|------------------------|--------------------|
| <u>256,306,845</u> | <u>1,512,782,997</u> | <u>(1,505,675,593)</u> | <u>263,414,249</u> |
|--------------------|----------------------|------------------------|--------------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

27. Salary payable (continued)

2015

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|---|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Salary, bonus, allowance and subsidy | 210,975,170 | 1,147,483,869 | (1,135,811,172) | 222,647,867 |
| Staff welfare | — | 31,565,042 | (31,565,042) | — |
| Social security | 928,094 | 112,537,032 | (112,717,997) | 747,129 |
| Including: medical insurance | 757,763 | 95,224,571 | (95,367,571) | 614,763 |
| Labor injury fund | 111,984 | 9,306,893 | (9,320,480) | 98,397 |
| Birth insurance | 58,347 | 8,005,568 | (8,029,946) | 33,969 |
| Housing fund | 512,785 | 97,350,291 | (97,427,782) | 435,294 |
| Labor union fund and staff education expenditure | 31,121,189 | 16,234,764 | (14,879,398) | 32,476,555 |
| Others | <u>188,225</u> | <u>11,997,705</u> | <u>(12,185,930)</u> | <u>—</u> |
| | <u>243,725,463</u> | <u>1,417,168,703</u> | <u>(1,404,587,321)</u> | <u>256,306,845</u> |

Listings of setting drawing plan:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

27. Salary payable (continued)

2016

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|--------------------------------|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Basic pension insurance | 1,429,703 | 216,311,014 | (216,661,564) | 1,079,153 |
| Unemployment insurance expense | – | 48,394,936 | (48,394,936) | – |
| Enterprise's annuity payment | <u>86,062</u> | <u>11,665,639</u> | <u>(11,695,347)</u> | <u>56,354</u> |
| | <u>1,515,765</u> | <u>276,371,589</u> | <u>(276,751,847)</u> | <u>1,135,507</u> |

2015

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|--------------------------------|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Basic pension insurance | 1,719,925 | 194,575,647 | (194,865,869) | 1,429,703 |
| Unemployment insurance expense | – | 66,460,214 | (66,460,214) | – |
| Enterprise's annuity payment | <u>117,547</u> | <u>13,541,199</u> | <u>(13,572,684)</u> | <u>86,062</u> |
| | <u>1,837,472</u> | <u>274,577,060</u> | <u>(274,898,767)</u> | <u>1,515,765</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

28. Taxes and charges payable

| | 2016 | 2015 |
|--|--------------------|--------------------|
| VAT | 72,920,316 | 36,379,940 |
| Business tax | – | 105,775,332 |
| Corporate income tax | 142,223,431 | 46,989,244 |
| Individual income tax | 4,734,973 | 4,664,656 |
| Urban maintenance and construction tax | 2,720,271 | 8,832,871 |
| Educational surtax | 2,561,018 | 6,664,267 |
| Others | <u>25,840,715</u> | <u>42,244,696</u> |
| | <u>251,000,724</u> | <u>251,551,006</u> |

29. Interest payable

| | 2016 | 2015 |
|----------------------------|--------------------|--------------------|
| Interest on corporate bond | 61,068,417 | 197,867,828 |
| Interest on loan payable | <u>79,127,386</u> | <u>91,722,905</u> |
| | <u>140,195,803</u> | <u>289,590,733</u> |

30. Dividends payable

| | 2016 | 2015 |
|--------------------------------|------------|------------|
| CCCC Tianjin Dredging Co., Ltd | 25,079,494 | 25,079,494 |
| CHUWA BUSSAN company limited | 6,269,873 | 6,269,873 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

30. Dividends payable (continued)

| | | |
|---|-------------------|-------------------|
| Hong Kong Zhenhua Engineering Co., Ltd | 346,005 | 346,005 |
| Macau Zhenhua Harbor Engineering Co., Ltd | 6,593 | 6,593 |
| China Communications Corporation | – | 502,283 |
| Access Engineering Plc. | – | <u>33,664</u> |
| | <u>31,701,965</u> | <u>32,237,912</u> |

As of Dec. 31, 2016, the dividends payable over one 1 year is RMB 31,701,965 Yuan (Dec. 31, 2015: RMB 542,540 Yuan) is the Group actual payments that the minority shareholders of related party's required.

31. Other payables

| | | |
|----------------------------|----------------------|----------------------|
| | 2016 | 2015 |
| Related parties loans | 523,000,000 | 1,118,000,000 |
| Construction deposit | 278,510,650 | 205,692,211 |
| CCCC investment payment(i) | 100,971,833 | 100,971,833 |
| Related parties payables | 308,637,187 | 50,158,344 |
| Tax to be carried forward | – | 25,997,127 |
| Others | <u>14,015,758</u> | <u>103,703,871</u> |
| | <u>1,225,135,428</u> | <u>1,604,523,386</u> |

(i). The Group completed the cancellation of a subsidiary during the year 2011. The balance of 25,971,833 Yuan shall be accounted into the payable by the Group attributable

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

to shareholders of the subsidiary of another CCCC liquidation of the investment; meanwhile, the Group completed the acquisition of subsidiary of CCC in 2015. The balance of 75,000,000 Yuan is the payment of the Group to CCC.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

31. Other payables (continued)

Other accounts payable analyzed by age:

| | <u>Dec. 31, 2016</u> | | <u>Dec. 31, 2015</u> | |
|-----------------|----------------------|-------------|----------------------|-------------|
| | Amount | Proportion | Amount | Proportion |
| Within one year | 978,705,261 | 80% | 1,468,169,962 | 92% |
| Above one year | <u>246,430,167</u> | <u>20%</u> | <u>136,353,424</u> | <u>8%</u> |
| | <u>1,225,135,428</u> | <u>100%</u> | <u>1,604,523,386</u> | <u>100%</u> |

As of Dec. 31, 2016, other payables aged over one year mainly payables to related parties, deposits to outsourced construction team and quality guarantee deposit received.

32. Non-current liabilities due within one year

| | 2016 | 2015 |
|---|--------------------|----------------------|
| Less: long-term loan within one year (Note V.34) | 270,000,000 | 2,977,796,000 |
| Less: bonds payable due within 1 year | — | 3,799,949,635 |
| Non-current liabilities due within one year (Note V.35) | <u>529,574,356</u> | <u>59,370,057</u> |
| | <u>799,574,356</u> | <u>6,837,115,692</u> |

Bonds payable

Approved by the Z.S.X.Z. (2011) MTN25 Document “Acceptance Notice of the National Association of Financial Market Institutional Investors” of National Association of Financial Market Institutional Investors, the Company issued a medium-term note of RMB 3,800,000.00 Yuan on February 24, 2011. The term of this medium-term note is 5 years, and the annual interest rate is 5.85% each year. The bond issue costs are paid annually. The bond has no collateral or security and is fully repaid in February 2016.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

As of December 31, 2016, the balance of bonds payable is as follows:

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

32. Non-current liabilities due within one year (continued)

| | Total face value | Issue cost | Opening balance | Amortization of this year's issuance cost | This repayment | Closing balance |
|---------------------------|---------------------|--------------|----------------------|---|------------------------|--------------------|
| Issued in 2011 | | | | | | |
| Note of first mid-term | 3,800,000,000 | (56,450,000) | <u>3,799,949,635</u> | <u>50,365</u> | <u>(3,800,000,000)</u> | <u>=</u> |

As of December 31, 2015, the balance of bonds payable is as follows:

| | Total face value | Issue cost | Opening balance | Amortization of this year's issuance cost | This repayment | Closing balance |
|---------------------------|---------------------|--------------|----------------------|---|-------------------|----------------------|
| Issued in 2011 | | | | | | |
| Note of first mid-term | 3,800,000,000 | (56,450,000) | <u>3,799,615,401</u> | <u>(11,400,000)</u> | <u>11,734,234</u> | <u>3,799,949,635</u> |

33. Other current liabilities

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Short-term financing securities of the first term of 2016 | 1,998,695,891 | — |
| Super short-term financing securities of the first term of 2016 | 1,997,329,444 | — |
| Short-term financing securities of the first term of 2015 | = | <u>1,995,655,739</u> |
| | <u>3,996,025,335</u> | <u>1,995,655,739</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Related detail of short-term bonds payable is as follow:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

33. Other current liabilities (continued)

| | Face value | Issue cost | Amortization of issue cost | December 31, 2016 |
|---|---------------|-------------|-------------------------------|----------------------|
| Issued in 2016 | | | | |
| Short-term financing securities of the first term | 2,000,000,000 | (4,000,000) | <u>2,695,891</u> | <u>1,998,695,891</u> |
| Super short-term financing securities of the first term | 2,000,000,000 | (3,450,000) | <u>779,444</u> | <u>1,997,329,444</u> |
| | Face value | Issue cost | Amortization of issue cost | December 31, 2015 |
| Issued in 2015 | | | | |
| Short-term financing securities of the first term | 2,000,000,000 | (5,000,000) | <u>655,739</u> | <u>1,995,655,739</u> |

As approved by the No.CP47925 "China Inter-bank Market Dealers Association File Receiving Registration Notice" issued by China inter-bank market dealers association in the City Association (2014) , the Company can issue registered amount of RMB 5,000,000,000Yuan short-term financing bonds, the registered amount shall be valid for 2 years from Dec. 3, 2014.

As approved by the No. SCP321 "China Inter-bank Market Dealers Association File Receiving Registration Notice" issued by China inter-bank market dealers association in the City

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Association (2016) , the Company can issue registered amount of RMB 10,000,000,000Yuan super short-term financing bonds, the registered amount shall be valid for 2 years from Oct. 19, 2016.

The Company issued RMB 2,000,000,000 Yuan short-term financing bonds on Nov. 11, 2015, the note term is 1 year, and the fixed annual interest is 3.5%, capital with interest shall be repaid at one time at maturity. The short term financing bonds has been expired in November 2016 and has been paid up.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

33. Other current liabilities (continued)

The Company issued RMB 2,000,000,000 Yuan short-term financing bonds of the first term on April 28, 2016, the note term is 1 year, and the annual interest of face value is 3.7%, capital with interest shall be repaid at one time on April 29, 2017.

The Company issued RMB 2,000,000,000 Yuan super short-term financing bonds of the first term on Oct. 28, 2016. The note term is 270 days, and the annual interest of face value is 3.2%, capital with interest shall be repaid at one time on Friday, July 28, 2017.

The bonds above have no mortgage or security.

34. Long term loans

| | 2016 | 2015 |
|--------------------------------------|----------------------|------------------------|
| Credit loans | 3,121,485,497 | 2,492,700,000 |
| Mortgage loans(i) | 346,850,000 | 60,000,000 |
| Pledged loans(ii) | <u>727,000,000</u> | <u>2,187,000,000</u> |
| | <u>4,195,335,497</u> | <u>4,739,700,000</u> |
| Less: long-term loan within one year | | |
| Guaranteed loans | — | (60,000,000) |
| Credit loans | — | (1,714,296,000) |
| Mortgage loans | <u>(270,000,000)</u> | <u>(1,203,500,000)</u> |
| | <u>(270,000,000)</u> | <u>(2,977,796,000)</u> |
| | <u>3,925,335,497</u> | <u>1,761,904,000</u> |

As of Dec. 31, 2016, the annual interest rate of the above loans is from 1.20% – 6.89%, (Dec. 31, 2015: 1.20% – 6.91%).

As of Dec. 31, 2016, the bank guarantee loan of 346,850,000 Yuan is the loan borrowed

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

from the subsidiary, and the Company provides the guarantee. The interest is paid quarterly; the principal shall be paid on July 27, 2018.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

34. Long term loans (continued)

As of Dec. 31, 2015, the bank guarantee loan of 60,000,000 Yuan is the loan borrowed from the subsidiary, and the Company's related company (CCCC Tianjin Waterway Bureau Co., Ltd.) provides the guarantee. The interest is paid quarterly, the principal shall be paid on Feb. 22, 2016 and August 22, 2016.

(ii). As of Dec. 31, 2016, multiple pledge loans of the bank is 727,000,000 Yuan (Dec. 31, 2015: RMB 2,187,000,000 Yuan) in total as pledge of the wholly-owned subsidiary of the Group – Nanjing Ninggao New Channel Construction Co., Ltd. “construction-transfer” project long-term receivable in whole amount (Note V (12)). The interest is paid quarterly, the principal shall be paid between June 21, 2017 and Nov. 25, 2018 (Dec 31, 2015: the principal shall be paid between June 21, 2016 and Nov. 25, 2018).

35. Long-term payable

| | 2016 | 2015 |
|--|----------------------|---------------------|
| Sale-leaseback financing funds(i) | 2,082,370,386 | 779,232,000 |
| “Construction-transfer” project funds(ii) | <u>65,565,134</u> | = |
| Less: sale-leaseback financing funds due within one year (Note V.32) | <u>(529,574,356)</u> | <u>(59,370,057)</u> |
| | <u>1,618,361,164</u> | <u>719,861,943</u> |

(i). As of Dec. 31, 2016, the long-term payable of RMB 2,082,370,386 Yuan (Dec. 31, 2015: 779,232,000) is obtained by vessel with book value of RMB 1,882,864,040 Yuan (Dec. 31, 2015: RMB 1,036,238,241 Yuan) (Note V (15)) and the mechanical equipment with book value of RMB 555,450,350 Yuan (Dec. 31, 2015: None (Note V (15))) selling to financing lease company and bank in way of rental after sales. The financing term is 4 to 6 years (Dec. 31, 2015: 6 years). The Group pays the sale-leaseback financing funds to financing lease company every year on schedule in accordance with the Contract terms. The Group will take the trade as the mortgage loan.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

(ii). The Company's subsidiary and the Construction Party of "construction-transfer" project construction agreed that part of the project payments will be paid to the Construction Party after the final acceptance of the "construction-transfer" project within a certain term. The Group expects that the above "Construction-transfer" project funds will be paid in 2019.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

36. Estimated liabilities

2016

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|---|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Estimated aftersales service cost | 216,306,557 | 235,780,889 | (161,871,330) | 290,216,116 |
| Product quality guarantee | 1,176,471 | – | (934,954) | 241,517 |
| Others | <u>2,658,150</u> | <u>–</u> | <u>–</u> | <u>2,658,150</u> |
| | <u>220,141,178</u> | <u>235,780,889</u> | <u>(162,806,284)</u> | <u>293,115,783</u> |

2015

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|---|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Estimated aftersales service cost | 200,563,933 | 183,742,973 | (168,000,349) | 216,306,557 |
| Product quality guarantee | 2,466,240 | 306,368 | (1,596,137) | 1,176,471 |
| Pending litigation or arbitration | 5,725,890 | – | (5,725,890) | – |
| Others | <u>3,488,353</u> | <u>–</u> | <u>(830,203)</u> | <u>2,658,150</u> |
| | <u>212,244,416</u> | <u>184,049,341</u> | <u>(176,152,579)</u> | <u>220,141,178</u> |

37. Deferred income

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)
2016

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

37. Deferred income (continued)

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|-------------------|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Government grants | 323,237,563 | 70,020,819 | (22,478,059) | 370,780,323 |
| Land compensation | <u>82,188,384</u> | <u>—</u> | <u>(1,932,683)</u> | <u>80,255,701</u> |
| | <u>405,425,947</u> | <u>70,020,819</u> | <u>(24,410,742)</u> | <u>451,036,024</u> |

2015

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|-------------------|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Government grants | 256,227,380 | 115,204,307 | (48,194,124) | 323,237,563 |
| Land compensation | <u>84,120,528</u> | <u>—</u> | <u>(1,932,144)</u> | <u>82,188,384</u> |
| | <u>340,347,908</u> | <u>115,204,307</u> | <u>(50,126,268)</u> | <u>405,425,947</u> |

As of December 31, 2016, the liabilities projects involved government grants are as follow:

| | Opening balance | New subsidies of the current period | Amounts included in non-operating income in the current period | Other changes | Closing balance |
|---------------|--------------------|--|---|------------------|--------------------|
| Non-operating | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

income

| | | | | | |
|---------------|------------|---|---|---|------------|
| Lifting cable | 92,500,000 | — | — | — | 92,500,000 |
| layout vessel | | | | | |
| R&D project | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

37. Deferred income (continued)

| | | | | | |
|--|------------|------------|-------------|-------------|------------|
| Submarine pipeline laying R&D project | 43,125,500 | — | (2,000,000) | — | 41,125,500 |
| Automated dock R&D project | 25,620,000 | — | — | — | 25,620,000 |
| Floating crane R&D project | 19,510,000 | — | — | — | 19,510,000 |
| Intelligent equipment for container yard | 5,985,000 | 12,600,000 | — | (640,000) | 17,945,000 |
| Research project of deep water drilling ship and related equipment | 5,360,000 | 9,500,000 | — | — | 14,860,000 |
| 50000 ton semi-submersible ship R&D projects | 14,000,000 | — | — | — | 14,000,000 |
| Drilling platform development project | 13,650,000 | 3,040,000 | — | (3,880,000) | 12,810,000 |
| Transportation positioning system R&D project | 8,000,000 | 2,000,000 | — | — | 10,000,000 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

37. Deferred income (continued)

| | | | | | |
|---|------------|-----------|--------------|-----------|------------|
| Comprehensive standardization of intelligent manufacturing for marine | 5,300,000 | 4,700,000 | – | – | 10,000,000 |
| Large underwater manipulator system equipment R&D | 7,000,000 | 3,000,000 | – | (792,000) | 9,208,000 |
| Marine engineering positioning system R&D project | 10,250,000 | – | (1,057,661) | – | 9,192,339 |
| Drilling package R&D project | 8,000,000 | 400,000 | – | – | 8,400,000 |
| Marine manufacturing process optimization R&D project | – | 8,000,000 | – | – | 8,000,000 |
| Nantong Drive R&D projects | 17,900,000 | – | (10,700,000) | – | 7,200,000 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

37. Deferred income (continued)

| | | | | | |
|---|-----------|-----------|-------------|-----------|-----------|
| Intelligent transportation system of Automatic Guided Vehicle (AGV) | - | 6,000,000 | - | - | 6,000,000 |
| CCC DCM ship achievement transformation project | - | 7,000,000 | (1,093,750) | - | 5,906,250 |
| Development and industrialization of large deep water crane piping ship | 5,340,000 | 232,000 | - | - | 5,572,000 |
| Self-elevating platform central control system | - | 3,500,000 | - | - | 3,500,000 |
| Special gear shaft for port machinery Finishing intelligent production line | - | 3,200,000 | - | (640,000) | 2,560,000 |
| Intelligent electric differential traction bridge crane | - | 2,030,000 | - | (586,000) | 1,444,000 |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

37. Deferred income (continued)

| | | | | | |
|--------------------|--------------------|-------------------|---------------------|--------------------|--------------------|
| Other R&D projects | <u>41,697,063</u> | <u>4,818,819</u> | <u>(960,751)</u> | <u>(127,897)</u> | <u>45,427,234</u> |
| Other R&D projects | <u>323,237,563</u> | <u>70,020,819</u> | <u>(15,812,162)</u> | <u>(6,665,897)</u> | <u>370,780,323</u> |

As of December 31, 2015, the liabilities projects involved government grants are as follow:

| | Opening balance | New subsidies of the current period | Amounts included in non-operating income in the current period | Other changes | Closing balance |
|--|--------------------|--|---|------------------|--------------------|
| Non-operating income | | | | | |
| Lifting cable layout vessel R&D project | 94,050,000 | – | – | (1,550,000) | 92,500,000 |
| Submarine pipeline laying R&D project | 23,901,800 | 25,100,000 | – | (5,876,300) | 43,125,500 |
| Automated dock R&D project | 21,900,000 | 4,320,000 | – | (600,000) | 25,620,000 |
| Floating crane R&D project | 19,510,000 | – | – | – | 19,510,000 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | | |
|---------------|-----------|-----------|---|---|------------|
| Nantong Drive | | | | | |
| R&D projects | 8,700,000 | 9,200,000 | — | — | 17,900,000 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

37. Deferred income (continued)

| | | | | | |
|---|------------|------------|-----------|-------------|------------|
| 50000 ton semi-submersible ship R&D projects | - | 14,000,000 | - | - | 14,000,000 |
| Drilling platform development project | 13,850,000 | - | (200,000) | - | 13,650,000 |
| Marine engineering positioning system R&D project | 10,250,000 | - | - | - | 10,250,000 |
| Transportation positioning system R&D project | 8,000,000 | - | - | - | 8,000,000 |
| Drilling package R&D project | 8,000,000 | - | - | - | 8,000,000 |
| Large underwater manipulator system equipment R&D | - | 7,000,000 | - | - | 7,000,000 |
| Intelligent equipment for container yard | - | 7,200,000 | - | (1,215,000) | 5,985,000 |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

37. Deferred income (continued)

| | | | | | |
|---|--------------------|--------------------|---------------------|---------------------|--------------------|
| Research project of deep water drilling ship and related equipment | - | 16,000,000 | - | (10,640,000) | 5,360,000 |
| Development and industrialization of large deep water crane piping ship | 5,340,000 | - | - | - | 5,340,000 |
| Comprehensive standardization of intelligent manufacturing for marine | - | 10,000,000 | - | (4,700,000) | 5,300,000 |
| Other R&D projects | <u>42,725,580</u> | <u>22,384,307</u> | <u>(21,569,924)</u> | <u>(1,842,900)</u> | <u>41,697,063</u> |
| | <u>256,227,380</u> | <u>115,204,307</u> | <u>(21,769,924)</u> | <u>(26,424,200)</u> | <u>323,237,563</u> |

The above-mentioned government subsidy is related to the income.

Other changes in this year are the research and development subsidies allocated to the partners under the cooperative R & D agreement.

Land compensation funds shall be compensated by the Company's subsidiaries. The amount of compensation shall be amortized on average for 50 years.

38. Other non-current liabilities

| | 2016 | 2015 |
|------------------------|-------------------|------|
| Stay - recognition tax | <u>56,025,416</u> | = |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

38. Other non-current liabilities (continued)

During the “Construction – Transfer” project, the Group adopts the construction contract to calculate its income. At the date of the balance sheet, the income of part of the construction contract and interest income have not reached the time point of the value – added tax obligation. The end – of – term credit balance of such accounting items as “tax for tax payable – to – transferred output tax” shall be classified by the “tax payable” to “other non – current liabilities” in the balance sheet at the end of 2016 in, accordance with the requirements of “Provisions on Treatment of Value – added Tax Accounting” in 2016 (according to the Accounting Regulations 2016).

39. Capital stock

2016

| | Opening balance | <u>Change in this year</u> | | | | | Closing balance |
|--|----------------------|----------------------------|-------------------|-------------------------------|-------|----------|----------------------|
| | | issuing new shares | stock dividend | Accumulation fund turn add | Other | subtotal | |
| Unlimited shares sold conditions | | | | | | | |
| -RMB ordinary shares | 2,768,331,384 | - | - | - | - | - | 2,768,331,384 |
| - Foreign share | <u>1,621,963,200</u> | = | = | = | = | = | <u>1,621,963,200</u> |
| | <u>4,390,294,584</u> | = | = | = | = | = | <u>4,390,294,584</u> |

2015

| | Opening balance | <u>Change in this year</u> | | | | | Closing balance |
|--|--------------------|----------------------------|--|--|--|--|--------------------|
|--|--------------------|----------------------------|--|--|--|--|--------------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| issuing | stock | Accumulation | Other | subtotal |
|------------|----------|---------------|-------|----------|
| new shares | dividend | fund turn add | | |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

39. Capital stock (continued)

Unlimited
shares
sold
conditions

| | | | | | | | |
|----------------------------|----------------------|---|---|---|---|---|----------------------|
| -RMB ordinary shares | 2,768,331,384 | - | - | - | - | - | 2,768,331,384 |
| -Foreign share | <u>1,621,963,200</u> | = | = | = | = | = | <u>1,621,963,200</u> |
| | <u>4,390,294,584</u> | = | = | = | = | = | <u>4,390,294,584</u> |

40. Capital reserve

2016

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|---|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Capital stock premium | 5,415,833,470 | - | - | 5,415,833,470 |
| Other capital surplus | | | | |
| -Business Combination under Common Control | (16,203,111) | - | - | (16,203,111) |
| -Purchasing of minority interest of subsidiaries | (711,345) | - | - | (711,345) |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | |
|------------------------------------|----------------------|---|---|----------------------|
| -Transfer-in of capital reserve | <u>128,059,561</u> | = | = | <u>128,059,561</u> |
| | <u>5,526,978,575</u> | = | = | <u>5,526,978,575</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

40. Capital reserve (continued)

2015

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|--|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Capital stock premium | 5,415,833,470 | - | - | 5,415,833,470 |
| Other capital surplus | | | | |
| -Business Combination under Common Control | 195,060,000 | - | (211,263,111) | (16,203,111) |
| -Purchasing of minority interest of subsidiaries | (711,345) | - | - | (711,345) |
| -Transfer-in of capital reserve | <u>128,059,561</u> | = | = | <u>128,059,561</u> |
| | <u>5,738,241,686</u> | = | <u>(211,263,111)</u> | <u>5,526,978,575</u> |

41. Other comprehensive income

Accumulative balance of other comprehensive income attributable to the parent company in the balance sheet:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

41. Other comprehensive income (continued)

| | January 1 | Change | December 31, | Change | December 31 |
|---|----------------------|---------------------|--------------------|---------------------|---------------------|
| | 2015 | | 2015 | | 2016 |
| Other comprehensive income that will be reclassified into gains and losses subsequently | | | | | |
| -Portion of other comprehensive income to be reclassified as profit or loss under equity method | - | 1, 256, 397 | 1, 256, 397 | 4, 801, 990 | 6, 058, 387 |
| -Fair value change profit or loss of financial assets available for sale | 321, 642, 049 | (123, 536, 363) | 198, 105, 686 | 84, 335, 801 | 282, 441, 487 |
| -Converted difference in Foreign Currency | <u>(2, 102, 007)</u> | <u>10, 400, 161</u> | <u>8, 298, 154</u> | <u>25, 605, 643</u> | <u>33, 903, 797</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

Statements

| | | | | |
|--------------------|----------------------|--------------------|--------------------|--------------------|
| <u>319,540,042</u> | <u>(111,879,805)</u> | <u>207,660,237</u> | <u>114,743,434</u> | <u>322,403,671</u> |
|--------------------|----------------------|--------------------|--------------------|--------------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

41. Other comprehensive income (continued)

Amount incurred by other comprehensive income in the income statement:

2016

| | Amount incurred | Less: it was included in other | Less: income tax | Parent company | Minority stockholder's interest |
|--|--------------------|--|---------------------|-------------------|---------------------------------------|
| | before tax | comprehensive income at prior period | tax | company | interest |
| | | and was transferred into profit and loss at current period | | | |
| Other comprehensive income that will be reclassified into gains and losses subsequently | | | | | |
| -Portion of other comprehensive income to be reclassified as profit or loss under equity method | | | | | |
| Fair value change profit or loss of | 4,801,990 | - | - | 4,801,990 | - |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

financial
assets
available for
sale

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

41. Other comprehensive income (continued)

| | | | | | |
|--|--------------------|---|-------------------|--------------------|------------------|
| -Fair value change profit or loss of financial assets available for sale | 101,395,326 | - | 17,059,525 | 84,335,801 | - |
| -Converted difference in Foreign Currency Statements | <u>33,370,647</u> | = | = | <u>25,605,643</u> | <u>7,765,004</u> |
| | <u>139,567,963</u> | = | <u>17,059,525</u> | <u>114,743,434</u> | <u>7,765,004</u> |

2015

| | Amount incurred | Less: it was included in other | Less: income tax | Parent company | Minority stockholder's interest |
|--|-----------------|--------------------------------------|------------------|----------------|---------------------------------|
| | before tax | comprehensive income at prior period | | | |
| | | and was transferred into profit and | | | |
| | | loss at current period | | | |
| Other comprehensive income that will be reclassified | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

into gains and
losses
subsequently

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

41. Other comprehensive income (continued)

-Portion of
other
comprehensive
income to be
reclassified
as profit or
loss under
equity method

| | | | | | |
|---|-------------|---|---|-------------|---|
| Fair value change profit or loss of financial assets available for sale | 1, 256, 397 | - | - | 1, 256, 397 | - |
|---|-------------|---|---|-------------|---|

| | | | | | |
|---|---------------|---------------|--------------|-----------------|---|
| Fair value change profit or loss of financial assets available for sale | 280, 878, 768 | 363, 049, 437 | 41, 365, 694 | (123, 536, 363) | - |
|---|---------------|---------------|--------------|-----------------|---|

| | | | | | |
|--|---------------------|---|---|---------------------|--------------------|
| -Converted difference in Foreign Currency Statements | <u>15, 709, 264</u> | = | = | <u>10, 400, 161</u> | <u>5, 309, 103</u> |
|--|---------------------|---|---|---------------------|--------------------|

| | | | | | |
|--|----------------------|----------------------|---------------------|------------------------|--------------------|
| | <u>297, 844, 429</u> | <u>363, 049, 437</u> | <u>41, 365, 694</u> | <u>(111, 879, 805)</u> | <u>5, 309, 103</u> |
|--|----------------------|----------------------|---------------------|------------------------|--------------------|

42. Specialized reserve

2016

| | | | |
|-----------------|-----------------|-----------|-----------------|
| Opening balance | Addition report | Deduction | Closing balance |
|-----------------|-----------------|-----------|-----------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | in current year | period | report year | in current year |
|------------|-----------------|-------------------|---------------------|-----------------|
| Safety | = | <u>26,851,099</u> | <u>(26,851,099)</u> | = |
| production | | | | |
| costs | | | | |

According to the relevant requirements of the “Administrative Measures for the Extraction and Use of Safety in Production of Enterprises”, enterprises engaged in large – scale machinery manufacture, construction engineering construction, etc., shall draw safe production costs according to the standards. Increase and decrease the safety production cost of this year in accordance with relevant requirements.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

43. Surplus reserve

2016

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|-----------------------|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Surplus reserves | 1,283,722,118 | 27,022,196 | — | 1,310,744,314 |
| Other surplus reserve | <u>292,378,668</u> | — | — | <u>292,378,668</u> |
| | <u>1,576,100,786</u> | <u>27,022,196</u> | — | <u>1,603,122,982</u> |

2015

| | Opening balance in current year | Addition report period | Deduction report year | Closing balance in current year |
|-----------------------|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Surplus reserves | 1,262,227,357 | 21,494,761 | — | 1,283,722,118 |
| Other surplus reserve | <u>292,378,668</u> | — | — | <u>292,378,668</u> |
| | <u>1,554,606,025</u> | <u>21,494,761</u> | — | <u>1,576,100,786</u> |

According to P. R. China Company Law, the Company's Article of Association and board meeting decisions, the Company accrues 10% of its net profit as statutory surplus reserve. When statutory surplus reserve accumulated reached 50% of the Capital stock, the Company can stop accruing. Statutory surplus reserve can be used to compensate loss upon approval, or to increase Capital stock. The Company's statutory surplus reserve is RMB 27,022,196 Yuan in 2016 (2015: RMB 21,494,761 Yuan).

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

44. Undistributed profit

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Undistributed profit at beginning of the period | 3,168,538,701 | 2,987,813,174 |
| Net profit attributable to parent company | 212,419,946 | 212,411,967 |
| Less: statutory surplus reserve | (27,022,196) | (21,494,761) |
| Common stock dividends payable | = | <u>(10,191,679)</u> |
| Undistributed profit at end of the period | <u>3,353,936,451</u> | <u>3,168,538,701</u> |

45. Operating income and operating cost

| | <u>2016</u> | | <u>2015</u> | |
|------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Income | Cost | Income | Cost |
| Main operations | 24,143,396,762 | 19,525,829,470 | 23,014,315,324 | 19,473,230,285 |
| Other operations | <u>204,691,166</u> | <u>201,834,405</u> | <u>258,079,353</u> | <u>244,084,570</u> |
| | <u>24,348,087,928</u> | <u>19,727,663,875</u> | <u>23,272,394,677</u> | <u>19,717,314,855</u> |

Major operating income and operating cost are listed as follows:

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

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V. Notes to items in the consolidated financial statements (continued)

45. Operating income and operating cost (continued)

| | <u>2016</u> | | <u>2015</u> | |
|-------------------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| | Major operating income | Major operating cost | Major operating income | Major operating cost |
| Container cranes | 17,082,391,036 | 13,067,811,357 | 14,994,515,929 | 12,039,998,425 |
| Bulk machinery | 3,154,983,915 | 3,054,772,000 | 2,013,370,826 | 1,862,388,384 |
| Heavy equipment | 1,284,872,909 | 1,279,775,256 | 3,985,411,881 | 3,950,151,042 |
| Steel structures and related income | 1,035,829,290 | 938,105,979 | 826,175,120 | 796,465,278 |
| “Construction – transfer” Item | 1,005,087,825 | 1,019,082,565 | 514,064,790 | 447,701,799 |
| Vessel shipping and others | <u>580,231,787</u> | <u>166,282,313</u> | <u>680,776,778</u> | <u>376,525,357</u> |
| | <u>24,143,396,762</u> | <u>19,525,829,470</u> | <u>23,014,315,324</u> | <u>19,473,230,285</u> |

Other operating income and other operating cost

| | <u>2016</u> | | <u>2015</u> | |
|-----------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| | Other operating income | Other operating cost | Other operating income | Other operating cost |
| Sales of materials | 81,273,472 | 139,919,381 | 132,403,534 | 146,110,137 |
| Equipment leasing and | <u>123,417,694</u> | <u>61,915,024</u> | <u>125,675,819</u> | <u>97,974,433</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

others

204,691,166

201,834,405

258,079,353

244,084,570

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
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V. Notes to items in the consolidated financial statements (continued)

46. Business taxes and surcharges

| | 2016 | 2015 |
|--|--------------------|-------------------|
| Business tax | 47,494,080 | 10,974,073 |
| Urban maintenance and construction tax | 15,645,413 | 6,074,911 |
| Educational surtax | 12,504,639 | 5,496,235 |
| House property tax | 48,028,255 | — |
| Land use tax | 16,874,815 | — |
| Stamp tax | 9,661,367 | — |
| Others | <u>1,967,268</u> | <u>2,004,960</u> |
| | <u>152,175,837</u> | <u>24,550,179</u> |

47. Selling expenses

| | 2016 | 2015 |
|-------------------------------|------------|------------|
| Employee remuneration payable | 53,604,675 | 44,644,978 |
| Travel expenses | 24,261,692 | 22,084,463 |
| Office expenses | 5,063,286 | 3,739,877 |
| Sales service expenses | 3,561,444 | 285,529 |
| Exhibition expenses | 2,866,724 | 2,176,378 |
| Tender expenses | 1,582,134 | 1,797,466 |
| Advert expenses | 1,370,622 | 1,651,244 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

| | | |
|--|--------------------|-------------------|
| Maintenance costs (including materials) | 574,737 | 179,725 |
| Fixed assets depreciation | 135,265 | 135,960 |
| Others | <u>7,415,199</u> | <u>2,693,123</u> |
| | <u>100,435,778</u> | <u>79,388,743</u> |

48. Administrative expenses

| | | |
|------------------------------------|-------------|-------------|
| | 2016 | 2015 |
| R&D expenses | 851,544,356 | 717,412,492 |
| Employee remuneration payable | 435,509,342 | 344,563,366 |
| Intangible assets amortization | 97,017,725 | 93,446,864 |
| Expenses on employing intermediary | 76,540,843 | 54,836,758 |
| Fixed assets depreciation | 73,752,507 | 67,811,262 |
| Office expenses | 43,843,424 | 43,037,316 |
| Taxes | 39,216,370 | 109,946,415 |
| Travel expenses | 21,821,209 | 16,708,445 |
| Consulting fees | 18,030,885 | 5,869,779 |
| Business entertainment expenses | 15,921,003 | 14,853,947 |
| Informatization expenses | 13,574,204 | 10,445,654 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | |
|---------------------|-----------|-----------|
| Insurance expenses | 7,865,652 | 8,582,832 |
| Maintenance expense | 6,483,287 | 3,626,881 |
| (To be continued) | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

48. Administrative expenses (continued)

| (Continued) | 2016 | 2015 |
|---------------------|-------------------------|-------------------------|
| Conference expenses | 1, 723, 476 | 1, 589, 710 |
| Others | <u>56, 188, 463</u> | <u>58, 490, 843</u> |
| | <u>1, 759, 032, 746</u> | <u>1, 551, 222, 564</u> |

49. Finance expenses

| | 2016 | 2015 |
|---|-------------------------|-------------------------|
| Interest expenditure | 1, 095, 191, 900 | 1, 279, 031, 963 |
| Less: interest income | 308, 686, 445 | 369, 131, 564 |
| Less: capitalized amount of interest | 268, 297 | — |
| Foreign exchange loss | 369, 552, 810 | 562, 525, 676 |
| Amortization of issue cost of intermediate term bills | 7, 869, 961 | 12, 389, 973 |
| Others | <u>55, 332, 859</u> | <u>48, 035, 048</u> |
| | <u>1, 218, 992, 788</u> | <u>1, 532, 851, 096</u> |

The capitalization amount of loan expenses is included in the construction in progress.

50. Impairment on assets

| | 2016 | 2015 |
|--------------------------------|---------------|--------------|
| Loss on inventory (Note V. 21) | 803, 814, 035 | 52, 848, 818 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

| | | |
|-------------------------------|---------------|---------------|
| Loss on bad debt (Note V. 21) | 214, 478, 691 | 279, 634, 757 |
|-------------------------------|---------------|---------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

50. Impairment on assets (continued)

| | | |
|---|----------------------|--------------------|
| Expected contract losses (Note V.21) | <u>202,823,449</u> | <u>304,907,624</u> |
| | <u>1,221,116,175</u> | <u>637,391,199</u> |

51. Gain/loss from fair-value changes

| | | |
|--|-------------------|-------------------|
| | 2016 | 2015 |
| Measured at fair value and the changes are recorded into the profits and losses of the current financial asset (Note V.2) | 3,939,693 | (25,058,919) |
| Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities (Note V.23) | <u>24,918,115</u> | <u>3,833,885</u> |
| | <u>28,857,808</u> | <u>21,225,034</u> |

52. Investment income

| | | |
|--|------------|------------|
| 2016 | 2015 | |
| Investment gains from long-term equity verified by equity method (Note V.13) | 99,395,952 | 55,252,057 |
| Investment gains from disposal financial assets available-for-sale-equity tool period (Note V.11) | - | 9,465,520 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

| | | |
|---|--------------|-------------|
| Investment income of available-for-sale financial assets (Note V. 11) | 17, 010, 628 | 6, 402, 396 |
|---|--------------|-------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

52. Investment income (continued)

| | | |
|--|--------------|--------------------|
| Bank financial products investment income | 2,101,669 | 393,033,507 |
| Investment income from disposal of available-for-sale financial assets | <u>5,176</u> | <u>34,083,478</u> |
| | - | <u>498,236,958</u> |

53. Non-operating income

| | 2016 | 2015 | Accrued in current period Non-recurring profit and loss |
|--|-------------------|-------------------|--|
| Gains from disposal of non-current assets | 6,649,827 | 14,128,543 | 6,649,827 |
| Among which: gains on the disposal of fixed assets | 6,649,827 | 14,128,543 | 6,649,827 |
| Government grants | 45,042,910 | 40,881,189 | 45,042,910 |
| Donation obtained | - | 2,549,000 | - |
| Others | <u>11,950,506</u> | <u>13,154,739</u> | <u>100%</u> |
| | <u>63,643,243</u> | <u>70,713,471</u> | <u>63,643,243</u> |

Government subsidy included in the current profits and losses:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

| | 2016 | 2015 | Related to assets/income |
|-------------------------|------------|------------|-----------------------------|
| Financial allocation | 39,982,226 | 36,449,045 | Related to income |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

53. Non-operating income (continued)

| | | | |
|--------------------------------|-------------------|-------------------|-------------------|
| Science and technology subsidy | 3,128,000 | 2,500,000 | Related to income |
| Land compensation (Note V.37) | <u>1,932,684</u> | <u>1,932,144</u> | Related to assets |
| | <u>45,042,910</u> | <u>40,881,189</u> | |

54. Non-operating expenses

| | | | |
|---|-------------------|------------------|---------------------------|
| | 2016 | 2015 | Accrued in current period |
| Non-recurring profit and loss | | | |
| Non Current assets disposal loss | 5,309,215 | 4,789,746 | 5,309,215 |
| Among which: losses on the disposal of fixed assets | 5,309,215 | 4,789,746 | 5,309,215 |
| External donation | 20,000 | 530,000 | 20,000 |
| External donation | 3,474,664 | 39,593 | 3,474,664 |
| Others | <u>2,020,182</u> | <u>306,533</u> | <u>2,020,182</u> |
| | <u>10,824,061</u> | <u>5,665,872</u> | <u>10,824,061</u> |

55. Cost classification by nature

Further information about the Group's operating costs, sales expenses and management expenses are classified by nature as follows:

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Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

55. Cost classification by nature (continued)

| | 2016 | 2015 |
|---|----------------|----------------|
| Expendable raw material and low value consumables | 14,371,771,965 | 14,623,452,686 |
| Employee remuneration (Note V (27)) | 1,789,154,586 | 1,691,745,763 |
| Depreciation and amortization expenses | | |
| (Note V (14), (15), (17), (19)) | 1,285,028,932 | 1,342,307,268 |
| External coordination costs | 1,277,245,080 | 911,640,427 |
| Transportation expenses | 671,016,351 | 749,214,023 |
| Technical R & D expenses (Note V (48)) | 851,544,356 | 717,412,492 |
| Energy expenses | 298,219,379 | 280,917,025 |
| On-site installation expenses | 216,944,442 | 194,104,215 |
| Rental fee | 172,780,365 | 162,684,322 |
| After-sales costs | 127,301,003 | 125,219,471 |
| Expenses on employing intermediary | 76,540,843 | 54,836,758 |
| Office expenses | 48,906,710 | 51,688,823 |
| Travel expenses | 46,082,901 | 38,792,908 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | |
|---------------------------------|------------|-------------|
| Taxes (Note V (48)) | 39,216,370 | 109,946,415 |
| Business entertainment expenses | 15,921,003 | 14,853,947 |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

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V. Notes to items in the consolidated financial statements (continued)

55. Cost classification by nature (continued)

| | | |
|--------------------------|-----------------------|-----------------------|
| Informatization expenses | 13,574,204 | 10,445,654 |
| Bidding fee | 1,582,134 | 1,797,466 |
| Other expenses | <u>284,301,775</u> | <u>266,866,499</u> |
| | <u>21,587,132,399</u> | <u>21,347,926,162</u> |

56. Income tax expense

| | | |
|---------------------------------------|---------------------|-------------------|
| | 2016 | 2015 |
| Income tax expenses in current period | 136,856,233 | 49,477,423 |
| Deferred income tax expense | <u>(75,339,325)</u> | <u>28,052,453</u> |
| | <u>61,516,908</u> | <u>77,529,876</u> |

The relationship between income tax expense and total profit is as follows:

| | | |
|--|--------------|-------------|
| | 2016 | 2015 |
| Total profit | 368,861,144 | 271,735,564 |
| Income tax expense calculated according to the applicable tax rate (15%) | 55,329,171 | 40,760,335 |
| Subsidiaries applied to the influence of different tax rate | 21,202,805 | 20,241,955 |
| Gains and loss gains and loss joint venture and jointly run enterprise | (14,966,483) | (8,287,809) |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

| | | |
|--------------------|------------|---------------|
| Non-taxable income | (108, 251) | (2, 876, 713) |
|--------------------|------------|---------------|

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

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V. Notes to items in the consolidated financial statements (continued)

56. Income tax expense (continued)

| | | |
|--|-----------------------|-----------------------|
| Non-deductible costs, expenses and losses | 2, 972, 594 | 3, 305, 801 |
| Income tax before adjusting | (8, 933, 223) | (47, 286) |
| Use the deductible deficit of the previous year | (10, 334, 298) | (2, 795, 677) |
| Effect of the deductible temporary difference or the deductible loss of the deferred income tax assets which wasn't conformed at current period | 39, 776, 493 | 50, 070, 071 |
| Deduction of technological development expenses | <u>(23, 421, 900)</u> | <u>(22, 840, 801)</u> |
| Income tax expense | <u>61, 516, 908</u> | <u>77, 529, 876</u> |

57. Earnings per share

The basic earnings per share shall be calculated in accordance with the current net profits of the ordinary shareholders of the company divided by the weighted average of the common stock issued.

The basic earnings per share and diluted earnings per share are calculated as follows:

| | 2016 | 2015 |
|---|-------------------------|-------------------------|
| Net profit attributive to holders of common shares of the Company | 212, 419, 946 | 212, 411, 967 |
| Weighted average of outstanding common stock | <u>4, 390, 294, 584</u> | <u>4, 390, 294, 584</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

| | | |
|-------------------------|-------------|-------------|
| Basic earning per share | <u>0.05</u> | <u>0.05</u> |
|-------------------------|-------------|-------------|

In 2016 and 2015, the Company does not have a diluted potential common stock, so diluted earnings per share are equal to the basic earnings per share.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

58. Cash flow statements notes

| | 2016 | 2015 |
|--|--------------------|--------------------|
| Net cash from other operating activities | | |
| Customs deposits received | 297,589,755 | 288,908,075 |
| Cash receipt of government allowance and bonus | 97,318,883 | 132,383,428 |
| Employee's loans received | 4,488,988 | 10,574,725 |
| Cash receipt from income from fines | 532,240 | 7,958,851 |
| Others | <u>37,371,316</u> | <u>7,366,702</u> |
| | <u>437,301,182</u> | <u>447,191,781</u> |
| Other cash payments relating to operating activities | | |
| Customs guarantee deposit paid | 264,666,758 | 323,819,681 |
| Selling and administrative expenses | 201,911,238 | 188,362,388 |
| Financial expenses formality cost | 55,332,859 | 48,035,048 |
| R&D subsidy paid to cooperation units | 26,613,797 | 6,476,300 |
| Others | <u>40,102,571</u> | <u>6,411,082</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

588,627,223

573,104,499

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

58. Cash flow statements notes (continued)

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Other cash receipts relating to investing activities | | |
| Interest income | <u>852,787,742</u> | <u>93,974,040</u> |
| Cash receipts related to other financing activities | | |
| Recovery of restricted bank deposits | 344,790,000 | 2,681,198,220 |
| Related parties loans received | 2,420,845,793 | 1,785,676,000 |
| Capital invested by minority shareholders | <u>273,048,439</u> | <u>273,402,314</u> |
| | <u>3,038,684,232</u> | <u>4,740,276,534</u> |
| Other cash payments relating to financing activities | | |
| Restricted bank deposits refundable | 326,925,000 | 1,123,143,500 |
| Short and super short term notes issuance cost expenses | 7,450,000 | 16,400,000 |
| Offshore financing against domestic guarantee expenses | 38,776,961 | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

| | | | |
|---------------|---------|----------------------|----------------------|
| Compensative | related | <u>1,768,382,528</u> | = |
| parties loans | | <u>2,141,534,489</u> | <u>1,139,543,500</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

59. Supplementary information of cash flow statements

(1) Supplementary information of cash flow statements

Reconciliation of net profit to cash flows from operating activities:

| | 2016 | 2015 |
|---|-----------------|-----------------|
| Net profit | 307,344,236 | 194,205,688 |
| Add: Assets impairment provision | 1,221,116,175 | 637,391,199 |
| Depreciation of fixed assets, depletion of oil gas assets, depreciation of productive living assets | 1,184,754,917 | 1,248,860,404 |
| Intangible assets amortization | 100,274,015 | 93,446,864 |
| Net gain on disposal of fixed assets, intangible assets | (1,340,612) | (9,338,797) |
| Changes in fair value gains and losses | (28,857,808) | 21,225,034 |
| Financial expenses | 1,256,194,822 | 1,752,677,447 |
| Investment gains | (118,513,425) | (498,236,958) |
| Increase/decrease in deferred income tax asset (increase was filled in with “-”) | (75,339,325) | 28,052,453 |
| Inventory reduction | (1,794,200,703) | (1,371,334,146) |
| Increase of construction | (409,587,873) | (3,108,564,518) |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

contract price

| | | | |
|-----------------------|----|------------|---------------|
| Decrease/increase | in | 94,234,166 | (902,563,051) |
| operating receivables | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

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V. Notes to items in the consolidated financial statements (continued)

59. Supplementary information of cash flow statements (continued)

| | | |
|--|----------------------|------------------------|
| Decrease/increase in operating payables | (77,655,949) | 82,216,908 |
| Net cash flows from operating activities | <u>1,658,422,636</u> | <u>(1,831,961,473)</u> |

| | | |
|---|----------------------|----------------------|
| | 2016 | 2015 |
| Endorsement of bank acceptance received from sales and services | | |
| Net alteration of cash and cash equivalents: | 2,038,671,320 | 1,629,629,350 |
| | 2016 | 2015 |
| Cash balance at end of year | 3,497,205,186 | 2,337,925,611 |
| Less: cash at beginning of year | <u>2,337,925,611</u> | <u>1,882,283,319</u> |
| Net increase in cash and cash equivalents | <u>1,159,279,575</u> | <u>455,642,292</u> |

(2) Net cash received from disposal of subsidiaries and other business units

Information of acquiring subsidiaries

| | | |
|---------------------------------|------|-------------|
| | 2016 | 2015 |
| Price of acquiring subsidiaries | — | 211,263,111 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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V. Notes to items in the consolidated financial statements (continued)

| | | |
|---|---|----------------------|
| Less: Cash and cash equivalents for acquiring subsidiaries | = | <u>(134,657,111)</u> |
| Net cash paid for acquiring subsidiaries and other business units | = | <u>76,606,000</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
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V. Notes to items in the consolidated financial statements (continued)

59. Supplementary information of cash flow statements (continued)

(3) Cash and cash equivalents

| | 2016 | 2015 |
|--|-------------------------|-------------------------|
| Cash | 3, 497, 205, 186 | 2, 337, 925, 611 |
| Among which: Cash on hand | 774, 626 | 746, 967 |
| Deposits that can be readily paid | 3, 496, 430, 560 | 2, 318, 579, 147 |
| Other monetary capitals that can be readily paid | = | <u>18, 599, 497</u> |
| Cash equivalents | - | - |
| Cash and cash equivalent Closing balance | <u>3, 497, 205, 186</u> | <u>2, 337, 925, 611</u> |

60. Assets with restricted ownership and right of use

| | 2016 | 2015 | |
|------------------------------------|-------------------------|-------------------------|--------|
| Monetary capital (note V. 1) | 99, 839, 013 | 120, 408, 105 | Note 1 |
| Fixed assets (note V. 15) | 2, 438, 314, 399 | 1, 579, 091, 619 | Note 2 |
| Long-term receivables (note V. 12) | <u>2, 996, 201, 650</u> | <u>5, 680, 467, 098</u> | Note 3 |
| | <u>5, 534, 355, 062</u> | <u>7, 379, 966, 822</u> | |

Note 1: As of Dec, 31, 2016, the monetary capital with restricted is RMB 99, 839, 013 Yuan,

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

which is the margin deposit that our Group applied to banks for letters of credit and bank guarantees (Dec, 31, 2015: RMB 120,408,105 Yuan).

Note 2: As of Dec. 31, 2016, the vessel with book value of RMB 1,882,864,040 Yuan (Dec. 31, 2015: RMB 1,036,238,241 Yuan) (Note V (15)) and the mechanical equipment with book value of RMB 555,450,350 Yuan (Dec. 31, 2015: None (Note V (15))) selling to financing lease company and bank in way of rental after sales. The financing term is 4 to 6 years.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

60. Assets with restricted ownership and right of use (continued)

As of Dec. 31, 2015, the mechanical equipment with book value of RMB 542,853,378 Yuan selling to financing lease company and bank in way of rental after sales. The borrowing term is 1 year, and the borrowings have been paid on Dec. 31, 2016.

Note 3: As of Dec. 31, 2016, the Nanjing Highway “construction-transfer” project long-term receivable with book value RMB 2,996,201,650 Yuan (Dec. 31, 2015: RMB 5,680,467,098 Yuan) is used for obtaining bank loan pledge.

61. Foreign currency monetary items:

| | | <u>2016</u> | | | <u>2015</u> | | |
|------------------|--|---------------|---------------|----------------|-------------|---------------|----------------|
| | | Original | Exchange rate | Equivalent RMB | Original | Exchange rate | Equivalent RMB |
| Monetary capital | | | | | | | |
| USD | | 356,373,402 | 6.9370 | 2,472,162,288 | 137,115,012 | 6.4936 | 890,370,042 |
| EUR | | 25,423,957 | 7.3068 | 185,767,768 | 57,367,233 | 7.0952 | 407,031,992 |
| SGD | | 20,744,399 | 4.7995 | 99,562,745 | 1,592,667 | 4.5875 | 7,306,360 |
| NZD | | 625 | 4.8191 | 3,012 | 625 | 4.4426 | 2,777 |
| HKD | | 18,540,418 | 0.8945 | 16,584,404 | 221,140 | 0.8378 | 185,271 |
| Pound | | 1,462,267 | 8.5094 | 12,443,017 | 2,514,663 | 9.6159 | 24,180,748 |
| South Korean won | | 2,038,285,822 | 0.0058 | 11,822,058 | 668,453,325 | 0.0055 | 3,676,493 |
| Oman rial | | 567,011 | 18.0060 | 10,209,598 | 580,139 | 16.8966 | 9,802,377 |
| JPY | | 144,285,734 | 0.0596 | 8,598,131 | 521,999 | 0.0539 | 28,136 |
| Rand | | 14,635,312 | 0.5083 | 7,439,129 | 3,036,362 | 0.4174 | 1,267,377 |
| Sri Lankan rupee | | 168,823,164 | 0.0463 | 7,816,513 | 201,277,172 | 0.0460 | 9,258,750 |
| AUD | | 1,190,016 | 5.0157 | 5,968,763 | 310,654 | 4.7276 | 1,468,648 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | | | |
|--------------|------------|--------|-----------|------------|--------|-----------|
| Indian rupee | 23,686,064 | 0.1023 | 2,422,824 | 11,372,514 | 0.0977 | 1,111,095 |
| Real | 708,428 | 2.1357 | 1,512,989 | 937,867 | 1.6483 | 1,545,886 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

61. Foreign currency monetary items: (continued)

| | | | | | | |
|---------------------|-------------|--------|----------------------|-------------|--------|----------------------|
| Rupee | 12,938,990 | 0.1161 | 1,502,217 | 53,495,135 | 0.0885 | 4,734,319 |
| Malaysian ringgit | 838,089 | 1.5507 | 1,299,625 | — | — | — |
| CAD | 423 | 5.1406 | <u>2,176</u> | 15,452 | 4.6814 | <u>72,337</u> |
| | | | <u>2,845,117,257</u> | | | <u>1,362,042,608</u> |
| Accounts receivable | | | | | | |
| USD | 382,943,787 | 6.9370 | 2,656,481,050 | 284,106,383 | 6.4936 | 1,844,873,209 |
| EUR | 50,412,079 | 7.3068 | 368,350,979 | 50,889,618 | 7.0952 | 361,072,018 |
| SGD | 62,524,894 | 4.7995 | 300,088,229 | 36,803,153 | 4.5875 | 168,834,464 |
| Pound | 3,311,616 | 8.5094 | 28,179,865 | 87,474 | 9.6159 | 841,141 |
| CAD | 5,248,147 | 5.1406 | 26,978,624 | 5,267,000 | 4.6814 | 24,656,934 |
| AED | 6,268,825 | 1.8890 | 11,841,810 | — | — | — |
| Saudi riyal | 5,865,574 | 1.8497 | 10,849,552 | 6,132,462 | 1.7356 | 10,643,501 |
| Sri Lankan rupee | 67,543,175 | 0.0463 | 3,127,249 | 50,964,343 | 0.0460 | 2,344,360 |
| AUD | 272,129 | 5.0157 | 1,364,917 | 326,303 | 4.7276 | 1,542,630 |
| Rand | 1,631,102 | 0.5083 | 829,089 | 9,836,195 | 0.4174 | 4,105,628 |
| South Korean won | 142,923,050 | 0.0058 | 828,954 | 501,139,157 | 0.0055 | 2,756,265 |
| HKD | 196,859 | 0.8945 | 176,090 | 206,025 | 0.8378 | 172,608 |
| Rupee | 481,395 | 0.1161 | 55,890 | — | — | — |
| Indian rupee | 181,114 | 0.1023 | 18,526 | 5,413,116 | 0.0977 | 528,861 |
| Real | 4,828 | 2.1357 | <u>10,311</u> | 65,200 | 1.6483 | <u>107,469</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

3,409,181,135

2,422,479,088

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

61. Foreign currency monetary items: (continued)

| | | <u>2016</u> | | <u>2015</u> | | |
|-------------------|-------------|---------------|-------------------|-------------|---------------|-------------------|
| Original | | Exchange rate | Equivalent RMB | Original | Exchange rate | Equivalent RMB |
| Other receivables | | | | | | |
| USD | 3,989,080 | 6.9369 | 27,671,849 | 8,784,474 | 6.4936 | 57,042,860 |
| Pound | 195,990 | 8.5094 | 1,667,757 | 8,346 | 9.6159 | 80,254 |
| AUD | 103,710 | 5.0157 | 520,178 | 375,870 | 4.7276 | 1,776,963 |
| EUR | 12,329 | 7.3070 | 90,088 | 3,930,049 | 7.0952 | 27,884,484 |
| South Korean won | 5,285,609 | 0.0058 | 30,657 | 45,916,744 | 0.0055 | 252,542 |
| SGD | — | — | — | 652,109 | 4.5875 | 2,991,550 |
| Omani rial | — | — | — | 33,018 | 16.8966 | 557,892 |
| CAD | — | — | — | 3,500 | 4.6814 | <u>16,385</u> |
| | | | <u>29,980,529</u> | | | <u>90,602,930</u> |
| Accounts payable | | | | | | |
| USD | 120,343,389 | 6.9370 | 834,822,091 | 135,530,187 | 6.4936 | 880,078,822 |
| EUR | 38,684,841 | 7.3068 | 282,662,394 | 42,578,241 | 7.0952 | 302,101,136 |
| JPY | 161,884,564 | 0.0596 | 9,648,320 | 10,150,520 | 0.0539 | 547,113 |
| Pound | 67,565 | 8.5094 | 574,938 | 22,236 | 9.6159 | 213,819 |
| SGD | 20,934 | 4.7995 | 100,475 | 2,848,622 | 4.5875 | 13,068,053 |
| AUD | 10,018 | 5.0157 | 50,247 | 40,888 | 4.7276 | 193,302 |
| Dirham | — | — | — | 2,136,087 | 1.6719 | 3,571,324 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

| | | | | | | |
|---------------------|---|---|---|------------|--------|---------|
| South Korean won | - | - | - | 44,915,818 | 0.0055 | 247,037 |
|---------------------|---|---|---|------------|--------|---------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

61. Foreign currency monetary items: (continued)

| | | | | | | |
|-------------------------------------|-------------|---------------|----------------------|---------------|---------------|-----------------------|
| HKD | - | - | - | 78,850 | 0.8378 | 66,061 |
| Rupee | - | - | - | 85,295 | 0.0885 | <u>7,549</u> |
| | | | <u>1,127,858,465</u> | | | <u>1,200,094,216</u> |
| Other payables | | | | | | |
| USD | 4,985,404 | 6.9370 | 34,583,748 | 4,456,481 | 6.4936 | 28,938,605 |
| HKD | 8,074,953 | 0.8945 | 7,223,045 | - | - | - |
| EUR | 10,092,794 | 7.3509 | 74,191,119 | 3,144,887 | 7.0952 | 22,313,602 |
| SGD | - | - | - | 982,209 | 4.5875 | 4,505,884 |
| Pound | - | - | - | 36,849 | 9.6159 | <u>354,336</u> |
| | | | <u>115,997,912</u> | | | <u>56,112,427</u> |
| Short-term loans | | | | | | |
| USD | 837,000,000 | 6.9370 | 5,806,269,000 | 1,767,690,890 | 6.4936 | 11,478,677,563 |
| Euro | 67,901,197 | 7.3068 | <u>496,140,465</u> | 15,961,626 | 7.0952 | <u>113,250,929</u> |
| | | | <u>6,302,409,465</u> | | | <u>11,591,928,492</u> |
| | | <u>2016</u> | | | <u>2015</u> | |
| | Original | Exchange rate | Equivalent RMB | Original | Exchange rate | Equivalent RMB |
| Long-term loans due within one year | | | | | | |
| USD | - | - | - | 110,000,000 | 6.4936 | <u>714,296,000</u> |
| Long-term payables due | | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

V. Notes to items in the consolidated financial statements (continued)
within one year

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

V. Notes to items in the consolidated financial statements (continued)

61. Foreign currency monetary items: (continued)

| | | | | | | |
|----------------------|------------|--------|--------------------|-------------|--------|--------------------|
| USD | 17,604,054 | 6.9370 | <u>122,119,326</u> | 9,142,857 | 6.4936 | <u>59,370,057</u> |
| Long-term loans | | | | | | |
| USD | 50,000,000 | 6.9370 | 346,850,000 | — | — | — |
| Euro | 20,000,000 | 7.3068 | <u>146,136,000</u> | 20,000,000 | 7.0952 | <u>141,904,000</u> |
| | | | <u>492,986,000</u> | | | <u>141,904,000</u> |
| Long-term payable | | | | | | |
| USD | 93,253,088 | 6.9370 | <u>646,896,674</u> | 110,857,143 | 6.4936 | <u>719,861,943</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VI. Consolidation scope change

1. Change in scope of consolidation for other reasons

The Company's subsidiary company was renamed as Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd. on February 5, 2016.

The Company established the wholly-owned subsidiary ZPMC UK LD with cash of 300,000 pond on March 10, 2016.

The Company set up a wholly - owned subsidiary ZPMC Middle East FZE on June 12, 2016.

The controlling subsidiary ZPMC Brazil Service Portuarios LTDA was jointly established by the Company's subsidiary and Port Side Construction LTDA with 90,000 Real of cash on April 25, 2016. As of December 31, 2016, the Group's shareholding ratio to the subsidiary is 80%.

The Company paid USD10,000,000 in cash on July 15, 2016 to Huaian Huaiyin Transportation Co., Ltd., Zhongjiao Huadong Investment Co., Ltd., CCCC Third Harbor Engineering Co., Ltd. and CCCC First Highway Investigation and Design Research Institute Co., Ltd. jointly contributed and established Sino - intersection (Huaian) Construction Development Co., Ltd. As of December 31, 2016, the Group's shareholding ratio to the subsidiary is 66%.

The Company has set up the controlling subsidiary company (Zhenjiang) Construction Development Co., Ltd. with RMB 6,300,000 in cash, RMB 560,700,000.00 Yuan, China - AC East China Investment Co., Ltd., CCCC Second Harbor Engineering Co., Ltd., CCAC Highway Planning & Design Co., Ltd. and Zhenjiang University Investment Construction Development (Group) Co., Ltd. As of December 31, 2016, the Group's shareholding ratio to the subsidiary is 63%.

The original subsidiary of the Company, ZPMC - OTL Marine Contractor USA USA, was cancelled on November 30, 2016 and changed into the office of the subsidiary of the Company.

The Company and its subsidiaries Shanghai Zhenhua Heavy Industries Machinery Companion Co., Ltd. and Shanghai Zhenhua Heavy Industries Group (Nantong) Co., Ltd. have cancelled the industrial and commercial enterprises on December 23, 2016, and changed into subsidiary companies of the Company.

Jiangsu Taoda Marine Equipment Technology Co., Ltd., an atomic company, cancelled the industrial and commercial cancellation on December 16, 2016.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VII. Interests in Other Entities

1. Interests in subsidiary

The information of the Company's subsidiaries are as follows:

| Subsidiary name | Main operating address | Registered in | Business nature | Shareholding ratio(%) | | Gain mode |
|---|-------------------------------|-------------------------------|---|-----------------------|----------|----------------------|
| | | | | Direct | Indirect | |
| Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd. | Chongming District, Shanghai | Chongming District, Shanghai | Machinery manufacturing | 94.76% | | Investment to set up |
| Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd. | Hongkong | Hongkong | Trade selling | 99.99% | | Investment to set up |
| Shanghai Zhenhua Shipping Co., Ltd. | Pudong New District, Shanghai | Pudong New District, Shanghai | Ship transportation | 55% | | Investment to set up |
| Nantong Zhenhua Heavy Equipment Manufacturing Co., Ltd. | Nantong, Jiangsu | Nantong, Jiangsu | Machinery manufacturing | 100% | | Investment to set up |
| Shanghai Zhenhua Heavy Industries Group (Nantong) Transmission Machinery Co., Ltd | Nantong, Jiangsu | Nantong, Jiangsu | Machinery manufacturing | 100% | | Investment to set up |
| Shanghai Zhenhua Heavy Industries Electric Co., Ltd. | Pudong New District, Shanghai | Pudong New District, Shanghai | Electrical equipment research and development | 100% | | Investment to set up |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VII. Interests in Other Entities (continued)

1. Interests in subsidiary (continued)

| | | | | | | | |
|--|------|---|---|-------------------------|------|------|----------------------|
| Nantong Steel Structure Processing Co., Ltd. | ZPMC | Nantong, Jiangsu | Nantong, Jiangsu | Machinery manufacturing | 75% | 25% | Investment to set up |
| Jiangyin Steel Structure Manufacturing Co., Ltd. | ZPMC | Jiangyin, Jiangsu | Jiangyin, Jiangsu | Machinery manufacturing | 75% | 25% | Investment to set up |
| Shanghai Zhenhua Heavy Industries Steel Structure Co., Ltd. | | Pudong New District, Shanghai | Pudong New District, Shanghai | Machinery manufacturing | | 49% | Investment to set up |
| Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd. | | Yangshan Free Trade Port Area, Shanghai | Yangshan Free Trade Port Area, Shanghai | Ship transportation | 100% | | Investment to set up |
| Shanghai Zhenhua Technology Consulting Co., Ltd. | | Pudong New District, Shanghai | Pudong New District, Shanghai | Technology consulting | 100% | | Investment to set up |
| ZPMC Netherlands B.V | | Rotterdam | Rotterdam | Trade selling | 100% | | Investment to set up |
| Hotel de Herberg B. V. | | Rotterdam | Rotterdam | Trade selling | | 100% | Investment to set up |
| ZPMC Espana S.L | | Spanish Los Barrios | Spanish Los Barrios | Trade selling | | 100% | Investment to set up |
| ZPMC Hamburg | GmbH | Germany Hamburg | Germany Hamburg | Trade selling | 100% | | Investment to set up |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VII. Interests in Other Entities (continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VII. Interests in Other Entities (continued)

1. Interests in subsidiary (continued)

| | | | | | | |
|--|-------|--|--|-------------------------|------|--|
| ZPMC Company (Private) Limited | Lanka | Sri Lanka | Sri Lanka | Trade selling | 70% | Investment to set up |
| ZPMC America Inc. | North | USA Delaware | USA Delaware | Trade selling | 100% | Investment to set up |
| ZPMC Korea Co., Ltd. | | South Korea Busan | South Korea Busan | Trade selling | 70% | Investment to set up |
| ZPMC Engineering Africa Ltd. | (Pty) | Kwazulu-Natal Province, Republic of South Africa | Kwazulu-Natal Province, Republic of South Africa | Trade selling | 100% | Investment to set up |
| ZPMC Engineering (India) Private Limited | | Maharashtra State | Maharashtra State | Trade selling | 100% | Investment to set up |
| ZPMC Southeast Asia Holding Pte. Ltd. | | Singapore | Singapore | Trade selling | 100% | Investment to set up |
| ZPMC Southeast Asia Pte. Ltd. | | Singapore | Singapore | Trade selling | 70% | Investment to set up |
| ZPMC Engineering (Malaysia) Sdn. Bhd. | | Malaysia | Malaysia | Trade selling | 70% | Investment to set up |
| ZPMC Australia Company Ltd. | (Pty) | New south wales, Australia | New south wales, Australia | Trade selling | 100% | Investment to set up |
| Shanghai Zhenhua Heavy Industry General Equipment Co., | | Pudong New District, Shanghai | Pudong New District, Shanghai | Machinery manufacturing | 100% | Corporate merger under different control |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VII. Interests in Other Entities (continued)

Ltd.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VII. Interests in Other Entities (continued)

1. Interests in subsidiary (continued)

| | | | | | |
|---|-------------------------------|-------------------------------|-------------------------|--------|--|
| Shanghai Port Machinery Heavy Industries Co., Ltd. | Pudong New District, Shanghai | Pudong New District, Shanghai | Machinery manufacturing | 74.02% | Corporate merger under different control |
| Shanghai Zhenhua Heavy Industries (Group) Zhangjiagang Port Machinery Co., Ltd. | Zhangjiagang, Jiangsu | Zhangjiagang, Jiangsu | Machinery manufacturing | 90% | Corporate merger under different control |
| Nanjing Ninggao New Channel Co., Ltd. | Nanjing, Jiangsu | Nanjing, Jiangsu | Trade selling | 100% | Investment to set up |
| Shanghai Zhenhua Heavy Industries Qidong Marine Co., Ltd | Nantong, Jiangsu | Nantong, Jiangsu | Machinery manufacturing | 67% | Corporate merger under different control |
| Jiahua Shipment Co., Ltd (Note 1) | Hongkong | Hongkong | Ship transportation | 70% | Investment to set up |
| Zhenhua Pufeng Wind Power (Hong Kong) Co., Ltd | Hongkong | Hongkong | Ship transportation | 51% | Investment to set up |
| Zhenhua Shende Offshore Installation Co., Ltd | Hongkong | Hongkong | Ship transportation | 70% | Investment to set up |
| ZPMC Brazil Holdings Ltda. | Rio DE Janeiro, Brazil | Rio DE Janeiro, Brazil | Trade selling | 99% | 1% Investment to set up |
| ZPMC Limited Liability Company | Moscow, Russia | Moscow, Russia | Trade selling | 85% | Investment to set up |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VII. Interests in Other Entities (continued)

| | | | | | |
|-------------------------|----------|----------|---------------|------|----------------------|
| ZPMC NA East Coast Inc. | Virginia | Delaware | Trade selling | 100% | Investment to set up |
| ZPMC NA Huston Inc. | Texas | Delaware | Trade selling | 100% | Investment to set up |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VII. Interests in Other Entities (continued)

1. Interests in subsidiary (continued)

The information of the Company's subsidiaries are as follows (continued):

| | Main operating address | Registered in | Business nature | <u>Shareholding ratio(%)</u> | | Gainmode |
|--|------------------------|-------------------|--------------------------|------------------------------|----------|--|
| | | | | Direct | Indirect | |
| CCCC Tianhe Co., Ltd. (Note 2) | Changshu, Jiangsu | Changshu, Jiangsu | Machinery manufacturing | 32.51% | | Corporate merger under different control |
| Fujian Qienda Heavy Industry Co., Ltd. | Fuzhou, Fujian | Fuzhou, Fujian | Machinery manufacturing | | 51% | Corporate merger under different control |
| CCCC Investment Development Qidong Co., Ltd (note 3) | Nantong, Jiangsu | Nantong, Jiangsu | Engineering construction | 47.50% | | Investment to set up |
| CCCC Liyang City Investment Construction Co., Ltd (Note 4) | Liyang, Jiangsu | Liyang, Jiangsu | Engineering construction | 48% | | Investment to set up |
| ZPMC UK LD | Cardiff | Cardiff | Trade selling | 100% | | Investment to set up |
| ZPMC Middle East Fze | AED | AED | Trade selling | 100% | | Investment to set up |
| ZPMC Brazil Serviço Portuários LTDA | Santos, Brazil | Santos, Brazil | Trade selling | 80% | | Investment to set up |
| CCCC (Huaian) Construction Development Co., Ltd. | Huaian, Jiangsu | Huaian, Jiangsu | Engineering construction | 5% | 61% | Investment to set up |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VII. Interests in Other Entities (continued)

| | | | | | |
|---|-----------------------|-----------------------|-----------------------------|-----|-------------------------|
| CCCC Zhenjiang Investment Construction Management Development Co., Ltd | Zhenjiang, Jiangsu | Zhenjiang, Jiangsu | Engineering construction | 63% | Investment to set up |
|---|-----------------------|-----------------------|-----------------------------|-----|-------------------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VII. Interests in Other Entities (continued)

1. Interests in subsidiary (continued)

Note 1: Based on constitution of Shanghai Zhenhua Heavy Industries Steel Structure Co., Ltd, Company has right to appoint and dismiss most members in board of directors. In fact, Company obtains control right, so Company is included in Group financial statements consolidation scale.

Note 2: the Group has completed the procedures of stock change of CCCC Tianhe Co., Ltd. The Group obtained 55.98% of the shareholders' meeting and 80% of the board's voting rights via amendment of Articles of Association of CCCC Tianhe Co., Ltd, reconstruction of Board of directors and signing the agreement of the concerted action with China Communications Corporation, one of the shareholders of CCCC Tianhe Co., Ltd. Based on the Articles of Association, the Group has obtained the control rights of the company and includes it into the consolidation scope.

Note 3: The Group obtained 95% of the shareholders' meeting and 100% the voting rights of the board of directors by signing concerted action agreement with CCCC Tianjin Waterway Bureau Co., Ltd. Based on the Articles of Association; the Group obtained the control rights of the company and includes it into the consolidation scope.

Note 4: The Group obtained 76% of the shareholders' meeting and 71% the voting rights of the board of directors by signing concerted action agreement with CCCC Shanghai Waterway Bureau Co., Ltd. and CCCC East China Investment Co., Ltd... Based on the Articles of Association, the Group obtained the control rights of the company and includes it into the consolidation scope. Based on the Articles of Association, the Group obtained the control rights of the company and includes it into the consolidation scope.

The information of the Company's subsidiaries is as follows (continued):

Important minority subsidiary company exists as follows:

2016

| Proportion of shareholding | Minority shareholders' | Dividend payments to | Accumulated minority |
|-------------------------------|---------------------------|--------------------------|-------------------------|
| for minority | interests | minority shareholders | shareholders' equity |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VII. Interests in Other Entities (continued)

| | | | | |
|-------------------------|--------|------------|---|-------------|
| CCCC Tianhe Co., Ltd | 67.49% | 57,388,211 | — | 561,643,011 |
|-------------------------|--------|------------|---|-------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VII. Interests in Other Entities (continued)

1. Interests in subsidiary (continued)

2015

| | | Proportion of shareholding for minority | Minority shareholders' interests | Dividend payments to minority shareholders | Accumulated minority shareholders' equity |
|----------|--------|---|--|---|--|
| CCCC | Tianhe | 67.49% | 28,251,819 | 31,349,367 | 504,254,800 |
| Co., Ltd | | | | | |

Main financial information of above subsidiary this information is the amount of mutual offset between the enterprises within the Group:

2016

| | | Current asset | Non-current asset | Total assets | Current liabilities | Non-current liabilities | Total liabilities |
|----------|--------|---------------|----------------------|---------------|------------------------|----------------------------|----------------------|
| CCCC | Tianhe | 1,498,862,582 | 1,224,395,571 | 2,723,258,153 | (1,660,805,166) | (230,591,014) | (1,891,396,180) |
| Co., Ltd | | | | | | | |

2016

| | | Operating revenue | Net profit | Total comprehensive income | Operating cash flow |
|----------|--------|-------------------|------------|-------------------------------|---------------------|
| CCCC | Tianhe | 1,101,425,520 | 85,197,056 | 85,197,056 | 35,261,157 |
| Co., Ltd | | | | | |

2015

| | | Current asset | Non-current asset | Total assets | Current liabilities | Non-current liabilities | Total liabilities |
|----------|--------|---------------|----------------------|---------------|------------------------|----------------------------|----------------------|
| CCCC | Tianhe | 1,134,335,686 | 1,118,330,758 | 2,252,666,444 | (1,462,753,598) | (43,115,047) | (1,505,868,645) |
| Co., Ltd | | | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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VII. Interests in Other Entities (continued)

Co., Ltd

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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VII. Interests in Other Entities (continued)

1. Interests in subsidiary (continued)

| | | | <u>2015</u> | |
|----------------------|----------------------|------------|----------------------------------|------------------------|
| | Operating revenue | Net profit | Total comprehensive income | Operating cash flow |
| CCCC Tianhe Co., Ltd | 804,955,947 | 42,357,907 | 42,357,907 | 68,610,363 |

2. Gains and loss gains and loss joint venture and jointly run enterprise

| Main operating address | Registered in | Business nature | Registered | capital |
|-------------------------------|----------------------|-----------------|------------|---------|
| <u>Shareholding ratio (%)</u> | Accounting treatment | | | |

Direct Indirect

Joint venture

| | | | | | | |
|--|-----------------|-----------------|-----------------------------------|--------|---|---------------|
| Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd | Jiangsu Nantong | Jiangsu Nantong | Ocean engineering construction | 50% | – | Equity method |
| ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi | Istanbul Turkey | Istanbul Turkey | Port equipment technical services | 50% | – | Equity method |
| Zhenhua Marine Energy (Hongkong) Co., Ltd. | Hongkong | Hongkong | Ship transportation | 51% | – | Equity method |
| Cranetech Global Sdn. Bhd. | Malaysia | Malaysia | Port equipment technical services | 49.99% | – | Equity method |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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VII. Interests in Other Entities (continued)

2. Gains and loss gains and loss joint venture and jointly run enterprise (continued)

Associates

| | | | | | | |
|---|--------------------|--------------------|---|-----|---|---------------|
| CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd | Pudong, Shanghai | Pudong, Shanghai | Ship technology development consulting | 25% | – | Equity method |
| CCCC Estate Yixing Co., Ltd. | Wuxi, Jiangsu | Wuxi, Jiangsu | Real estate development | 20% | – | Equity method |
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | Changzhou, Jiangsu | Changzhou, Jiangsu | Paint manufacturing | 20% | – | Equity method |
| CCCC Financing Rental Co., Ltd. | Pudong, Shanghai | Pudong, Shanghai | Finance lease fund | 30% | – | Equity method |
| China Communications Construction USA Inc. | USA | USA | Port, Channel Highway and Bridge Construction | 24% | – | Equity method |
| CCCC American Regional Company SARL | USA | USA | Port, Channel Highway and Bridge Construction | 16% | – | Equity method |

(Note 2)

2. Gains and loss gains and loss joint venture and jointly run enterprise (continued)

Note 1: On May 5, 2014, the subsidiary of the Company and the partner invested to establish Zhenhua Marine Energy (Hong Kong) Co., Ltd. The registered capital is 5,969,998 USD; the subsidiary of the Company contributed 3,044,699 USD, holding 51% of the shares. The company focused on the vessel transportation business. Based on the regulations of the

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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VII. Interests in Other Entities (continued)

shareholder agreement, the significant issues of the company shall be agreed by at least 75% shareholders via voting. The Group has no control rights but joint controls the company together with the partner.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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VII. Interests in Other Entities (continued)

2. Gains and loss gains and loss joint venture and jointly run enterprise (continued)

Note 2: As of Dec. 15, 2016, the Company invested 16,480,000 USD (in RMB 114,321,760 Yuan) to share CCCC South American Regional Company SARL. The registration capital is 103,000,000 USD, in RMB 114,321,760 Yuan, holding 16% of the share. The company focuses on port construction business. Based on the regulations of the shareholder agreement, the Company has the right to designate one director to that company and implement significant impact to that company.

The significant financial information of the main jointly run enterprise:

The amount in the consolidated financial statements of the joint venture takes into account the fair value of the identifiable assets and liabilities of the consortium in the acquisition of investments and the impact of the harmonization of accounting policies.

| CCCC Financing Rental Co., Ltd. | 2016 | 2015 |
|---|-------------------------|------------------------|
| Current assets | 9,420,615,029 | 3,409,763,003 |
| Non-current assets | <u>13,727,208,395</u> | <u>8,353,597,281</u> |
| Total assets | <u>23,147,823,424</u> | <u>11,763,360,284</u> |
| Current liabilities | (10,051,593,074) | (4,441,872,270) |
| Non-current liabilities | <u>(7,249,806,724)</u> | <u>(3,515,685,686)</u> |
| Total liabilities | <u>(17,301,399,798)</u> | <u>(7,957,557,956)</u> |
| Owners' equity | <u>5,846,423,626</u> | <u>3,805,802,328</u> |
| The share of net assets calculated by the share holding ratio | <u>1,605,244,853</u> | <u>1,141,740,698</u> |
| The book value of the investment for joint | <u>1,605,244,853</u> | <u>1,141,740,698</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
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VII. Interests in Other Entities (continued)

ventures

| | | |
|------------------------------------|------|------|
| CCCC Financing Rental Co., Ltd. | 2016 | 2015 |
|------------------------------------|------|------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VII. Interests in Other Entities (continued)

2. Gains and loss gains and loss joint venture and jointly run enterprise (continued)

| | | |
|---|-------------------|-------------|
| Operating revenue | 780,323,172 | 456,990,739 |
| Finance expenses – interest expenditure | 5,790,545 | 2,876,941 |
| Finance expenses – interest expenditure | 8,495,925 | 1,568,222 |
| Income tax expense | 85,261,887 | 55,688,952 |
| Net profit | 251,014,262 | 167,967,410 |
| Other comprehensive income | 580,861 | 270,171 |
| Total comprehensive income | 258,329,639 | 168,237,582 |
| Dividend received | <u>32,400,000</u> | = |

The non-significant joint venture and associates of the summary financial information:

Joint venture

| | | |
|---|--------------------|--------------------|
| | 2016 | 2015 |
| Total book value of investment | <u>200,209,849</u> | <u>175,387,196</u> |
| The share of net assets calculated by the | | |
| Net profit(i) | 24,822,653 | 4,752,968 |
| Other comprehensive income | = | = |
| Total comprehensive income | <u>23,247,916</u> | <u>4,752,968</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VII. Interests in Other Entities (continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VII. Interests in Other Entities (continued)

2. Gains and loss gains and loss joint venture and jointly run enterprise (continued)
Associates

| | 2016 | 2015 |
|---|--------------------|--------------------|
| Total book value of investment | <u>395,966,751</u> | <u>280,006,923</u> |
| The share of net assets calculated by the | | |
| Net profit(i) | (1,075,546) | 108,866 |
| Other comprehensive income | <u>4,546,680</u> | <u>1,256,397</u> |
| Total comprehensive income | <u>(3,471,134)</u> | <u>1,365,263</u> |

(i) Net profits and other comprehensive benefits have taken into account the fair value of identifiable assets and liabilities and the adjustment impact of the harmonization of accounting policies at the time of investment.

On December 31, 2016, the Group provided USD 25.551 million of loan guarantee of overseas loan under domestic guarantee to the joint venture Zhenhua Marine Energy (Hong Kong) Co., Ltd. The total converted guarantee amount in RMB is 177,247,287yuan which will be due on April 14, 2017. The amount above reflects the max loss caused to the Group once it breaches the agreement. The joint venture Zhenhua Marine Energy (Hong Kong) Co., Ltd. has health finance with no predicted significant debt breach risk. The Group didn't confirm the debt related to the financial guarantee.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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RMB Yuan

VIII. Financial risks

1. Financial instruments

The booking value of the various financial instruments on the balance sheet date is as follows:

December 31, 2016

Financial assets

| | Financial assets measured at fair value and whose variation is included in the current profits and losses | Loans and receivables | financial assets available-for-sale | Total |
|---|---|--------------------------|--|------------------|
| Monetary capital | – | 3, 597, 044, 199 | – | 3, 597, 044, 199 |
| Measured at fair value and the changes are recorded into the profits and losses of the current financial assets | 4, 615, 775 | – | – | 4, 615, 775 |
| Notes receivable | – | 296, 920, 781 | – | 296, 920, 781 |
| Accounts receivable | – | 4, 230, 746, 458 | – | 4, 230, 746, 458 |
| Other receivables | – | 433, 130, 407 | – | 433, 130, 407 |
| Non-current asset due within 1 year | – | 1, 384, 438, 569 | – | 1, 384, 438, 569 |
| Available-for-sale financial assets | – | – | 1, 313, 572, 506 | 1, 313, 572, 506 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VIII. Financial risks (continued)

| | | | | |
|--------------------------|---|----------------------|----------------------|-----------------------|
| Long-term receivables | = | <u>3,791,218,020</u> | = | <u>3,791,218,020</u> |
| | | <u>4,615,775</u> | | <u>13,733,498,434</u> |
| | | | <u>1,313,572,506</u> | <u>15,051,686,715</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VIII. Financial risks (continued)

1. Financial instruments (continued)

Financial liabilities

Others

Financial liabilities

| | |
|---|-----------------------|
| Short term loans | 21,485,919,393 |
| Notes payable | 1,905,121,706 |
| Payables | 5,103,018,897 |
| Interest payable | 140,195,803 |
| Dividend payable | 31,701,965 |
| Other payables | 1,225,135,428 |
| Non-current liabilities due within one year | 799,574,356 |
| Other current liabilities | 3,996,025,335 |
| Long-term loans | 3,925,335,497 |
| Long-term payables | <u>1,618,361,164</u> |
| | <u>40,230,389,544</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VIII. Financial risks (continued)

1. Financial instruments (continued)

December 31, 2015

Financial assets

| | Financial assets measured at fair value and whose variation is included in the current profits and losses | Loans and receivables | financial assets available-for-sale | Total |
|---|---|--------------------------|--|---------------|
| Monetary capital | – | 2,458,333,716 | – | 2,458,333,716 |
| Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities | 676,082 | – | – | 676,082 |
| Notes receivable | – | 243,159,622 | – | 243,159,622 |
| Accounts receivable | – | 3,894,762,468 | – | 3,894,762,468 |
| Other receivables | – | 667,660,167 | – | 667,660,167 |
| Non-current asset due within 1 year | – | 2,625,135,212 | – | 2,625,135,212 |
| Other current assets | – | 46,000,000 | – | 46,000,000 |
| Available-for-sale | – | – | 1,212,177,180 | 1,212,177,180 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VIII. Financial risks (continued)

financial assets

| | | | | |
|-----------------------|-----------------|--------------------------|-------------------------|--------------------------|
| Long-term receivables | = | <u>3, 558, 501, 537</u> | = | <u>3, 558, 501, 537</u> |
| | <u>676, 082</u> | <u>13, 493, 552, 722</u> | <u>1, 212, 177, 180</u> | <u>14, 706, 405, 984</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

VIII. Financial risks (continued)

1. Financial instruments (continued)

December 31, 2015 (continued)

Financial liabilities

| | Financial assets measured at fair value and whose variation is included in the current profits and losses | Loans and receivables financial assets available-for-sale | Total |
|---|---|---|----------------|
| Short term loans | – | 18,216,928,490 | 18,216,928,490 |
| Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities | 24,918,115 | – | 24,918,115 |
| Notes payable | – | 1,785,201,236 | 1,785,201,236 |
| Payables | – | 5,471,141,022 | 5,471,141,022 |
| Interest payable | – | 289,590,733 | 289,590,733 |
| Dividend payable | – | 32,237,912 | 32,237,912 |
| Other payables | – | 1,604,523,386 | 1,604,523,386 |
| Non-current liabilities due within one year | – | 6,837,115,692 | 6,837,115,692 |
| Other current liabilities | – | 1,995,655,739 | 1,995,655,739 |
| Long-term loans | – | 1,761,904,000 | 1,761,904,000 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VIII. Financial risks (continued)

| | | | |
|--------------------|-------------------|-----------------------|-----------------------|
| Long-term payables | = | <u>719,861,943</u> | <u>719,861,943</u> |
| | <u>24,918,115</u> | <u>38,714,160,153</u> | <u>38,739,078,268</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

VIII. Financial risks (continued)

2. Transfer of financial assets

Transfer transferred financial assets that have been globally terminated but continue to be involved

On December 31, 2016, the book value of the bank acceptance bill that the Group has endorsed to the supplier for clearing accounts payable is RMB 471,132,348 (December 31, 2015: RMB 302,708,598). On December 31, 2016, its maturity date is 1 to, 11 months, and in accordance with the relevant provisions of the Notes Law, if the acceptance bank refuses to pay, its holder is entitled to recourse to the Group ("continue to be involved"). The Group considers that the Group has transferred almost all of its risks and rewards and therefore terminates the carrying value of its settled accounts payable in connection with it. The maximum losses and undiscounted cash flows that continue to be involved and repurchase are equal to their book value. The Group considers that it is not important to continue to engage in fair value.

Transfer transferred financial assets that have been globally terminated but continue to be involved (continued)

In 2016, the Group shall not be involved in any gains or expenses that have ceased to be recognized in the current year and in aggregate due to continued involvement.

3. Financial instruments

The Group's operations face various financial risks: credit risk, liquidity risk and market risk (mainly exchange rate risk and interest rate risk). The Group's overall risk management plan addresses the unpredictability of financial markets and seeks to reduce the potential adverse impact on the Group's financial performance.

Credit risks

The Group manages credit risks by portfolio classification. Credit risks mainly originate from notes receivables, accounts receivable, other receivables, available-for-sale financial assets and long-term receivables etc.

Other financial assets of the Group include available - for - sale financial assets, other receivables and certain derivatives, whose credit risk arises from counterparty default and the maximum exposure is equal to the carrying amount of these instruments. The Group also faces credit risk for providing financial security, as disclosed in Note XI.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

VIII. Financial risks (continued)

3. Financial instruments (continued)

Since the Group is trading only with a recognized and credibility third party, no collateral is required. Since the Group is trading only with a recognized and credibility third party, no collateral is required. Since the Group's accounts receivable are widely dispersed across sectors and industries, there is no significant credit risk concentration within the Group. The Group does not hold any collateral or other credit enhancements to the balance of accounts receivable.

Credit risks (continued)

Bank deposits of the Group and other current assets –bank financial products are mainly put in state-owned banks and other large or medium-sized listed banks.

In addition, speaking of notes receivable, other accountant receivables, and other receivable, the Group established related policies to control credit risks. The Group evaluates clients' credit qualification and sets corresponding credit terms on the basis of clients' financial status, possibility of obtaining guaranty from a third-party, credit record and other factors including current market status rating. The Group monitors clients' credit record on regular basis. When client is found with bad credit record, the Group will sent out written calls, shorten credit terms or cancel credit terms, in an attempt to ensure that the Group's overall credit risks be within control.

On December 31, 2016, the term analysis of financial assets with maturity due to no impairment of either individual or combination has been analyzed as follows:

2016

| | Total | not overdue overdue | within 1 year | <u>Overdue time</u> | | |
|-------------------------|---------------|------------------------|------------------|---------------------|------------|--------------|
| | | | | 1-2 years | 2-3 years | over 3 years |
| Notes receivable | 296,920,781 | 296,920,781 | – | – | – | – |
| Accounts receivables | 2,695,273,967 | 2,405,484,652 | 70,487,107 | 18,329,699 | 58,173,966 | 142,798,542 |
| Other receivables | 703,913,820 | 703,913,820 | – | – | – | – |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

VIII. Financial risks (continued)

| | | | | | | |
|---|---------------|---------------|---|---|---|---|
| Non-current liabilities due within one year | 1,384,438,569 | 1,384,438,569 | - | - | - | - |
| Long-term receivables | 3,791,218,020 | 3,791,218,020 | - | - | - | - |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
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VIII. Financial risks (continued)

3. Financial instruments (continued)

2015

| | Total | not overdue overdue | within 1 year | 1-2 years | 2-3 years | <u>Overdue time</u> over 3 years |
|--|---------------|------------------------|------------------|------------|-------------|--|
| Notes receivable | 243,159,622 | 243,159,622 | - | - | - | - |
| Accounts receivables | 2,755,137,429 | 2,420,391,157 | 60,727,290 | 78,154,461 | 177,744,854 | 18,119,667 |
| Other receivables | 647,981,009 | 647,981,009 | - | - | - | - |
| Non-current assets due within one year | 2,625,135,272 | 2,625,135,272 | - | - | - | - |
| Other current assets | 46,000,000 | 46,000,000 | - | - | - | - |
| Long-term receivables | 3,558,501,537 | 3,558,501,537 | - | - | - | - |

Credit risks (continued)

As of December 31, 2016, accounts receivable that have not been past due and impaired are related to a large number of decentralized customers who have not recently been documented.

As of December 31, 2016, accounts receivable that have been overdue but not impaired are related to a large number of independent customers who have good transaction records with the Group. Based on past experience, the Group considers that no provision for impairment is required since the credit quality has not changed significantly and is still considered recoverable.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VIII. Financial risks (continued)

3. Financial instruments (continued)

Liquidity risks

Subsidiaries within the Group are responsible for their own prediction of cash flow. The financial section of the head office continues to monitor the capital demand for short-term and long-term capital at the group level after collecting all predictions of subsidiaries, to ensure sufficient cash reserve and cashable securities. Meanwhile, the financial section of the head office continues to monitor the financial and non-financial factors prescribed in credit agreements and loan agreements, to ensure the Group should get sufficient line of credit from key financial institutions to satisfy capital demand both in short term and long term.

On Dec. 31, 2016, as of B/S day, various financial assets and liabilities of the Group are listed as follows by due dates in undiscounted contracted cash flow (principal and interest included):

| | | <u>2016</u> | | | | |
|---|--|----------------|-----------|-----------|--------------|----------------|
| | | Within 1 year | 1-2 years | 2-5 years | Over 5 years | Total |
| Short term loans | | 21,839,991,371 | - | - | - | 21,839,991,371 |
| Notes payable | | 1,905,121,706 | - | - | - | 1,905,121,706 |
| Payables | | 5,103,018,897 | - | - | - | 5,103,018,897 |
| Interest payable | | 140,195,803 | - | - | - | 140,195,803 |
| Dividend payable | | 31,701,965 | - | - | - | 31,701,965 |
| Other payables | | 1,244,199,969 | - | - | - | 1,244,199,969 |
| Non-current liabilities due within one year | | 835,619,032 | - | - | - | 835,619,032 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VIII. Financial risks (continued)

| | | | | | |
|-------------------------------------|---------------|---|---|---|---------------|
| Other current liabilities statement | 4,123,027,778 | - | - | - | 4,123,027,778 |
|-------------------------------------|---------------|---|---|---|---------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VIII. Financial risks (continued)

3. Financial instruments (continued)

| | | | | | |
|---------------------|-----------------------|----------------------|----------------------|-------------------|-----------------------|
| Long-term loans | - | 1,869,935,509 | 2,202,260,025 | 58,345,000 | 4,130,540,534 |
| Long-term payables | - | 543,599,402 | 1,219,108,721 | - | 1,762,708,123 |
| Financial guarantee | <u>196,431,287</u> | = | = | = | <u>196,431,287</u> |
| | <u>35,419,307,808</u> | <u>2,413,534,911</u> | <u>3,421,368,746</u> | <u>58,345,000</u> | <u>41,312,556,465</u> |

Liquidity risks (continued)

On Dec. 31, 2015, as of B/S day, various financial assets and liabilities of the Group are listed as follows by due dates in undiscounted contracted cash flow (principal and interest included):

| | | <u>2015</u> | | | | |
|--|--|----------------|-----------|-----------|--------------|----------------|
| | | Within 1 year | 1-2 years | 2-5 years | Over 5 years | Total |
| Short term loans | | 18,503,526,869 | - | - | - | 18,503,526,869 |
| Notes payable | | 1,785,201,236 | - | - | - | 1,785,201,236 |
| Payables | | 5,471,141,022 | - | - | - | 5,471,141,022 |
| Interest payable | | 289,590,733 | - | - | - | 289,590,733 |
| Dividend payable | | 32,237,912 | - | - | - | 32,237,912 |
| Other payables | | 1,604,523,386 | - | - | - | 1,604,523,386 |
| Non-current liabilities due within one | | 6,951,051,584 | - | - | - | 6,951,051,584 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
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VIII. Financial risks (continued)

year

| | | | | | |
|---------------------------|---------------|-------------|---------------|---|---------------|
| Other current liabilities | 2,061,250,000 | - | - | - | 2,061,250,000 |
| Long-term loans | 75,597,542 | 726,184,434 | 1,076,400,504 | - | 1,878,182,480 |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

VIII. Financial risks (continued)

3. Financial instruments (continued)

| | | | | | |
|---------------------|-----------------------|--------------------|----------------------|--------------------|-----------------------|
| Long-term payables | 32,465,774 | 149,197,695 | 415,462,011 | 253,938,352 | 851,063,832 |
| Financial guarantee | <u>185,101,974</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>185,101,974</u> |
| | <u>36,991,688,032</u> | <u>875,382,129</u> | <u>1,491,862,515</u> | <u>253,938,352</u> | <u>39,612,871,028</u> |

Market risks

Interest rate risks

Interest rate risks of the Group mainly originate from long-term liabilities with interest including long term bank loans and long-term payables. Financial liabilities with flexible rates confront the Group with cash flow interest rate risks, while financial liabilities with fixed rates put the Group against fair value interest rate risks. The Group fixes the fraction of contracts with fixed rates and those with flexible rates based on corresponding market environment. As of Dec. 31, 2016, the Group's long-term liabilities with interests include only contracts with flexible rates priced in RMB, USD and Euro and contracts with fixed rates priced in RMB and USD.

Market risks (continued)

Interest rate risks (continued)

The risk of market interest rate changes which the Group faces is mainly related to the long-term liability of the Group for interest-bearing interest rates.

The financial division of the Group keeps close watch over the interest rates level of the Group. Since the rise of interest rates will increase the cost of newly added liabilities with interests, interest expenses on unpaid liabilities with interests priced in flexible rates, and will significantly impact the financial results of the Group, the management will lower the rate risks via swap contracts based on current market status. In 2015 and 2016, the Group had no such swap arrangements.

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

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VIII. Financial risks (continued)

3. Financial instruments (continued)

The following table shows the sensitivity analysis of the interest rate risk, reflecting the effect of the reasonable and possible changes in the interest rate on net income after tax (through the impact of floating interest rates) and other consolidated income when interest rates are reasonable and possible under other variables.

2016

| | Base point | Net profit or loss | Net amount after tax of | total |
|-----|---------------------|---------------------|-------------------------------|-------------------------|
| | | | other comprehensive income | stockholders' equity |
| | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| RMB | +100 | (19,483,309) | – | (19,483,309) |
| RMB | –100 | 19,483,309 | – | 19,483,309 |

2015

| | Base point | Net profit or loss | Net amount after tax of | total |
|-----|---------------------|---------------------|-------------------------------|-------------------------|
| | | | other comprehensive income | stockholders' equity |
| | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| RMB | +100 | (20,670,010) | – | (20,670,010) |
| RMB | –100 | (20,670,010) | – | (20,670,010) |

Exchange rate risk

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VIII. Financial risks (continued)

3. Financial instruments (continued)

The Group is exposed to transactional currency risk. Such risks are due to sales or purchases made by the operating entity in currencies other than its currency. The Group's main production is located in China, but the main business is settled in USD and EUR. Therefore, the foreign currency assets and liabilities recognized by the Group and the future foreign currency transactions (foreign currency assets and liabilities and the pricing currency denominated in foreign currency transactions are mainly USD and EUR). The Financial Department of the Group's headquarters is responsible for monitoring the size of the Group's foreign currency transactions and foreign currency assets and liabilities to minimize the exposure to foreign currency risks; to that end, the Group has signed forward foreign exchange contracts to achieve the purpose of circumvention of a partial foreign exchange risk. On December 31, 2016 and December 31, 2015, the Group's outstanding forward foreign exchange contracts are disclosed in Notes V.2 and 23.

The following table shows the sensitivity analysis of the exchange rate risk, reflecting the impact on net gains (due to changes in the fair value of currency assets and monetary liabilities) and net after – tax (due to changes in the fair value of forward exchange contracts) of net gains and losses (due to changes in the fair value of monetary assets and monetary liabilities) and other consolidated gains in the case of reasonable and possible changes in the United States dollar under other variables.

2016

| | Dollar currency rate | Net profit or loss | Net amount after tax of other comprehensive income | Total stockholders' equity |
|---------------------------------------|-------------------------|---------------------|---|----------------------------------|
| | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| Depreciation of RMB against USD | (1%) | 26,232,074 | – | 26,232,074 |
| Appreciation of RMB against | 1% | (26,232,074) | – | (26,232,074) |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VIII. Financial risks (continued)

USD

2015

| | | | |
|-------------------------|--------------------|----------------------------------|-------------------------|
| Dollar currency rate | Net profit or loss | Net amount after tax of | Total |
| | | other comprehensive income | stockholders' equity |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

VIII. Financial risks (continued)

3. Financial instruments (continued)

| | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| Depreciation of RMB against USD | (1%) | 94, 255, 964 | – | 94, 255, 964 |
| Appreciation of RMB against USD | 1% | (94, 255, 964) | – | (94, 255, 964) |

4. Capital management

The objective of the Group's capital management policy is to ensure that the Group is able to operate on a continuous basis to provide returns to shareholders and to benefit other stakeholders while maintaining the best capital structure to reduce capital costs.

To maintain or adjust capital structure, the Group may adjust the dividend amount paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The total capital of the Group is the Membership Interests listed in the consolidated balance sheet. The Group is not subject to mandatory external capital requirements and utilizes debt ratio monitoring capital. This ratio is calculated by dividing the net debt by total capital. Net debt is reduced by cash and cash equivalents for total borrowing (including short – term loans included in the consolidated balance sheet), other non – current liabilities that are due within one year, other current liabilities, long – term loans, bonds payable, and other payable and long – term payables. The total capital is Membership Interests total plus net debt).

As of December 31, 2016 and December 31, 2015, the ratio of liabilities of the Group is as follows:

| | December 31, 2016 | December 31, 2015 |
|----------------------|-------------------|-------------------|
| Ratio of liabilities | <u>64%</u> | <u>64%</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

IX. Fair Value Measurement

The tier attributed to the fair value measurement results is determined by the min tier of the input value with significant meaning to the fair value measurement.

Tier One: quotation of the same kind of assets or liabilities on activating market.

Tier Two: input value of assets or liabilities observable directly or indirectly except for market quotation at Tier One.

Tier Three: unobservable input value of related assets and liabilities

1. Assets and liabilities measured at fair value

On Dec. 31, 2016, continuous financial assets measured by fair value are listed as follows based on above 3 tiers:

| | <u>To be measured per fair value</u> | | | Total |
|--|--------------------------------------|----------------------------------|--------------------------------------|----------------------|
| | Active market quotation | Important observable input value | Important non-observable input value | |
| | (Tier One) | (Tier Two) | (Tier Three) | |
| Financial assets | | | | |
| Financial assets measured at fair value with the change accounted in current profit and loss | | | | |
| Forward foreign exchange contracts | — | 4,615,775 | — | 4,615,775 |
| Available-for-sale financial assets | | | | |
| Available-for-sale equity instruments | <u>1,270,578,346</u> | — | — | <u>1,270,578,346</u> |
| | <u>1,270,578,346</u> | <u>4,615,775</u> | — | <u>1,275,194,121</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

IX. Fair Value Measurement (continued)

On Dec. 31, 2015, continuous financial assets measured by fair value are listed as follows based on above 3 tiers:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

IX. Fair Value Measurement (continued)

1. Assets and liabilities measured at fair value (continued)

| | <u>To be measured per fair value</u> | | | |
|---|--------------------------------------|--|--|----------------------|
| | Active market quotation | Important observable input value | Important non-observable input value | |
| | (Tier One) | (Tier Two) | (Tier Three) | Total |
| Financial assets | | | | |
| Financial assets measured at fair value with the change accounted in current profit and loss | | | | |
| Forward foreign exchange contracts | - | 676,082 | - | s676,082 |
| Available-for-sale financial assets | | | | |
| Bank short-term financing products | - | 46,000,000 | - | 46,000,000 |
| Available-for-sale equity instruments | <u>1,169,183,020</u> | = | = | <u>1,169,183,020</u> |
| | <u>1,169,183,020</u> | <u>46,676,082</u> | = | <u>1,215,859,102</u> |

On Dec. 31, 2015, continuous liabilities measured by fair value are listed as follows based on above 3 tiers:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

IX. Fair Value Measurement (continued)

1. Assets and liabilities measured at fair value (continued)

| | <u>To be measured per fair value</u> | | | Total |
|---|--------------------------------------|----------------------------------|--------------------------------------|-------------------|
| | Active market quotation | Important observable input value | Important non-observable input value | |
| | (Tier One) | (Tier Two) | (Tier Three) | |
| Financial liabilities | | | | |
| Financial liabilities measured at fair value with the change accounted in current profit and loss | | | | |
| Forward foreign exchange contracts | = | <u>24,918,115</u> | = | <u>24,918,115</u> |

The Group regards the event occurring date transferring between the tires as the time point for confirmation. There is no transfer between tire 1 and 2 this year.

As for the financial instrument traded on active market, the Group will confirm the fair value with the quotation in the active market; as for the financial instrument not traded on active market, the Group confirms the fair value using the value estimation technology. Cash flow discount model is used as value estimation model. The input values of the value estimate technology includes the riskless interest rate and long exchange rate.

Related information of fair value measurement at tire 2:

| | December 31, 2016 | | <u>Observable input values</u> | |
|---------------------------|-------------------|---------------------------|--------------------------------|-----------|
| | Fair value | Value estimate technology | Name | Scope |
| Financial assets measured | | Cash flow | South Korean won to USD | 1,145.45- |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

IX. Fair Value Measurement (continued)

at fair value
with the change
accounted in
current profit
and loss

| | | | | | |
|----------|------|------------------|-----------------------|---------------------|-----------------|
| -USD | long | <u>4,615,775</u> | <u>Cash flow</u> | <u>forward rate</u> | <u>1,145.50</u> |
| exchange | | | <u>discount model</u> | | |
| contract | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

IX. Fair Value Measurement (continued)

1. Assets and liabilities measured at fair value (continued)

| | | December 31, 2015 | | <u>Observable input values</u> | |
|--|--|-------------------|---------------------------|--------------------------------|-------|
| | | Fair value | Value estimate technology | Name | Scope |

Measured at fair value and the changes are recorded into the profits and losses of the current financial asset

| | | | | | |
|------------------------|------|----------------|---------------------------------|---------------------|---------------|
| | | | Cash flow | USD to RMB | 6.5824- |
| -USD exchange contract | long | <u>676,082</u> | <u>Cash flow discount model</u> | <u>forward rate</u> | <u>6.7302</u> |

| | | December 31, 2015 | | <u>Observable input values</u> | |
|--|--|-------------------|---------------------------|--------------------------------|-------|
| | | Fair value | Value estimate technology | Name | Scope |

| | | | | | |
|-------------------------------------|--|--|-----------|-----------------|-----|
| Financial assets available for sale | | | Cash flow | Contract agreed | 0%- |
|-------------------------------------|--|--|-----------|-----------------|-----|

| | | | | | |
|------------------------------------|--|-------------------|-----------------------|--------------------|--------------|
| -Bank short-term financing product | | <u>46,000,000</u> | <u>discount model</u> | <u>profit rate</u> | <u>2.95%</u> |
|------------------------------------|--|-------------------|-----------------------|--------------------|--------------|

| | | December 31, 2015 | | <u>Observable input values</u> | |
|--|--|-------------------|--|--------------------------------|--|
|--|--|-------------------|--|--------------------------------|--|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

IX. Fair Value Measurement (continued)

| Fair value | Value estimate technology | Name | Scope |
|------------|------------------------------|------|-------|
|------------|------------------------------|------|-------|

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

IX. Fair Value Measurement (continued)

1. Assets and liabilities measured at fair value (continued)

Measured at fair value and the changes are recorded into the profits and losses of the current financial liabilities

| | | | | | |
|----------|------|---------------------|-----------------------|---------------------|---------------|
| | | | Cash flow | USD to RMB | 6.4971- |
| -USD | long | <u>(24,918,115)</u> | <u>discount model</u> | <u>forward rate</u> | <u>6.7302</u> |
| exchange | | | | | |
| contract | | | | | |

2. Assets and liabilities not measured at fair value but disclosing the fair value

Financial assets and financial debt measured with amortized cost include: receivables, long-term receivables, short-term loan, payables, long-term loan and payable bond.

The long-term receivables are the receivables with floating rate. The difference between the book value and fair value is small. Besides the financial assets and financial debt below, the difference between the book values and fair values of the financial assets and financial debt not measured at the fair value is small.

The following is the book value and fair value of all kinds of financial instruments other than the equity instruments that have little difference between the carrying value and the fair value, and are not quoted in the active market and whose fair value cannot be measured reliably:

| | <u>2016</u> | | <u>2015</u> | |
|-----------------------|----------------------|----------------------|--------------------|--------------------|
| | Booking value | Fair value | Booking value | Fair value |
| Financial liabilities | | | | |
| -Long-term loans | 3,925,335,497 | 3,905,480,658 | 1,761,904,000 | 1,700,572,166 |
| -Long-term payables | <u>1,618,361,164</u> | <u>1,638,536,115</u> | <u>719,861,943</u> | <u>704,509,277</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

IX. Fair Value Measurement (continued)

| | | | |
|----------------------|----------------------|----------------------|----------------------|
| <u>5,543,696,661</u> | <u>5,544,016,773</u> | <u>2,481,765,943</u> | <u>2,405,081,443</u> |
|----------------------|----------------------|----------------------|----------------------|

As for the long-term loan, long-term payables and payables without active market, the fair value is confirmed by the future cash flow specified in the contract according to the comparable credit level and the same cash flow rate provided in the same conditions, which belongs to tire 3.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions

1. Parent company

| Name of parent company | Registered place | Business nature | Registered capital | Parent company's holding proportion in the Corporation (%) | Parent company's voting proportion in the Corporation (%) |
|----------------------------------|--|---|--------------------|--|---|
| China Communications Corporation | No. 88, Outer Street No. Third, Andingmen, Dongcheng District, Beijing | Port project contracting and related businesses | 16,174,735,425 | 28.828% | 28.828% |

As of Dec. 31, 2016, China Communications Corporation and its controlled Hong Kong Zhenhua Engineering Co., Ltd. (holding 17.076% stake of the Company) and Macau Zhenhua Bay Engineering Co., Ltd. (holding 0.325% stake of the Company) together hold 46.229% of the Company's stake (Dec. 31, 2015: 46.229%).

The final controlling party of the Company is China Communications Construction Group Co., Ltd.

2. Subsidiary

See Note VII.1 for details about subsidiary

3. Joint venture and associates

See Note VII.2 for details about joint venture and associates.

4. Other related parties

Related party

| | |
|---|---------------------------------------|
| CCCC First Harbor Engineering Co., Ltd. | Controlled by the same parent company |
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | Controlled by the same parent company |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

| | |
|---|---------------------------------------|
| No.2 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | Controlled by the same parent company |
| No.5 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | Controlled by the same parent company |
| Installation Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | Controlled by the same parent company |

Shanghai Zhenhua Heavy Industries Co., Ltd

Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

4. Other related parties (continued)

| | |
|--|---------------------------------------|
| CCCC First Harbor City Traffic Engineering Co., Ltd | Controlled by the same parent company |
| CCCC First Harbor First Engineering Co., Ltd | Controlled by the same parent company |
| No. 6 Engineering Co., Ltd of CCCC First Highway engineering Co., Ltd. | Controlled by the same parent company |
| CCCC Second Harbor Engineering Co., Ltd. | Controlled by the same parent company |
| No.2 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd. | Controlled by the same parent company |
| No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd. | Controlled by the same parent company |
| CCCC Second harbor engineering investigation and Design Institute Co., Ltd | Controlled by the same parent company |
| CCCC Second Highway Engineering Bureau Co., Ltd. | Controlled by the same parent company |
| CCCC-SHEC Second Engineering Co., Ltd. | Controlled by the same parent company |
| CCCC Third Harbor Engineering Co., Ltd. | Controlled by the same parent company |
| CCCC Third Harbor Second Engineering Co., Ltd | Controlled by the same parent company |
| Third Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd | Controlled by the same parent company |

(To be continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

4. Other related parties (continued)

Related party

(continued)

| | |
|--|---------------------------------------|
| CCCC Fourth Harbor Engineering Investigation and Design Institute Co., Ltd | Controlled by the same parent company |
| CCCC Fourth Harbor Engineering Institute Co., Ltd. | Controlled by the same parent company |
| CCCC Fourth Highway Engineering Co., Ltd. | Controlled by the same parent company |
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | Controlled by the same parent company |
| Hong Kong Zhenhua Engineering Co., Ltd | Controlled by the same parent company |
| Zhenhua Marine Energy (Hong Kong) Co., Ltd | Controlled by the same parent company |
| CCCC Third Harbor Engineering Xing 'an Construction Engineering Co., Ltd. | Controlled by the same parent company |
| CCCC Third Harbor Engineering Investigation and Design Institute Co., Ltd | Controlled by the same parent company |
| CCCC Third Highway Engineering Bureau Co., Ltd | Controlled by the same parent company |
| CCCC Fourth Harbor Engineering Co., Ltd | Controlled by the same parent company |
| Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd | Controlled by the same parent company |
| Macau Zhenhua Harbor Engineering Co., Ltd | Controlled by the same parent company |
| CCCC Financial Co., Ltd | Controlled by the same parent company |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

4. Other related parties (continued)

| | |
|---|---------------------------------------|
| China Communication Materials & Shipment Co., Ltd | Controlled by the same parent company |
| CCCC Financial Leasing CO., Ltd | Controlled by the same parent company |
| CCCC Rental Jiahuayi Co., Ltd | Controlled by the same parent company |
| CCCC Rental Jiahuaer Co., Ltd | Controlled by the same parent company |
| Road & Bridge International Co., Ltd. | Controlled by the same parent company |
| CCCC International Shipping Co., Ltd | Controlled by the same parent company |
| Shanghai Waterway Logistics Co., Ltd. | Controlled by the same parent company |
| Shanghai Jiangtian Industrial Co., Ltd | Controlled by the same parent company |
| Shanghai Zhensha Longfu Machinery Co., Ltd | Controlled by the same parent company |
| CCCC Shanghai Equipment Engineering Co., Ltd | Controlled by the same parent company |
| Shanghai Communications Construction Contracting Co., Ltd | Controlled by the same parent company |
| CTTIC Shanghai Co., Ltd | Controlled by the same parent company |
| CCCC Tianjin Industry and Trade Co., Ltd. | Controlled by the same parent company |
| CCCC Tianjin Dredging Co., Ltd | Controlled by the same parent company |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

4. Other related parties (continued)

| | |
|--|---------------------------------------|
| Tianjin Dredging Company—Binhai Environmental Protection Engineering Co., Ltd | Controlled by the same parent company |
| CCCC Tianjin Port & Waterway Prospection & Design Research Institute Co., Ltd. | Controlled by the same parent company |
| CCCC Tianjin Port Prospection & Design Research Institute Co., Ltd. | Controlled by the same parent company |
| Jiangsu Long Yuan Zhenhua Marine Engineering Co., Ltd | Controlled by the same parent company |
| Nanjing CCCC Weisanlu River Tunnel Co., Ltd | Controlled by the same parent company |
| Hainan CCCC Fourth Harbor Construction Co., Ltd | Controlled by the same parent company |
| China Communications Water Transportation Design & Research Co., Ltd | Controlled by the same parent company |

(To be continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

4. Other related parties (continued)

Related party

(continued)

| | |
|---|---------------------------------------|
| CCCC Highway Planning and Design Institute Co., Ltd | Controlled by the same parent company |
| CCCC Tunnel Engineering Co., Ltd | Controlled by the same parent company |
| CCCC East China Investment Co., Ltd | Controlled by the same parent company |
| CCCC Highway Bridges National Engineering Research Centre Co., Ltd. | Controlled by the same parent company |
| China Harbor Engineering Co., Ltd | Controlled by the same parent company |
| China Road and Bridge Co., Ltd | Controlled by the same parent company |
| Beijing Qiaoyu Science and Technology Co., Ltd | Controlled by the same parent company |
| CHUWA BUSSAN company limited | Controlled by the same parent company |
| Yueyang Chenglingji Xingang Co., Ltd. | Controlled by the same parent company |
| Friede & Goldman, LLC. | Controlled by the same parent company |

5. Main transactions

The Group and the related party, the transaction price is based on mutual agreement and with reference to market price as the pricing basis.

(1) Related party trading goods and services

Selling goods to related party

2016

2015

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

| | | |
|---|---------------|---------------|
| CCCC Second Harbor Engineering Co., Ltd. | 389, 557, 043 | 277, 237, 614 |
|---|---------------|---------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

5. Main transactions (continued)

| | | |
|--|---------------|---------------|
| CCCC International Shipping Co., Ltd | 233, 003, 192 | – |
| CHUWA BUSSAN company limited | 193, 053, 287 | 331, 102, 486 |
| China Road and Bridge Co., Ltd | 179, 013, 839 | 1, 089, 606 |
| CCCC Third Harbor Engineering Investigation and Design Institute Co., Ltd | 175, 876, 344 | 4, 515, 993 |
| CCCC Tianjin Dredging Co., Ltd | 155, 198, 269 | – |
| China Harbor Engineering Co., Ltd | 147, 800, 178 | 34, 099, 381 |
| CCCC Tunnel Engineering Co., Ltd | 144, 526, 777 | 52, 226, 007 |
| CCCC Fourth Harbor Engineering Investigation and Design Institute Co., Ltd | 121, 403, 077 | – |
| Road & Bridge International Co., Ltd. | 81, 639, 431 | – |
| CCCC Third Harbor Engineering Co., Ltd. | 81, 407, 370 | 257, 912, 687 |
| No.3 Engineering Co., Ltd. of CCCC Second Harbor | 69, 043, 050 | – |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

Engineering Co., Ltd.

| | | | |
|-----------------------|--------|------------|-----------|
| CCCC-SHEC | Second | 62,720,000 | 3,678,378 |
| Engineering Co., Ltd. | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

5. Main transactions (continued)

| | | |
|---|------------|-------------|
| No.2 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | 42,279,112 | 643,333 |
| CCCC-SHEC Second Engineering Co., Ltd. | 37,101,137 | 75,530,025 |
| Friede & Goldman, Llc. | 26,755,168 | 140,108,319 |
| CCCC Fourth Harbor Engineering Institute Co., Ltd. | 26,568,685 | — |
| CCCC Third Highway Engineering Bureau Co., Ltd | 22,068,890 | 38,213,139 |
| CCCC Financing Rental Co., Ltd. | 20,652,755 | 12,020,237 |
| Hainan CCCC Fourth Harbor Construction Co., Ltd | 19,279,683 | 17,202,584 |
| CCCC Second Harbor Engineering Co., Ltd. | 17,389,362 | 44,663,030 |
| Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd | 16,648,649 | 53,734,600 |

(To be continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

5. Main transactions (continued)

(1) Related party trading goods and services (continued)

Selling goods or assets to related parties (continued)

| | 2016 | 2015 |
|---|--------------|--------------|
| (continued) | | |
| CCCC Second Highway Engineering Bureau Co., Ltd | 11, 802, 499 | 56, 534, 225 |
| China Communications Corporation | 11, 627, 327 | 14, 436, 561 |
| CCCC East China Investment Co., Ltd | 10, 697, 446 | — |
| CCCC First Harbor Engineering Co., Ltd. | 8, 219, 845 | — |
| CCCC Highway Bridges National Engineering Research | | |
| 4, 829, 060 | — | |
| Hong Kong Zhenhua Engineering Co., Ltd | 134, 656 | — |
| Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd | — | 24, 687, 230 |
| Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd | — | 18, 699, 952 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

| | | |
|--|---|------------|
| Nanjing CCCC Weisanlu River Tunnel Co., Ltd | – | 15,362,383 |
|--|---|------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

5. Main transactions (continued)

| | | |
|---|----------------------|----------------------|
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | — | 3,173,735 |
| CCCC Shanghai Equipment Engineering Co., Ltd | — | <u>1,222,449</u> |
| | <u>2,310,296,131</u> | <u>1,478,093,954</u> |

Related party provided labor service for the Company

| | 2016 | 2015 |
|---|-------------|-------------|
| CCCC Tianjin Dredging Co., Ltd | 331,677,108 | 202,023,996 |
| CCCC Second Highway Consultant Co., Ltd. | 91,221,324 | — |
| CCCC Fourth Highway Engineering Co., Ltd. | 75,048,039 | — |
| CCCC Third Harbor Engineering Co., Ltd. | 64,290,666 | — |
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | 22,573,250 | — |

(To be continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

5. Main transactions (continued)

(1) Related party trading goods and services (continued)

Related party provided labor service for the Company (continued)

| | 2016 | 2015 |
|--|---------------|------------|
| (continued) | | |
| Shanghai Communications Construction Contracting Co., Ltd | 21,633,168 | — |
| Jiangsu Long Yuan Zhenhua Marine Engineering Co., Ltd | 14,565,939 | — |
| China Communications Corporation | 13,661,221 | 15,608,642 |
| CCCC Second Highway Engineering Bureau Co., Ltd | 7,079,715 | 10,713,240 |
| CCCC Tianjin Industry and Trade Co., Ltd. | 296,154 | — |
| CCCC East China Investment Co., Ltd | 247,863 | 30,900,000 |
| CCCC Third Harbor Engineering Investigation and Design Institute Co., Ltd | 56,913 | — |
| Shanghai Jiangtian Industrial Co., Ltd | 25,173 | — |
| CTTIC Shanghai Co., Ltd | <u>17,094</u> | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

642,393,627

259,245,878

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

5. Main transactions (continued)

Purchase products from related parties

| | 2016 | 2015 |
|--|---------------------|--------------------|
| CHUWA BUSSAN company limited | 182,477,645 | 291,769,656 |
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | 120,664,901 | 104,139,666 |
| CCCC Shanghai Equipment Engineering Co., Ltd | 100,037,221 | 137,622,776 |
| CCCC Fourth Highway Engineering Co., Ltd. | 2,993,504 | — |
| CCCC Tianjin Port & Waterway Prospection & Design Research Institute Co., Ltd. | 1,084,615 | — |
| CCCC Tianjin Port Prospection & Design Research Institute Co., Ltd. | 1,084,615 | — |
| Nanjing CCCC Weisanlu River Tunnel Co., Ltd | 72,175 | — |
| China Communication Materials & Shipment Co., Ltd | <u>14,248</u> | <u>16,721,301</u> |
| | <u>408,428,,924</u> | <u>550,253,399</u> |

(2) Pay dividend to related parties

| | |
|------|------|
| 2016 | 2015 |
|------|------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

| | | |
|----------------------------------|---------|---|
| China Communications Corporation | 502,283 | — |
|----------------------------------|---------|---|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

5. Main transactions (continued)

(3) Net deposit to related parties

| | 2016 | 2015 |
|-------------------------|--------------------|-------------------|
| CCCC Financial Co., Ltd | <u>528,772,323</u> | <u>14,114,145</u> |

(4) Loans to Related parties

| | 2016 | 2015 |
|---------------------------------|----------------------|----------------------|
| CCCC Financing Rental Co., Ltd. | 2,120,845,793 | 1,018,000,000 |
| CCCC Financial Co., Ltd | 300,000,000 | — |
| CCCC Rental Jiahuayi Co., Ltd | — | 383,838,000 |
| CCCC Rental Jiahuaer Co., Ltd | — | <u>383,838,000</u> |
| | <u>2,420,845,793</u> | <u>1,785,676,000</u> |

(5) Received interest from related parties

| | 2016 | 2015 |
|-------------------------|----------------|----------------|
| CCCC Financial Co., Ltd | <u>513,218</u> | <u>616,290</u> |

(6) Pay interest to related parties

| | 2016 | 2015 |
|---------------------------------|------------|------------|
| CCCC Financing Rental Co., Ltd. | 46,047,152 | 53,723,710 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

| | | |
|-------------------------------|------------|------------|
| CCCC Financial Co., Ltd | 11,201,250 | 13,594,125 |
| CCCC Rental Jiahuayi Co., Ltd | 8,819,415 | 11,483,154 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

5. Main transactions (continued)

| | | |
|-------------------------------|-------------------|-------------------|
| CCCC Rental Jiahuaer Co., Ltd | <u>8,819,415</u> | <u>11,483,154</u> |
| | <u>74,887,232</u> | <u>90,284,143</u> |

(7) Leasing

The Group as lessor

| | Types of leasing assets | 2016 | 2015 |
|--|----------------------------|--------------------|--------------------|
| Zhenhua Marine Energy (Hong Kong) Co., Ltd | Ship | 169,580,194 | 67,924,038 |
| CCCC Tunnel Engineering Co., Ltd | Shield | 125,440,000 | 14,365,684 |
| China Communications Corporation | Ship | 1,606,804 | 3,384,615 |
| CCCC Third Harbor Second Engineering Co., Ltd | Shield | 501,755 | — |
| No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd. | Shield | — | <u>19,671,628</u> |
| | | <u>297,128,753</u> | <u>105,345,965</u> |

(8) Guarantee

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

The Company as guarantor

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

5. Main transactions (continued)

| | Guarantee | Guarantee | Guarantee | Whether the |
|--|-------------|--------------------|----------------|--------------|
| | amount | start date | due date | Guarantee is |
| | | | | implemented |
| Zhenhua Marine Energy (Hong Kong) Co., Ltd | 177,247,287 | September 14, 2015 | April 14, 2017 | No |

In current period, the Group provide loan guarantee to Zhenhua Marine Energy (Hong Kong) Co., Ltd for free. The total converted guarantee amount in RMB is 177,247,287yuan (2015: RMB 165,917,974 yuan).

(9). Key executives' salaries

| | 2016 | 2015 |
|--------------------------|-------------------|-------------------|
| Key executives' salaries | <u>14,574,800</u> | <u>12,544,400</u> |

The number of key executives of the Group in 2016 is 24 (2014: 29). The salaries of the newly added executives and the resigned executives are calculated according to the tenure. It is calculated on a yearly basis for other employees.

X. Related party relationships and transactions (continued)

6. Promises with related parties

The following are promises contracted but not necessarily shown on balance sheet with related parties as of balance sheet day:

| Related party provided labor service for the Company | 2016 | 2015 |
|--|---------------|------|
| CCCC Tianjin Dredging Co., Ltd | 1,344,348,653 | — |
| CCCC Fourth Highway | 835,973,095 | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)
Engineering Co., Ltd.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

6. Promises with related parties (continued)

| | | |
|---|-------------|------------------|
| CCCC Third Harbor Engineering Co., Ltd. | 387,588,088 | 79,010,254 |
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | 139,829,924 | — |
| CCCC Second Highway Consultant Co., Ltd. | 34,418,446 | — |
| CCCC Tunnel Engineering Co., Ltd | 5,265,067 | 23,777,752 |
| Shanghai Communications Construction Contracting Co., Ltd | 650,837 | — |
| CCCC Second Harbor Engineering Co., Ltd | — | 70,313,613 |
| CCCC Third Harbor Engineering Xing'an Construction Engineering Co., Ltd. | — | 37,076,943 |
| Installation Engineering Co., Ltd. Of CCCC First Harbor Engineering Co., Ltd. | — | 29,435,537 |
| China Communications Corporation | — | 29,333,629 |
| CCCC First Harbor Engineering Co., Ltd. | — | <u>1,000,000</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

2,748,074,110

269,947,728

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

6. Promises with related parties (continued)

| | 2016 | 2015 |
|------------------------------------|------|------|
| Leased assets from related parties | | |

| | | |
|--------------------------------------|---|------------------|
| Shanghai Waterway Logistics Co., Ltd | = | <u>1,800,000</u> |
|--------------------------------------|---|------------------|

| | 2016 | 2015 |
|----------------------------------|------|------|
| Leased assets to related parties | | |

| | | |
|--|---------------|---------------|
| Zhenhua Marine Energy (Hong Kong) Co., Ltd | 1,522,081,855 | 1,582,750,064 |
|--|---------------|---------------|

| | | |
|----------------------------------|---|------------------|
| China Communications Corporation | = | <u>2,880,000</u> |
|----------------------------------|---|------------------|

| | |
|---------------|----------------------|
| 1,522,081,855 | <u>1,585,630,064</u> |
|---------------|----------------------|

The related parties build base and production workshop

| | 2016 | 2015 |
|---|------|-------------------|
| CCCC Third Harbor Engineering Co., Ltd. | = | <u>13,750,000</u> |

| | | |
|---|---|-------------------|
| CCCC Third Harbor Engineering Co., Ltd. | = | <u>13,750,000</u> |
|---|---|-------------------|

Selling goods or assets to related parties

| | 2016 | 2015 |
|--------------------------------|-------------|------|
| CCCC Tianjin Dredging Co., Ltd | 495,528,226 | - |

| | | |
|--------------------------------|-------------|---|
| CCCC Tianjin Dredging Co., Ltd | 495,528,226 | - |
|--------------------------------|-------------|---|

| | | |
|--|-------------|-------------|
| CCCC Second Harbor Engineering Co., Ltd. | 126,518,010 | 269,536,252 |
|--|-------------|-------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

6. Promises with related parties (continued)

| | | |
|--|------------|-------------|
| Road & Bridge International Co., Ltd. | 74,183,233 | — |
| No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd. | 69,043,050 | — |
| CCCC Second Highway Engineering Bureau Co., Ltd. | 55,801,029 | — |
| CCCC Financing Rental Co., Ltd. | 41,121,422 | 650,726,496 |
| China Road and Bridge Co., Ltd | 28,043,324 | 138,189 |
| CCCC International Shipping Co., Ltd | 26,318,763 | — |
| CHUWA BUSSAN company limited | 13,138,761 | — |
| CCCC Third Harbor Engineering Co., Ltd. | 11,620,766 | 47,321,305 |

(To be continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

6. Promises with related parties (continued)

Selling goods or assets to related parties (continued)

| | 2016 | 2015 |
|--|------------|-------------|
| (continued) | | |
| CCCC Tunnel Engineering Co., Ltd | 11,054,256 | 9,119,658 |
| Friede & Goldman, LLC. | 11,000,000 | 102,518,684 |
| Hainan CCCC Fourth Harbor Construction Co., Ltd | 7,723,504 | 507,461 |
| China Communications Water Transportation Design & Research Co., Ltd | 6,672,629 | 6,672,629 |
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | 5,264,957 | 6,210,620 |
| CCCC Fourth Harbor Engineering Investigation and Design Institute Co., Ltd | 5,058,462 | 126,461,538 |
| No.2 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | 4,528,473 | 9,701,516 |
| CCCC-SHEC Second Engineering Co., Ltd. | 1,541,429 | 1,541,429 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

| | | |
|---|-------------|-------------|
| CCCC Third Highway Engineering Bureau Co., Ltd | 1, 127, 786 | 3, 850, 109 |
|---|-------------|-------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

6. Promises with related parties (continued)

| | | |
|--|--------------------|----------------------|
| CCCC First Harbor Engineering Co., Ltd. | 341,880 | – |
| CCCC Fourth Harbor Engineering Institute Co., Ltd. | 36,103 | – |
| China Communications Corporation | – | 74,715,733 |
| China Harbor Engineering Co., Ltd | – | 63,799,620 |
| Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd | – | 14,872,470 |
| No.2 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd. | – | 7,494,175 |
| Jiangsu LongYuan Zhenhua Marine Engineering Co.,Ltd | – | 450,106 |
| CCCC Fourth Harbor Engineering Co., Ltd | – | 333,806 |
| CCCC Third Harbor Second Engineering Co., Ltd | – | <u>144,794</u> |
| | <u>926,623,013</u> | <u>1,396,116,590</u> |

Signed a standby leasing agreement with the related party

On December 16, 2015, the Company signed ship rental standby agreement with CCCC Rental Jiahuayi Co., Ltd and CCCC Rental Jiahuaer Co., Ltd, with the rental term from March

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

5, 2016 to December 5, 2021. The Company will pay contractual compensations when the ship rental agreement signed by the subsidiary and Zhenhua Marine Energy (Hong Kong) Co., Ltd can't be performed. The max contractual amount is RMB 737,304,000 Yuan.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

7. Receivables from related parties

| | <u>2016</u> | | <u>2015</u> | |
|--|-----------------|-------------------------|-----------------|-------------------------|
| | Closing balance | Provision for bad debts | Closing balance | Provision for bad debts |
| <u>Accounts receivable</u> | | | | |
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | 100,793,713 | — | 40,000,000 | — |
| CCCC Fourth Harbor Engineering Investigation and Design Institute Co., Ltd | 88,776,000 | — | 29,592,000 | — |
| CCCC First Harbor Engineering Co., Ltd. | 72,345,219 | — | 90,636,388 | — |
| China Communications Corporation | 58,509,343 | — | 27,772,867 | — |
| Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd | 37,087,652 | — | 45,398,459 | — |
| China Harbor Engineering Co., Ltd | 33,636,903 | — | 15,125,880 | — |
| CCCC Second Harbor Engineering Co., | 31,166,430 | — | 56,432,975 | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

Ltd.

| | | | | |
|---|------------|---|------------|---|
| CCCC Third Harbor Engineering Co., Ltd. | 32,184,194 | – | 56,419,273 | – |
|---|------------|---|------------|---|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

7. Receivables from related parties (continued)

| | | | | | |
|--|--------|------------|---|-------------|---|
| CCCC Harbor Engineering Co., Ltd | Fourth | 24,670,995 | — | 19,047,086 | — |
| China Communications Water Transportation Design & Research Co., Ltd | | 18,382,000 | — | — | — |
| Friede & Goldman, LLC | | 16,718,142 | — | 114,763,068 | — |
| Road & Bridge International Co., Ltd. | | 9,032,783 | — | — | — |
| CCCC-SHEC Second Engineering Co., Ltd. | | 6,098,300 | — | 13,171,700 | — |
| CCCC Harbor Engineering Investigation and Design Institute Co., Ltd | Fourth | 6,000,000 | — | 6,000,000 | — |

(To be continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

7. Receivables from related parties (continued)

| | | | <u>2016</u> | | <u>2015</u> |
|--------------------|-----------------|------------------------|-------------|-----------------|------------------------|
| | Closing balance | Provision bad debts | for | Closing balance | Provision bad debts |
| <u>Accounts</u> | | | | | |
| <u>receivable</u> | | | | | |
| <u>(continued)</u> | | | | | |
| (continued) | | | | | |
| No.2 | 5,700,505 | | — | 8,999,544 | — |
| Engineering | | | | | |
| Co., Ltd. of | | | | | |
| CCCC Second | | | | | |
| Harbor | | | | | |
| Engineering | | | | | |
| Co., Ltd. | | | | | |
| CCCC Highway | 5,650,000 | | — | — | — |
| Bridges | | | | | |
| National | | | | | |
| Engineering | | | | | |
| Research | | | | | |
| Second | 5,233,497 | | — | 10,402,788 | — |
| Engineering | | | | | |
| Company of CCCC | | | | | |
| Fourth Harbor | | | | | |
| Engineering | | | | | |
| Co., Ltd | | | | | |
| No.2 | 5,053,317 | | — | 5,753,557 | — |
| Engineering | | | | | |
| Co., Ltd. of | | | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

CCCC First
Harbor
Engineering
Co., Ltd.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

7. Receivables from related parties (continued)

| | | | | |
|---|-----------|---|------------|---|
| CCCC Third Harbor Second Engineering Co., Ltd | 5,008,691 | — | — | |
| Tianjin Dredging Company—Binhai Environmental Protection Engineering Co., Ltd | 2,170,000 | — | 2,170,000 | — |
| CCCC-SHEC Second Engineering Co., Ltd. | 1,438,507 | — | 14,753,046 | — |
| CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd | 1,100,000 | — | 1,100,000 | — |
| CCCC Third Harbor Engineering Xing'an Construction Engineering Co., Ltd. | 331,860 | — | — | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

7. Receivables from related parties (continued)

| | | | | |
|---|---------|---|------------|---|
| Installation Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | 253,297 | — | 900,797 | — |
| CCCC Tianjin Industry and Trade Co., Ltd. | 140,711 | — | — | — |
| Yueyang Chenglingji Xingang Co., Ltd. | 48,680 | — | 42,000 | — |
| CCCC Shanghai Equipment Engineering Co., Ltd | 45,635 | — | 1,083,425 | — |
| Zhenhua Marine Energy (Hong Kong) Co., Ltd | — | — | 69,319,180 | — |
| CHUWA BUSSAN company limited | — | — | 45,103,892 | — |
| CCCC Second Highway Engineering Bureau Co., Ltd. | — | — | 25,595,000 | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

7. Receivables from related parties (continued)

| | | | | |
|--|--------------------|-----------|--------------------|---|
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | - | - | 5,760,000 | - |
| CCCC Tunnel Engineering Co., Ltd | - | - | 4,809,915 | - |
| CCCC First Harbor City Traffic Engineering Co., Ltd | - | 4,719,000 | | |
| No.2 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd. | = | = | <u>1,245,810</u> | = |
| | <u>567,576,374</u> | = | <u>716,117,651</u> | = |

2016

2015

Closing balance

Provision for
bad debts

Closing balance

Provision for
bad debts

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

Monetary
capital

| | | | | |
|-------------------------|--------------------|---|--------------------|---|
| CCCC Financial Co., Ltd | <u>663,820,190</u> | = | <u>134,534,649</u> | = |
|-------------------------|--------------------|---|--------------------|---|

Other
receivables

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

7. Receivables from related parties (continued)

| | | | | |
|---|------------------|---|-------------------|---|
| Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd | 1,750,622 | — | 1,726,800 | — |
| CCCC First Harbor Engineering Co., Ltd. | 100,000 | — | — | — |
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | — | — | <u>10,000,000</u> | — |
| | <u>1,850,622</u> | — | <u>11,726,800</u> | — |
| <u>Advanced payment</u> | | | | |
| CCCC East China Investment Co., Ltd | 7,210,205 | — | — | — |
| China Communications Corporation | — | — | 7,192,680 | — |
| CCCC Third Harbor Engineering | — | — | 2,200,000 | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

Xing 'an
Construction
Engineering
Co., Ltd.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

7. Receivables from related parties (continued)

| | | | | |
|---|------------------|---|-------------------|---|
| CCCC Shanghai Equipment Engineering Co., Ltd | = | = | <u>630,000</u> | = |
| | <u>7,210,205</u> | = | <u>10,022,680</u> | = |

8. Balances of payables to related parties

| | 2016 | 2015 |
|--|-------------|-------------|
| <u>Accounts payable</u> | | |
| CHUWA BUSSAN company limited | 358,758,413 | 296,437,449 |
| CCCC-SHEC Second Engineering Co., Ltd. | 221,168,711 | 187,941,127 |
| CCCC Second Highway Engineering Bureau Co., Ltd | 149,221,661 | 259,445,458 |
| CCCC Third Harbor Engineering Co., Ltd. | 115,648,769 | 43,224,566 |
| CCCC Tianjin Dredging Co., Ltd | 92,096,212 | 162,023,996 |
| CCCC Fourth Highway Engineering Co., Ltd. | 81,806,205 | — |
| CCCC Second Highway Consultant Co., Ltd. | 48,804,871 | — |
| CCCC Tunnel Engineering Co., Ltd | 29,059,546 | 28,854,070 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

8. Balances of payables to related parties (continued)

| | | |
|--|------------|------------|
| Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd | 17,042,149 | — |
| CCCC Shanghai Equipment Engineering Co., Ltd | 14,170,536 | 32,594,294 |
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | 11,410,703 | — |
| CCCC Third Harbor Engineering Xing'an Construction Engineering Co., Ltd. | 10,051,352 | 10,051,352 |
| Shanghai Communications Construction Contracting Co., Ltd | 9,675,865 | — |
| CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd | 9,363,830 | 9,363,830 |
| China Communications Corporation | 8,777,876 | — |
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | 8,725,170 | 24,086,487 |
| CCCC Tianjin Industry and Trade Co., Ltd. | 1,178,100 | — |
| CCCC East China Investment Co., Ltd | 290,000 | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

8. Balances of payables to related parties (continued)

| | | |
|--|----------------------|----------------------|
| China Communications Water Transportation Design & Research Co., Ltd | 160,000 | 160,000 |
| China Communication Materials & Shipment Co., Ltd | 16,670 | 14,821,551 |
| Shanghai Jiangtian Industrial Co., Ltd | 4,380 | 289 |
| Beijing Qiaoyu Science and Technology Co., Ltd | = | <u>1,198,882</u> |
| | <u>1,187,431,019</u> | <u>1,070,203,351</u> |

2016

2015

Advance receipts

| | | |
|---|---------|-------------|
| China Harbor Engineering Co., Ltd | 736,500 | 736,500 |
| Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd | 366,574 | - |
| CCCC Shanghai Equipment Engineering Co., Ltd | 100,000 | - |
| CCCC Tunnel Engineering Co., Ltd | - | 107,781,197 |
| No.2 Engineering Co., Ltd. of CCCC Second Harbor | - | 82,277,608 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)
Engineering Co., Ltd.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

8. Balances of payables to related parties (continued)

| | | |
|--|------------------|--------------------|
| CHUWA BUSSAN company limited | — | 32,378,055 |
| No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd. | — | 1,788,70 |
| China Communications Corporation | — | 934,516 |
| No.2 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd. | — | 699,388 |
| Friede & Goldman, LLC. | — | 599,112 |
| CCCC Third Harbor Engineering Xing 'an Construction Engineering Co., Ltd. | — | <u>200,000</u> |
| | <u>1,203,074</u> | <u>227,395,077</u> |

Dividend payable

| | | |
|--|------------|------------|
| Hong Kong Zhenhua Engineering Co., Ltd | 346,005 | 346,005 |
| Macau Zhenhua Harbor Engineering Co., Ltd | 6,593 | 6,593 |
| CCCC Tianjin Dredging Co., Ltd | 25,079,494 | 25,079,494 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

8. Balances of payables to related parties (continued)

| | | |
|----------------------------------|-------------------|-------------------|
| CHUWA BUSSAN company limited | 6,269,873 | 6,269,873 |
| China Communications Corporation | = | <u>502,283</u> |
| | <u>31,701,965</u> | <u>32,204,248</u> |

Interest payable

| | | |
|---------------------------------|----------------|------------------|
| CCCC Financing Rental Co., Ltd. | <u>132,917</u> | <u>1,784,054</u> |
|---------------------------------|----------------|------------------|

2016

2015

Other payables

| | | |
|---|-------------|---------------|
| China Communications Corporation | 103,327,306 | 103,937,952 |
| CCCC Financing Rental Co., Ltd. | 100,000,000 | 1,118,000,000 |
| Shanghai Jiangtian Industrial Co., Ltd | 16,754,583 | 17,586,085 |
| CCCC Third Harbor Engineering Co., Ltd. | 3,195,324 | 3,376,879 |
| CCCC-SHEC Second Engineering Co., Ltd. | 7,912,758 | 7,912,758 |
| CCCC Tianjin Dredging Co., Ltd | 2,000,000 | 2,669,988 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

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X. Related party relationships and transactions (continued)

8. Balances of payables to related parties (continued)

| | | |
|--|----------------------|-------------------------|
| CCCC Tunnel Engineering Co., Ltd | 1, 819, 211 | 1, 637, 656 |
| CCCC Second Highway Engineering Bureau Co., Ltd | 1, 437, 244 | 13, 750, 047 |
| Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd | 143, 395 | — |
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | 99, 606 | — |
| CCCC Shanghai Equipment Engineering Co., Ltd | 89, 000 | — |
| Shanghai Zhensha Longfu Machinery Co., Ltd | — | 257, 612 |
| CCCC Third Harbor Engineering Xing'an Construction Engineering Co., Ltd. | — | <u>1, 200</u> |
| | <u>236, 778, 427</u> | <u>1, 269, 130, 177</u> |

Short-term loans

| | | |
|-------------------------|----------------------|---|
| CCCC Financial Co., Ltd | <u>100, 000, 000</u> | — |
|-------------------------|----------------------|---|

Non-current liabilities due within one year

| | | |
|---------------------------------|---------------|---|
| CCCC Financing Rental Co., Ltd. | 407, 455, 030 | — |
|---------------------------------|---------------|---|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

X. Related party relationships and transactions (continued)

| | | |
|----------------------------------|------------|------------|
| CCCC Rental Jiahuayi Co., Ltd | 61,059,663 | 29,685,028 |
|----------------------------------|------------|------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

X. Related party relationships and transactions (continued)

8. Balances of payables to related parties (continued)

| | | |
|------------------------------------|----------------------|--------------------|
| CCCC Rental Jiahuaer Co., Ltd | <u>61,059,663</u> | <u>29,685,029</u> |
| | <u>529,574,356</u> | <u>59,370,057</u> |
| <u>Long-term payable</u> | | |
| CCCC Financing Rental Co., Ltd. | 905,899,356 | — |
| CCCC Rental Jiahuayi Co., Ltd | 323,448,337 | 359,930,972 |
| CCCC Rental Jiahuaer Co., Ltd | 323,448,337 | 359,930,971 |
| CCCC Tianjin Dredging Co., Ltd | <u>65,565,134</u> | — |
| | <u>1,618,361,164</u> | <u>719,861,943</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XI. Promises and contingencies

1. Significant promises

(1) Capital expense promises

List in the following is the capital expenses promises not yet to be listed in the financial statements but the contracts have been signed on the balance sheet date.

| | December 31, 2016 | December 31, 2015 |
|-------------------------------|--------------------|--------------------|
| House, building and equipment | <u>225,842,432</u> | <u>206,585,921</u> |

(2) Operating leasing Promises

List in the following is the minimum leasing payment of the Group in the future according to the irrevocable operating leasing contract that has been signed:

| | December 31, 2016 | December 31, 2015 |
|--------------------|--------------------|--------------------|
| Within one year | 58,763,290 | 57,354,128 |
| One to two years | 58,264,180 | 57,733,328 |
| Two to three years | 58,689,123 | 57,235,328 |
| Over 3 years | <u>76,480,021</u> | <u>138,342,848</u> |
| | <u>252,196,614</u> | <u>310,665,632</u> |

(3) L/C Promises

The company entrusted bank to issue several L/C to purchase imported components or parts. As of Dec. 31, 2016, the unpaid amount under the L/C's is about RMB 2,464,170,714 Yuan (Dec. 31, 2015: RMB 2,226,236,545 Yuan).

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

XI. Promises and contingencies (continued)

2. Contingencies

As of Dec 31, 2016, the significant contingencies of the Group are as follows:

(1) In 2008, the Company signed an agreement of sales and installation for wind power steel pipe pile products for the British Wind Power Project with Fluor Limited (hereinafter referred to as "Fluor"). In the project construction process, the Company and Fluor, by way of friendly consultations and in the spirit of good cooperation, maintain dispute handling normal communication mechanism. In June 2010, for the implementation of the contract, after review by the board of directors of the Company, the Company signed a mutual exemption letter with Fluor, and in 2011 settled the remaining payment. Afterwards, Fluor produced claim to the Company for quality compensation, and requested the Company to cash the pay-on-claim quality guarantee bond, while the Company rejected the claim. On March 20, 2014, Fluor cashed the amount of 23,409,750 euro bond to guarantee bond bank.

In September 2014, Fluor initiated proceedings for the breach caused by the problems related to the product quality to High Court of Justice, Queen's Bench Division, The Technology and Construction Court (hereinafter referred to as "TCC Court of Britain Queen's Bench") and asked the Company for the compensation of 250 million Pounds for additional test and repair cost, project period delay and related loss. (Including the cashed bond amount of 23,409,750 Euro). The Company didn't acknowledge the claim for the compensation from Fluor. Since then, the Company prepared the evidence disclosure, witness testimony, exchange work and other preparatory work before the court.

From February to March, April, April, June, the Trial Chamber of the British High Court held a trial of the responsibility for the first instance, the trial of the quantitative part of the first instance continued in May 2017. At present, the Company is actively preparing works on ration part before the court, including exchanging testimony of witnesses, disclosing and drafting document, and exchanging expert report in respect of ration and work period.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

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XI. Promises and contingencies (continued)

2. Contingencies (continued)

The Company attached great importance to this case, established special team and hired senior legal team both at home and abroad to actively advocate the Company's rights and protect the Company's rights from damaged. At present, this case is still at the stage of preparing and exchanging various litigation documents and evidences before the first instance on ration part. Therefore, the Company is unable to reliably estimate the possible result of the case, possible loss and profit possibility and amount arising from that. The Company will timely disclose the related impact based on the progress.

(2) In 2013, the Company has signed the construction and sales contract about a 6000 tons piping ship with Petrofac (JSD6000) Limited (hereinafter referred to as Petrofac). The Company kept normal contact with Petrofac in the process of the construction. On October 9, 2015, Petrofac issued Contract Termination Letter with the reason that the project is delayed and meets the termination article. Petrofac asked for terminating the contract and requested the Company to return the prepaid payment and interest, as well as assumed the responsibility of the loss caused by the termination of the contract. The Company rejected the claim. Petrofac honored the demand guarantee from the opening bank in December 2015, with total amount of 44,720,000 USD.

The Company attached great importance to this case, established special team and hired senior legal team both at home and abroad to actively advocate the Company's rights and protect the Company's rights from damaged. The Company has applied for arbitration to the London Court of International Arbitration in January 2016, and asked Petrofac to return the payment of Letter of Guarantee and compensated for the loss in total of 200 million USD. After receiving the arbitration applicant of the Company, Petrofac filled a counterclaim, and asked the Company for compensating about 182 million USD or 213 million USD under the requirements of continuing built ship or not continuing built ship. At present, the arbitration court has been build. The company has submitted attribution schedule by negotiation with Petrofac, with two rounds of arbitration documents on respective opinions. The trail of the case has not yet initiated officially, and the relative materials are on preparation stage, such as evidentiary document, testimony of witnesses and expert report. Therefore, the Company is unable to reliably estimate the possible result of the case, possible loss and profit possibility and amount arising from that. The Company will timely disclose the related impact based on the progress.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

XI. Promises and contingencies (continued)

2. Contingencies (continued)

(3) On December 31, 2016, the Group provided USD 25.551 million of loan guarantee of overseas loan under domestic guarantee to the joint venture Zhenhua Marine Energy (Hong Kong) Co., Ltd. The total converted guarantee amount in RMB is 177,247,287yuan which will be due on April 14, 2017. The amount above reflects the max loss caused to the Group once it breaches the agreement. The joint venture Zhenhua Marine Energy (Hong Kong) Co., Ltd. has health finance with no predicted significant debt breach risk. The Group didn't confirm the debt related to the financial guarantee.

(4) As of Dec. 31, 2015, the Group provided financial guarantee amount of 19,184,000 Yuan to customer Jiangsu Yanweigang Port Co., Ltd which will be due on Nov 11, 2017. The amount above reflects the max loss caused to the Group once it breaches the agreement. The Jiangsu Yanweigang Port Co., Ltd has health finance with no predicted significant debt breach risk. The Group didn't confirm the debt related to the financial guarantee.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements

1. Accounts receivable

| | 2016 | 2015 |
|--------------------------|----------------------|----------------------|
| Accounts receivable | 7,787,866,391 | 7,891,037,413 |
| Less: Bad debt provision | <u>1,311,778,695</u> | <u>1,108,321,774</u> |
| | <u>6,476,087,696</u> | <u>6,782,715,639</u> |

Long-term receivables analyzed by age:

| | 2016 | 2015 |
|--------------------------|----------------------|----------------------|
| Within 6 months | 4,697,825,773 | 5,529,667,647 |
| 7 to 12 months | 754,026,913 | 513,185,844 |
| 1 to 2 years | 846,748,647 | 603,261,900 |
| 2 to 3 years | 347,663,847 | 496,633,694 |
| 3 to 4 years | 377,828,003 | 170,481,093 |
| 4 to 5 years | 132,261,040 | 102,873,101 |
| Over 5 years | <u>631,512,168</u> | <u>474,934,134</u> |
| | 7,787,866,391 | 7,891,037,413 |
| Less: Bad debt provision | <u>1,311,778,695</u> | <u>1,108,321,774</u> |
| | <u>6,476,087,696</u> | <u>6,782,715,639</u> |

Change of receivables – provisions for bad debt:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

1. Accounts receivable (continued)

| | Opening balance in current year | Provision in this year | Changeback back this year | Write-Off in this year | Closing balance in current year |
|------|---------------------------------------|---------------------------|------------------------------|---------------------------|---------------------------------------|
| 2016 | 1,108,321,774 | 203,456,921 | — | — | 1,311,778,695 |
| 2015 | 832,754,361 | 275,567,413 | — | — | 1,108,321,774 |

The accounts receivable are analyzed by types as follows:

| | <u>2016</u> | | <u>Provision for bad debts</u> | | <u>2015</u> | | <u>Provision for bad debts</u> | |
|---|------------------------|-----------------|--------------------------------|------------------|------------------------|-----------------|--------------------------------|------------------|
| | <u>Closing balance</u> | | | | <u>Closing balance</u> | | | |
| | Amount | Proportion % | Amount | Withdrawing % | Amount | Proportion % | Amount | Withdrawing % |
| Accounts receivables that are individually insignificant but provision for bad debts | 159,594,037 | 2 | 159,594,037 | 100 | 257,212,586 | 3 | 257,212,586 | 100 |
| Bad debt reserve is calculated as per the credit risk combination | | | | | | | | |
| -Related party | 3,350,449,306 | 43 | — | — | 3,967,741,781 | 51 | — | — |
| -Third party | 3,992,180,635 | 51 | 867,510,413 | 22 | 3,503,260,021 | 44 | 688,286,163 | 20 |
| Accounts receivables that are individually insignificant but provision for bad debts is assessed individually | <u>285,642,413</u> | <u>4</u> | <u>284,674,245</u> | <u>100</u> | <u>162,823,025</u> | <u>2</u> | <u>162,823,025</u> | <u>100</u> |
| | <u>7,787,866,391</u> | <u>100</u> | <u>1,311,778,695</u> | <u>17</u> | <u>7,891,037,413</u> | <u>100</u> | <u>1,108,321,774</u> | <u>14</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

1. Accounts receivable (continued)

As of Dec, 31, 2016, situation of the accounts receivables that are individually insignificant but provision for bad debts is assessed individually is as follows:

| | Book value balance | Bad debt provision | Provision ratio (%) | Reason |
|--------------------------|-----------------------|-----------------------|------------------------|---------------------|
| Accounts receivable 1 | <u>159,594,037</u> | <u>159,594,037</u> | <u>100%</u> | Contract dispute |

As of Dec, 31, 2015, situation of the accounts receivables that are individually insignificant but provision for bad debts is assessed individually is as follows:

| | Book value balance | Bad debt provision | Provision ratio | Provision reasons |
|--------------------------|-----------------------|-----------------------|-----------------|---|
| Accounts receivable 1 | 149,393,086 | 149,393,086 | 100% | Contract dispute |
| Accounts receivable 2 | <u>107,819,500</u> | <u>107,819,500</u> | <u>100%</u> | Counter-party seriously lacks funds |
| | <u>257,212,586</u> | <u>257,212,586</u> | <u>100%</u> | |

Accounts receivable for which the bad debt reserve is calculated as per the aging analysis method:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

1. Accounts receivable (continued)

| | <u>2016</u> | | | <u>2015</u> | | |
|-----------------|----------------------|--------------------------------|------------|----------------------|--------------------------------|------------|
| | Closing balance | <u>Provision for bad debts</u> | | Closing balance | <u>Provision for bad debts</u> | |
| | Amount | Amount | Proportion | Amount | Amount | Proportion |
| Within 6 months | 1,638,214,661 | – | – | 1,725,233,940 | – | – |
| 7 – 12 months | 669,637,393 | 6,696,374 | 1 | 449,328,126 | 3,442,852 | 1 |
| 1 – 2 years | 649,760,167 | 97,704,025 | 15 | 530,521,126 | 78,072,185 | 15 |
| 2 – 3 years | 293,717,341 | 88,115,202 | 30 | 168,781,101 | 50,634,330 | 30 |
| 3 – 4 years | 95,818,058 | 47,909,029 | 50 | 113,881,656 | 55,440,828 | 49 |
| 4 – 5 years | 71,788,934 | 53,841,700 | 75 | 48,339,809 | 33,521,705 | 69 |
| Over 5 years | <u>573,244,081</u> | <u>573,244,083</u> | <u>100</u> | <u>467,174,263</u> | <u>467,174,263</u> | <u>100</u> |
| | <u>3,992,180,635</u> | <u>867,510,413</u> | <u>22</u> | <u>3,503,260,021</u> | <u>688,286,163</u> | <u>20</u> |

As of Dec, 31, 2016, situation of the other accounts receivables that are individually

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

not insignificant but provision for bad debts is assessed individually is as follows:

| | Book value balance | Bad debt provision | Provision ratio | Reason |
|--------------------------|-----------------------|-----------------------|-----------------|---|
| Accounts receivable 1 | 107,819,500 | 107,819,500 | 100% | Contract dispute |
| Accounts receivable 2 | 50,365,000 | 50,365,000 | 100% | Counter-party seriously lacks funds |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

1. Accounts receivable (continued)

| | | | | |
|------------------------|--------------------|--------------------|-------------|------------------|
| Accounts receivable 3 | 27,748,069 | 27,748,069 | 100% | Contract dispute |
| Accounts receivable 4 | 21,932,297 | 21,932,297 | 100% | Contract dispute |
| Accounts receivable 5 | 19,480,920 | 18,512,752 | 95% | Contract dispute |
| Accounts receivable 6 | 17,735,070 | 17,735,070 | 100% | Contract dispute |
| Accounts receivable 7 | 10,049,240 | 10,049,240 | 100% | Contract dispute |
| Accounts receivable 8 | 7,664,629 | 7,664,629 | 100% | Contract dispute |
| Accounts receivable 9 | 7,421,237 | 7,421,237 | 100% | Contract dispute |
| Accounts receivable 10 | 7,306,800 | 7,306,800 | 100% | Contract dispute |
| Accounts receivable 11 | 4,557,644 | 4,557,644 | 100% | Contract dispute |
| Accounts receivable 12 | 3,562,007 | 3,562,007 | 100% | Contract dispute |
| | <u>285,642,413</u> | <u>284,674,245</u> | <u>100%</u> | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

1. Accounts receivable (continued)

As of Dec, 31, 2015, situation of the other accounts receivables that are individually not insignificant but provision for bad debts is assessed individually is as follows:

| | Book value balance | Bad debt provision | Provision ratio (%) | Reason |
|---------------------------|-----------------------|-----------------------|------------------------|---|
| Accounts receivable 1 | 50,365,000 | 50,365,000 | 100% | Counter-party seriously lacks funds |
| Accounts receivable 2 | 25,974,465 | 25,974,465 | 100% | Contract dispute |
| Accounts receivable 3 | 20,530,426 | 20,530,426 | 100% | Contract dispute |
| Accounts receivable 4 | 18,235,736 | 18,235,736 | 100% | Contract dispute |
| Accounts receivable 5 | 16,150,830 | 16,150,830 | 100% | Contract dispute |
| Accounts receivable 6 | 9,758,221 | 9,758,221 | 100% | Contract dispute |
| Accounts receivable 7 | 7,260,803 | 7,260,803 | 100% | Contract dispute |
| Accounts receivable 8 | 6,946,886 | 6,946,886 | 100% | Contract dispute |
| Accounts receivable 9 | 4,266,328 | 4,266,328 | 100% | Contract dispute |
| Accounts receivable 10 | <u>3,334,330</u> | <u>3,334,330</u> | <u>100%</u> | Contract dispute |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

| | | |
|--------------------|--------------------|-------------|
| <u>162,823,025</u> | <u>162,823,025</u> | <u>100%</u> |
|--------------------|--------------------|-------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

1. Accounts receivable (continued)

As of Dec. 31, 2016, the accounts receivable summary analysis of top 5 arrears is shown as following:

| Accounting for balance of receivables | | | |
|---|----------------------|------------------------------|--|
| | Balance | Bad debt provision amount | Proportion in total accounts receivable |
| Total amount of top 5 account receivables account receivables | <u>2,641,634,401</u> | <u>42,868,900</u> | <u>34%</u> |

As of Dec. 31, 2015, the account receivable summary analysis of top 5 debtors is shown as following:

| Accounting for balance of receivables | | | |
|---|----------------------|------------------------------|--|
| | Balance | Bad debt provision amount | Proportion in total accounts receivable |
| Total amount of top 5 account receivables account receivables | <u>3,094,418,881</u> | <u>—</u> | <u>39%</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

2. Other accounts receivable

Other accounts receivables analyzed by age:

| | 2016 | 2015 |
|--------------------------|-----------------------|-----------------------|
| Within one year | 13,861,142,297 | 11,225,646,626 |
| 1 to 2 years | 4,247,938 | 55,855,439 |
| 2 to 3 years | 14,168,062 | 4,952,612 |
| 3 to 4 years | 3,685,185 | 980,855 |
| 4 to 5 years | 180,855 | 686,960 |
| Over 5 years | <u>15,281,311</u> | <u>35,555,503</u> |
| | 13,898,705,648 | 11,323,677,995 |
| Less: Bad debt provision | <u>20,702,632</u> | <u>18,581,021</u> |
| | <u>13,878,003,016</u> | <u>11,305,096,974</u> |

Change of other receivables – provisions for bad debt:

| | Opening balance in current year | Provision in this year | Changeback back this year | Write-Off in this year | Closing balance in current year |
|------|---------------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------------|
| 2016 | 18,581,021 | 2,121,611 | – | – | 20,702,632 |
| 2015 | 16,776,791 | 1,804,230 | – | – | 18,581,021 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

2. Other accounts receivable (continued)

Other accounts receivables analyzed by types:

| | 2016 | | | | 2015 | | | |
|---|-----------------------|------------|-------------------------|-----------------------|-------------------|-------------------|-------------------------|-------------|
| | Closing balance | | Provision for bad debts | | Closing balance | | Provision for bad debts | |
| | Amount | Proportion | Amount | Withdrawing | Amount | Proportion | Amount | Withdrawing |
| | | % | | % | | % | | % |
| Big single amount, provided for bad debt separately | - | - | - | - | - | - | - | - |
| Bad debt reserve is calculated as per the credit risk combination | | | | | | | | |
| -Guaranty deposit | | | | | | | | |
| (excluding quality guarantee deposit) | 99,337,723 | 1 | - | - | 149,741,517 | 1 | - | - |
| -Employee individual loans and reserve funds | 102,865,415 | 1 | - | - | 127,444,785 | 1 | - | - |
| -Others | 13,685,062,135 | 98 | 9,262,257 | - | 11,035,051,318 | 98 | 7,140,646 | - |
| Single amount, though not significant, separate provision for bad debt made | <u>11,440,375</u> | - | <u>11,440,375</u> | <u>100</u> | <u>11,440,375</u> | - | <u>11,440,375</u> | <u>100</u> |
| | <u>13,898,705,648</u> | <u>100</u> | <u>20,702,632</u> | <u>11,323,677,995</u> | <u>100</u> | <u>18,581,021</u> | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

2. Other accounts receivable (continued)

As of December 31, 2016, the Company has no separate provision for bad debt for other accounts receivable with significant individual amount.

In combination, other receivables for which the bad debt reserve is calculated as per the aging analysis method:

| | | | <u>2016</u> | | | <u>2015</u> | | |
|-----------------|--|------------------|-----------------------|--------------------------------|-----------------------|------------------|--------------------------------|------------|
| | | | Closing balance | <u>Provision for bad debts</u> | | Closing balance | <u>Provision for bad debts</u> | |
| | | | Amount | Amount | Proportion | Amount | Amount | Proportion |
| Within 6 months | | 13,662,394,513 | – | – | – | 11,008,231,524 | – | – |
| 7 – 12 months | | 2,834,483 | 28,345 | | 1 | 3,927,262 | 39,273 | 1 |
| 1 – 2 years | | 747,938 | 112,191 | | 15 | 15,680,501 | 2,352,076 | 15 |
| 2 – 3 years | | 11,881,104 | 3,564,331 | | 30 | 3,203,485 | 961,044 | 30 |
| 3 – 4 years | | 3,202,985 | 1,601,492 | | 50 | 180,855 | 90,427 | 50 |
| 4 – 5 years | | 180,855 | 135,641 | | 75 | 519,460 | 389,595 | 75 |
| Over 5 years | | <u>3,820,257</u> | <u>3,820,257</u> | | <u>100</u> | <u>3,308,231</u> | <u>3,308,231</u> | <u>100</u> |
| | | | <u>13,685,062,135</u> | <u>9,262,257</u> | <u>11,035,051,318</u> | <u>7,140,646</u> | | |

As of Dec. 31, 2016 and Dec. 31, 2015, other receivables which single amount, though not significant, separate provision for bad debt made:

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

2. Other accounts receivable (continued)

| | Book value balance | Bad debt provision | Provision ratio (%) | Reason |
|------------------------|--------------------|--------------------|------------------------|-----------------------|
| Other receivables 1 | 1,692,765 | 1,692,765 | 100 | Contract cancelled |
| Other receivables 2 | 1,170,282 | 1,170,282 | 100 | Contract cancelled |
| Other receivables 3 | 5,540,286 | 5,540,286 | 100 | Contract cancelled |
| Other receivables 4 | 3,037,042 | 3,037,042 | 100 | Contract cancelled |
| | <u>11,440,375</u> | <u>11,440,375</u> | <u>100</u> | |

Category of other payables by nature of payment

| | 2016 | 2015 |
|--|----------------|----------------|
| Intercourse funds of subsidiary | 13,429,629,328 | 10,700,493,210 |
| Unsettled tax and surtax receivable | 119,175,846 | 138,270,252 |
| Export tax rebate | 55,755,562 | 101,381,047 |
| Products or field service temporary loans | 60,496,560 | 82,048,741 |
| Customs guaranty deposit | 71,148,199 | 104,071,196 |
| Bid bond payments | 29,189,524 | 45,670,321 |
| Employee's loans receivable | 42,368,855 | 45,396,044 |
| Lease receivables | 33,434,668 | 33,484,980 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

| | | |
|--------|-----------------------|-----------------------|
| Others | <u>57,507,106</u> | <u>72,862,204</u> |
| | <u>13,898,705,648</u> | <u>11,323,677,995</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

2. Other accounts receivable (continued)

Other receivables with top five ending balance collected by the party in debt as of December 31, 2016

| | Closing balance | Proportion in other total ending balance receivable (%) | Nature | Account age | Provision for bad debts Closing balance |
|------------------------|-----------------------|--|---------------------------------------|-----------------|--|
| Other receivables 1 | 4,370,239,666 | 31 | Intercourse funds of subsidiary | Within one year | — |
| Other receivables 2 | 2,518,908,707 | 18 | Intercourse funds of subsidiary | Within one year | — |
| Other receivables 3 | 2,092,489,070 | 15 | Intercourse funds of subsidiary | Within one year | — |
| Other receivables 4 | 2,077,530,443 | 15 | Intercourse funds of subsidiary | Within one year | — |
| Other receivables 5 | <u>1,458,611,248</u> | <u>10</u> | Intercourse funds of subsidiary | Within one year | <u>—</u> |
| | <u>12,517,779,134</u> | <u>89</u> | | | <u>—</u> |

Other receivables with top five ending balance collected by the party in debt as of December 31, 2015

| Closing balance | Proportion in other total ending balance receivable (%) | Nature | Account age | Provision for bad debts Closing balance |
|--------------------|--|--------|-------------|--|
|--------------------|--|--------|-------------|--|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

| | | | | | |
|---------------------|---------------|----|---------------------------------|-----------------|---|
| Other receivables 1 | 2,521,927,692 | 22 | Intercourse funds of subsidiary | Within one year | — |
| Other receivables 2 | 2,375,267,363 | 21 | Intercourse funds of subsidiary | Within one year | — |
| Other receivables 3 | 1,506,297,530 | 13 | Intercourse funds of subsidiary | Within one year | — |
| Other receivables 4 | 1,283,337,049 | 11 | Intercourse funds of subsidiary | Within one year | — |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

2. Other accounts receivable (continued)

| | | | | | |
|---------------------|----------------------|-----------|---------------------------------|-----------------|---|
| Other receivables 5 | <u>1,144,708,573</u> | <u>10</u> | Intercourse funds of subsidiary | Within one year | = |
| | <u>8,831,538,207</u> | <u>77</u> | | | = |

3. Long-term equity investments

| | | |
|---------------|----------------------|----------------------|
| | 2016 | 2015 |
| Subsidiary | 6,381,423,422 | 5,793,119,602 |
| Joint venture | 199,459,569 | 174,636,916 |
| Associates | <u>2,001,892,291</u> | <u>1,422,428,308</u> |
| | <u>8,582,775,282</u> | <u>7,390,184,826</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

(1) Subsidiary

2016

| | 2015 | Increase/ decrease in current year | |
|--|-------------|---|-------------|
| | Dec. 31 | Additional investment/ disinvestment | Dec. 31 |
| Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd. | 4,950,000 | 5,014,200 | 9,964,200 |
| Shanghai Zhenhua Heavy Industries Machinery Co., Ltd. | 5,014,200 | (5,014,200) | — |
| Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd. | — | — | — |
| Shanghai Zhenhua Shipping Co., Ltd. | 140,260,673 | — | 140,260,673 |
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | 4,518,000 | — | 4,518,000 |
| Nantong Zhenhua Heavy Industry Equipment Manufacturing Co., Ltd. | 854,936,900 | — | 854,936,900 |
| Nantong Zhenhua Heavy Industry Steel Structure Processing Co., Ltd. | 598,110 | — | 598,110 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

| | | | |
|-------------------------|---------|---|---------|
| Jiangyin Zhenhua Port | 579,983 | — | 579,983 |
| Machinery | | | |
| Steel | | | |
| Structure | | | |
| Manufacturing Co., Ltd. | | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

| | | | |
|--|------------------|-----------------|------------------|
| Shanghai Zhenhua Heavy Industry General Equipment Co., Ltd. | 2, 201, 086, 744 | – | 2, 201, 086, 744 |
| Shanghai Zhenhua Heavy Industries Group (Nantong) Transmission Machinery Co., Ltd. | 300, 000, 000 | 300, 000, 000 | 600, 000, 000 |
| Shanghai Zhenhua Heavy Industries Group (Nantong) Co., Ltd. | 300, 000, 000 | (300, 000, 000) | – |
| Shanghai Zhenhua Heavy Industries Electric Co., Ltd. | 50, 000, 000 | – | 50, 000, 000 |
| ZPMC GmbH Hamburg | 207, 940 | – | 207, 940 |
| ZPMC Netherlands B.V. | 2, 334, 799 | 13, 283, 280 | 15, 618, 079 |
| Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd. | 100, 000, 000 | – | 100, 000, 000 |
| Shanghai Zhenhua Testing Technology Consulting Co., Ltd. | 7, 000, 000 | – | 7, 000, 000 |
| ZPMC Lanka Company (Private) Limited | 6, 183, 978 | – | 6, 183, 978 |
| Nanjing Ninggao New Channel Construction Co., Ltd. | 1, 098, 000, 000 | – | 1, 098, 000, 000 |
| Shanghai Zhenhua Heavy Industries Qidong | 203, 000, 000 | – | 203, 000, 000 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)
Marine Co., Ltd

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

| | | | |
|---|------------|---|------------|
| ZPMC Engineering Africa (Pty) Ltd. | 3,084,000 | — | 3,084,000 |
| ZPMC Korea Co., Ltd. | 2,876,209 | — | 2,876,209 |
| ZPMC Engineering (India) Private Limited | 2,953,200 | — | 2,953,200 |
| ZPMC Australia Company (Pty) Limited | 2,708,500 | — | 2,708,500 |
| ZPMC North America Inc. | 18,564,520 | — | 18,564,520 |

(To be continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

(1) Subsidiary (continued)

| | 2015 | Increase/ decrease in current year | 2016 |
|--|---------------|---|--------------------|
| | Dec. 31 | Additional investment/ disinvestment | Dec. 31 |
| (continued) | | | |
| ZPMC Southeast Asia | | | |
| Holding Pte. Ltd. | 3, 875, 949 | — | 3, 875, 949 |
| ZPMC Brazil Holdings Ltda. | 2, 985, 272 | (48, 501) | 2, 936, 771 |
| ZPMC Limited Liability Company | 4, 357, 626 | — | 4, 357, 626 |
| CCCC Liyang City Investment Construction Co., Ltd | 183, 000, 000 | — | 183, 000, 000 |
| CCCC Tianhe Co., Ltd. | 242, 542, 999 | — | 242, 542, 999 |
| CCCC Investment Development Qidong Co., Ltd | 47, 500, 000 | — | 47, 500, 000 |
| CCCC Zhenjiang Investment Construction Management Development Co., Ltd | — | 567, 000, 000 | 567, 000, 00 |
| ZPMC Middle East Fze | — | 5, 271, 120 | 5, 271, 120 |
| ZPMC UK LD | — | <u>2, 797, 921</u> | <u>2, 797, 921</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

5,793,119,602

588,303,820

6,381,423,422

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

2015

| | 2014 | Increase/ decrease in current year | 2015 |
|--|-------------|--|-------------|
| | Dec. 31 | Additional investment/ disinvestment | Dec. 31 |
| Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd. | 4,950,000 | — | 4,950,000 |
| Shanghai Zhenhua Heavy Industries Machinery Co., Ltd. | 5,014,200 | — | 5,014,200 |
| Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd. | — | — | — |
| Shanghai Zhenhua Shipping Co., Ltd. | 140,260,673 | — | 140,260,673 |
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | 4,518,000 | — | 4,518,000 |
| Nantong Zhenhua Heavy Industry Equipment Manufacturing Co., Ltd. | 854,936,900 | — | 854,936,900 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

| | | | |
|--|---------------|---|---------------|
| Nantong Zhenhua Heavy Industry Steel Structure Processing Co., Ltd. | 598,110 | — | 598,110 |
| Jiangyin Zhenhua Port Machinery Steel Structure Manufacturing Co., Ltd. | 579,983 | — | 579,983 |
| Shanghai Zhenhua Heavy Industry General Equipment Co., Ltd. | 2,201,086,744 | — | 2,201,086,744 |
| Shanghai Zhenhua Heavy Industries Group (Nantong) Transmission Machinery Co., Ltd. | | | |

(To be continued)

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

(1) Subsidiary (continued)

| | 2014 | Increase/ decrease in current year | 2015 |
|---|---------------|--|---------------|
| | Dec. 31 | Additional investment/ disinvestment | Dec. 31 |
| (continued) | | | |
| | 300, 000, 000 | — | 300, 000, 000 |
| Shanghai Zhenhua Heavy Industries Group (Nantong) Co., Ltd. | 300, 000, 000 | — | 300, 000, 000 |
| Shanghai Zhenhua Heavy Industries Electric Co., Ltd. | 50, 000, 000 | — | 50, 000, 000 |
| ZPMC GmbH Hamburg | 207, 940 | — | 207, 940 |
| ZPMC Netherlands B. V. | 149, 717 | 2, 185, 082 | 2, 334, 799 |
| Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd. | 100, 000, 000 | — | 100, 000, 000 |
| Shanghai Zhenhua Testing Technology Consulting Co., Ltd. | 7, 000, 000 | — | 7, 000, 000 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

ZPMC Lanka Company

| | | | |
|-------------------|-----------|---|-----------|
| (Private) Limited | 6,183,978 | – | 6,183,978 |
|-------------------|-----------|---|-----------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

| | | | |
|--|------------------|--------------|------------------|
| Nanjing Ninggao New Channel Construction Co., Ltd. | 1, 090, 000, 000 | 8, 000, 000 | 1, 098, 000, 000 |
| Shanghai Zhenhua Heavy Industries Qidong Marine Co., Ltd | 203, 000, 000 | — | 203, 000, 000 |
| ZPMC Engineering Africa (Pty) Ltd. | 3, 084, 000 | — | 3, 084, 000 |
| ZPMC Korea Co., Ltd. | 2, 876, 209 | — | 2, 876, 209 |
| ZPMC Engineering (India) Private Limited | 2, 953, 200 | — | 2, 953, 200 |
| ZPMC Australia Company (Pty) Limited | 2, 708, 500 | — | 2, 708, 500 |
| ZPMC North America Inc. | 1, 850, 430 | 16, 714, 090 | 18, 564, 520 |
| ZPMC Southeast Asia Holding Pte. Ltd. | 3, 875, 949 | — | 3, 875, 949 |
| ZPMC Brazil Holdings Ltda. | — | 2, 985, 272 | 2, 985, 272 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

| | | | |
|--------------------------------|---|-----------|-----------|
| ZPMC Limited Liability Company | - | 4,357,626 | 4,357,626 |
|--------------------------------|---|-----------|-----------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

| | | | |
|---|---|----------------------|----------------------|
| CCCC Liyang City Investment Construction Co., Ltd | — | 183,000,000 | 183,000,000 |
| CCCC Tianhe Co., Ltd. | — | 242,542,999 | 242,542,999 |
| CCCC Investment Development Qidong Co., Ltd | = | <u>47,500,000</u> | <u>47,500,000</u> |
| | | <u>5,285,834,533</u> | <u>5,793,119,602</u> |

(2) Joint venture

2016

| | Beginning | <u>Change in current year</u> | | | Ending book value | Ending depreciation reserve |
|--|------------------|-------------------------------|----------------------|--|-------------------|-----------------------------|
| | balance | Additional investment | Withdrawn investment | Investment profit and loss under equity method | | |
| Joint venture | | | | | | |
| Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd | 171,577,489 | — | — | 25,046,722 | 196,624,211 | — |
| ZPMC Mediterranean Liman | | | | | | |
| Makinalari | <u>3,059,427</u> | = | = | <u>(224,069)</u> | <u>2,835,358</u> | = |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

Ticaret Anonim
Sirketi

| | | | | | |
|--------------------|---|---|-------------------|--------------------|---|
| <u>174,636,916</u> | - | - | <u>24,822,653</u> | <u>199,459,569</u> | - |
|--------------------|---|---|-------------------|--------------------|---|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

2015

| | Beginning | <u>Change in current year</u> | | | Ending book | Ending |
|---|--------------------|-------------------------------|----------------------|--|--------------------|----------------------|
| | balance | Additional investment | Withdrawn investment | Investment profit and loss under equity method | value | depreciation reserve |
| Joint venture | | | | | | |
| Jiangsu Long Yuan Zhenhua Marine Engineering Co., Ltd | 162,922,641 | - | - | 8,654,848 | 171,577,489 | - |
| ZPMC Mediterranean Liman | | | | | | |
| Makinalari Ticaret Anonim Sirketi | <u>327,639</u> | - | - | <u>2,731,788</u> | <u>3,059,427</u> | - |
| | <u>163,250,280</u> | - | - | <u>11,386,636</u> | <u>174,636,916</u> | - |

(3) Associates

2016

| | Beginning balance | <u>Change in current</u> | | | Ending book value | Ending Depreciation reserve |
|--|-----------------------|--|---|---|-------------------|-----------------------------|
| | Additional investment | Investment profit and loss under equity method | Adjustments to other comprehensive income | Cash dividends or profits that are announced to be released | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

| | | | | | | | |
|--|------------|---|---------|---|---|------------|---|
| CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd | 15,269,200 | - | 376,318 | - | - | 15,645,518 | - |
|--|------------|---|---------|---|---|------------|---|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

| | | | | | | | |
|---|----------------------|--------------------|-------------------|------------------|---------------------|----------------------|----------|
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | 15,306,843 | - | 1,978,952 | - | (1,833,066) | 15,452,729 | - |
| CCCC Estate Yixing Co., Ltd. | 174,697,785 | - | 916,743 | - | - | 175,614,528 | - |
| CCCC Financing Rental Co., Ltd. | 1,141,740,698 | 420,000,000 | 75,648,845 | 255,310 | (32,400,000) | 1,605,244,853 | - |
| China Communications Construction USA Inc. | 75,413,782 | - | (4,347,559) | 4,546,680 | - | 75,612,903 | - |
| CCCC South American Regional Company | | | | | | | |
| SARL | = | <u>114,321,760</u> | = | = | = | <u>114,321,760</u> | = |
| | <u>1,422,428,308</u> | <u>534,321,760</u> | <u>74,573,299</u> | <u>4,801,990</u> | <u>(34,233,066)</u> | <u>2,001,892,291</u> | <u>-</u> |

2015

| Beginning balance | Change in current | | | | Ending book value | Ending Depreciation reserve |
|-------------------|-----------------------|--|---|--|-------------------|-----------------------------|
| | Additional investment | Investment profit and loss under equity method | Adjustments to other comprehensive income | Cash dividends or profits that are announced to be | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

| | | | | | | released | | | |
|--|------------|---|---------|---|---|------------|---|--|--|
| CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd | 15,079,243 | - | 189,957 | - | - | 15,269,200 | - | | |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

3. Long-term equity investments (continued)

| | | | | | | | |
|---|--------------------|--------------------|--------------------|------------------|--------------------|----------------------|---|
| Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd. | 15,030,294 | - | 1,956,549 | - | (1,680,000) | 15,306,843 | - |
| CCCC Estate Yixing Co., Ltd. | 174,686,810 | - | 10,975 | - | - | 174,697,785 | - |
| CCCC Financing Rental Co., Ltd. | 551,350,475 | 540,000,000 | 50,390,223 | - | | 1,605,244,853 | - |
| China Communications Construction USA Inc. | - | <u>76,206,000</u> | <u>(2,048,615)</u> | <u>1,256,397</u> | - | <u>75,413,782</u> | - |
| | <u>756,146,822</u> | <u>616,206,000</u> | <u>50,499,089</u> | <u>1,256,397</u> | <u>(1,680,000)</u> | <u>1,422,428,308</u> | - |

4. Operating income and operating cost

| | <u>2016</u> | | <u>2015</u> | |
|------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Income | Cost | Income | Cost |
| Main operations | 22,901,854,062 | 19,219,649,675 | 20,816,918,328 | 18,021,832,539 |
| Other operations | <u>1,346,629,631</u> | <u>1,326,296,433</u> | <u>1,052,971,485</u> | <u>1,048,137,783</u> |
| | <u>24,248,483,693</u> | <u>20,545,946,108</u> | <u>21,869,889,813</u> | <u>19,069,970,322</u> |

The main operating revenue and cost analyzed by product are listed as followings:

2016 2015

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

| | Major operating income | Major operating cost | Major operating income | Major operating cost |
|---------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| Container cranes | 16,966,005,765 | 13,385,624,468 | 14,856,548,107 | 12,151,678,786 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)

Dec. 31, 2016

RMB Yuan

XII. Notes to items in the Company's statements (continued)

4. Operating income and operating cost (continued)

| | | | | |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Bulk machinery | 3,133,488,466 | 3,134,543,276 | 1,994,845,361 | 1,901,125,005 |
| Heavy equipment | 1,773,587,826 | 1,760,404,529 | 3,085,784,614 | 3,140,472,952 |
| Steel structure and related income | <u>1,028,772,006</u> | <u>939,077,402</u> | <u>879,740,246</u> | <u>828,555,796</u> |
| | <u>22,901,854,063</u> | <u>19,219,649,675</u> | <u>20,816,918,328</u> | <u>18,021,832,539</u> |

Other operating income and Other operating cost

| | <u>2016</u> | | <u>2015</u> | |
|------------------------------|------------------------|----------------------|------------------------|----------------------|
| | Other operating income | Other operating cost | Other operating income | Other operating cost |
| Sales of materials | 1,063,590,327 | 1,110,261,460 | 775,268,362 | 858,260,360 |
| Equipment leasing and others | <u>283,039,304</u> | <u>216,034,973</u> | <u>277,703,123</u> | <u>189,877,423</u> |
| | <u>1,346,629,631</u> | <u>1,326,296,433</u> | <u>1,052,971,485</u> | <u>1,048,137,783</u> |

5. Investment income

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Investment income from long-term equity verified by cost method | 400,633 | 9,465,520 |
| Investment gains from long-term equity verified by | 99,395,952 | 61,885,725 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

equity method

| | | |
|--|-----------|---------|
| Investment gains from available-for-sale financial assets during holding period | 1,112,890 | 789,100 |
|--|-----------|---------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

5. Investment income (continued)

| | | |
|--|--------------------|--------------------|
| Bank financial products investment income | 1,969,590 | 393,033,507 |
| Investment income from disposal of available-for-sale financial assets | <u>5,176</u> | <u>34,083,478</u> |
| | <u>102,879,065</u> | <u>499,257,330</u> |

6. Supplementary information of cash flow statements

Reconciliation of net profit to cash flows from operating activities:

| | 2016 | 2015 |
|---|---------------|-------------|
| Net profit | 270,221,960 | 214,947,606 |
| Add: Assets impairment provision | 1,208,850,889 | 634,618,962 |
| Depreciation of fixed assets, depletion of oil gas assets, depreciation of productive living assets | 510,588,106 | 563,202,254 |
| Intangible assets amortization | 53,045,981 | 49,544,923 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets | | |
| | 2,996,936 | (1,060,294) |
| Changes in fair value gains | (27,035,042) | 19,402,267 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)
and losses

| | | |
|--------------------|------------------|------------------|
| Financial expenses | 1, 504, 100, 506 | 1, 541, 640, 234 |
|--------------------|------------------|------------------|

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
RMB Yuan

XII. Notes to items in the Company's statements (continued)

6. Supplementary information of cash flow statements (continued)

| | | |
|--|---------------------------|---------------------------|
| Investment gains | (102, 879, 065) | (499, 257, 330) |
| Increase/decrease in deferred income tax asset (increase was filled in with "-") | (70, 957, 061) | 13, 227, 627 |
| Increase of inventories | (295, 457, 421) | (1, 377, 428, 119) |
| Increase of construction contract price | 321, 427, 489 | (1, 544, 276, 536) |
| Decrease/increase in operating receivables | (2, 249, 861, 228) | (4, 007, 049, 883) |
| Decrease/increase in operating payables | <u>(1, 200, 900, 147)</u> | <u>1, 821, 152, 533</u> |
| Net cash flows from operating activities | <u>(75, 858, 097)</u> | <u>(2, 571, 335, 756)</u> |

Net alteration of cash and cash equivalents:

| | 2016 | 2015 |
|---|-------------------------|-------------------------|
| Cash balance at end of year | 1, 872, 410, 585 | 1, 806, 066, 316 |
| Less: cash at beginning of year | <u>1, 806, 066, 316</u> | <u>1, 272, 228, 765</u> |
| Net increase in cash and cash equivalents | <u>66, 344, 269</u> | <u>533, 837, 551</u> |

Shanghai Zhenhua Heavy Industries Co.,Ltd
Note for financial statements (continued)
Dec. 31, 2016
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XIII. Events after assets balance date

As of the date of approval of this financial statement, the Company is not required to disclose any future events of the balance sheet date.

Shanghai Zhenhua Heavy Industries Co., Ltd
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XIV. Other important matters

1. Report by branches

The Group determines the operating branch based on internal organizational structure, management requirement and internal report system, determine the report branch based on business branch, and disclose the information of branch.

Operating branch refers to the components that the Group coincides with all the following requirements: (1) it may earn revenues and incur expenses in daily activities; (2) its operating results are regularly reviewed by the Group's management to make decisions about resource to be allocated to the branch and assess its performance; (3) The Group is able to obtain its accounting information regarding financial position, operating results and cash flows, etc. Two operating branches or above, with same economic characteristics and meeting relative requirements, can be integrated to a new one.

The Group identifies the business as an operating branch based on internal organization structure, management requirement and internal report system, and carry out analysis and assessment.

Products and labor service

Income from external transaction

| | 2016 | 2015 |
|---------------------------------------|----------------|----------------|
| Container crane | 17,082,391,036 | 14,994,515,929 |
| Weight equipment | 1,284,872,909 | 3,985,411,881 |
| Bulk machine part | 3,154,983,915 | 2,013,370,826 |
| "Construction-transfer" project | 1,005,087,825 | 514,064,790 |
| Steel structure and related income | 1,035,829,290 | 826,175,120 |
| Shipping and others | 580,231,787 | 680,776,778 |
| Sales materials | 81,273,472 | 132,403,534 |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
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XIV. Other important matters (continued)

| | | |
|------------------------------|-----------------------|-----------------------|
| Equipment leasing and others | <u>123,417,694</u> | <u>125,675,819</u> |
| | <u>24,348,087,928</u> | <u>23,272,394,677</u> |

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
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XIV. Other important matters (continued)

1. Report by branches (continued)

Geographic

Income from external transaction

| | 2016 | 2015 |
|---------------------------------|-----------------------|-----------------------|
| Mainland China | 9,261,862,587 | 8,528,436,051 |
| Asia (excluding mainland China) | 8,774,618,285 | 5,854,518,426 |
| The America | 1,660,773,333 | 4,555,300,460 |
| Europe | 1,694,807,875 | 2,264,289,477 |
| Mainland China (export sales) | 1,939,957,027 | 1,072,367,341 |
| Others | <u>1,016,068,821</u> | <u>997,482,922</u> |
| | <u>24,348,087,928</u> | <u>23,272,394,677</u> |

Income from external transaction ascribes to the area where custom located.

Shanghai Zhenhua Heavy Industries Co., Ltd
Note for financial statements (continued)
Dec. 31, 2016
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XIV. Other important matters (continued)

1. Report by branches (continued)

Geographic (continued)

Non-current assets

| | 2016 | 2015 |
|------------------------------------|-----------------------|-----------------------|
| Mainland China | 19,820,827,959 | 19,972,238,305 |
| Asia (excluding mainland China) | 3,418,721,827 | 3,435,683,134 |
| Others | <u>37,392,161</u> | <u>10,189,659</u> |
| | <u>23,276,941,947</u> | <u>23,418,111,097</u> |

Non-current asset ascribes to the local area, excluding financial asset and deferred income tax assets.

1. Details of non-recurring profit and loss for current period

| | 2016 | 2015 |
|---|------------|-------------|
| Gains from disposal of non-current assets | 1,340,612 | 9,338,797 |
| Government subsidy included in the current profits and losses | | |
| (except for those which closely associated with normal business operations, in line with national policies and regulations, and continuous enjoyment in accordance with certain standards in terms of unified quota or ration) | 45,042,910 | 22,847,200 |
| Holding of trading financial assets and liabilities | | |
| Profit and loss from change of fair values due to the holding of trading financial assets and liabilities, and investment incomes obtained from the disposals of trading financial assets and liabilities and available-for-sale financial assets | 23,420,959 | 445,766,951 |
| Current profit and loss of the subsidiary generated from consolidation of enterprises under the same control from the beginning to the end of the period | — | 55,523,666 |

1. Details of non-recurring profit and loss for current period (continued)

| | | |
|---|--------------------|---------------------|
| Other non-operating incomes and expenditures except above items | <u>6,435,660</u> | <u>15,490,536</u> |
| Income tax influence | (14,557,550) | (90,577,182) |
| Minority shareholders' equity influence (after tax) | <u>(6,708,080)</u> | <u>(31,568,397)</u> |
| | <u>54,974,511</u> | <u>426,821,571</u> |

2. Return on equity and earnings per share

| | <u>Earnings per share</u> | | | | | |
|---|--|----------------|---------------------------------|---------------|-----------------------------------|---------------|
| | <u>Weighted average return on net assets yield (%)</u> | | <u>Basic earnings per share</u> | | <u>Diluted earnings per share</u> | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Net profit attributive to holders of common shares of the Company | 1.41% | 1.41% | 0.05 | 0.05 | 0.05 | 0.05 |
| Net profit attributive to holders of common shares of the Company after deducting the non-recurring profit and loss | <u>1.05%</u> | <u>(1.45%)</u> | <u>0.04</u> | <u>(0.05)</u> | <u>0.04</u> | <u>(0.05)</u> |

Chapter XII Backup Documents Contents

| | |
|---------------------------|--|
| Backup documents contents | Accounting statements signed and sealed by legal representative, responsible person for accounting, and responsible person of accounting firm. |
| Backup documents contents | Original of audit report sealed by accountant firm and signed and sealed by certified accountant. |
| Backup documents contents | Originals of all documents and announcements published in newspaper designated by China Securities Regulatory Commission within report period |

Director: Song Hailiang

Date of submission upon approved by the board of director: March 29, 2017

Revised information

☐ Applicable ☒ Not applicable