

Stock code: 600320 900947
B-share

Stock Name: Zhenhua Heavy Zhenhua

Shanghai Zhenhua Heavy Industries Co., Ltd. Annual Report 2017

Important Notice

- I. The Board of Directors, the Board of Supervisors and directors, supervisors and senior executives of the Company hereby guarantee the truthfulness, accuracy and completeness of the contents in this annual report; it contains no major omission, false record or serious misleading statement; they will assume the legal responsibilities jointly and separately.**
- II. All directors of the Company are present at the board meeting.**
- III. Ernst & Young LLP. (Special general partnership) issued the standard unqualified audit report for the Company.**
- IV. Zhu Lianyu, the person in charge of the Company, Huang Qingfeng responsible person for accounting, and Zhu Xiaohuai, the leading accountant of accounting department (accountant in charge) hereby declare that the financial statements in this Annual Report are true, accurate and complete.**
- V. The profit distribution preplan or the common reserves capitalizing preplan during the reporting period reviewed by the board of directors**

Based on the total capital stock of 4,390,294,584 shares by Dec. 31, 2017, distribute RMB 0.5 Yuan (in cash) (including tax) from the undistributed profit by Dec. 31, 2017 to all of the stockholders, with the total stock dividend of RMB 219,514,729Yuan to be distributed.

Based on the total capital stock of 4,390,294,584 shares by Dec. 31, 2017, transfer 2 shares per 10 shares from the capital reserves to all of the stockholders, totaling 878,058,917 shares to be transferred (with the face value of each share of RMB 1 Yuan); after transferring, the total capital stock of the Company is 5,268,353,501 shares.

VI. Risks declaration of prospective statements

☐Applicable ☒Not applicable

VII. Whether non-operational fund occupancy by the controlling shareholder or its related parties exists?

No.

VIII. Does the Company provide the outward guarantees in breach of the stipulated decision-making process?

No.

IX. Major risk warnings

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 shall be defined as follows, unless otherwise specified:

Definition of frequently used terms		
Company, the Company	Refers to	Shanghai Zhenhua Heavy Industries Co., Ltd.
CCCC	Refers to	China Communications Construction Company Ltd.
CCCG	Refers to	China Communications Construction Group
CCCG HK	Refers to	CCCG (HK) Holding Limited.
PPP	Refers to	Public-Private-Partnership, a cooperation mode between the government and the social capital, refers to the pooling of interest, allocation of risks and the long-term cooperation relationship established between the government and the social capital by means of licensed operation, service procurement and stock equity cooperation in order to increase the supply capability of the public goods and services and improve the supply efficiency.
Reporting period	Refers to	From Jan. 1, 2017 to Dec. 31, 2017

Chapter II Company Profiles and Key Financial Indicators

I. Company information

Company name in Chinese	上海振华重工 (集团)股份有限公司
Chinese Abbreviation of the Company	振华重工
English name of the Company	SHANGHAI ZHENHUA HEAVY INDUSTRIES CO.,LTD.
English Abbreviation of the Company	ZPMC
Legal representative	Zhu Lianyu

II. Contact information

	Board secretary
Name	Sun Li
Address	No. 3261 Dongfang Road, Shanghai
Tel.	021-50390727
Fax	021-31193316
Email	IR@ZPMC.COM

III. Basic information of the Company

Registered address	No. 3470, South Pudong Road, Shanghai
Post code of registered address	200125
Office address	No. 3261 Dongfang Road, Shanghai
Post code of office address	200125
Website	Http://www.zpmc.com
Email	IR@ZPMC.COM

IV. Information disclosure and reference

Designated media for information disclosure	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 Office

V. Stock Profiles of the Company

Stock Profiles of the Company				
Stock type	Stock exchange listed at	Stock Name	Stock 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

Public accounting firm employed by the Company (domestic)	Name	Ernst & Young (special general partnership)
	Office address	Room 01-12, 17 th Floor, Anyong Building, Dongfang Plaza, No.1 Changan Street, Dongcheng District, Beijing
	Name of accountants for signature	Yang Lei, Liu Wei

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

(I) Major accounting data

Unit: Yuan Currency: RMB				
Major accounting data	2017	2016	Year-on-year Growth Rate (%)	2015
Operating Income	21,858,814,000	24,348,087,928	-10.22	23,272,394,677
Net Profit Attributable to Shareholders of the Listed Company	300,195,422	212,419,946	41.32	212,411,967
Net Profit Attributable to Shareholders of the Listed Company after Non-recurring Gains/Losses	277,837,568	157,445,435	76.47	-214,409,604
Net Cash Flow from Operating Activities	1,332,209,274	1,658,422,636	-19.67	-1,831,961,473
	End of 2017	End of 2016	Year-on-year Growth Rate (%)	End of 2015
Net Asset Attributable to Shareholders of the Company	15,011,306,366	15,196,736,263	-1.22	14,869,572,883
Total Assets	67,519,953,829	60,823,819,098	11.01	59,020,752,259

(II) Major financial indicators

Major financial indicators	2017	2016	Year-on-year Growth Rate (%)	2015
Basic EPS (Yuan/share)	0.068	0.048	41.67	0.05
Diluted EPS (Yuan/share)	0.068	0.048	41.67	0.05
Basic EPS after Non-recurring Gains/Losses (Yuan/share)	0.063	0.036	75.00	-0.05
Weighted Average ROE (%)	1.99	1.41	+0.58 base point	1.41
Weighted Average ROE after Non-recurring Gains/Losses (%)	1.84	1.05	+0.79 base point	-1.45

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

☐Applicable ☒Not applicable

VIII. Differences in accounting data under domestic and international accounting standards

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

☐Applicable ☒Not applicable

(II) Difference between 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) Explanation for differences between the international and Chinese accounting standards:

☐Applicable ☒Not applicable

IX. Quarterly Major Financial Data in 2017

Unit: Yuan Currency: RMB

	Q1 (Jan. to Mar.)	Q2 (Apr. to Jun.)	Q3 (Jul. to Sep.)	Q4 (Oct. to Dec.)
Operating Income	4,223,173,077	6,393,613,804	4,589,496,658	6,652,530,461
Net Profit Attributable to Shareholders of the Company	66,367,907	49,063,413	55,547,130	129,216,972
Net Profit Attributable to Shareholders of Listed Company after Non-recurring Gains/Losses	65,423,907	44,138,085	44,317,567	123,958,009
Net Cash Flow from	581,290,268	-535,238,734	45,918,788	1,240,238,952

Operating Activities				
Description of difference between quarterly data and disclosed periodic data				
<input type="checkbox"/> Applicable <input checked="" type="checkbox"/> Not applicable				

X. Non-recurring profit and loss items and amount

☒Applicable ☐Not applicable

Unit: Yuan Currency: RMB

Non-recurring Profit and Loss Items	Amount in 2017	Amount in 2016	Amount in 2015
Profit and loss from disposal of non-current assets	13,285,984	1,340,612	9,338,797
Governmental subsidies included in current profit and loss, except those closely related to the Company's normal business operation, meeting the regulation of national policy and enjoying constantly in certain quota or quantity according to a certain standard	83,502,544	45,042,910	22,847,200
Net current profit and loss of the subsidiary under the same control of the company from the beginning to the consolidated day	0	0	55,523,666
Except for valid hedging business related with the Company's normal operation, profit and loss from fair value changes in tradable financial assets, liabilities held and the investment income from disposal of tradable financial assets and liabilities and financial assets available for sale	20,563,270	23,420,959	445,766,951
Other non-operating incomes and expenditures except for those above mentioned	-70,077,032	6,435,660	15,490,536
Amount affected by minority shareholders' interest	-14,565,022	-6,708,080	-31,568,397
Amount affected by income tax	-10,351,890	-14,557,550	-90,577,182
Total	22,357,854	54,974,511	426,821,571

XI. Items calculated by fair value

☒Applicable ☐Not applicable

Unit: Yuan Currency: RMB

Item name	Beginning Balance	Closing Balance	Changes	Impact on Current Profit
Trading financial assets - equity instrument investment	0	8,438,278	8,438,278	0
Trading financial assets - derivative financial assets	4,615,775	0	-4,615,775	-4,615,775
Equity Instrument available for sale - Jiangxi Huawu	313,612,402	178,952,712	-134,659,690	665,346
Equity Instrument available for sale - Qingdao Port	340,253,175	451,528,660	111,275,485	12,103,621
Equity Instrument available for sale - CRSC	615,346,381	629,554,373	14,207,992	11,075,670
Equity Instrument available for sale - Shenwan Hongyuan	1,366,388	1,174,000	-192,388	21,866
Total	1,275,194,121	1,269,648,023	-5,546,098	19,250,728

XII. Others

☐Applicable ☒Not applicable

Chapter III Business Profile**I. Main business, operation model and industry profile of the Company during the reporting period**

The Company is a well-known enterprise in heavy equipment manufacturing industry, and is the 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 business scope of the Company 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 (in case of involving quota, permit management, specific regulations, quality inspection, safety inspection and construction qualification requirements, operate after obtaining corresponding qualification or permit in accordance with the relevant national regulations).

II. Description of the major changes in main assets of the Company during the reporting period

☐Applicable ☒Not applicable

III. Analysis on the core competitiveness 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 Operation Performance**I. Discussion and analysis of the operation performance**

In 2017, confronted with the complicated economic situation both at home and abroad, guided by the development strategy of “One Body Two Wings”, based on the gross working keynote of “making progress while ensuring stability”, the board of directors and the management of the Company led all the employees to rise to the challenge and make pioneering efforts, and successfully achieved the moderate development of the Company and entered into a new stage of the positive operation in an all-round way through strengthening the operation, continuously carrying out reforming and innovation and upgrading the management in an all-round way.

During the reporting period, the Company had made great achievements in the adjustment of the business structure, the business sectors had developed in an orderly manner, risks mitigation had been achieved an initial success and the profitability had been stably improved. The

development of our business in port machine is sound and solid, and the products had successfully entered 99 countries and regions and had continuously taken the first place in the global market share for 19 years. The ocean engineering had continuously sought for the new opportunity in such recovering market. The steel structure business had developed in good condition. The general system contracting had made pleasant progress and many projects had been put into place. The largest full-auto dock in the world, namely Yangshan Port, being built by the Company as a participant, was successfully opened in Dec. 2017. At the same time, the Company had successfully undertaken the general system contracting of many automatic docks at abroad and thoroughly revealed its comprehensive strength in construction of the automatic dock. The investment business had gradually closed to the related fields of the primary service of the company step by step and made great pleasant achievements. As to the electric business, the market share had been continuously rising through the independently developed EZ brand. The shipping business had been expanded in an all-round way. The integrated service has a promising outlook.

II. Operation performance during reporting period

In the reporting period, the Company realized operation revenue of RMB 21.859 billion Yuan, decreased by 10.22%; realized the net profits of RMB 422 million Yuan, increased by 14.34%; the net profit attributable to parent company was RMB 300 million Yuan, increased by 41.32%.

(I) Major business analysis

Analysis on Changes in the income statement and cash flow statement

Item	Report Year	Prior Year	Unit: Yuan Currency: RMB
			Growth (%)
Operating Income	21,858,814,000	24,348,087,928	-10.22
Operating Cost	18,019,075,299	19,727,663,875	-8.66
Selling expenses	121,457,892	100,435,778	20.93
Management expenses	1,742,167,300	1,759,032,746	-0.96
Financial expenses	758,201,305	1,218,992,788	-37.80
Net cash flow from operating activities	1,332,209,274	1,658,422,636	-19.67
Net cash flow from investment activities	-1,681,611,030	-726,215,078	NA
Net cash flow from financing activities	2,576,865,754	152,344,993	1,591.47
R&D expenses – expensing expenses	702,392,513	851,544,356	-17.52
Asset impairment loss	824,836,448	1,221,116,175	-32.45
Non-operating income	29,343,558	56,993,416	-48.51
Non-operating expenditure	92,116,253	5,514,846	1,570.33
Income tax expense	92,319,416	61,516,908	50.07
Net profit attributable to the owner of the parent company	300,195,422	212,419,946	41.32
Minority interest	29,247,998	94,924,290	-69.19
Balance arising from the translation of foreign currency financial statements	-30,234,827	25,605,643	-218.08

1. Revenue and cost analysis

√Applicable □Not applicable

The decrease in operating revenue and operating cost was mainly attributed to the decrease in the orders of the offshore heavy duty equipment in this year, which resulted in the reduction in operating revenue/operating cost.

The sales expenses increased due to the expansion and marketing on global market.

The management expenses decreased because the R&D expense decreased this year.

The decrease in financial expenses was mainly attributed to by the increase in the gain on foreign exchange as a result of the fluctuation of the exchange rate of RMB to USD.

The net cash flow amount in operation changed because the raw materials purchasing expenses and payment of engineering expenses increased.

The change in the net amount of cash flows from investing activities was mainly attributed to by the decrease in the payment for the cash flow for investment of this Company.

The increase in the net cash flow from financing activities was mainly attributed to by the increase in the loan from the bank by this Company in this year.

The decrease in the payment for R&D was attributed to by the one in the payment for R&D of this Company.

The decrease in the assets impairment loss was mainly attributed to by the decrease in the provision for impairment and the expected contracted losses.

The decrease in the non-business revenue was mainly attributed to by the change in the accounting standard as well as the governmental subsidy related to the day-to-day operations of the Company which was charged to other revenues.

The increase in the non-business revenue was mainly attributed to by the compensation for the judgment of the case related to British Fluor Wind Power Generation Project.

The increase in the income tax was mainly attributed to by the one in the total profit of this Company in this year.

The increase in the net profit attributed to the owner of the parent company was mainly attributed to by the one in the total net profit of the sole subsidiaries under this Company in this year.

The minority interest decreased because the total net profit of the non-wholly owned subsidiaries of the Company decreased.

The decrease in the conversion difference of foreign currency statements was mainly caused by the fluctuation of the exchange rate of RMB to USD.

(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	13,120,859,480	9,940,403,610	24.24	-23.19	-23.93	+0.74
Bulk-cargo machinery parts	1,615,504,267	1,551,779,298	3.94	-48.8	-49.2	+0.77
Heavy equipment	3,384,886,419	3,084,117,712	8.89	163.44	140.99	+8.49
Steel structure and related income	1,520,119,032	1,487,522,614	2.14	46.75	58.57	-7.29
Build-transfer , PPP projects	1,549,820,489	1,548,520,638	0.08	54.2	51.95	+1.48
Vessel shipping and others	451,081,492	281,599,002	37.57	-22.26	69.35	-33.77
Major business by region						
By region	Operating	Operation cost	Gross	Operation	Operation	Gross margin

	Income		margin (%)	revenue increase over prior year (%)	cost increase over prior year (%)	increase over prior year (%)
Mainland China	10,142,318,348	9,432,323,323	7.00	11.98	25.99	-10.34
Asia(excluding Mainland China)	5,410,267,855	4,076,972,241	24.64	-38.34	-45.31	+9.60
America	2,548,717,321	1,860,108,627	27.02	53.47	81.43	-11.25
Europe	462,606,586	201,531,690	56.44	-72.70	-87.12	+48.75
Mainland China (export)	1,372,828,183	1,142,998,882	16.74	-29.23	-8.60	-18.8
Africa	1,384,873,367	920,862,698	33.51	70.02	52.04	+7.87
Oceania	320,659,519	259,145,413	19.18	59.10	87.27	-12.16

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

☐Applicable ☒Not applicable

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

Major business by product							
Product	Cost composition		Report period 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,	9,940,403,610	55.56	13,067,811,357	66.94	-23.93
Heavy equipment	Raw material,	labor,	3,084,117,712	17.24	1,279,775,256	6.55	140.99
Bulk-cargo machinery parts	Raw material,	labor,	1,551,779,298	8.67	3,054,772,000	15.64	-49.2
Build-transfer , PPP projects	Raw material,	labor,	1,548,520,638	8.65	1,019,082,565	5.22	51.95
Steelstructure	Raw material,	labor,	1,487,522,614	8.31	938,105,979	4.8	58.57
Vessel shipping and others	Raw material,	labor,	281,599,002	1.57	166,282,313	0.85	69.35
Total			17,893,942,874	100.00	19,525,829,470	100.00	-8.36

Other description of cost analysis

☐Applicable ☒Not applicable

(4). Main clients and suppliers

√Applicable □Not applicable

The sales of the top five clients reached to RMB 4,021.41 million Yuan which accounted for 18% of the whole sales, and the related sales among them were RMB 728.95 million Yuan which accounted for 3% of the whole sales.

The purchase amount of the top five suppliers reached to RMB 1,647.33 million Yuan, which accounted for 12.04% of the whole.

2. Cost

□Applicable √Not applicable

3. R&D investment

R&D investment table

√Applicable □Not applicable

	Unit: Yuan
R&D expense in current period	702,392,513
Capitalized R&D expense in current period	22,968,076
Total R&D expense	725,360,589
Total R&D expenses ratio in operation revenue (%)	3.32
Number of R&D employees	1599
R&D employees' ratio in the total employees (%)	18.05
Proportion of capitalization of R&D investment (%)	3.17

Statement of situation

√Applicable □Not applicable

The Company had built and accomplished the scientific research and innovation systems of the research headquarters and 6+1 research branches and effectively established the organizational structure and operation mode of the research headquarters. It had actively accelerated the implementation of innovative achievements. It had applied for 208 patents in total, with the growth rate of 98% on year-on-year basis, with 67 patents approved, among which there were 24 patents of invention. Many key innovation technologies including the new port machine intelligent R&D platform, the port machine equipment automation and the offshore wind power installation multi-function platform had been successfully transformed and put into use. It had accomplished the reevaluation of the hi-tech enterprise for 2017, with 15% of the income tax debated. There were 13 projects approved by the ministries and commissions of the state. The project of "Key Technology for Handling System of Automatic Container Dock" was granted First Prize for Scientific and Technical Progress in Shanghai City in 2017.

4. Cash flow

√Applicable □Not applicable

The net cash flow from operating activities was RMB 1.332 billion Yuan, mainly due to the decrease in payment received for sales of goods and rendering of service and decrease in engineering funds. The net cash flow from the investment activities was RMB -1.682 billion Yuan, mainly due to the decrease in the expenditure of investment cash flow of the Company. The net cash flow from the financing activities was RMB 2.577 billion Yuan, mainly due to the increase in bank borrowings this year.

(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 of current period	Proportion in total assets (%)	Closing balance of last period	Proportion in total assets (%)	Change proportion (%)
Monetary fund	5,770,227,369	8.55	3,597,044,199	5.91	60.42
Financial assets measured at fair value with changes included in current profit and loss	8,438,278	0.01	4,615,775	0.01	82.81
Notes receivable	420,786,012	0.62	296,920,781	0.49	41.72
Other receivables	996,161,366	1.48	736,554,593	1.21	35.25
Non-current assets due within one year	1,896,475,472	2.81	1,384,438,569	2.28	36.99
Construction in progress	1,889,146,009	2.80	4,025,449,461	6.62	-53.07
Goodwill	265,188,465	0.39	149,212,956	0.25	77.72
Accounts payable	6,887,598,171	10.20	5,103,018,897	8.39	34.97
Deposit received	591,727,255	0.88	292,941,206	0.48	102.00
Non-current liabilities due within one year	2,198,931,219	3.26	799,574,356	1.31	175.01
Long term loans	6,664,914,383	9.87	3,925,335,497	6.45	69.79
Accrued liabilities	464,888,663	0.69	293,115,783	0.48	58.60
Other non-current liabilities	152,954,098	0.23	56,025,416	0.09	173.01
Minority equity	1,817,314,295	2.69	1,290,413,687	2.12	40.83

Statement of situation

The monetary fund increased because the account receivable was received and the external payment was decreased.

The increase in the financial assets measured with the fair value, with the change charged into current profits and losses, was mainly attributed to the increase in the investment in the equity instruments of this Company.

The increase in the notes receivable was mainly attributed to the increase in the banker's acceptance bill in the loan received by this Company.

The increase in other accounts receivable was mainly attributed to the increase in the taxes for the receivable but unsettled accounts and the performance bond for bidding.

The increase in non-current assets due within one year was mainly because the increase of the long-term receivables of "construction-transfer" project was due.

The decrease in the construction in progress was mainly attributed to the completion of the construction in progress of the Company which changed to the fixed assets.

The increase in the goodwill was mainly attributed to the increase of the goodwill caused by the acquisition of the companies by this Company.

The increase in the account payable was mainly attributed to the increase in the payment for goods payable for the procurement of the materials by this Company.

The increase in the advance payment from customers was mainly attributed to the increase in the advanced contracted value of this Company in this year.

Non-current liabilities due within one year increased because the long-term loan that due within one year increased.

The increase in the long-term loans was mainly attributed to the increase in the long-term loans of this Company from the banks over one year.

The increase in the accrued liabilities was mainly attributed to the increase in after-sale service cost of this Company and the withheld litigation compensation for British wind power project.

The increase in other non-current liabilities was mainly attributed to the increase in the pending output tax of this Company.

The minority equity increased because the capital investment of the minority shareholders increased this year.

2. Restriction on main assets by the end of reporting period

☒Applicable ☐Not applicable

Item	Final book value	Reasons of restriction
Monetary fund	96,380,368	Bank guarantee deposit
Fixed assets	4,124,080,499	Mortgage of loans
Long-term account payable	2,571,908,986	Mortgage of loans
Total	6,792,369,853	-

3. Others

☐Applicable ☒Not applicable

(IV) Industry operating conditions analysis

☒Applicable ☐Not applicable

During the reporting period, the Company signed the new contract of port machinery with amount of 2.52 billion USD, decreased by 3.7% on yearly basis. The Company signed new contracts of ocean engineering products and steel structure with amount of 714 million USD, increased by 32.96% on yearly basis. The Company signed new contracts of investment business with amount of RMB 12.35 billion Yuan, increased by 23.24% on yearly basis.

The port machine industry was influenced by the cutback of the global economy and trade, the investment in the dock equipment was relatively reduced, as a result, the new orders of the Company in 2017 fell down. In 2018, although the Company expects that the overall recovery of the port machine industry needs a certain time, the overall market resurgence trend is obvious, the market will pay more attention to the systematized competitiveness. At the same time, the demand for newly building ports and docks in the countries and regions along Belt and Road is more intense, the service life of the in-service port machine expires, the shipping centers and free trade ports are being built and the port automation is being upgraded and reconstructed, as a result, the market demand for the port machine and equipment will be driven. In the future, the Company will exert itself to expand the general contracting of the automatic dock, establish the special automatic dock popularization group and vigorously generalize the automatic dock system resolutions in an all-round way so as to guarantee the stable development of the port machine business.

In 2017, the international oil price, rose up after fell down, indicated a wide oscillation rising trend in overall.. Influenced by the bull of the rise in the oil price, the market retains an optimistic attitude towards the offshore engineering industry; the offshore engineering equipment market touches ground and tends to stabilize, however, the offshore equipment manufacturers are still confronted with the pressure in a short time such as business decline, difficulty in getting profit and high inventory. In a short period, the Company will continue to adjust the structure, change the direction and carry out the destocking to deal with the market trough. With respect to the large-sized, heavy-type and special-type steel structure market, with the in-depth implementation of the national proposal for "Belt and Road", the starting of the large-sized capital construction projects at home and abroad and the recovery of the offshore wind power market, the market capacity increases, the market changes for the better and the orders increase in a sustainable manner. However, it is also confronted with the rise in the price of the raw materials, more and more participants and more and more intense competition. As to the investment business, with the diversification of the services, it will focus on the policy orientation and risk control.

(V) Investment analysis

1. Overall analysis of external equity investment

√Applicable □Not applicable

Investment amount at the end of reporting period (Yuan)	3,624,674,426
Changes in investment amount (Yuan)	109,680,467
Investment amount over a year earlier (Yuan)	3,514,993,959
Increase or decrease percentage of investment amount (%)	3.12

(1) Major equity investment

□Applicable √Not applicable

(2) Major non-equity investment

□Applicable √Not applicable

(3) Finance assets measured at fair value

√Applicable □Not applicable

Stock ownership held in other listed companies

Stock code	Short form of stock	Initial investment cost	Initial shareholding ratio (%)	Final shareholding ratio (%)	Final book value	Gains and losses of reporting period	Owner's equity movement of reporting period	Accounting account	Source of equity
300095	Huawu Share	11,071,606	5.9	5.9	178,952,712	665,346	-134,659,690	Finance assets available-for-sale	Pay in currency
03969	CRSC	617,854,000	1.4	1.4	629,554,373	11,075,670	14,207,992	Finance assets available-for-sale	Market purchasing
06198 (H-share)	Qingdao Port	308,515,588	2.16	1.71	451,528,660	12,103,621	111,275,485	Finance assets available-for-sale	Market purchasing

Share-participating condition of financial companies

Stock	Short	Initial	Initial	Final	Final	Gains	Owner's equity	Accounti	Source of
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code	form of stock	investment cost	shareholding ratio (%)	shareholding ratio (%)	book value	and losses of reporting period	movement of reporting period	ng account	equity
000166	Shenwan Hongyuan	200,000	<0.01	<0.01	1,174,000	21,866	-192,388	Finance assets available-for-sale	Subscription

(VI) Major assets and equity sales

☐Applicable ☒Not applicable

(VII) Major holding companies and joint-stock companies

☒Applicable ☐Not applicable

Company name	Major product or service	Registered capital	Asset scale	Net profit/(loss)
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	2,722,835,624	14,844,515
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	11,659,509,205	141,063,708
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	2,280,424,373	20,307,453
Shanghai Zhenhua Heavy Industries (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	2,820,384,054	10,889,450
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	1,436,283,711	-41,533,182
Tianhe Mechanical Equipment Manufacturing Co., Ltd of CCCC	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 with diameter of over 5m; design, R&D and manufacturing of marine machinery and	681,627,100	4,182,299,545	58,140,097

	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 Industries Qidong Ocean Engineering Co., Ltd	Machinery manufacturing	303,000,000	2,042,858,235	-176,635,961
Shanghai Zhenhua Ocean Engineering Service Co., Ltd	International land, air, maritime freight forwarding, business, domestic freight forwarding, undertaking large-scale port equipment, marine equipment, ocean 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	297,910,175	5,125,239
Nanjing Ninggao New Channel Construction Co., Ltd	Engaged in construction, investment and management of Ninggao new channel project.	100,000,000	1,918,373,079	72,159,919
Zhenhua Pufeng WindEnergy (Hong Kong) Co., Ltd	Offshore wind turbine installation	16,326,531 U SD	23,942,973	-32,106,589
CCCC Financial Leasing Co., Ltd	Financing lease	5,000,000,000	26,580,144,879	272,052,060
China Communications Construction USA Inc.	Construction of port, waterway, highway and bridge.	50,000,000 USD	280,386,057	-19,040,428
CCCC Estate Yixing Co., Ltd.	Engaged in real estate development.	900,000,000	1,328,507,016	12,425,899
Jiangsu Longyuan Zhenhua Ocean 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.	26,000,000	1,630,604,923	69,370,135
Greenland Heavy Lift (Hong Kong) Limited	Shipping	91,975,158 U SD	837,272,543	17,523,291

(VIII) Structure entity under the control of the Company

☐Applicable ☒Not applicable

III. Discussion and analysis of the Company's future development

(I) Sector competition pattern and development trend

☒Applicable ☐Not applicable

In the reporting period, the global economic recovery trend was obvious and the macro-economic indexes of the main economic entities changed for the better. However, the factors including the tense situation of geopolitics, the political and economic trend of USA, rise of the total global debts and the rise of the isolationism intensified the uncertainty of the global political and economic situation.

Now the economy in China is in the critical period of transforming the development mode, optimizing the economic structure and transforming the growth power. The report on 19th National Congress of the Communist Party of China proposed the strategy of vigorously developing the real economy and building a transportation power, marine power and manufacture power. The overflow effect of the powerful national strategy will bring the new opportunity to the development of the Company. Meanwhile, the trend of the in-depth fusion of the information technology with Internet, big data and AI as the representative and manufacturing industry accelerates the Company to upgrade the core competition.

The global port machine market pays more attention to the systematized competition. The competition of the stand-alone market of the traditional port machine is still intense. Belt and Road proposed that the countries along it should increase the new-type port and the demand for procurement of the new machine is obvious. The service life of the in-service port machine expires and the old port machine is in the stage of renewal. The construction of shipping center and free trade port will release the new demand; the upgrade and reconstruction of the port automation will become the main force of the port machine market in the future.

The offshore engineering market faces the recovery. Affected by the factors such as the reduction of output of OPEC and the intensified geopolitical risk, the international oil price firstly fell down and then rose and it rose up in a wave-like way in a wide range in 2017, WTI oil price was at USD 40-60 dollars/barrel in the whole year. At the beginning of 2018, the oil price in the world continues to rise, which increases the drive of the oil enterprise to produce the crude oil and the optimistic emotion about the "initial recovery" of the offshore engineering continues to increase.

The primary keynote of PPP investment policy turns to prevent the risk and standardize the project. In 2017, the state successively issued a series of documents and the focus of PPP policy turned to standardization and risk prevention from the landing rate. State-owned Assets Supervision and Administration Commission of the State Council took measures to prevent the central enterprises from the operation risks of participating in PPP. It required that the company should increase the risk consciousness, pay attention to the market order and management, strictly control

the risk and select the project and carry out the project without ostentation in implementing PPP project.

Other increment market faces the development opportunity. The offshore transportation and installation market recovers together with the offshore engineering market. It is expected that the transportation market of the heavy and large parts for the offshore engineering will bounce back, water power engineering market and offshore wind power installation market will continue to provide the good achievements support; the steel structure market, the electric market and the smart city construction market compete intensely, so the Company shall exert its unique advantages to enter the high-end differentiated market; the global service market has wide market space.

(II) Development strategy of the Company

√Applicable □Not applicable

With “equipment manufacture” as the main body, “capital operation” and “Internet” as two wings, it aims to build “Flag + Flagship” of Chinese national industry. “One main body and two wings” strategy is a new strategy for transformation and upgrade of the Company, based on objective analysis of development stage and orientation, in combination with the development features of equipment manufacturing industry, on account of the current and future national and industrial development trend around “Industry 4.0”, “China Manufacture 2025” and trial reform of state-owned capital investment company. “Capital operation” will help the Company to extend the industrial chain of the port machine business and create the full industrial chain of marine heavy industry and offshore wind power full industrial chain; help the Company and the customers as well as the partners to form a community of common destiny with the capital as the tie. The digitized transformation and upgrade of the Company under “Internet” can accelerate the upgrade of the information system in an all-round way and create the cloud platform through the top information-oriented design of the Company to offer more convenient, efficient, intelligent and integrated service to the global customers and greatly improve the management level and operation efficiency of the company.

(III) Business plan

√Applicable □Not applicable

Guide by “one main body and two wings” strategy, with improvement of operation achievements and profitability as the core, the Company will carry out the reform and innovation and deepen the fundamental management in an all-round way to realize the stable increase of the scale of the Company.

The port machine business, with the brand as the assistance, with the customer demand as the guide, with the market development as the objective, actively seeks for new business point of growth while continuing to guarantee the global market position. The offshore engineering business is in the market recovery and the existing risks are gradually eliminated. It aims at the high-end

orientation, makes the overall arrangement in advance and expands the multiple services. The steel structure business focuses on the market of the high end “heavy, large and special” steel structure with relatively high value added for key incubation and stable development so as to build the core capability in a specialized manner. As to the low-end steel structure products with relatively low value added, improve its own profitability by means of cost reduction and efficiency increase. As to the marine transportation and installation market, seize the development opportunity of the wind power and vigorously accelerate the civil-military integration. As to the integrated service, bring the overseas efforts into full play and properly launch the innovation plan while sustainably stabilizing the routine business. The electric business shall regard serving the port machine business as the main goal, hold the core position and market share of the related technology, seize the opportunity and expand the increment scale. The general system contracting shall bring the brand advantages of the Company into full play, vigorously accelerate the intelligent development and carry out the scientific and technical innovation. Further expand the market advantages of the Company in the field of the general contracting for the automation dock system.

(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 handling 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.

Countermeasures: facing the market challenges at home and abroad, the Company will deepen the reform, consolidate the basic management and enhance the risk resistance, optimize and adjust the market and business structure, look for increment from strategic opportunities, business expansion, internal and external cooperation, investment and acquisition, and foreign projects, to promote the structure adjustment and resources integration and to drive enterprise sustainable development by transformation and upgrading.

Financial risks: credit risk and exchange rate risk, especially the large scale of interest-bearing liabilities, increased volatility of the RMB bidirectional fluctuation of exchange rate and large load capacity.

Countermeasures: 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 RMB exchange rate pegged, increase the prepayments proportion plus early settlement, etc.), or 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) Others

☐Applicable ☒Not applicable

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

☐Applicable ☒Not applicable

Chapter V Substantial Events

I. Profit distribution plan of ordinary shares or the plan of share capital increase from the accumulation fund

(I) 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* (ZJF [2012] No. 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) The Company's dividend distribution plan or proposal for ordinary shares and the plan or proposal for capital reserves transferred to share capital in recent 3 years (including the reporting 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 (%)
2017	0	0.5	2	219,514,729	300,195,422	73.12
2016	0	1	0	439,029,458	212,419,946	206.68
2015	0	0	0	0	212,411,967	0

(III) Shares repurchased through cash offer, to be included in the cash dividend

☐Applicable ☒Not applicable

(IV) If the profit and the profit distributable to common shareholders by the parent company during the reporting period is positive but the Company does not lodge the proposal for profit distribution in cash for ordinary shares, the Company shall disclose in detail the reasons and the purpose and use plan of the undistributed profit

☐Applicable ☒Not applicable

II. Commitment performance

(I) Commitments of the actual controllers of the company, the shareholders, the related parties, the purchaser and the Company during the reporting period or the ones lasting the reporting period

☐Applicable ☒Not applicable

(II) Where there is a profit forecast for an asset or project and the reporting period is still within the profit forecast period, please explain whether the original earnings forecast of the assets or the project is achieved and explain the reason

☐Achieved ☐Not achieved ☒Not applicable

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

☐Applicable ☒Not applicable

IV. Explanation of the Company for “non-standard audit report” of the accounting firm

☐Applicable ☒Not applicable

V. Analysis and explanation of the Company on the reasons and impacts of the accounting policy, the accounting estimate or the correction of the important accounting error

(I) Analysis and explanation of the Company on the reasons and the impacts of the alteration of the accounting policy and accounting estimate

☒Applicable ☐Not applicable

1. Alteration of statement mode of losses and gains from assets disposal

In accordance with the requirements of *Notice of Modifying and Issuing Financial Statement Format of Common Enterprise by Ministry of Finance* (CK [2017] No. 30), the items separately listed and reported in the item “gains from assets disposal” in the item “operating profit” in Profit Statement of this Company as well as the losses and gains from the non-current assets disposal originally recorded in “non-business revenue” and “non-operating expenses” were altered to be listed and reported in “Gains from assets disposal”; this Company correspondingly traced back and restated

the comparative profit statement. The alteration of this accounting policy had no effect on the consolidation and the net profit of the Company as well as the consolidation and the stockholders' equity of the Company.

2. Alteration of statement mode of government subsidy

In accordance with the requirements of *Notice of Issuing and Revising Accounting Standard No. 16-----Governmental Subsidy* (CK [2017] No. 15), the item "Other Revenue" separately listed and reported in the item "Operating profit" in Profit Statement of this Company and the governmental subsidy related to the routine activities of the enterprise were altered to be listed and reported in "Other revenue" instead of "non-business revenue"; according to the linking regulations of this standard, this Company adopted Prospective Application for disposal of the governmental subsidy existing before Jan. 1, 2017 and the newly increased governmental subsidy from Jan. 1, 2017 to the implementation date of this standard (June 12, 2017) was adjusted according to this standard. The alteration of this accounting policy had no effect on the consolidation and the net profit of the Company as well as the consolidation of the stockholders' equity of the Company.

(II) Analysis and explanation of the Company on the reasons and impacts of the correction of the important accounting errors

☐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

	Current appointment
Domestic accounting firm	Ernst & Young (Special general partnership)
Domestic accounting firm payment	380
Domestic accounting firm audit period	2

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

Appointment and dismissal of accounting firm

☐Applicable ☒Not applicable

Change to appointment accounting firm during auditing period

☐Applicable ☒Not applicable

VII. Risk of listing suspension

(I) Reasons for suspension

☐Applicable ☒Not applicable

(II) Countermeasures to be taken

☐Applicable ☒Not applicable

VIII. Situation and reasons for the termination of listing

☐Applicable ☒Not applicable

IX. Bankruptcy reorganization related matters

☐Applicable ☒Not applicable

X. Substantial lawsuits and arbitrations

- ☐The Company has major litigation and arbitration
☐The Company has no major litigation and arbitration

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

☐Applicable ☒Not applicable

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

☒Applicable ☐Not applicable

Unit:- Currency:-

In the report period:									
Prosecutor (applicant)	Responding party	Party with joint liabilities	Type of suit/arbitration	Suit (arbitration) profiles	Suit (arbitration) amount involved	Suit (arbitration) constitutes estimated liabilities or not	Suit (arbitration) progress	Suit (arbitration) trial results and impact	Execution of Suit (arbitration) judgment
Flour Corporation	Shanghai Zhenhua Heavy Industries Co., Ltd	No	Lawsuit	In 2008, the Company and Fluor Limited (hereinafter referred to as "Fluor") signed an agreement on 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, maintained the normal dispute settlement and communication mechanism. In 2010, for the issues in contract execution process, after reviewed by the board of directors of the Company, the Company signed a mutual exemption letter with Fluor, and settled the remaining payment in 2011. Afterwards, Fluor lodged a quality claim against the Company, and requested the payment of the demand quality guarantee issued by the Company, while the Company rejected the claim. On March 20, 2014, Fluor cashed the above letter of guarantee with the amount of 23,409,750 EUR in the bank opening the letter of guarantee. In September 2014, Fluor initiated proceedings for the breach attributed to 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 total compensation of 250 million Pounds for additional test and repair cost, project period delay and other	About 250 million pounds	0	Court to be open soon	On Jan. 11, 2018, the court made quantized judgment on this case; however, the specific amount of the legal cost and other expenses related to the judgment amount will be additionally judged and decided by the court.	On Jan. 11, 2018, the court made quantized judgment on this case and adjudicated this Company to pay USD 5,893,591 dollars, 15,033,681 pounds, 7,165,740 Eurodollars, 7,259 Canadian dollars and RMB 485,346 Yuan to Flour. On Mar. 16, 2018, the court made the judgment on the interest and adjudicated this Company to pay 3,518,549 pounds to Flour. However, the legal cost and other expenses related to the judgment amount were additionally measured.

				related loss (including the cashed letter of guarantee amount of 23,409,750 EUR). 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 trial for first instance on obligation part. In May 2017, the trial of quantitative part of this case was conducted. In July 2017, both parties exchanged the written final address. In Aug. 2017, the proceeding at law for the quantitative part of this case was settled.					
Shanghai Zhenhua Heavy Industries Co., Ltd	Petrofac (ship-owner)	No	Arbitration	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 attributed to 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 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 filed a counterclaim, and asked the Company for compensating about 182 million USD or 213 million USD under the requirements of continuing or not continuing to construct the ship.	We stand for about \$200 million; Petrofac's counter claim calls for \$182 million or \$213 million in two different ways.	0	Court to be open soon	Not yet ruled	Not yet ruled
Industries Shanghai Zhenhua Heavy Industries Co., Ltd, Shanghai Zhenhua Heavy Industries Qidong Marine	Nantong Huafu Port Co., Ltd, Li Aidong, Zhao Xiaohua	No	Lawsuit	At the end of February 2014, the Company completed the increasing assets for original Jiangsu Daoda Ocean Engineering Co., Ltd, the capital of 67% stock, at the same time, before February 28, 2014, the loss of the Company was borne by the original shareholders - Li Aidong, Zhao and Xiaohua	RMB 368.722 Million Yuan	0	Court to be open soon	Not yet ruled	Not yet ruled

Engineering Co., Ltd.				of Nantong Huafu Port Co., Ltd. During the subsequent business process, it was found of the disclose false of parts of the company litigation matters or debt leading to produce a series of losses, 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.					
Lovanda Offshore Ltd	Industries Shanghai Zhenhua Heavy Industries Co., Ltd	No	Arbitration	In 2014, Lovanda signed a construction contract (ZP14-2125) on one JU2000E offshore drilling platform with this Company, which was designed, built, commissioned and delivered by this Company. In the construction process, some disputes arose between Lovanda and this Company regarding the construction schedule of this platform, the extension of delivery time and other aspects. Lovanda submitted to arbitration to London Maritime Arbitrators Association against this Company on Mar. 6, 2017 and proposed to terminate the platform construction contract and required this Company to repay USD 13800000 dollars including the advance cost of construction, related expenses and interest. This Company established a special working group and employed the professional domestic and foreign lawyers and experts to actively respond to action to maintain the legitimate right of this Company. After receiving the request for arbitration, this Company took a cross bill application against Lovanda and claimed: 1) the other party should pay the last sum of money payable under the contract and its interest arising herefrom, totaling USD 186,200,000 dollars to this party; 2) the income of this party from the sale of the platform minus the cost of sale should be used for deducting the account payable of the other party; 3) Other losses, interest and other expenses that may occur in the future.	The claim of Lovanda was about USD 13,800,000 dollars. The cross bill claim of this Company: 1) the other party should pay the last sum of money payable under the contract and its interest arising herefrom, totaling USD 186,200,000 dollars to this party; 2) the income of this party from the sale of the platform minus the cost of sale should be used for deducting the account payable of the other party; 3) Other losses, interest and other expenses that may occur in the future.	0	Court to be open soon	Not yet ruled	Not yet ruled
Lovansing Offshore Ltd	Industries Shanghai Zhenhua Heavy Industries Co., Ltd	No	Arbitration	In 2014, Lovanda signed a construction contract (ZP14-2126) on one JU2000E offshore drilling platform with this Company, which was designed, built, commissioned and delivered by this Company. In the construction process, some disputes arose between Lovanda and this Company regarding the construction schedule of this platform, the extension of delivery time and other aspects. Lovanda submitted to arbitration to London Maritime Arbitrators Association against this Company on Mar. 6, 2017 and proposed to terminate	The claim of Lovanda was about USD 13,800,000 dollars. The cross bill claim of this Company: 1) the other party should pay the last sum of money payable under the contract and its interest	0	Court to be open soon	Not yet ruled	Not yet ruled

				the platform construction contract and required this Company to repay USD 13,800,000 dollars including the advance cost of construction, related expenses and interest. This Company established a special working group and employed the professional domestic and foreign lawyers and experts to actively respond to action to maintain the legitimate right of this Company. After receiving the request for arbitration, this Company took a cross bill application against Lovanda and claimed: 1) the other party should pay the last sum of money payable under the contract and its interest arising herefrom, totaling USD 186,200,000 dollars to this party; 2) the income of this party from the sale of the platform minus the cost of sale should be used for deducting the account payable of the other party; 3) Other losses, interest and other expenses that may occur in the future.	arising herefrom, totaling USD 186,200,000 dollars to this party; 2) the income of this party from the sale of the platform minus the cost of sale should be used for deducting the account payable of the other party; 3) Other losses, interest and other expenses that may occur in the future.				
Industries Shanghai Zhenhua Heavy Industries Co., Ltd	Xinyuda Ocean Engineering (Hong Kong) Co., Ltd	No	Arbitration	On Jan. 28, 2014, this Company signed Procurement Contract on Main Chord of Spud Leg for F&G-JU2000E Self-elevating Drilling Platform with Xinyuda Ocean Engineering (Hong Kong) Co., Ltd (hereinafter referred to as "Xinyuda Company") (Contract No.: ZP14-2125-0030, based on which Xinyuda Company provided one set of main chord equipment for the Zhenhai No. 5 Drilling Platform. The product provided by Xinyuda Company had the quality defects and was in breach of the requirements of the contract, as a result, the construction schedule of Zhenhai No. 5 Drilling Platform of this Company was seriously affected. This Company had sent many letters to request Xinyuda Company to settle the quality defects, but Xinyuda Company had not effectively responded to them and dealt with these defects. therefore, based on the dispute settlement mode stipulated by the contract, this Company took a arbitration against Xinyuda Company to Hong Kong International Arbitration Center on May 9, 2017 and requested Xinyuda Company to compensate this Company for the expenses for replacement, repair, removal, reconstruction and reinstallation of main chord, about USD 35,250,000 dollars, and reserved the rights of compensation for the losses caused by the quality of the main chord under the platform construction contract and other losses arising herefrom.	About USD 35,250,000 dollars	0	Court to be open soon	Not yet ruled	Not yet ruled
Industries	Xinyuda	No	Arbitration	On Jan. 28, 2014, this	About USD	0	Court to	Not yet	Not yet

Shanghai Zhenhua Heavy Industries Co., Ltd	Ocean Engineering (Hong Kong) Co., Ltd			Company signed Procurement Contract on Main Chord of Spud Leg for F&G-JU2000E Self-elevating Drilling Platform with Xinyuda Ocean Engineering (Hong Kong) Co., Ltd (hereinafter referred to as "Xinyuda Company") (Contract No.: ZP14-2126-0030, based on which Xinyuda Company provided one set of main chord equipment for the Zhenhai No. 6 Drilling Platform. The product provided by Xinyuda Company had the quality defects and was in breach of the requirements of the contract, as a result, the construction schedule of Zhenhai No. 6 Drilling Platform of this Company was seriously affected. This Company had sent many letters to request Xinyuda Company to settle the quality defects, but Xinyuda Company had not effectively responded to them and dealt with these defects. therefore, based on the dispute settlement mode stipulated by the contract, this Company took a arbitration against Xinyuda Company to Hong Kong International Arbitration Center on May 9, 2017 and requested Xinyuda Company to compensate this Company for the expenses for replacement, repair, removal, reconstruction and reinstallation of main chord, about USD 35,250,000 dollars, and reserved the rights of compensation for the losses caused by the quality of the main chord under the platform construction contract and other losses arising herefrom.	35,250,000 dollars		be open soon	ruled	ruled
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(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. Integrity conditions of the Company and its controlling shareholders, actual controller during the reporting period

☐Applicable ☒Not applicable

XIII. Company equity incentive plans and employee stock ownership plan or other incentive to the staff and their impacts

(I) Incentive events already disclosed in the provisional notice but without any progress or change in subsequent implementation

☐Applicable ☒Not applicable

(II) Incentives not disclosed in the provisional announcement or with progress in subsequent implementation

Stock ownership incentive

☐Applicable ☒Not applicable

Other descriptions

☐Applicable ☒Not applicable

Employee stock ownership plan

☐Applicable ☒Not applicable

Other incentive measures

☐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 in follow-up implementation

☒Applicable ☐Not applicable

Events overview	Index
18 th meeting of 6 th board of directors approved Proposal for Participating in Investment and Construction of Rebuilding and Relocation Houses in Rundown Urban Area and Supporting Facilities in Dongming County, Heze City on Jan. 23, 2017.	Shanghai Stock Exchange website: www.sse.com.cn and Shanghai Securities News and Hong Kong Wen Wei Po on Jan 24, 2017.
23 rd meeting of 6 th board of directors approved Proposal for Investment and Construction of PPP Project for Bridge and Liquefied Dock In Yangkou Port Zone, Nantong City on June 22, 2017.	Shanghai Stock Exchange website: www.sse.com.cn and Shanghai Securities News and Hong Kong Wen Wei Po on June 23, 2017.

2. Events disclosed in the provisional announcement and with changes or progresses in follow-up implementation

☐Applicable ☒Not applicable

3. Events not disclosed in the provisional announcement

☒Applicable ☐Not applicable

Unit: Yuan Currency: RMB

Related transaction party	Incidence relation	Type of related transaction	Content of related transaction	Pricing principle of related	Price of related transaction	Related transaction amount	Proportion in similar transaction
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				transaction			amount (%)
CCCC Financial Leasing Co., Ltd.	Affiliated company	Sale of goods	Project income	Based on market price	728,945,754	728,945,754	3.33
CCCC Tianjin Dredging Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	471,642,717	471,642,717	2.16
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd	Affiliated company	Sale of goods	Project income	Based on market price	439,726,261	439,726,261	2.01
CCCC First Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	311,673,509	311,673,509	1.43
China Harbor Engineering Co., Ltd	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	232,091,723	232,091,723	1.06
China Communications Construction Company Ltd.	Parent company	Sale of goods	Project income	Based on market price	221,713,310	221,713,310	1.01
Road & Bridge International Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	97,734,474	97,734,474	0.45
CCCC Tunnel Engineering Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	96,474,819	96,474,819	0.44
CCCC Second Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	62,392,577	62,392,577	0.29
No.1 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	57,742,023	57,742,023	0.26
CCCC Electrical and Mechanical Engineering Bureau Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	56,423,470	56,423,470	0.26
CCCC Second Highway Engineering Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	51,535,600	51,535,600	0.24
Road & Bridge South China Engineering Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	44,066,592	44,066,592	0.2
No.4 Engineering Co., Ltd. Of CCCC Second Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	36,707,819	36,707,819	0.17
No.3 Engineering Co., Ltd. Of CCCC Second Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	28,130,115	28,130,115	0.13
CCCC First Harbor Consultants Co., Ltd.	Parent company's holding	Sale of goods	Project income	Based on market price	27,435,897	27,435,897	0.13

	subsidiary						
CCCC Third Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	23,994,666	23,994,666	0.11
China Road & Bridge Corporation	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	23,045,665	23,045,665	0.11
Chuwa Bussan Co. Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	20,992,826	20,992,826	0.1
CCCC-SHEC Third Highway Engineering Co. Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	15,152,103	15,152,103	0.07
Hainan CCCC Fourth Harbor Construction Co., Ltd	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	7,710,256	7,710,256	0.04
CCCC Fourth Harbor Engineering Co., Ltd	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	5,805,005	5,805,005	0.03
CCCC-FHDI Engineering Co., Ltd	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	5,058,462	5,058,462	0.02
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	Affiliated company	Sale of goods	Project income	Based on market price	4,167,390	4,167,390	0.02
CCCC Third Highway Engineering Co. Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	2,752,482	2,752,482	0.01
CCCC Guangzhou Dredging Co. Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	1,949,573	1,949,573	0.01
CCCC-SHEC Second Engineering Co. Ltd.	Parent company's holding subsidiary	Sale of goods	Project income	Based on market price	1,729,907	1,729,907	0.01
No.1 Engineering Co., Ltd. Of CCCC First Harbor Engineering Co., Ltd.	Sale of goods	Rendering of service	Project income	Based on market price	14,151	14,151	0
CCCC Tianjin Dredging Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	462,492,064	462,492,064	3.38
CCCC Second Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	161,465,657	161,465,657	1.18
CCCC First Highway Engineering Co. Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	137,930,629	137,930,629	1.01
CCCC Third Harbor Engineering Co., Ltd.	Parent company's holding	Accepting labor services	Commissioned processing for the Company	Based on market price	134,235,980	134,235,980	0.98

	subsidiary						
CCCC-SHEC Second Engineering Co. Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	112,198,187	112,198,187	0.82
CCCC Fourth Highway Engineering Co. Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	96,055,525	96,055,525	0.7
No.1 Engineering Co., Ltd. Of CCCC First Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	63,578,055	63,578,055	0.46
Shanghai Communications Construction Co. Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	61,115,756	61,115,756	0.45
CCCC Second Highway Consultants Co. Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	30,059,257	30,059,257	0.22
The Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	28,312,923	28,312,923	0.21
CCCC First Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	26,777,335	26,777,335	0.2
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd	Affiliated company	Accepting labor services	Commissioned processing for the Company	Based on market price	21,662,715	21,662,715	0.16
No.3 Engineering Co., Ltd. Of CCCC Third Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	17,743,903	17,743,903	0.13
CCCC Water Transportation Planning and Design Institute Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	12,105,094	12,105,094	0.09
No.2 Engineering Co., Ltd. Of CCCC Third Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	10,427,350	10,427,350	0.08
Installation Engineering Company of CCCC First Highway Engineering Co. Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	5,989,401	5,989,401	0.04
CCCC First Harbor Consultants Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	5,858,503	5,858,503	0.04
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	Affiliated company	Accepting labor services	Commissioned processing for the Company	Based on market price	3,548,020	3,548,020	0.03

CCCC Highway Bridges National Engineering Research Centre Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	1,777,778	1,777,778	0.01
CCCC Shanghai Dredging Co. Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	1,727,336	1,727,336	0.01
CTTIC Shanghai Co., Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	929,915	929,915	0.01
CCCC Third Harbor Consultants Co. Ltd.	Parent company's holding subsidiary	Accepting labor services	Commissioned processing for the Company	Based on market price	142,383	142,383	0
CCCC Shanghai Equipment Engineering Co., Ltd.	Parent company's holding subsidiary	Purchase goods	Supply materials to the Company	Based on market price	131,400,593	131,400,593	0.96
ZPMC Changzhou Coatings Co., Ltd.	Affiliated company	Purchase goods	Supply materials to the Company	Based on market price	88,611,099	88,611,099	0.65
Chuwa Bussan Co. Ltd.	Parent company's holding subsidiary	Purchase goods	Supply materials to the Company	Based on market price	42,752,896	42,752,896	0.31
Shanghai Jiangtian Industrial Co., Ltd	Parent company's holding subsidiary	Purchase goods	Supply materials to the Company	Based on market price	15,435,145	15,435,145	0.11
China Communications Materials & Equipment Co., Ltd	Parent company's holding subsidiary	Purchase goods	Supply materials to the Company	Based on market price	5,989,665	5,989,665	0.04
CCCC Fourth Highway Engineering Co. Ltd.	Parent company's holding subsidiary	Purchase goods	Supply materials to the Company	Based on market price	4,868,840	4,868,840	0.04
Nanjing CCCC Weisanlu River Tunnel Co., Ltd	Parent company's holding subsidiary	Purchase goods	Supply materials to the Company	Based on market price	418,291	418,291	0
CCCC Tianjin Industry and Trade Co., Ltd.	Parent company's holding subsidiary	Purchase goods	Supply materials to the Company	Based on market price	22,846	22,846	0
Zhenhua Ocean Energy (Hong Kong) Co., Ltd	Joint venture	Other inflows	Vessel leasing	Based on market price	158,746,932	158,746,932	0.73
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd	Joint venture	Other inflows	Vessel leasing	Based on market price	27,414,329	27,414,329	0.13
CCCC-FHEC Urban Traffic Engineering Co., Ltd.	Parent company's holding subsidiary	Other inflows	Shield leasing	Based on market price	26,525,385	26,525,385	0.12
CCCC Second Highway Engineering Co., Ltd.	Parent company's holding subsidiary	Other inflows	Shield leasing	Based on market price	6,727,590	6,727,590	0.03
Road & Bridge International Co., Ltd.	Parent company's holding	Other inflows	Shield leasing	Based on market price	3,499,733	3,499,733	0.02

	subsidiary						
CCCC Third Highway Engineering Co. Ltd.	Parent company's holding subsidiary	Other inflows	Shield leasing	Based on market price	2,928,360	2,928,360	0.01
China Communications Construction Company Ltd.	Parent company's holding subsidiary	Other inflows	Shield leasing	Based on market price	2,162,605	2,162,605	0.01
CCCC-SHEC No.4 Engineering Co., Ltd.	Parent company's holding subsidiary	Other inflows	Shield leasing	Based on market price	1,841,219	1,841,219	0.01
CCCC-SHEC No.1 Engineering Co., Ltd.	Parent company's holding subsidiary	Other inflows	Shield leasing	Based on market price	1,336,752	1,336,752	0.01
CCCC First Harbor Engineering Co., Ltd.	Parent company's holding subsidiary	Other inflows	Shield leasing	Based on market price	895,138	895,138	0
Total						4,994,520,330	14.05
Explanation of related transaction	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.						

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

1. Events disclosed in the provisional announcement, without changes or progresses in follow-up implementation

☐Applicable ☒Not applicable

2. Events disclosed in the provisional announcement, with changes or progresses in follow-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, without changes or progresses in follow-up implementation

☐Applicable ☒Not applicable

2. Events disclosed in the provisional announcement, with changes or progresses in follow-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, without changes or progresses in follow-up implementation

☒Applicable ☐Not applicable

Events overview	Index
19 th meeting of 6 th board of directors approved <i>Proposal for Handling Loan by Mandate of Budgetary Funds of State-owned Capital to China Communications Construction Co., Ltd.</i> on Mar. 27, 2017.	Shanghai Stock Exchange website: www.sse.com.cn and Shanghai Securities News and Hong Kong Wen Wei Po on Mar. 29, 2017.
26 th meeting of 6 th board of directors approved <i>Proposal for Splitting Credit Extension of This Company in CCCC Finance Co., Ltd by Tianhe Mechanical Equipment Manufacturing Co., Ltd</i> on Oct. 30, 2017.	Shanghai Stock Exchange website: www.sse.com.cn and Shanghai Securities News and Hong Kong Wen Wei Po on Oct. 31, 2017.

2. Events disclosed in the provisional announcement, with changes or progresses in follow-up implementation

☐Applicable ☒Not applicable

3. Events not disclosed in the provisional announcement

☐Applicable ☒Not applicable

(V) Other

☐Applicable ☒Not applicable

XV. Major contracts and their performance

(I) 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	Leased assets	Amount involved	Lease start date	Lease termination date	Rental income	Determination basis of rental income	Impact on the Company	Related transaction or not
The Company	Shanghai Zhenlong Asset Management Co., Ltd, and other companies	Housing Rental	273,401,305	2012/08/10	2025/07/09	48,361,731	Agreed	48,361,731	No

(II) Guarantee

√Applicable □Not applicable

Unit: Yuan Currency: RMB

External guarantee of the Company (excluding those for held subsidiaries)											
Guarantor	Relationship between the guarantor and listed company	Guaranteed party	Guarantee amount	Date of guarantee (date of agreement)	Start date of guarantee	Guarantee maturity date	Type of guarantee	Whether the Guarantee is implemented	Is the guarantee overdue	Whether there is counter guarantee	Whether guarantee to related party
The Company	Home office	Jiangsu Yanwei Port Co., Ltd	10,790,000	Nov. 11, 2014	Nov. 11, 2014	May 8, 2018	Joint and several liability guarantee	No	No	No	No
Total guaranties incurred in report period (excluding those for subsidiaries)					-185,641,287						
Total Guarantee balance at the end of report period (A) (excluding those for subsidiaries)					10,790,000						
Guarantee of the Company and its subsidiaries to subsidiaries											
Total guaranties for subsidiaries incurred in report period					-1,053,735,000						
Total guaranties for subsidiary balance at the end of report period (B)					2,156,286,000						
Total amount of guarantee of the Company (including those for subsidiaries)											
Total guarantee amount (A+B)					2,167,076,000						
Proportion in net assets of the Company (%)					12.88						
In which:											
Amount provided to shareholders, effective controller and its related parties (C)					0						
Amount of debt guarantee directly or indirectly provided for the guaranteed party with the asset-liability ratio exceeding 70% (D)					2,058,273,000						
Amount of guaranties exceeding 50% of net assets (E)					0						
Total of the above 3 kinds of guarantee (C+D+E)					2,058,273,000						
Explanation of the joint and several liability might undertaken by undue guarantee											
Guarantee status explanation	Note: the first interim general meeting of stockholders held on September 22, 2008 approved <i>Proposal of Company Providing Financing Guarantee to Subsidiary Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd.</i> , 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 30 th meeting of fifth Board of Directors, the 20 th , 24 th , 25 th and 26 th meeting of sixth Board of Directors approved other guarantees.										

(III) Entrusted cash assets management

1. Trust management

(1). General of trust management

□Applicable √Not applicable

Others

□Applicable √Not applicable

(2). Information on individual trust management

☐Applicable ☒Not applicable

Others

☐Applicable ☒Not applicable

(3). Impairment provision for trust management

☐Applicable ☒Not applicable

2. Entrusted loans

(1). General of entrusted loans

☐Applicable ☒Not applicable

Others

☐Applicable ☒Not applicable

(2). Information on individual entrusted loan

☐Applicable ☒Not applicable

Others

☐Applicable ☒Not applicable

(3). Impairment provision for entrusted loans

☐Applicable ☒Not applicable

3. Others

☐Applicable ☒Not applicable

(IV) Other substantial contracts

☐Applicable ☒Not applicable

XVI. Notes to other major issues

☐Applicable ☒Not applicable

XVII. Active fulfillment of social responsibilities

(I) Poverty alleviation of listed company

☐Applicable ☒Not applicable

(II) Social responsibility work

☒Applicable ☐Not applicable

Based on the social responsibility consciousness of “creating the elaborate works for customers, creating the benefit for the shareholders, creating the happiness for the staff and creating the harmony for the society”, this Company abides by the lawful and compliant operation, frankly communicates with the stakeholders, continuously perfects the social responsibility construction system and sets up the good image of a large-sized state-owned enterprise for fulfilling its duties and obligations.

The Company persists in building the elaborate works, pursues and carries out the quality management mode of “being off-land without any debt”, continuously increases the investment in scientific and technical innovation and advocates the green production and energy-saving production. It impels the construction of the oversea regional center and deepens the construction of full-life cycle service and integrated service to make the customers enjoy quicker and high quality service.

The Company persists in human-oriented principle, strictly abides by the labor laws and regulations and sticks to equalized and humanized labor policy. It continuously perfects distribution incentive system and performance evaluation system and establishes the distribution mode

connected with the market. It regularly holds the cultural and sport activities to form good working and living atmosphere.

The Company pays high attention to the regional cooperative development and continuously upgrades the joint construction level of government and enterprise, society and enterprise and university and enterprise as well as the integrated construction of industry, university and institute to promote the further integration of the cultural spirits of the enterprise into the society.

(III) Environmental information

1. Environmental protection of the listed company and its key subsidiaries defined as industry of heavy pollution industry specified by national environmental protection department

☒Applicable ☐Not applicable

Changxing Branch of this Company belongs to the key pollutant-discharge unit issued by the environmental protection authorities, with the main pollutants including wastewater, waste gas, smoke dust, volatile organic compounds, general industrial solid wastes and hazardous wastes. Emission mode: the wastewater is drained after reaching up to the standard through treatment; the atmospheric pollutants such as waste gas, smoke dust and volatile organic compounds adopt the combination of organized emission and unorganized emission; the hazardous waste and the solid waste are transported to the qualified unit for treatment. Changxing Branch has basically accomplished the reconstruction of pre-treatment coating flow line and actively advanced VOCs end control, as a result, it has made good achievements in construction and operation of the pollution prevention and control facilities. According to the prepared environmental emergency preplan, in combination with the actual conditions of the Company, it perfected the configuration of the emergency aid equipment and facilities, developed the emergency aid technical training and practice drilling in a normalized manner and practically improved the emergency response capability and emergency aid capability. The self-monitoring plan of Changxing Branch: 1. wastewater online monitoring; 2. entrust the third party to carry out the environmental monitoring; 3. boundary noise self-measurement.

2. Companies other than those defined as key pollutant-discharge unit

☒Applicable ☐Not applicable

In 2017, the environmental impact report assessment report on the expansion of output of the construction project of Nantong Zhenhua Heavy Equipment Manufacturing Co., Ltd from 100000t/a sand clean paint steel member to 200,000t/a sand clean oil steel member and 2,980t stainless and non-ferrous metal pipe fittings was approved by Nantong Administration of Environmental Protection. The construction project met the requirements on environmental protection and obtained the administrative license of Nantong Administration of Environmental Protection.

3. Other explanations

☐Applicable ☒Not applicable

(IV) Other explanations

☐Applicable ☒Not applicable

XVIII. Convertible bonds

(I) Status of issuance of convertible bonds

☐Applicable ☒Not applicable

(II) Status of holders and underwriter of convertible bonds during the reporting period

☐Applicable ☒Not applicable

(III) Changes in convertible bonds during the reporting period

☐Applicable ☒Not applicable

Accumulated conversion of convertible bonds during the reporting period

☐Applicable ☒Not applicable

(IV) Information on all adjustments of conversion price

☐Applicable ☒Not applicable

(V) Liabilities, changes in credit and cash arrangements of the Company in the future

☐Applicable ☒Not applicable

(VI) Other information about convertible bonds

☐Applicable ☒Not applicable

Chapter VI Changes in Ordinary Shares Capital and Shareholders

I. Changes in ordinary shares capital

(I) Ordinary shares changes statement

1. Ordinary shares changes statement

During the reporting period, there was no change in the total number of ordinary shares and the equity structure of the Company.

2. Explanation for changes in the ordinary shares

☐Applicable ☒Not applicable

3. Effect of ordinary share changes on the financial index such as earnings per share and net assets per share in the past one year or the latest period (if any)

☐Applicable ☒Not applicable

4. Other information deemed to be necessarily disclosed by the Company or as required by a security supervision institution

☐Applicable ☒Not applicable

(II) Changes in restricted shares

☐Applicable ☒Not applicable

II. Securities issue and listing

(I) Securities issue by the end of the reporting period

☐Applicable ☒Not applicable

Explanation for securities issue by the end of the reporting period (describe the bonds with different interest rate respectively in the duration):

☐Applicable ☒Not applicable

(II) Changes in total number of ordinary shares, shareholder structure and assets and liabilities structure of the Company

☐Applicable ☒Not applicable

(III) Description of status of existing employee shares

☐Applicable ☒Not applicable

III. Shareholders and actual controllers

(I) Total number of shareholders

Total number of shareholders of ordinary shares by the end of reporting period	255,997
Total number of shareholders or ordinary shares at the end of last month prior to the disclosure date of annual report	252,635

(II) Shareholding profile of top 10 shareholders and top 10 circulating shareholders (or tradable shareholders) by the end of the reporting period

Unit: share

Shareholding profile of top 10 shareholders							
Name of Shareholder (Full Name)	Change in reporting period	Shares held at the end of the period	Proportion (%)	Number of restricted shares held	Pledged or frozen		Nature of shareholder
					Share status	Quantity	
CCCG (HK) HOLDING LIMITED	763,963,200	763,963,200	17.401	0	None	0	Overseas legal person
China Communications Construction Co., Ltd.	-552,686,146	712,951,703	16.239	0	None	0	State-own legal person
China Communications Construction Group	552,686,146	552,686,146	12.589	0	None	0	State-own 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
BOSERA FUNDS - Agricultural Bank of China - BOSARE China Securities Financial Assets Management Plan	0	16,546,600	0.38		Unknown		Unknown
E FUND Management - Agricultural Bank of China - E FUND Management China Securities Financial Assets Management Plan	0	16,546,600	0.38		Unknown		Unknown
DACHENG FUND - Agricultural Bank of China - DACHENG China Securities Financial Assets Management Plan	0	16,546,600	0.38		Unknown		Unknown

Harvest Fund - Agricultural Bank of China - Harvest China Securities Financial Assets Management Plan	0	16,546,600	0.38		Unknown		Unknown
GF Fund - Agricultural Bank of China - GF China Securities Financial Assets Management Plan	0	16,546,600	0.38		Unknown		Unknown
Lombarda China Fund - Agricultural Bank of China - Lombarda China Fund China Securities Financial Assets Management Plan	0	16,546,600	0.38		Unknown		Unknown
China Asset Management - Agricultural Bank of China - China Asset Management China Securities Financial Assets Management Plan	0	16,546,600	0.38		Unknown		Unknown
Yinhua Fund - Agricultural Bank of China - Yinhua China Securities Financial Assets Management Plan	0	16,546,600	0.38		Unknown		Unknown
China Southern Asset Management - Agricultural Bank of China - CSAM China Securities Financial Assets Management Plan	0	16,546,600	0.38		Unknown		Unknown
ICBC Credit Suisse Fund - Agricultural Bank of China - ICBC Credit Suisse China Securities Financial Assets Management Plan	0	16,546,600	0.38		Unknown		Unknown

Shares held by Top 10 unrestricted shareholders

Name of Shareholder	Number of tradable shares held	Type and quantity of shares	
		Type	Quantity
CCCC (HK) HOLDING LIMITED	763,963,200	B-shares	
China Communications Construction Co., Ltd.	712,951,703	A-shares	
China Communications Construction Group	552,686,146	A-shares	
Central Huijin Assets Management Co., Ltd	74,482,200	A-shares	
China Securities Finance Co., Ltd	56,788,474	A-shares	
BOSERA FUNDS - Agricultural Bank of China - BOSARE China Securities Financial Assets Management Plan	16,546,600	A-shares	
E FUND Management - Agricultural Bank of China - E FUND Management China Securities Financial Assets Management Plan	16,546,600	A-shares	
DACHENG FUND - Agricultural Bank of China - DACHENG China Securities Financial Assets Management Plan	16,546,600	A-shares	

Harvest Fund - Agricultural Bank of China - Harvest China Securities Financial Assets Management Plan	16,546,600	A-shares	
GF Fund - Agricultural Bank of China - GF China Securities Financial Assets Management Plan	16,546,600	A-shares	
Lombarda China Fund - Agricultural Bank of China - Lombarda China Fund China Securities Financial Assets Management Plan	16,546,600	A-shares	
China Asset Management - Agricultural Bank of China - China Asset Management China Securities Financial Assets Management Plan	16,546,600	A-shares	
Yinhua Fund - Agricultural Bank of China - Yinhua China Securities Financial Assets Management Plan	16,546,600	A-shares	
China Southern Asset Management - Agricultural Bank of China - CSAM China Securities Financial Assets Management Plan	16,546,600	A-shares	
ICBC Credit Suisse Fund - Agricultural Bank of China - ICBC Credit Suisse China Securities Financial Assets Management Plan	16,546,600	A-shares	
Explanation of the above related relationship or consistent action	<p>1. This Company issued <i>Announcement of Completion of Transfer and Registration of Shares of Shanghai Zhenhua Heavy Industries Co., Ltd Transferred by China Communications Construction Co., Ltd through Agreement</i> on Dec. 28, 2017. As of Dec. 27, 2017, CCCC directly held 12.589% of the shares of this Company and indirectly held 17.401% of the shares of this Company through CCCC Hong Kong. In addition, it still held 16.239% of the shares of this Company through CCCC and became the controlling shareholder of this Company.</p> <p>2. Among above top 10 shareholders, CCCG (HK) HOLDING LIMITED, China Communications Construction Group. And China Communications Construction Co., Ltd. Belong to related companies. The Company is not aware of whether other shareholders have associated relationship among them or belong to the consistent actionists as defined in the <i>Administrative Rules on Disclosure of Stock Change Information of Listed Company's Shareholders</i>.</p>		

Number of shares held by top 10 restricted shareholders and restriction conditions

☐Applicable ☒Not applicable

(III) Strategic investors or general legal entities who become top 10 shareholders due to rights issue

☐Applicable ☒Not applicable

IV. Status of controlling shareholder and actual controller

(I) Controlling shareholder

1 Legal person

☒Applicable ☐Not applicable

Name	China Communications Construction Group
Person in charge of the unit or the legal representative	Liu Qitao
Date of incorporation	Dec. 8, 2005
Main businesses	Undertaking overseas projects and international bidding projects at home; general contracting for construction of various special ships, leasing and maintenance of special ship and construction machines; offshore towage and professional services related to the ocean engineering; technical consultant services regarding the ship and the supporting port equipment; 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, design, 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, tunnel, power, mine, water conservancy, and municipal works; import and export business; real estate development and property management; investment and management of transportation, hotel

	and tourist industries.
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2 Natural person

☐Applicable ☒Not applicable

3 Special statement for the Company without controlling shareholder

☐Applicable ☒Not applicable

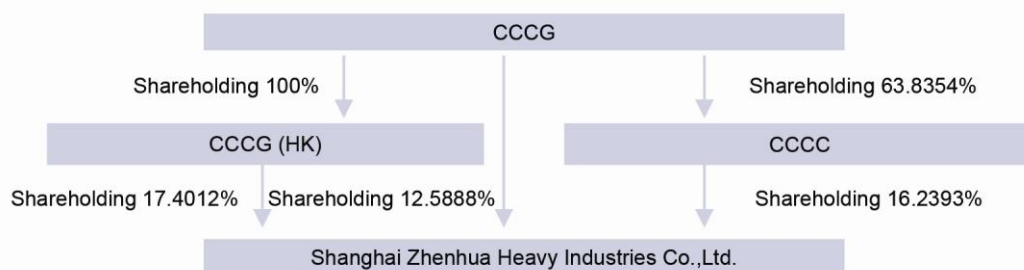
4 Index and date of the changes in controlling shareholders during the reporting period

☒Applicable ☐Not applicable

This Company issued the *Announcement of Completion of Transfer and Registration of Shares of Shanghai Zhenhua Heavy Industries Co., Ltd Transferred by China Communications Construction Co., Ltd through Agreement* on Dec. 28, 2017. Please refer to www.sse.com.cn and input the stock code for reference or refer to Shanghai Securities News and Hong Kong Wen Wei Po on Dec. 28, 2017.

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

☒Applicable ☐Not applicable



(II) Actual controller

1 Legal person

☐Applicable ☒Not applicable

2 Natural person

☐Applicable ☒Not applicable

3 Special statement for the company without actual controller

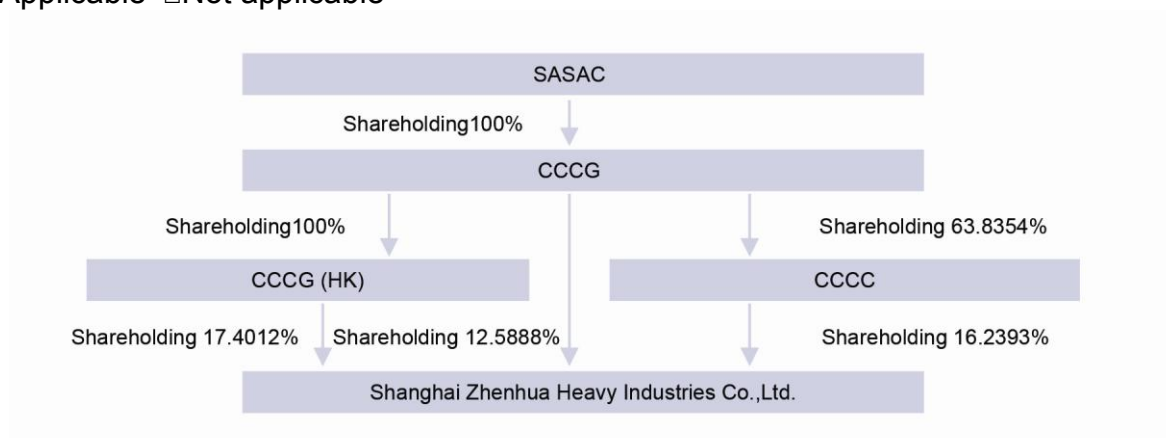
☐Applicable ☒Not applicable

4 Index and date of the change of actual controller during the reporting period

☐Applicable ☒Not applicable

5 Block diagram of property right and control relationship between the Company and actual controller

☒Applicable ☐Not applicable



6 Actual controllers control the company through trust or other asset management methods

☐Applicable ☒Not applicable

(III) Other information of the controlling shareholder and the actual controllers

☐Applicable ☒Not applicable

V. Other corporate shareholders holding over 10% shares

☐Applicable ☒Not applicable

VI. Explanation for restricted reduction of the shares

☐Applicable ☒Not applicable

Chapter VII Related Information about Preference Shares

☐Applicable ☒Not applicable

Chapter VIII Directors, Supervisors, Senior Management and Staff

I. Changes in holdings and remuneration

(I) Shareholding changes and remuneration of directors, supervisors and senior management 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 held at the end of year	Change s in the year	Notes to remuneration calculation interval	Total pre-tax remuneration received from the Company during reporting period (RMB10,000 Yuan)	Paid by related parties of the Company or not
Zhu Lianyu	Chairman of the Board, Party Secretary	Male	48	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	73.74	No
Huang Qingfeng	Director, President, Deputy Party Secretary	Male	43	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	70.41	No
Zhang Hongwen	Director	Male	58	Mar. 7, 2018	Apr. 20, 2018	0	0	0	-	0	Yes
Yan Yunfu	Director, Chief Engineer	Male	59	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	56.82	No
Liu Qizhong	Director, Vice President	Male	54	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	56.67	No
Dai Wenkai	Director, Vice President	Male	51	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	57.23	No
Zhu Xiaohuai	Director, CFO	Male	49	Mar. 7, 2018	Apr. 20, 2018	0	0	0		0	No
She Lian	Independent Director	Male	59	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	12	No
Gu Wei	Independent Director	Male	61	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	12	No
Ling He	Independent Director	Male	66	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	12	No
Yang Jun	Independent Director	Male	61	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	12	No

Bai Yunxia	Independent Director	Female	45	May 9, 2017	Apr. 20, 2018	0	0	0	May to Dec.	8	No
Wang Cheng	Deputy Party Secretary, Secretary of Committee for Discipline Inspection, Chairman of Labor Union	Male	45	Mar. 7, 2018	Apr. 20, 2018	0	0	0	July to Dec.	22.92	No
Zhang Minghai	Supervisor	Male	56	Apr. 21, 2015	Apr. 20, 2018	20,259	20,259	0	Jan. To Dec.	76.07	No
Xiang Xudong	Supervisor	Male	42	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	72.76	No
Liu Jianbo	Vice President	Male	55	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	56.55	No
Zhou Qi	Vice President	Male	46	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	57.18	No
Chen Bin	Vice President	Male	44	Apr. 21, 2015	Apr. 20, 2018	89,440	89,440	0	Jan. To Dec.	56.67	No
Shan Jianguo	Vice President	Male	54	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	56.67	No
Zhang Jian	Vice President	Male	49	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	56.41	No
Fei Guo	Chief Engineer	Male	56	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	56.7	No
Li Ruixiang	Chief economist	Male	43	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	56.23	No
Sun Li	General counsel	Male	46	Apr. 21, 2015	Apr. 20, 2018	0	0	0	Jan. To Dec.	56.67	No
Song Hailiang	Former chairman of the board	Male	53	Apr. 21, 2015	Apr. 28, 2017	0	0	0	-	0	Yes
Chen Qi	Former director	Female	56	Apr. 21, 2015	Dec. 27, 2017	0	0	0	-	0	Yes
Wang Jue	Former director, CFO, secretary of the board	Male	54	Apr. 21, 2015	Dec. 18, 2017	0	0	0	Jan. To Dec.	56.67	No
Cui Wei	Former chief supervisor, Deputy party secretary, Secretary of Committee for Discipline Inspection, chairman of Labor Union	Male	42	Apr. 21, 2015	Aug. 29, 2017	0	0	0	Jan. To June	33.15	Yes
Total	/	/	/	/	/	109,699	109,699	0		1085.52	/

Name	Main work experiences
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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: Chairman of the Board and secretary of Party.
Huang Qingfeng	Born in 1975, 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; VP of the Company from Jan. 2005 and executive vice president and director of Production and Project Management Center since 2014. Current: Director, President, Deputy party secretary of the Company.
Zhang Hongwen	Born in 1960, male, undergraduate, senior engineer; engaged in work in Aug., 1983. Successively serving as deputy general manager of International Engineering Branch of Zhonggong Headquarters, deputy general manager of Overseas Division and manager of Comprehensive Department of Zhonggong Group, deputy general manager of Engineering Management Department and Operation & Management Department of China Communications Construction Co., Lt, deputy general manager and general manager of Capital Construction Department (Dredging Department) of CCCC, CEO and general manager of Dredging Business Department of Shanghai International Port (Group) Co., Ltd, director, CEO, temporary member of the Party committee and non-executive director of CCCC Dredging (Group) Co., Ltd. Now serving as the general manager and director of Equipment Manufacturing & Ocean Heavy Industry Department of CCCC.
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, and President of Land Heavy Industry Equipment Design Institute, director of board of the Company since 2004. Current: director and chief engineer.
Liu Qizhong	Born in 1964, male, bachelor degree, senior economist; Vice Manager and Manager of Operating Department, director of the Company since 1997. Current: director and VP of Company.
Dai Wenkai	Born in 1967, male, master of physics, EMBA, senior engineer. Began his career in 1993, served as Vice Manger and Manager of Operating Department, Vice Chief Economist, Chief Economist. Current: director and VP of the Company.
Zhu Xiaohuai	Born in 1969, male, master of MBA, senior account. Successively served as deputy section manager of Financial Division of CCCC Shanghai Dredging Co., Ltd, deputy director of Budget and Finance Department, deputy manager, manager of Finance Department of CCCC Shanghai Dredging Co., Ltd and concurrently serving as a member of commission for disciplinary inspection, director, chief account, standing committee member of CCCC Shanghai Dredging Co. Ltd. Now serving as the director and CFO of the company.
She Lian	Born in 1959, male, professor, doctoral tutor; enjoying 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.
Bai Yunxia	Born in Oct. 1973, female, Doctor of Accounting of Xiamen University, Post-doctor of Accounting, professor and doctoral student's tutor of Guanghua School of Management of Peking University. Engaged in work in 1995. Successively serving as the assistant engineer of Kaiyuan Group under Xi'an Jiaotong University, lecturer of School of Economics and Management of Tongji University, research scholar of Cheung Kong Graduate School of Business. Now serving as the director of Department of Accounting of School of Economics and Management of Tongji University, research scholar of Investment Center of Cheung Kong Graduate School of Business. Serving as the independent director of the Company.
Wang Cheng	Born in 1973, male, undergraduate, senior political worker. Successively serving as secretary of Committee of the Communist Youth League and secretary of Party Branch of No. 2 Engineering Co., Ltd of CCCC Third Harbor Engineering Co., Ltd; deputy director and director of Organization Department of CCCC Third Harbor Engineering Co., Ltd; Secretary of the Party Committee and vice general manager of No. 2 Engineering Co., Ltd of CCCC Third Harbor Engineering Co., Ltd; chairman of board of supervisors and Vice Secretary of the Party Committee of CCCC Third Harbor Engineering Co., Ltd. Now serving as the Vice Secretary of the Party Committee, Secretary of Commission for Disciplinary Inspection, chairman of labor union and supervisor of this Company.
Zhang Minghai	Born in 1962, male, EMBA, professor-level senior engineer; formerly served as the engineer of Technology Division of Shanghai Port Machinery Plant; deputy manager of mechanical office, deputy chief engineer, general manager of Shore Bridge No. 1 Company of Mechanical Office, and general manager of Land-based Heavy Industry Co., Ltd. Of Shanghai Zhenhua Heavy Industries Co., Ltd. Current: director of the Company, chief designer and deputy dean of Land-based Heavy Industry Research & Design Institute, and vice chairman of Logistics Engineering Institution, CMES.
Xiang	Born in 1976, male, bachelor degree, senior engineer; served as Vice Director and Vice Manager of Quality Department, General manager

Xudong	of Zhenhua Heavy Industry Inspection Co., Ltd. Current: worker's representative supervisor of the board of supervisors, Vice General Manager of Zhenhua Heavy Industry Changxin Branch, Secretary of the Party Committee of Changxing Branch, and executive deputy general manager.
Liu Jianbo	Born in 1963, male, master degree, senior engineer; served as the 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 Ocean 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 Electric Group of the Company.
Chen Bin	Born in 1974, male, EMBA, senior engineer; formerly served as project quality leader of Quality Control Division, deputy manager of tire crane office of quality control division, manager of quality control division, deputy general manager and general manager of quality inspection company, vice director of quality and safety office, manager of Quality Safety Division, supervisor of the Company, general manager of Shanghai Zhenhua Shipment Co., Ltd, president assistant of the Company. Current: VP of the Company and general manager of Shanghai Zhenhua Ocean Engineering Service Co., Ltd.
Shan Jianguo	Born in 1964, male, bachelor degree; formerly worked in Shanghai Port Machinery Manufacturing Plant and started to work in Shanghai Zhenhua Port Machinery Co., Ltd since 1992, served as the engineer, chief engineer of Machinery Office, general manager of design company, deputy director and director of Machinery Office, manager of budget assessment department. He is now the VP of the Company and the dean of Land-based Heavy Industry Research & Design 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 of the Company.
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, currently chief engineer of the Company.
Li Ruixiang	Born in 1975, male, bachelor degree, served as the vice manager of Manufacturing Department, vice director of Quality Safety Office of Zhangjiagang 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 of the Company and general manager of Ocean Engineering Group.
Sun Li	Born in 1972, male, EMBA, senior engineer; served as project supervisor of Operating Department, vice manager and assistant of General Manager of the Company, Vice President and director of the Company, currently Chief Legal Counsel of the Company
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 of CCCC Water Transportation Planning and Design Institute Co., Ltd.; former vice President of China Communications Construction Co., Ltd. And General Manager of Equipment Manufacturing Marine Heavy Industry Department and Chairman of the Board of the Company.

Chen Qi	Born in 1962, female, master degree, senior engineer; served as the project manager of China Harbor Engineering Co., Ltd. Import and Export Port Machinery Division, deputy general manager of General manager of the Industry and Trade Business Division of China Harbor (Group) Co., Ltd., General manager of the Industry and Trade Business Division of China Communications Construction Co., Ltd. She served as the director of the Company since 2011, former executive general manager of Equipment Manufacturing Marine Heavy Industry Department of China Communications Construction Co., Ltd.
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; former director, CFO and Secretary of the Board of Directors 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; former chief supervisor, deputy secretary of the Party committee, secretary of Commission for Discipline Inspection, and chairman of Trade Union of the Company.

Other information

☐Applicable ☒Not applicable

(II) Equity incentives granted to the directors and senior management during the reporting period

☐Applicable ☒Not applicable

II. Positions of the present directors, supervisors and senior management or the ones resigned during reporting period

(I) Position in the firm of the shareholders

☒Applicable ☐Not applicable

Name	Name of the firm of the shareholder	Post held in the firm of the shareholders	Starting date of service	Expiration date of service
Song Hailiang	China Communications Construction Co., Ltd.	Vice president	Jan. 27, 2014	
Chen Qi	China Communications Construction Co., Ltd.	General manager of Industry and Trade Department	Dec. 29, 2009	
Zhang Hongwen	China Communications Construction Co., Ltd.	General manger of equipment manufacturing and marine heavy industry division	Jan. 4, 2018	

(II) Positions in other companies

√Applicable □Not applicable

Name	Name of companies	Post held in other company
She Lian	CAG CEIBS Emergency Management Institute	Professor, doctoral tutor
Gu Wei	Shipping Technology and Engineering key Lab of Ministry of Transportation, Vessel Electrical Committee of China Electrical Association, Committee of Experts of Shanghai Transportation Electronics Association, etc.	Director, professor, doctoral tutor, council member, committee member
Ling He	Jiefang Daily, Shanghai Journalists Association, Shanghai Essays Society.	Senior editor (Senior professional title), director
Yang Jun	Shanghai United Assets and Equity Exchange, Financial Assets Exchange, Shanghai International Economic and Trade Arbitration Commission, Shanghai Arbitration Commission, Shanghai Court of Financial Arbitration, Chinese Domain Name Dispute Settlement Center, Intellectual Property Association of China Law Society, Company Law Association of Shanghai Law Society, Shanghai Patent/Trademark/Copyright Association.	Assistant president, general manager, director, arbitrator, expert, director
Bai Yunxia	School of Economics and Management of Tongji University, Investment Centre of Cheung Kong Graduate School of Business	Director of Accounting Department, research scholar

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 regulations of 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.
Actual payment of remuneration to directors, supervisors and senior executives	Former Chairman Song Hailiang and the former director Chen Qi are not paid by the Company, whereas all other in-service and resigned director, supervisor and senior executives are paid by the Company
Total remuneration received by all directors, supervisors and senior executives	RMB 10,855,200 Yuan

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

☒Applicable ☐Not applicable

Name	Post	Change	Reason
Song Hailiang	Chairman of the board	Resigned	Work transfer
Chen Qi	Director	Resigned	Age-related
Zhu Lianyu	Chairman of the board	Engaged	Job demand
Zhang Hongwen	Director	Elected	Job demand
Wang Jue	Director, CFO, secretary of the board	Resigned	Work transfer
Zhu Xiaohuai	Director, CFO	Elected	Job demand
Wang Cheng	Supervisor, Deputy Party Secretary, Secretary of Committee for Discipline Inspection and Chairman of Labor Union	Elected	Job demand
Bai Yunxia	Independent director	Elected	Job demand

V. Explanation for punishment by securities regulatory institution in past three years

☐Applicable ☒Not applicable

VI. Employees in Parent Company and key subsidiaries

(I) Particulars about employee

Number of serving staff in Parent Company	3,104
Number of serving staff in key subsidiaries	5,679
Total number of serving staff	8,783
Number of retired employees to be borne by parent company and key subsidiaries	0
In specialties	
Classification	Number
Production staff	3,346
Sales staff	212
Technical staff	4,400
Financial staff	130
Administrative staff	695
Total	8783
Education background	
Educational level	Number (person)
Doctor	22
Master	596
Bachelor	3,521
Junior college	2,286
Technical secondary school	2,358
Total	8,783

(II) Remuneration policies

☒Applicable ☐Not applicable

In line with the Company's development strategy, continuously perfecting the distribution incentive and performance assessment system, established and improved the performance assessment scheme based on the different properties and characteristics of each unit and division; the implemented salary incentive system is closely linked to the performance distribution with the unit or division performance, value contribution, industrial characteristics, growth phase and similar factors, and is comprehensively linked to the staff performance with position duty and value contribution, and thus initially established the distribution mode integrating with the market.

(III) Training plan

☒Applicable ☐Not applicable

In line with the Company's development strategy, gradually establish a rigid staff training system with systematic, directional and continuous features. At the beginning of each year, 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.

(IV) Labor outsourcing situation

☒Applicable ☐Not applicable

Labor outsourcing hours	8189136 hours
Total Labor outsourcing remuneration	RMB 307.53 million Yuan

VII. Others

☐Applicable ☒Not applicable

Chapter IX Corporate Governance

I. Information about corporate governance

√Applicable □Not applicable

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

After self-inspection, the staffs who know the insider information didn't trade the stocks of the company before significant price information is disclosed. There is no difference between the company governance and the regulations of China Securities Regulatory Commission.

Whether there is significant difference in corporate governance and relevant regulations of CSRC? If any, please specify the reasons.

□Applicable √Not applicable

II. Summary of general meeting of shareholders

Session	Date	Website index of the specified website with resolution publication	Disclosure date of resolution publication
2016 annual general meeting of shareholders	May 9, 2017	www.sse.com.cn , Enter the stock code to search	May10, 2017

Particulars about the general meeting of shareholders

□Applicable √Not applicable

III. Duty fulfillment of directors

(I) Attendance of directors at the meetings of the Board of Directors and shareholders' general meetings

Name of director	Independent director or not	Attendance at the meetings of the Board of Directors						Attendance at general meeting of shareholders
		Desired attendance times	Attendance times in person	Attendance by correspondence	Entrusted attendance	Absences	Consecutive two absences in person or not	Times of attendance
Zhu	No	11	1	10	0	0	No	1

Lianyu								
Huang Qingfeng	No	11	1	10	0	0	No	1
Yan Yunfu	No	11	1	10	0	0	No	1
Liu Qizhong	No	11	1	10	0	0	No	1
Dai Wenkai	No	11	1	10	0	0	No	1
She Lian	Yes	11	1	10	0	0	No	1
Gu Wei	Yes	11	1	10	0	0	No	1
Ling He	Yes	11	1	10	0	0	No	1
Yang Jun	Yes	11	1	10	0	0	No	1
Bai Yunxia	Yes	5	0	5	0	0	No	0
Song Hailiang	No	4	1	3	0	0	No	0
Chen Qi	No	11	1	10	0	0	No	0
Wang Jue	No	10	1	9	0	0	No	1

Explanation for consecutive two absences in Board meetings in person

☐Applicable ☒Not applicable

Number of board meetings in reporting year	11
Including: number of on-site meeting	1
Number of meeting by correspondence	10
Number of meeting combined of on-site & by correspondence	0

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

☐Applicable ☒Not applicable

(III) Others

☐Applicable ☒Not applicable

IV. Dissent expressed by the special committee under the board during duty performance on related issues of the Company should be disclosed in detail

☐Applicable ☒Not applicable

V. Description of risk found by the Board of Supervisors

☐Applicable ☒Not applicable

VI. Description of the Company for the shareholders that cannot guarantee the independence and keep the independent operation ability in business, personnel, assets, organization and finance

☐Applicable ☒Not applicable

Corresponding solution, progress and follow-up plan for horizontal competition by the Company

☐Applicable ☒Not applicable

VII. Evaluation system of senior executives, and 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 "being 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. Disclosure of internal control self-assessment report or not

☒Applicable ☐Not applicable

2017 *Company Annual Internal Control Evaluation Report* will be published on the website of Shanghai Stock Exchange <http://www.sse.com.cn>

Explanation of significant internal control deficiency during the reporting period

☐Applicable ☒Not applicable

IX. Explanation of internal control audit report

☒Applicable ☐Not applicable

Ernst & Young LLP (special general partnership), engaged by the Company, had audited the effectiveness of the internal control of the financial report as of December 31, 2017 and issued a standard internal control audit report without qualified opinion (see the attachment to the announcement for details).

Disclose the internal control audit report or not: Yes

X. Others

☐Applicable ☒Not applicable

Chapter X Corporate Bonds

☐Applicable ☒Not applicable

Chapter XI Financial Reports

I. Audit report

√Applicable ☐Not applicable

Audit Report

Ernst & Young (2018) SZ No.61249778_B01
Shanghai Zhenhua Heavy Industries Co., Ltd.

To all Shareholders of Shanghai Zhenhua Heavy Industries Co., Ltd.,:

I. Audit Opinion

We have audited the financial statements of Shanghai Zhenhua Heavy Industries Co., Ltd., including the consolidated and the Company's balance sheets as of December 31, 2017, consolidated and the Company's Income Statement in 2017, statement of changes in stockholder equity, cash flow statements and notes to the financial statements.

In our opinion, the accompanying financial statements of Zhenhua Heavy Industries Co., Ltd. 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 Co., Ltd as of December 31, 2017 and the results of operations and cash flows of consolidation and the Company for the year 2017.

II. Basis for Audit Opinion

We conducted our audits in accordance with the Audit Standards for Chinese Registered Accountants. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for Audit of Financial Statements* section of our report. We are independent of the Company in accordance with the *China Code of Ethics for Certified Public Accountants*, and we have fulfilled our other ethical responsibilities in accordance with the said Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The following

description of how our audit addressed the key audit matter is also against this background.

We have fulfilled the responsibilities stated in “Responsibilities of Certified Public Accountant for Auditing of Financial Statement” in this report, including the responsibilities related to these key auditing matters. Correspondingly, our auditing work includes the implementation of the auditing procedure designed for dealing with the great misstatement risks of the financial statement to be evaluated. The results from the implementation of the auditing procedure by us, including the procedure to be implemented for the following key auditing matters, offers a foundation for releasing the auditing opinions of the financial statements.

Audit Report (continued)

Ernst & Young (2018) SZ No.61249778_B01
Shanghai Zhenhua Heavy Industries Co., Ltd.

III. Key Audit Matters (continued)

Key audit matter:	How our audit addressed this key audit matter:
1. Provision of inventory depreciation reserves	
<p>Shanghai Zhenhua Heavy Industries Co., Ltd. and its subsidiaries ("Group") are mainly engaged in manufacturing the port container crane; in addition, they are also engaged in the manufacture of bulk handling machine, offshore heavy-duty machine and large-sized steel structure. Its inventory mainly includes engineering raw materials, outsourcing parts and components, products in the process and inventory goods. Since the production cycle of the products of this group is relatively long, the net realizable value of the related inventory may fluctuate with the change in the market demand, resulting in the inventory depreciation risks. The Group withdraws the inventory depreciation reserves according to the balance of the inventory cost and the net realizable value. The net realizable value is determined as per the estimated selling price of the inventory minus the cost, the estimated selling expenses and the related taxes that may occur in the completion on the assumption that the management layer adopts a certain estimate and hypothesis in determining the net realizable value. In case of difference between the actual figure and the originally estimated figure, the related balance will affect the book value of the inventory and the depreciation loss in the estimated fluctuation.</p> <p>The accounting policy and other disclosures regarding the inventory are stated in Note (III) (10), Note (III) (29) and Note (V) (7) of the financial statement.</p>	<p>Our procedure mainly included knowing and testing the validity of the control related to the provision of inventory depreciation reserves and the method of calculating the net realizable value of the Group. We also implemented the related auditing procedures over the inventory such as supervision of inventory taking to verify the Group had marked the inventory with slow turnover and defectives and taken into full account in provision of inventory depreciation reserves. In addition, we obtained the computation sheet of provision of inventory depreciation reserves on Dec. 31, 2017 from the Group, rechecked the rationality of the calculation method. As to the key elements such as the estimated selling price, the cost that may occur from the inventory to the completion, the estimated selling expenses and the related taxes, taken into consideration by the Group in calculating the net realizable value, we evaluated the rationality of the hypothesis and the estimates through analyzing the related historical data and comparing the after-date data. We also tested the mathematical accuracy of the calculation of the provision amount of the inventory depreciation reserves.</p>

Audit Report (continued)

Ernst & Young (2018) SZ No.61249778_B01
Shanghai Zhenhua Heavy Industries Co., Ltd.

III. Key Audit Matters (continued)

Key audit matter:	How our audit addressed this key audit matter:
2. Provision of bad debt reserves of account receivable	
<p>The account receivable of the Group is mainly from the business contract on port machine and ocean engineering manufacturing. Since it involves large contracted value, long construction period, relatively complicated technical parameters, the implementation of the contract may be affected by the periodicity of the economic environment. The account receivable of the Group is imposed to a certain risk in the recovery in case of disputes in contract or the stagnant industry. As to the bad debt reserves withdrawn for the account receivable, the management layer evaluates the guarantee obtained for the account receivable, aging of account receivable, credit rating and historical repayment record of the counterpart based on the financial status of the counterpart. The provision of the bad debt reserves needs to adopt the key accounting estimate, including the consideration of the credit risk, historical repayment record and the existing disputes of the customer.</p> <p>The accounting policy and other disclosures related to the account receivable are stated Note (III) (9), Note (III) (29) and Note (V) (4) of the financial statement.</p>	<p>We evaluated the rationality of accounting estimate related to the depreciation reserves, such as the financial status and credit rating of the counterpart; checked the aging of the account receivable and historical repayment record and evaluated whether the financial problems of the counterpart had effects on the recovery of the account receivable; we checked the related supporting documents for the selected samples so as to validate the accuracy of the aging of the account receivable; reviewed the after-date received payment of the account receivable and rechecked the related evidences of the account receivable that could not be received and was written off.</p>

Audit Report (continued)

Ernst & Young (2018) SZ No.61249778_B01
Shanghai Zhenhua Heavy Industries Co., Ltd.

III. Key Audit Matters (continued)

Key audit matter:	How our audit addressed this key audit matter:
3. Confirmation of income from construction contract	
<p>Most of the income of the Group comes from the one of the construction contracts on the large-sized port equipment, heavy equipment, steel structure and construction projects customized by the customer. The Group adopts the percentage of completion method to calculate the income of the construction contracts. As to the large-sized port equipment, its completion schedule is determined according to the corresponding percentage of completion method of the confirmation node of the income achieved at the period end of the construction contract. As to the heavy equipment and construction period, its completion schedule is determined according to the ratio of the accumulative contract cost occurring to the expected total contract cost. As to the fabrication of the steel structure, its completion schedule is determined according to the ratio of the accumulatively completed processing tonnage to the expected total processing tonnage. The above-mentioned methods involve the use of the great judgment and estimate of the management, including the achieved node, expected total contract cost, total contract income and expected contract loss. In addition, the income, cost and realizable gross profit of the contract may change with the actual conditions, resulting in great differences in the initial estimate of the group.</p> <p>The accounting policy and other disclosures related to the income of the construction contract are stated in Note (III) (11), (III) (29) and (V) (8) and Note (V) (45) of the financial statement.</p>	<p>We evaluated and tested the accounting contract cost, contract income, achieved node confirmation and the internal control over the flow for calculating the completion schedule. We got the important contracts to verify the total contract income and review the important contract clauses. Through selecting the samples, we verified whether the contract cost that occurred conformed to the certification. We implemented the cutoff check procedure to validate the cost was confirmed in the proper accounting period; as to the large-sized port equipment, through sampling, we got the certification for the achieved node and made the sampling for field observation. We evaluated the judgment and estimate of the total contract cost made by the management. We made sampling to calculate and check the income determined by the occurred contract cost and the expected total contract cost again. In addition, we implemented the analysis-oriented recheck procedure against the gross profit of the key construction contract of the Group.</p>

Audit Report (continued)

Ernst & Young (2018) SZ No.61249778_B01
Shanghai Zhenhua Heavy Industries Co., Ltd.

IV. Other Information

The management of Shanghai Zhenhua Heavy Industries Co., Ltd. (hereafter referred to as the management) is responsible for other information. The other information comprises all of the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of other information, we are required to report that fact. We have nothing to report in this regard.

V. Responsibility of the Management and Those Charged with Governance for the Financial Statements

The management of the Company is responsible for the preparation of these financial statements in accordance with Accounting Standards for Business Enterprises to make them a fair presentation and designing, implementing and maintaining necessary internal control, to ensure that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of Shanghai Zhenhua Heavy Industries Co., Ltd. to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless BOE either intends to liquidate or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of Shanghai Zhenhua Heavy Industries Co., Ltd.

Audit Report (continued)

Ernst & Young (2018) SZ No.61249778_B01
Shanghai Zhenhua Heavy Industries Co., Ltd.

VI. CPA's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Shanghai Zhenhua Heavy Industries Co., Ltd. to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Shanghai Zhenhua Heavy Industries Co., Ltd. to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial

statements represent the underlying transactions and events in a manner that achieves fair presentation.

- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Shanghai Zhenhua Heavy Industries Co., Ltd. to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Audit Report (continued)

Ernst & Young (2018) SZ No.61249778_B01
Shanghai Zhenhua Heavy Industries Co., Ltd.

**VI. CPA's Responsibility for the Audit of the Financial Statements
(continued)**

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young LLP. (Special general partnership) Chinese Certified
Public Accountant: Yang Lei
(Engagement partner)

Chinese Certified Public Accountant: Liu Wei

Beijing China

Mar. 28, 2018

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated Balance Sheet

Dec. 31, 2017

RMB Yuan

<u>Assets</u>	<u>Note V</u>	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Current assets			
Monetary fund	1	5,770,227,369	3,597,044,199
Financial assets measured at fair value with the change accounted in current profit and loss	2	8,438,278	4,615,775
Notes receivable	3	420,786,012	296,920,781
Accounts receivable	4	3,980,017,611	4,230,746,458
Prepayment	5	1,036,783,170	900,422,234
Dividend receivable		665,346	-
Other receivables	6	996,161,366	736,554,593
Stock	7	7,071,266,879	6,776,086,014
Construction completed account yet has not been settled	8	13,453,980,326	11,105,813,767
Non-current assets due within one year	9	1,896,475,472	1,384,438,569
Other current assets	10	591,311,853	553,363,139
Total current assets		35,226,113,682	29,586,005,529
Non-current assets			
Financial assets available-for-sale	11	1,304,203,905	1,313,572,506
Long-term receivables	12	4,238,704,827	3,791,218,020
Long-term equity investment	13	2,320,470,521	2,201,421,453
Real estate as investment	14	455,063,723	473,380,251
Fixed assets	15	17,335,351,611	15,022,782,366
Construction in process	16	1,889,146,009	4,025,449,461
Intangible assets	17	3,683,165,608	3,744,448,606
Goodwill	18	265,188,465	149,212,956
Long-term deferred expenses	19	7,764,501	10,881,263
Deferred income tax assets	20	618,054,364	505,446,687
Other non-current assets	21	176,726,613	-
Total non-current assets		32,293,840,147	31,237,813,569
Total assets		67,519,953,829	60,823,819,098

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated Balance Sheet (continued)

Dec. 31, 2017

RMB Yuan

Liabilities and stockholders' equity	Note V	Dec. 31, 2017	Dec. 31, 2016
Current liabilities			
Short-term loans	23	25,468,980,401	21,485,919,393
Notes payable	24	1,893,227,482	1,905,121,706
Accounts payable	25	6,887,598,171	5,103,018,897
Advances from customers	26	591,727,255	292,941,206
Amount due from customer for contract work	8	2,508,598,913	2,393,446,122
Employee remuneration payable	27	273,733,207	264,549,756
Tax payable	28	194,948,927	251,000,724
Interest payable	29	118,825,582	140,195,803
Dividend payable	30	31,701,965	31,701,965
Other payables	31	692,680,129	1,225,135,428
Non-current liabilities due within one year	32	2,198,931,219	799,574,356
Other current liabilities	33	-	3,996,025,335
Total current liabilities		<u>40,860,953,251</u>	<u>37,888,630,691</u>
Non-current liabilities			
Long-term loans	34	6,664,914,383	3,925,335,497
Long-term payables	35	1,884,986,333	1,618,361,164
Predicted liabilities	36	464,888,663	293,115,783
Deferred income	37	479,174,120	451,036,024
Deferred income tax liabilities	20	183,462,320	104,164,573
Other non-current liabilities	38	<u>152,954,098</u>	<u>56,025,416</u>
Total non-current liabilities		<u>9,830,379,917</u>	<u>6,448,038,457</u>
Total liabilities		<u>50,691,333,168</u>	<u>44,336,669,148</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, 2017

RMB Yuan

<u>Liabilities and stockholders' equity</u>	<u>Note V</u>	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Stockholders' equity			
Capital stock	39	4,390,294,584	4,390,294,584
Capital reserves	40	5,526,978,575	5,526,978,575
Other comprehensive income	41	273,892,978	322,403,671
Special reserves	42	1,914,832	-
Surplus reserves	43	1,618,543,971	1,603,122,982
Undistributed profit	44	3,199,681,426	3,353,936,451
Total shareholders' equity attributable to parent company		<u>15,011,306,366</u>	<u>15,196,736,263</u>
Minority equity		<u>1,817,314,295</u>	<u>1,290,413,687</u>
Total shareholders' equity		<u>16,828,620,661</u>	<u>16,487,149,950</u>
Total Liabilities and stockholders' equity		<u><u>67,519,953,829</u></u>	<u><u>60,823,819,098</u></u>

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

Financial statements signed by:

Legal representative:
principal:

Accounting principal:

Accounting firm

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated Income Statement

Year 2017

RMB Yuan

	<u>Note V</u>	<u>2017</u>	<u>2016</u>
Operating revenue	45	21,858,814,000	24,348,087,928
Less: operating cost	45	18,019,075,299	19,727,663,875
Taxes and surcharges	46	114,240,644	152,175,837
Selling expenses	47	121,457,892	100,435,778
Management expenses	48	1,742,167,300	1,759,032,746
Financial expenses	49	758,201,305	1,218,992,788
Assets impairment loss	50	824,836,448	1,221,116,175
Plus: Changes (losses) in fair value/gains	51	(4,615,775)	28,857,808
Gain on investment	52	123,368,931	118,513,425
Including: gains on investment to affiliated companies and joint ventures		94,274,214	99,395,952
Gains from assets disposal	53	10,749,056	1,340,612
Other revenue	54	76,198,207	-
Operating profit		484,535,531	317,382,574
Plus: Non-operating income	55	29,343,558	56,993,416
Less: Non-operating expense	56	92,116,253	5,514,846
Total profit		421,762,836	368,861,144
Less: income tax expense	58	92,319,416	61,516,908
Net profit		329,443,420	307,344,236
Including: net profit from continuous operating		329,443,420	307,344,236
Net profit from termination of operation		-	-
Classification by ownership			
Net profit attributable to the shareholders of parent company		300,195,422	212,419,946
Minority interest income		29,247,998	94,924,290

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated Income Statement (continued)

Year 2017

RMB Yuan

	<u>Note V</u>	<u>2017</u>	<u>2016</u>
Net amount of other comprehensive income after tax			
Net amount of other comprehensive income after tax attributable to the shareholders of parent company	41		
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		(8,449,542)	4,801,990
Fair value change of financial assets available for sale		(9,826,324)	84,335,801
Conversion difference of foreign currency statements		(30,234,827)	25,605,643
		(48,510,693)	114,743,434
Net amount of other comprehensive income after tax attributable to the minority		(18,166,833)	7,765,004
Total comprehensive income		262,765,894	429,852,674
Including:			
Total comprehensive income attributable to the shareholders of parent company		251,684,729	327,163,380
Total comprehensive income attributable to the minority		11,081,165	102,689,294
Earnings per share	59		
Basic earnings per share		0.07	0.05
Diluted earnings per share		0.07	0.05

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated Statement of Changes in Stockholder's Equity

Year 2017

RMB Yuan

		Stockholders' equity attributable to parent company							Minority Equity	Stockholders' equity Total
		Capital stock	Capital reserves	Other comprehensive income	Surplus reserves	Special reserves	Undistributed profit	Subtotal		
I.	Balance at the beginning of the year	4,390,294,584	5,526,978,575	322,403,671	1,603,122,982	-	3,353,936,451	15,196,736,263	1,290,413,687	16,487,149,950
II.	Changes for the year									
(I)	Total comprehensive income	-	-	(48,510,693)	-	-	300,195,422	251,684,729	11,081,165	262,765,894
(II)	Shareholders' contributions and decrease of capital									
	Shareholders' contributions of capital	-	-	-	-	-	-	-	513,802,736	513,802,736
(III)	Profit distribution									
1	Withdrawal surplus reserves	-	-	-	15,420,989	-	(15,420,989)	-	-	-
2	Distribution to shareholders	-	-	-	-	-	(439,029,458)	(439,029,458)	(545,570)	(439,575,028)
(IV)	Special reserves									
1	Withdrawal in this year	-	-	-	-	45,958,231	-	45,958,231	5,006,115	50,964,346
2	Use in this year	-	-	-	-	(44,043,399)	-	(44,043,399)	(2,443,838)	(46,487,237)
III.	Balance at the end of the year	4,390,294,584	5,526,978,575	273,892,978	1,618,543,971	1,914,832	3,199,681,426	15,011,306,366	1,817,314,295	16,828,620,661

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated Statement of Changes in Stockholder's Equity (continued)

Year 2016

RMB Yuan

		Stockholders' equity attributable to parent company						Minority Equity	Stockholders' equity Total	
		Capital stock	Capital reserves	Other comprehensive income	Surplus reserves	Special reserves	Undistributed profit			Subtotal
I.	Balance at the beginning of the year	4,390,294,584	5,526,978,575	207,660,237	1,576,100,786	-	3,168,538,701	14,869,572,883	917,076,421	15,786,649,304
II.	Changes for the year									
(I)	Total comprehensive income	-	-	114,743,434	-	-	212,419,946	327,163,380	102,689,294	429,852,674
(II)	Shareholders' contributions and decrease of capital									
1	Shareholders' contributions of capital	-	-	-	-	-	-	-	273,048,439	273,048,439
(III)	Profit distribution									
1	Withdrawal surplus reserves	-	-	-	27,022,196	-	(27,022,196)	-	-	-
2	Distribution to shareholders	-	-	-	-	-	-	-	(2,400,467)	(2,400,467)
(IV)	Special reserves									
1	Withdrawal in this year	-	-	-	-	26,851,099	-	26,851,099	-	26,851,099
2	Use in this year	-	-	-	-	(26,851,099)	-	(26,851,099)	-	(26,851,099)
III.	Balance at the end of the year	4,390,294,584	5,526,978,575	322,403,671	1,603,122,982	-	3,353,936,451	15,196,736,263	1,290,413,687	16,487,149,950

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated Statement of Cash Flow

Year 2017

RMB Yuan

	<u>Note V</u>	<u>2017</u>	<u>2016</u>
I. Cash flows from operating activities:			
Cash received from products sales and labor provision		16,640,760,111	21,354,693,208
Refunds of taxes		889,705,824	917,117,592
Cash from other operating activities	60	<u>382,299,156</u>	<u>437,301,182</u>
Subtotal of cash inflows from operating activities		<u>17,912,765,091</u>	<u>22,709,111,982</u>
Payment for goods and services		13,683,031,255	18,154,428,952
Cash payment to and for the employee		1,897,864,942	1,782,356,763
Tax payments		477,730,293	525,276,408
Other cash payments relating to operating activities	60	<u>521,929,327</u>	<u>588,627,223</u>
Subtotal of cash outflows from operating activities		<u>16,580,555,817</u>	<u>21,050,689,346</u>
Net cash flows from operating activities	61(1)	<u>1,332,209,274</u>	<u>1,658,422,636</u>
II. Cash flows from investing activities			
Cash from disposal of investments		-	160,000,000
Cash received from obtaining the gains on investment		23,201,157	53,350,539
Net cash from disposal of fixed assets, intangible assets and other long-term assets		98,401,263	13,381,153
Cash received from other investing activities	60	<u>50,163,105</u>	<u>852,787,742</u>
Subtotal of cash inflows from investing activities		<u>171,765,525</u>	<u>1,079,519,434</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		1,333,961,486	1,157,412,752
Cash payment for investments		286,000,000	648,321,760
Net cash paid for acquiring subsidiaries	61(2)	60,338,410	-
Other cash payments relating to investing activities	60	<u>173,076,659</u>	<u>-</u>
Subtotal of cash outflows from investing activities		<u>1,853,376,555</u>	<u>1,805,734,512</u>
Net cash flow used for investing activities		<u>(1,681,611,030)</u>	<u>(726,215,078)</u>

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Consolidated Statement of Cash Flow (continued)

Year 2017

RMB Yuan

	<u>Note</u> <u>V</u>	<u>2017</u>	<u>2016</u>
III. Cash flows from financing activities:			
Cash received from borrowings		33,077,608,125	36,889,288,147
Cash received from issuing bonds		-	4,000,000,000
Cash received relating to other financing activities	60	<u>1,566,959,110</u>	<u>3,038,684,232</u>
Subtotal of cash inflows from financing activities		<u>34,644,567,235</u>	<u>43,927,972,379</u>
Cash paid for repayments of debts		29,020,665,806	40,386,569,653
Cash payment for dividend distribution, profit and interest		1,623,289,546	1,247,523,244
Other payments relating to financing activities	60	<u>1,423,746,129</u>	<u>2,141,534,489</u>
Subtotal of cash outflows from financing activities		<u>32,067,701,481</u>	<u>43,775,627,386</u>
Net cash flows from financing activities		<u>2,576,865,754</u>	<u>152,344,993</u>
Effect of foreign exchange rate changes on cash and cash equivalents		(50,822,183)	74,727,024
IV. Net increase in cash and cash equivalents		2,176,641,815	1,159,279,575
Plus: Cash and cash equivalents at the beginning of the year		<u>3,497,205,186</u>	<u>2,337,925,611</u>
Balance of cash and cash equivalents at the end of the year	61(3)	<u><u>5,673,847,001</u></u>	<u><u>3,497,205,186</u></u>

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Balance Sheet of the Company

Year 2017

RMB Yuan

<u>Assets</u>	<u>Note XII</u>	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Current assets			
Monetary fund		3,392,595,294	1,972,249,599
Financial liabilities measured at fair value with the changes accounted in current profit and loss		-	4,615,775
Notes receivable		413,779,017	259,055,935
Accounts receivable	1	6,547,864,759	6,476,087,696
Prepayment		1,173,384,482	1,960,350,424
Dividend receivable		665,346	-
Other receivables	2	13,665,850,616	13,878,003,016
Stock		5,786,210,236	5,589,869,550
Construction completed account yet has not been settled		9,021,852,353	8,583,910,209
Other current assets		261,325,439	173,417,465
Total current assets		40,263,527,542	38,897,559,669
Non-current assets			
Financial assets available-for-sale		221,946,872	356,606,562
Long-term receivables		417,914,193	-
Long-term equity investment	3	8,922,200,826	8,582,775,282
Real estate as investment		455,063,723	473,380,251
Fixed assets		5,231,211,582	5,633,993,352
Construction in process		660,662,593	761,374,018
Intangible assets		1,618,835,106	1,664,941,415
Deferred income tax assets		563,785,515	474,102,945
Total non-current assets		18,091,620,410	17,947,173,825
Total assets		58,355,147,952	56,844,733,494

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Balance Sheet of the Company (continued)

Dec. 31, 2017

RMB Yuan

<u>Liabilities and stockholders' equity</u>	<u>Note XII</u>	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Current liabilities			
Short-term loans		22,855,801,381	18,095,748,393
Notes payable		1,657,137,654	1,860,260,636
Accounts payable		5,970,208,396	6,072,079,752
Advances from customers		393,410,039	291,785,327
Amount due from customer for contract work		2,922,827,192	3,989,249,948
Employee remuneration payable		258,990,282	253,913,374
Tax payable		50,220,742	101,878,736
Interest payable		102,690,137	128,368,841
Dividend payable		352,598	352,598
Other payables		1,541,880,536	1,852,554,158
Non-current liabilities due within one year		1,367,901,030	407,455,030
Other current liabilities		-	3,996,025,335
Total current liabilities		<u>37,121,419,987</u>	<u>37,049,672,128</u>
Non-current liabilities			
Long-term loans		4,897,199,999	2,891,136,000
Long-term payables		556,387,041	905,899,355
Predicted liabilities		451,128,341	284,982,328
Deferred income		348,455,388	327,313,110
Other non-current liabilities		<u>3,456,670</u>	<u>-</u>
Total non-current liabilities		<u>6,256,627,439</u>	<u>4,409,330,793</u>
Total liabilities		<u>43,378,047,426</u>	<u>41,459,002,921</u>
Shareholders' equity			
Capital stock		4,390,294,584	4,390,294,584
Capital reserves		5,792,527,600	5,792,527,600
Other comprehensive income		140,264,717	264,075,193
Surplus reserves		1,618,035,698	1,602,614,709
Undistributed profit		<u>3,035,977,927</u>	<u>3,336,218,487</u>
Total shareholders' equity		<u>14,977,100,526</u>	<u>15,385,730,573</u>
Total liabilities and shareholders' equity		<u><u>58,355,147,952</u></u>	<u><u>56,844,733,494</u></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 2017

RMB Yuan

	<u>Note XII</u>	<u>2017</u>	<u>2016</u>
Operating revenue	4	18,982,284,728	24,248,483,693
Less: operating cost	4	16,062,361,939	20,545,946,108
Taxes and surcharges		44,763,858	62,382,292
Selling expenses		83,481,628	81,744,285
Management expenses		1,090,711,385	1,163,620,534
Financial expenses		1,060,351,306	1,029,965,201
Assets impairment loss		619,199,093	1,208,850,889
Plus: fair value changes (losses)/gains		(4,615,775)	27,035,042
Gain on investment	5	156,502,074	102,879,065
Including: Gain on investment in affiliated companies and joint ventures		94,574,906	99,395,952
Gains /(losses) from assets disposal		1,303,038	(2,996,936)
Other revenue		47,634,541	-
Operating profit		222,239,397	282,891,555
Plus: Non-operating income		3,753,311	7,306,172
Less: Non-operating expense		86,711,533	3,588,333
Total profit		139,281,175	286,609,394
Less: income tax expense		(14,928,712)	16,387,434
Net profit		154,209,887	270,221,960
Including: net profit from continuous operating		154,209,887	270,221,960
Net profit from termination of operation		-	-
Net amount of other comprehensive income after tax			
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		(8,449,542)	4,801,990
Fair value change of financial assets available for sale		(114,460,736)	(20,432,661)
Conversion difference of foreign currency statements		(900,198)	699,025
		(123,810,476)	(14,931,646)
Total comprehensive income		30,399,411	255,290,314

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Statement of Changes in Stockholder's Equity of the Company

Year 2017

RMB Yuan

		Capital stock	Capital reserves	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profit	Total shareholders' equity
I.	Balance at the beginning of the year	4,390,294,584	5,792,527,600	264,075,193	-	1,602,614,709	3,336,218,487	15,385,730,573
II.	Changes for the year							
	Total							
(I)	comprehensive income	-	-	(123,810,476)	-	-	154,209,887	30,399,411
(II)	Profit distribution							
1	Withdrawal surplus reserves	-	-	-	-	15,420,989	(15,420,989)	-
2	Distribution to shareholders	-	-	-	-	-	(439,029,458)	(439,029,458)
(III)	Special reserves							
1	Withdrawal in this year	-	-	-	25,340,978	-	-	25,340,978
2	Use in this year	-	-	-	(25,340,978)	-	-	(25,340,978)
III.	Balance at the end of the year	4,390,294,584	5,792,527,600	140,264,717	-	1,618,035,698	3,035,977,927	14,977,100,526

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Statement of Changes in Stockholder's Equity of the Company (continued)

Year 2016

RMB Yuan

	Capital stock	Capital reserves	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profit	Total shareholders' equity
I. Balance at the beginning of the year	4,390,294,584	5,792,527,600	279,006,839	-	1,575,592,513	3,093,018,723	15,130,440,259
II. Changes for the year							
(I) Total comprehensive income	-	-	(14,931,646)	-	-	270,221,960	255,290,314
(II) Profit distribution							
1 Withdrawal surplus reserves	-	-	-	-	27,022,196	(27,022,196)	-
(III) Special reserves							
1 Withdrawal in this year	-	-	-	14,726,377	-	-	14,726,377
2 Use in this year	-	-	-	(14,726,377)	-	-	(14,726,377)
III. Balance at the end of the year	4,390,294,584	5,792,527,600	264,075,193	-	1,602,614,709	3,336,218,487	15,385,730,573

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Cash Flow Statement of the Company

Year 2017

RMB Yuan

	<u>Note XII</u>	<u>2017</u>	<u>2016</u>
I. Cash flows from operating activities			
Cash received from products sales and labor provision		15,763,239,504	18,091,209,000
Refunds of taxes		831,198,628	822,041,413
Cash from other operating activities		<u>292,626,816</u>	<u>395,515,334</u>
Subtotal of cash inflows from operating activities		<u>16,887,064,948</u>	<u>19,308,765,747</u>
Payment for goods and services		15,196,972,901	17,894,901,564
Cash payment to and for the employee		991,857,309	965,476,776
Tax payments		162,924,111	91,325,029
Other cash payments relating to operating activities		<u>494,142,751</u>	<u>432,920,475</u>
Subtotal of cash outflows from operating activities		<u>16,845,897,072</u>	<u>19,384,623,844</u>
Net cash flow from/(used by) operating activities	6	<u>41,167,876</u>	<u>(75,858,097)</u>
II. Cash flows from investing activities			
Cash from disposal of investments		-	100,000,000
Cash received from obtaining the gains on investment		1,160,353	37,716,179
Net cash from the disposal of fixed assets, intangible assets and other long-term assets		<u>3,487,103</u>	<u>8,290,642</u>
Subtotal of cash inflows from investing activities		<u>4,647,456</u>	<u>146,006,821</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		99,333,396	257,016,945
Cash payment for investments		<u>509,898,290</u>	<u>1,222,623,689</u>
Subtotal of cash outflows from investing activities		<u>609,231,686</u>	<u>1,479,640,634</u>
Net cash flow used for investing activities		<u>(604,584,230)</u>	<u>(1,333,633,813)</u>

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Cash Flow Statement of the Company (continued)

Year 2017

RMB Yuan

		<u>Note XII</u>	<u>2017</u>	<u>2016</u>
III.	Cash flows from financing activities			
	Cash received from borrowings	28,289,415,519	32,313,411,400	
	Cash received from issuing bonds	-	4,000,000,000	
	Cash received relating to other financing activities	-	1,817,635,793	
	Subtotal of cash inflows from financing activities	<u>28,289,415,519</u>	<u>38,131,047,193</u>	
	Cash paid for repayments of debts	24,398,943,306	35,132,081,497	
	Cash paid for dividend distribution, profit and interest	1,466,838,827	1,032,636,806	
	Other payments relating to financing activities	<u>407,455,030</u>	<u>526,482,447</u>	
	Subtotal of cash outflows from financing activities	<u>26,273,237,163</u>	<u>36,691,200,750</u>	
	Net cash flows from financing activities	<u>2,016,178,356</u>	<u>1,439,846,443</u>	
	Effect of foreign exchange rate changes on cash and cash equivalents	<u>(23,870,002)</u>	<u>35,989,736</u>	
IV.	Net increase in cash and cash equivalents		1,428,892,000	66,344,269
V.	Plus: Cash and cash equivalents at the beginning of the year		<u>1,872,410,585</u>	<u>1,806,066,316</u>
VI.	Balance of cash and cash equivalents at the end of the year	6	<u><u>3,301,302,585</u></u>	<u><u>1,872,410,585</u></u>

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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements

Dec. 31, 2017

RMB Yuan

I. Basic Information of the Group

Shanghai Zhenhua Heavy Industries Co., Ltd. (hereinafter referred to as “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 (hereafter referred to as “Zhenhua Company”). Both the registration place and headquarters address of the Company are Shanghai City, P. R. China.

As approved by ZWFZ (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 ZJFXZ (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.

As approved by ZJFXZ (2004) No.165 of 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.

As approved by ZJFXZ (2007) No. 3466 of 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 ZJXKZ (2009) No.71 document of China Securities Regulatory Commission, the Company issued non-publicly 169,794,680 A-shares on Sep. 22, 2008 to its controller China Communications Construction Co., Ltd. (hereafter referred to as “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.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

As of 2017 and Dec. 31, 2016, after all issues of shares and bonus shares distribution, the capital stock of the Company was 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)

Dec. 31, 2017

RMB Yuan

I. Basic Information of the Group (continued)

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 Communications Construction (Group) Co. Ltd. (hereafter referred to as "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* (GZGG [2006] No.1063) by State Assets Commission on Aug. 16, 2006, and the *Reply to Issue Concerning Management of State Stock of China Communications Construction Co. Ltd.* (GZCQ [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* (ZJGSZ [2006] No. 227), on Oct.8, 2006 Communications Group solely initiated the establishment of China Communications Construction Co. Ltd. and invested the stock rights of the Company it held into the newly established Communications Company. With the completion of reorganization, Communications Company thus became the controlling shareholder of the Company.

In 2016, the Company was granted Uniform Social Credit Code 91310000607206953D.

On July 18, 2017, the board of directors of China Communications Construction Company Ltd. approved through discussion Proposal for Transfer of Some Shares of Shanghai Zhenhua Heavy Industries Co., Ltd through Agreement and Associated Transaction and agreed to transfer totally 1,316,649,346 shares of this Company held by it to CCCG and CCCG (HK) HOLDING LIMITED (hereinafter referred to as "CCCG Hong Kong"), accounting for 29.990% of the total shares of this Company, after that, China Communications Construction Company Ltd. held 16.239% of the stock equity of this Company. The transfer and registration of shares was accomplished on Dec. 27, 2017. As of the date of the transfer of shares, CCCG directly held 552,686,146 A-shares of this Company (accounting for 12.589% of the total shares of this Company), indirectly held 763,963,200 B-shares of this Company through CCCG (Hong Kong) (accounting for 17.401% of the total shares

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

of this Company) and held 712,951,703 A-shares of this Company through China Communications Construction Company Ltd. (accounting for 16.239% of the total shares of this Company), as a result, it became the holding shareholder of this Company.

The company and subsidiaries (hereinafter referred to as “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.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

I. Basic Information of the Group (continued)

The financial statements were approved by the Company's board of directors on Mar. 28, 2018.

The scope of consolidation of the consolidated statements is confirmed based on the control, and please refer to the 1 in Note VII for the year's changing situation and the consolidated subsidiaries consisted in the scope.

II. Basis of Preparation for Financial Statements

The financial statements are prepared on the basis of *Enterprise Accounting Standards – Basic Standards* issued by the Ministry of Finance and the subsequently issued and revised specific accounting principles, guidelines, explanation of the accounting standards, and other related stipulations (hereinafter collectively referred to as "Enterprise Accounting Standards").

The financial statements are based on continuous operation.

As of December 31, 2017, the Group's current liabilities exceed current assets by about RMB 5.6 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 Group still has more than 8 billion Yuan unused upper short-term commercial paper, 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, is 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.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

III. Major Accounting Policies and Accounting Estimates

The Company determines the 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, measurement model of real estate as investment 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 financial status on Dec. 31, 2017 and the operating results and cash flow during 2017 of the Company and the Group.

2. Accounting period

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

3. Recording currency

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

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

III. Major Accounting Policies and Accounting Estimates (continued)

4. Business combination

The term “business combination” refers to a transaction or event combining two or more individual enterprises into a reporting entity. The enterprise merger is divided into the business combination under the same control and business combination not under the same control.

Business combination under the same control

The business combination under the same controller refers to the enterprises involved in the combination will be controlled by the same party or the same multiple parties before and after the combination, and which is not temporary. As for the business combination under the same control, the party who gains the control of other enterprises involved 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 business combination 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.

Business combination not under the same control

The business combination not under the same controller refers to the enterprises involved will not be controlled by the same party or the same multiple parties before and after the combination. As for the business combination not under the same control, the party who gains the control of other enterprises involved on the combination day shall be the purchaser, and the other enterprises involved will be the acquiree.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

The combination date refers to the date on which the purchaser actually obtains the control of the acquiree.

The identifiable assets, liabilities and contingent liabilities obtained in the business combination not under the same control shall be measured at fair value on purchase day.

III. Major Accounting Policies and Accounting Estimates (continued)

4. Business combination (continued)

Business combination not under the same control (continued)

The positive difference between 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 and the fair value of the identifiable net assets obtained in the combination from the acquiree is confirmed as goodwill, and shall be for subsequent measurement after subtracting the accumulated impairment losses from the cost. 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 is smaller than the fair value of the identifiable net assets of the acquiree, firstly recheck 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 that, 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 is still smaller than the fair value of the identifiable net assets obtained in combination from the acquiree, the difference shall be recorded in the current profits and losses.

5. Consolidated financial 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, 2017. 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

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flows arising from all transactions between the Group's internal companies are fully offset at the time of combination.

If the current loss of the minority shareholders of the subsidiary exceeds the share held by the minority shareholders in the initial shareholders' equity of the subsidiary company, the balance still offsets the minority's equity.

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III. Major Accounting Policies and Accounting Estimates (continued)

5. Consolidated financial statements (continued)

For the subsidiaries acquired through business combination under the same control, the operating results and cash flows of the merged party shall be included in the consolidated financial statements from the date of acquisition of control till the termination of control. When preparing the consolidated financial statements, the financial statements shall be adjusted based on the fair value of various identifiable assets, liabilities and contingent liability confirmed on the date of purchase.

For the subsidiaries acquired through business combination 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 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 the deposits that are available for payment at any time; cash equivalents refer to the 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. Foreign Currency Business and Foreign Currency Statements Translation

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

At the time of initial confirmation, the foreign currency transaction shall convert the amount of the foreign currency into the amount of the

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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 transaction difference of settlement and monetary items, in addition to the difference resulting from foreign currency special borrowing relating to the assets of which the purchase and construction conform to the capitalized conditions, which shall be handled in accordance with the principle of capitalization of borrowing costs, shall be included in the current profits and losses. The foreign currency non-currency items calculated on historical cost basis are still translated at spot rate 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 translated at the spot rate on 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.

III. Major Accounting Policies and Accounting Estimates (continued)

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

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 balance sheet, exchange rate at sight on the date of balance sheet is used for translation. As for the items under the shareholders' equity, except for those under "undistributed profit", 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. The conversion difference of foreign currency statements resulting from above translation shall be recognized as other comprehensive income. When disposing overseas operations, other comprehensive income related to the overseas operation shall be transferred into the current profits and losses, partial disposal shall be calculated according to the proportion of disposal.

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

8. Financial instruments

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

Confirmation and Termination of Financial Instruments

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

In case of satisfying the following conditions, terminate the confirmation of financial assets (or part of financial assets or of a group of similar financial assets), that is to say, write off from its account and balance sheet:

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- (1) The right to receive cash flows from financial assets expires;
 - (2) The right to receive the cash flow from financial asset has been transferred, or have assumed the obligation in the “pass-through agreement” to pay the collected cash flow timely to the third party in full; 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.

III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial instruments (continued)

In the event that the liability of a financial liability has been fulfilled, cancelled or expired, the determination of financial liabilities shall be terminated. If the existing financial liability is replaced by the same creditor 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 handled as the termination of the original liability and the recognition of new liabilities, and the difference shall be included in current profits and losses.

In case of trading financial assets in the conventional way, confirm and terminate on the basis of trade-date accounting. Trading financial assets in the conventional way 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

During initial recognition, the financial assets of the Group shall be classified into: financial assets measured at fair value with the changes included into current profits and losses, loans and receivables, and financial assets available-for-sale. The financial assets are measured at fair value at the time of initial recognition. As for the financial assets measured at fair value with the changes included into current profits and losses, related transaction costs shall be included directly in current profit or loss, while the related transaction costs of other financial assets are included in the initially recognized amount.

Subsequent measurement of financial assets is subject to its classification:

Financial assets measured at fair value with the changes included into current profits and losses

Financial assets measured at fair value with changes included in current profits and losses shall include the trading financial assets and the financial assets designated at the time of initial recognition, which are

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measured at fair value with changes included in current profits and losses. 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 part of a combination of identifiable financial for centralized management, and there is objective evidence showing that the company has recently adopted a short-term profit approach to manage the portfolio; belonging to derivatives, but excepting for the derivatives that are designated and are effective hedging tools, the derivatives belongings 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 must be settled through the delivery of the equity instrument. For such financial assets, use fair value for 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 with changes included in current profits and losses shall be recorded in current profits and losses.

III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial instruments (continued)

Classification and measurement of financial assets (continued)

Financial assets measured at fair value with the changes included into current profits and losses (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 measured at fair value with changes included in current profits and losses.

The financial assets classified as the financial asset measured at fair value with changes included in current profits and losses by the enterprise during initial recognition shall not be reclassified as any other type of financial assets; while other types of financial assets shall not be reclassified as the financial assets measured at fair value with changes included in current profits and losses.

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

Loans and receivables

Loans and receivables refer to the non-derivative financial assets with no quotation on active market and fixed or identifiable recoverable amount. For such financial assets, adopt the actual interest rate method for subsequent measurement based on amortized cost, and the gains or losses arising from its amortization or impairment shall be included in current profits and losses.

Financial assets available-for-sale

The financial assets available-for-sale refer to the non-derivative financial assets that are designated as available for sale during 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 shall be amortized using the effective interest method and be recognized as interest income or expense. In addition to recognizing the impairment loss and the balance of exchange of foreign currency monetary financial assets as the current profits and losses, the changes in fair value of financial assets available-for-sale shall be

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recognized as other comprehensive income, and the cumulative gains or losses shall be transferred to the current profits and losses until the financial asset has been derecognized or impaired. Dividends or interest income related to the financial assets available-for-sale shall be included in the current profits and losses.

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

III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial instruments (continued)

Classification and Measurement of Financial Liabilities

The financial liabilities of the Group are classified as other financial liabilities at the time of initial recognition. The related transaction costs of other financial liabilities shall be included in the initial recognized amount; actual interest rate method shall be used for subsequent measurement based on amortized cost.

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 recognized amount, and that legal rights are currently enforceable; the plan is to be settled in net, or at the same time, realize 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 recognition, does not belong to the financial guarantee contract designated as the financial liabilities measured at fair value with changes 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 relevant obligations at the balance sheet date and the balance after deducting the accumulative amortization determined in accordance with the revenue recognition principle from the initial recognized amount, the higher of the two shall be for subsequent measurement

III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial instruments (continued)

Derivative Financial Instruments

The Group uses derivative financial instruments, such as forward exchange contracts, to hedge against exchange rate risk. Derivative financial instruments are initially measured at the fair value on the date of derivative trading contract signing, with subsequent measurement at fair value. The derivative financial instrument with positive fair value is recognized as an asset, and the one with negative fair value is recognized as a liability. However, the derivative financial instruments, which are linked to the 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, the gains or losses arising from changes in fair value of derivative instruments are directly included into the current profits and losses.

Financial assets impairment

The Group checks the book value of the financial assets on balance sheet date. If there is objective evidence showing that financial assets are impaired, the provision for impairment shall be made. The objective evidence for financial assets impairment refers to the items which actually happened after initial recognition of financial assets, influenced the estimated future cash flows of the financial assets, and its impact can be reliably measured by the enterprise. The objective evidences for impairment of financial assets include: serious financial difficulties occurred to the issuer or debtor, violating the terms of the contract (such as default or overdue payment of interest or principal) by the debtor, likely bankruptcy or other financial restructuring of the debtor, and reduction in and measurable expected future cash flows shown by public data.

III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial instruments (continued)

Financial assets impairment (continued)

Financial assets measured at amortized cost

In the event of, the book value of the financial asset shall be written down through the allowance for project value to the present value of estimated future cash flow (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 by discounting based on the original effective interest rate (the actual interest rate calculated and determined at the time of initial recognition) of the financial asset, and the value of collateral shall also be taken into account. The interest income after impairment shall be calculated and determined using the discount rate used to discount future cash flows in the light of the determination of impairment losses as the interest rate. For loans and receivables, if there is no real expectation for future recovery and all collaterals have been realized or transferred to the Group, the loans and receivables and related impairment provisions shall be written off.

If the amount of individual financial assets is significant, individual impairment test shall be conducted. If there is objective evidence to prove that the impairment has occurred, the impairment loss shall be recognized and included in current profit and loss. As for individual financial asset with no significant amount, the impairment test shall be conducted in the portfolio of financial assets with similar credit risk features or conducted separately. As for the financial assets (including the financial assets with or without significant amount) with no impairment in separate test, impairment test shall be conducted again in the portfolio of financial assets with similar credit risk features. The financial assets which have suffered from an impairment loss in any single amount shall not be included in any portfolio of financial assets with similar risk features for any impairment test.

When the Group have confirmed the impairment losses on financial assets measured at amortized cost, if there is any objective evidence showing that the financial assets value has been restored, and it is objectively related with the events incurred after the confirmation of the

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loss, the previously recognized impairment loss shall be reversed into current profit or loss. However, the book value after the reversal shall not exceed the amortized cost of the financial asset at the reversal date, assuming that the impairment provision is not included.

III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial instruments (continued)

Financial assets impairment (continued)

Financial assets available-for-sale

If there is objective evidence for financial asset impairment, 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 balance after deducting the recovered principal and the amortized amount, current fair value and the impairment loss originally included in the profits and losses from the initial acquisition cost of the financial assets available-for-sale.

The objective evidences for proving impairment of available-for-sale equity instruments investments includes serious or non-temporary decline in fair value. “Serious” shall be judged according to the extent of fair value the cost, and “non-temporary” shall be judged according to the duration of fair value below the cost. If there is any objective evidence of impairment, the transferred aggregate losses shall be the balance after deducting the current fair value and the impairment loss originally included in the profits or losses from the acquisition cost. The impairment losses of equity instrument investment available for sale shall not be carried back through profit or loss, and the increase in fair value after impairment shall be recognized directly in other comprehensive income.

It needs to judge when determining what is “serious” or “non-temporary”. The Group shall judge according to the degree or duration of the fair value below cost as well as other factors.

For the debt instruments investment available for sale, the impairment shall be assessed in the same manner as the financial assets measured at amortized cost. However, the transferred aggregate losses shall be the balance after deducting the current fair value and the impairment loss originally included in the profits or losses from the acquisition cost. The interest income after impairment shall be calculated and recognized in accordance with the discount rate used to discount future cash flows during the determination of impairment losses.

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As for the debt instruments available for sale of which impairment losses have been recognized, if, in the subsequent accounting period, the fair value rises and is objectively related to events that occur after the impairment losses were recognized, the previously recognized impairment losses shall be reversed and included in the current profits and losses.

III. Major Accounting Policies and Accounting Estimates (continued)

8. Financial instruments (continued)

Financial assets measured at cost

If there is objective evidence showing the impairment of financial assets, the difference between the book value of financial assets and the present value determined by discounting the future cash flows according to the market return of similar financial assets at that time shall be recognized as impairment loss and included in current profits and losses. Once recognized, the impairment loss shall not be carried back.

Transfer of financial assets

If the Group has transferred almost all risks and rewards of the ownership of the financial assets to the transferee, the recognition of such financial assets shall be terminated. If almost all risks and rewards of the ownership of the financial assets are retained, the recognition of such financial assets shall not be terminated.

When the Group has neither transferred nor retained almost all risks and rewards of the ownership of financial assets, handle respectively in the following manners: if the control over the financial asset is given up, stop recognizing the financial assets and recognize assets and liabilities arising; if the control is not given up, recognize related financial assets and liabilities accordingly according to the extent of its continued involvement in the transferred financial assets.

In case of continued involvement in the manner of providing financial security for the transferred financial assets, recognize the assets formed by the continued involvement in accordance with the lower of the book value of the financial asset and the amount of financial guarantee. The amount of financial guarantee refers to the maximum amount to be repaid in the considerations received.

9. Receivables

The receivables include accounts receivable and other receivables. As for the receivables from sales of goods or rendering of service, the fair value of the contract or agreement price receivable from the buyer or the service receiver shall be regarded as the initial recognition amount.

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III. Major Accounting Policies and Accounting Estimates (continued)

9. Receivables (continued)

(a) Accounts receivable

Accounts receivable with significant single amount and separate provision for bad debits

As for the accounts receivable with significant single amount, separate impairment test shall be done. When there is objective evidence showing that the Group is unable to recover the money according to the original provisions of account receivables, the provision for bad debt shall be made.

Judgment standard for significant single amount: top 5 of the receivables from non-related party.

Method for making of provision of bad debt with significant single amount: based on the difference of the present value of the expected future cash flow of the account receivable less than its book value.

Reason for the provision of bad debt for single item: there is objective evidence showing that the Group is unable to recover the money according to the original provisions of account receivables.

Method for provision of bad debt: according to the difference of the present value of its expected future cash flow less than its book value

Accounts receivable with the provision for bad debt based on portfolio of credit risk features

Accounts receivable with insignificant single amount, together with the unimpaired accounts receivable after individual test, shall be classified into groups by credit risk features, and the provision of bad debt shall be determined on the basis of actual loss rate of the accounts receivable group with similar credit risk features in previous year and in combination with present situations.

The basis for determining the credit risk portfolio is as follows:

- | | |
|---------|---|
| Group 1 | Accounts receivables from related party |
| Group 2 | Accounts receivables from non-related party |

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The method for making provision of bad debt based on credit risk portfolio is as follows:

Group 1 The provision of bad debt shall not be made for the accounts receivable from related party except that there is objective evidence showing that the Group is unable to recover the money according to the original provisions of account receivables

Group 2 Aging analysis method (future collection considered)

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III. Major Accounting Policies and Accounting Estimates (continued)

9. Receivables (continued)

(a) Accounts receivable (continued)

Accounts receivable with the provision for bad debt based on portfolio of credit risk characteristics (continued)

In the group, the proportion of provision based on aging analysis method is listed as follows:

Age	Proportion
Within 6 months	-
7~12 months	1%
1~2 years	15%
2~3 years	30%
3~4 years	50%
4~5 years	75%
Over 5 years	100%

(b) Other receivables

Other receivables with significant single amount but for separate provision of bad debt

As for the other receivables with significant single amount, separate impairment test shall be done. When there is objective evidence showing that the Group is unable to recover the money according to the original provisions of other receivables, the provision for bad debt shall be made.

Judgment standard for significant single amount: top 5 of the receivables from non-related party.

Method for provision of bad debt: according to the difference of the present value of its expected future cash flow less than its book value

III. Major Accounting Policies and Accounting Estimates (continued)

9. Receivables (continued)

(b) Other receivables (continued)

Other receivables with insignificant single amount but for individual withdrawal of the provision of bad debt

Reason for the provision of bad debt for single item: there is objective evidence showing that the Group is unable to recover the money according to the original provisions of other receivables.

Method for withdrawal of the provision of bad debt: according to the difference of the present value of the expected future cash flow of other receivable less than its book value

Other receivables with the provision for bad debt withdrawn by group

Other receivable with insignificant single amount, together with the unimpaired other receivables after individual test, shall be classified into groups by credit risk features, and the provision of bad debt shall be determined on the basis of actual loss rate of the collection of receivable with similar credit risk features in previous year and in combination with present situations.

The basis for determining the credit risk portfolio is as follows:

- | | |
|---------|---|
| Group 1 | Guarantee deposit (excluding quality guarantee deposit) |
| Group 2 | Personal loan and petty fund of the employee |
| Group 3 | Other receivables of other natures |

The method for making provision of bad debt based on credit risk portfolio is as follows:

- | | |
|---------|---|
| Group 1 | The provision of bad debt shall not be made for the guarantee deposit (excluding quality guarantee deposit) except that there is objective evidence showing that the Group is unable to recover the money according to the original provisions of other receivables |
| Group 2 | The provision of bad debt shall not be made for the individual loan and petty fund of the employee except that there is |

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objective evidence showing that the Group is unable to recover the
money according to the original provisions of other receivables
Group 3 Aging analysis method

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III. Major Accounting Policies and Accounting Estimates (continued)

9. Receivables (continued)

(b) Other receivables (continued)

Other receivables with the provision for bad debt withdrawn by group (continued)

In the group, the proportion of provision based on aging analysis method is listed as follows:

Age	Proportion
Within 6 months	-
7~12 months	1%
1~2 years	15%
2~3 years	30%
3~4 years	50%
4~5 years	75%
Over 5 years	100%

10. Inventory

Inventory includes raw materials, purchased spare parts, goods in process and merchandise inventory, etc.

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 inventory. Turn-over materials include low-value consumption goods and the packing, etc.; the low-value consumption goods are amortized by installment while packing is amortized at one time.

The inventory system shall be perpetual inventory system.

At the balance sheet date, inventories are measured at the lower of the 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,

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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.

III. Major Accounting Policies and Accounting Estimates (continued)

10. Inventory (continued)

Net realizable value is the amount that the estimated selling price of the inventory minus the cost that would incur at the time of completion, the estimated cost of sales and relevant taxes and fees in daily activities. For the provision for decline in value of inventories, the raw materials shall be by category while the finished goods shall be by individual inventory item.

11. Construction contract

For customized production of large port equipment, heavy equipment, steel structure product and construction project, because the commencement and completion dates usually in different fiscal years, the Group shall use construction contract calculate the revenue and cost.

- (a) If the result of individual construction contract can be reliably estimated, the revenue and cost of the construction project can be recognized on balance sheet date with completeness construction method according to the schedule of contract. Reliable estimation of the result of construction contract means that the economic benefit related to the contract is likely to flow into the group, and the actual contract cost can be clearly distinguished and measured reliably. In the case of a fixed cost contract, the following conditions should 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 total contract revenue includes the initial revenue stipulated in the contract and income resulting from contract change, claim, and award, etc. The Group determines the contract completion progress by the following methods:
- (i) As for large port equipment, the completion rate shall be determined according to the completion percentage corresponding to the revenue recognition node of the construction contract reached at the end of the term. The Group has established the following three revenue recognition nodes:

First node: the main steel structure completed and erected;

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Second node: manufacturing, installation and initial commissioning completed, product ex-factory qualification certificate issued, shipping documents acquired, product ready for shipping;

Third node: the product is delivered after final inspection by the buyer and the final delivery certificate issued by the buyer is obtained.

III. Major Accounting Policies and Accounting Estimates (continued)

11. Construction contract (continued)

The Group will analyze the construction contracts completed in prior year by product category, and will calculate and determine the completion percentage that should be recognized when reaching the revenue recognition node, and take it as the completion percentage to be recognized at various stages in current period.

- (ii) For heavy equipment and construction project, the progress of completion shall be determined by the proportion of accumulated contract cost incurred in total expected contract cost. The accumulated contract cost does not include that related to future activities of the contract.
 - (iii) The completion progress of steel structure manufacturing shall be determined by the proportion of cumulative processing tonnage completed in total processing tonnage.
- (b) If reliable estimation of the results of individual construction contract is unavailable, the following shall be used:
 - (i) If the contract cost can be recovered, the contract revenue shall be recognized according to the actual contract cost that can be recovered, and the contract cost is recognized as contract expense in the period when cost incurs.
 - (ii) When contract cost cannot be recovered, it shall be recognized as contract expense immediately when it incurs other than contract revenue.
- (c) When expected total contract cost exceeds total revenue, the expected losses should be immediately recognized as current profits and losses.
- (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 after the settlement of construction contract. On the balance sheet date, when the sum of accumulated costs and confirmed margin is greater than the

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accumulated settled value, the difference shall be listed as the construction completed account yet has not been settled is current assets. Otherwise, it shall be listed in the amount due from customer for contract work in current liabilities.

III. Major Accounting Policies and Accounting Estimates (continued)

12. Long-term equity investment

Long-term equity investment includes the equity investments in subsidiaries, joint ventures and associated enterprises.

Long-term equity investments are initially measured by the initial investment cost on acquisition. Long term equity investments obtained by business combination 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 reserves (when sufficient for write-downs, write down the retained earnings); as for other comprehensive income prior to the date of combination, when handling the investment, it shall carry out the accounting treatment on the same basis of the relevant assets or liabilities directly disposed by the invested entity, as for the shareholders' equity recognized due to the changes in other shareholders' equity except for net profit or loss, other comprehensive income and profit distribution in the invested entity, it shall be transferred to current profits and losses during disposal of the investment. In which, if it is still long-term equity investment after disposal, carry forward in proportion, if it is converted to the financial instruments, then carry forward fully.

Long-term equity investments obtained by business combination not under the same control shall take the combined cost as the initial investment cost (if the business combination not under the same control is realized by two or more transactions in steps, take the sum of the book value of equity investments held by acquiree prior to purchase date and newly increased investment cost on purchase date as the initial investment cost), and the combined cost includes the sum of the assets paid by the purchaser, the liabilities incurred or assumed, the fair value of the equity securities issued; as for other comprehensive income prior to the purchasing date recognized by the equity method accounting, such investment shall be handled by using the same basis as the investee for handling relevant assets or liabilities directly. As for the shareholders' equity recognized due to the changes in other shareholders' equity except for net profit or loss, other comprehensive income and profit distribution in the invested entity, it shall be

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transferred to current profits and losses during disposal of 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. As for the long term equity investments acquired other than long term equity investments formed by the business combination, the initial investment cost shall be determined 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; obtained by issue of equity securities, the fair value of the issue of equity securities shall be taken as the initial investment cost.

The Company can measure the long-term equity investments controlled by the investment enterprises with cost method in individual financial statement of the Company. Control means having the power over the investee and enjoying variable gains through participating in related activities of the investee, and having the ability to utilize the power over the investee to influence the return amount.

III. Major Accounting Policies and Accounting Estimates (continued)

12. Long-term equity investment (continued)

When the cost method is used, the long-term equity investment is priced at 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 gain on investment.

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. Joint control means enjoying control over certain arrangement according to contract, and 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 jointly control with other parties 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 also 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 entity 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

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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.

III. Major Accounting Policies and Accounting Estimates (continued)

12. Long-term equity investment (continued)

For the disposal of long term equity investment, the difference between the book value and the actual purchase price shall be included in current profits and losses. Accounting treatment shall be carried out for the long-term equity investments accounted for using the equity method, terminating the equity method, and relevant other comprehensive income accounted for using original equity on the same basis of direct disposal of relevant assets or liabilities by the invested entity. The shareholders' equity recognized by the changes in other shareholder's equity of the invested entity other than net profit or loss, other comprehensive income and profit distribution shall be transferred fully into the current profits and losses; in case of still using the equity method, carry out the accounting treatment for other comprehensive income related to the original equity accounting shall on the same basis of direct disposal of relevant assets or liabilities by the invested entity and transfer into the current profits and losses in proportion, and the shareholders' equity recognized by the changes in other shareholder's equity of the invested entity other than net profit or loss, other comprehensive income and profit distribution shall be transferred into the current profits and losses in proportion.

13. Real estate as investment

Real estate as investment 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 of the real estate as investment shall be made by cost. The 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, shall be included in the cost of real estate as investment. Otherwise, it shall be included in current profits and losses 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

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residual value rate. The estimated useful life, net residual value rate and annual depreciation (amortization) rate of the real estate as investment are listed below:

	Estimated useful life (amortization) rate	Estimated net residual value rate	Annual depreciation
Building	30 years	0%	3.3%
Land use right	Land use years	0%	Calculated and determined based on the estimated residual value rate and land use years

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III. Major Accounting Policies and Accounting Estimates (continued)

13. Real estate as investment (continued)

The estimated useful life, estimated net residual values and depreciation (amortization) method of the investment real estate shall be reviewed and adjusted appropriately by the Group at the end of each year.

When the purpose of the real estate as investment is changed to self-use, from the date of change, convert the real estate as investment to fixed assets or intangible assets. When the purpose of self-use real estate is changed to earning rentals or for capital appreciation, from the date of change, convert the fixed assets or intangible assets to real estate as investment. Upon conversion, the book value before the conversion shall be recorded as the entry value after conversion.

14. Fixed assets

Fixed assets shall only be recognized when the economic interests related is likely to flow into the Group and their costs can be reliably measured. In case of meeting the recognition condition, the subsequent expenditure relating to fixed assets shall be included in the cost of fixed assets, and stop recognizing the book value of the replaced part; otherwise, it shall be included in current profits and losses at the time of incurrence.

The initial measurement of a fixed asset shall be made at its cost. The cost of purchasing a fixed asset consists of the purchase price, relevant taxes, and other expenditures incurred before making the fixed asset reaching the expected conditions for use and attributable directly to such asset.

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

	Service life	Estimated net residual value rate	Annual depreciation rate
House and building	20-40 years	0%	2.5%-5%
Machinery equipment	3-20 years	0%/based on the	Determined based on the

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		price of scrap steel	based on the estimated
		residual value	rate and service life
Office and electronic equipment	3-5 years	0%	20%-33.3%
Means of transport (other than vessels)	5 years	0%	20%
Vessels	10-30 years	5%/10%	3%-9.5%

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III. Major Accounting Policies and Accounting Estimates (continued)

14. Fixed assets (continued)

Depreciation for fixed assets under financing lease is calculated in accordance with the same policy as 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.

The Group shall check the estimated life of use, estimated net residual value and method of depreciation at the end of each report year and make necessary adjustments.

15. Construction in process

The cost of construction in process is determined based on actual project expenditure, including necessary project expenditures occurred in construction period, capitalized loan expenses before making the construction in progress reach expected status of use and other relevant expenses.

When the construction in progress reaches the expected condition for use, it shall be transferred into fixed assets.

16. Borrowing cost

Borrowing cost refers to the interest and other relevant costs arising from the borrowing by the Group, including the interest on borrowings, the amortization of the discount or premium, auxiliary expenses and the exchange difference arising from the foreign currency borrowings.

The borrowing cost directly attributable to the purchase, construction or production of assets eligible for capitalization shall be capitalized, while other borrowing costs shall be included in current profits and losses. The assets eligible for capitalization refers to assets such as fixed assets and investment real estate which take a rather long period of time to purchase, construct or manufacture in order to reach their expected state of use or sale.

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When the following conditions are also met, the borrowing cost can be capitalized:

- (1) Asset expenditures have incurred;
- (2) Borrowing costs have incurred;
- (3) Purchasing, constructing or manufacturing activities necessity to make that asset reach expected usable or salable condition has started.

III. Major Accounting Policies and Accounting Estimates (continued)

16. Borrowing cost (continued)

When the purchased, built or manufactured fixed asset reached expected usable or salable condition, stop capitalization. The subsequent borrowing costs shall be included in current profits and losses.

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

- (1) The special borrowings shall be determined based on the amount that the interest expense actually incurred in the current period less the temporary deposit interest income or the investment income.
- (2) The general borrowing occupied is determined by multiplying the weighted average of accumulated assets expenditures expenses exceeding that of special borrowings by the weighted average interest rate of the general borrowings occupied.

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 borrowing cost shall be stopped. The borrowing costs occurring during the term of cease shall be recognized as cost and included in current profits and losses until purchasing, building or manufacturing activities resume.

17. Intangible assets

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

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Service life of intangible assets shall be confirmed based on the term in which they can bring benefits to the Company. If the term in which intangible assets bring benefits to the Company cannot be expected, such assets shall be confirmed as intangible assets with uncertain service life.

The service life of intangible assets is shown as follows:

	Service life
Land use right	Land service life
Software use cost	5 years
Proprietary technology	10 years

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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 the end of each year to expected life in use and amortization method of intangible assets with limited use of life and necessary 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 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; there are enough technology and financial resources and other resources supports to complete the development of the intangible assets, with the ability to use and sell; the expenses attributable to such development stage of intangible assets can be reliably measured. The development expenditures not satisfying the above conditions are included in current profits and losses when incurred.

18. Assets impairment

The assets impairment, except for inventories, deferred income tax and financial assets, shall be 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

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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 shall also be made at least once each year for the intangible assets not reaching the usable state.

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

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III. Major Accounting Policies and Accounting Estimates (continued)

18. Assets impairment (continued)

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

In terms of goodwill impairment test, the book value of goodwill formed by the business combination 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 to relevant asset group. The relevant asset group or combination of asset groups is the one that can benefit from the synergy effect of the business combination, 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 recoverable amount is lower than the book 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.

19. Long-term deferred expenses

Long-term deferred expenses shall be amortized by straight-line method, and the amortization period is as follows:

	Amortization period
Improvement of leased fixed asset for operation	Expected benefit period

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20. Employee compensation

The employee compensation refers to 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-service welfare, dismissal welfare and other long-term employee benefits. The benefits provided by the Group to the employee's spouse, children, dependent and survivor of the deceased employee are also contained in the employee compensation.

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III. Major Accounting Policies and Accounting Estimates (continued)

20. Employee compensation (continued)

Short-term compensation

During the accounting period when the employees provide service, the actual short-term compensation shall be recognized as liability and included in current profit and loss or related assets cost.

Post-service welfare (defined contribution plans)

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

21. Predicted liabilities

In addition to contingent consideration or contingent liability of business combination not under the same 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 economic interests;
- (3) The amount can be reliably measured.

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 Balance sheet date to reflect present best estimates. Where there is conclusive evidence that the book value does not reflect the current best estimate, the book value is adjusted in accordance with the current best estimate.

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III. Major Accounting Policies and Accounting Estimates (continued)

22. Revenue

Revenue shall be recognized when related benefits are likely to flow into the Group, the amount can be reliably calculated, and the following conditions are met.

- (a) Revenue from sales of large port equipment, ocean heavy equipment, product of steel structure and construction project is recognized by the proportion of completion, please refer to Note III. 11.
- (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 term for using monetary fund of the Group by others 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.

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

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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.

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III. Major Accounting Policies and Accounting Estimates (continued)

23. Government subsidy (continued)

Government subsidy related to the income when used to compensate related cost 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.

Asset-related government subsidy shall write down the book value of relevant asset or recognized as deferred income, and shall be included in the profits and losses by installments in reasonable and systemic way within the service life of the asset (but the government subsidy measured based on nominal amount shall be directly included in current profits and losses); of relevant assets are sold, transferred, retired or damaged before the end of service life, the balance of undistributed deferred income shall be transferred to profits and losses in the period of assets disposal.

24. Income tax

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*.

According to the temporary difference between the book value and tax base of assets and liabilities on balance sheet date, the temporary differences arising 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 Group shall withdraw the deferred income tax using the balance sheet liability method.

III. Major Accounting Policies and Accounting Estimates (continued)

24. Income tax (continued)

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 to be carried forward to subsequent year, 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) Deductable temporary differences arise from the following transaction: the transaction is not business combination, 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.

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III. Major Accounting Policies and Accounting Estimates (continued)

24. Income tax (continued)

On Balance sheet date, 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 Balance sheet date, the Group reviews the book 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 book 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.

When all of the following conditions are met, the net amount deferred income tax assets and deferred income tax liabilities after offset shall be listed: the Company is legally authorized to settle the income tax assets and liabilities of the current period at net amounts; the deferred income tax assets and liabilities are related to the income tax levied by the same tax authority on the same tax payer, or such on different tax payers but in the future period of the reversal of each important deferred income tax assets and liabilities, the involved tax payers intend to settle the income tax assets and liabilities of the current period at net amounts or obtain assets and repay debts at the same time.

III. Major Accounting Policies and Accounting Estimates (continued)

25. Lease

A lease substantially transferring all risks and remuneration related to the ownership of the assets is a financing lease. Others are operating leases.

As the lessee of operating lease

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

As the lessor of operating lease

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

As the lessee of financial lease

As for the assets financed by leasing, on the beginning date of lease term, 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 shall be the entry value of long-term payables; the difference shall be the unrecognized financing charges, which shall be amortized in each period within the leasing term based on actual interest rate 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, that is to say, the accounting treatment shall be conducted as per mortgage loan.

26. Profit distribution

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

III. Major Accounting Policies and Accounting Estimates (continued)
27. Safe production cost

The safe production cost 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 in the special reserves; it shall be processed separately when used by distinguishing whether to form fixed asset or not: in case of belonging to expense expenditure, write down the special reserves directly; in case of forming fixed assets, collect the expenditures incurred and recognize the fixed assets when reaching expected usable status, and write down the equivalent special reserves and recognize equivalent accumulated depreciation at the same time.

28. Fair value measurement

The Group measures the derivative financial instruments and listed equity instruments investments at fair value on each balance sheet date. 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 maximum 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 benefit 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.

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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.

III. Major Accounting Policies and Accounting Estimates (continued)

28. Fair value measurement (continued)

On each balance sheet date, 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.

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 Balance sheet date. 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

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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.

III. Major Accounting Policies and Accounting Estimates (continued)

29. Major accounting judgments and estimates (continued)

Uncertainty of estimates (continued)

Impairment of account 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 book 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 book 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.

**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 for financial assets (except for goodwill)

The Group determines whether there is any indication of possible impairment of non-current assets other than financial assets on the balance sheet date. 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 book 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 less the disposal expenses and the present value of the expected future cash flows. Net amount gained by fair value less disposal expenses shall be determined by the price in sale agreement of similar assets in fair transaction or market price observed less 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 the present value of future cash flow.

Goodwill impairment

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 present value of future cash flow.

Income tax and deferred income tax

The Company was recognized as a high-tech enterprise in 2014, with a three-year period of validity. 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

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difference will affect the income tax expenses of the year.

**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 recognition.

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 recognize 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.

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III. Major Accounting Policies and Accounting Estimates (continued)

30. Changes in accounting policies and accounting estimates

Changes in accounting policies

Alteration of statement mode of losses and gains from assets disposal
In accordance with requirements of *Notice on Modifying and Issuing Financial Statement Format of Common Enterprise by Ministry of Finance* (CK [2017] No. 30), the items separately listed and reported in the item “gains from assets disposal” in the item “operating profit” in Profit Statement of this Company as well as the losses and gains from the non-current assets disposal originally recorded in “non-business revenue” and “non-operating expenses” were altered to be listed and reported in “Gains from assets disposal”; this Company correspondingly traced back and restated the comparative profit statement. The alteration of this accounting policy had no effect on the consolidation and the net profit of the Company as well as the consolidation and the stockholders’ equity of the Company.

Alteration of statement mode of government subsidy

In accordance with the requirements of *Notice on Issuing and Revising Accounting Standard No. 16-----Governmental Subsidy* (CK [2017] No. 15), the item “Other Revenue” separately listed and reported in the item “Operating profit” in Profit Statement of this Company and the governmental subsidy related to the routine activities of the enterprise were altered to be listed and reported in “Other revenue” instead of “non-business revenue”; according to the linking regulations of this standard, this Company adopted Prospective Application for disposal of the governmental subsidy existing before Jan. 1, 2017 and the newly increased governmental subsidy from Jan. 1, 2017 to the implementation date of this standard (June 12, 2017) was adjusted according to this standard. The alteration of this accounting policy had no effect on the consolidation and the net profit of the Company as well as the consolidation of the stockholders’ equity of the Company.

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IV. Taxation

1. Main taxes and tax rates

- 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 – The original business tax rate applicable to revenues from house rental of the Group was 5%. The original business tax rate applicable to the income and interest income from "Construction-Transfer" projects was 3%. The business tax was replaced by VAT from 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 respectively.
- Corporate income tax – Corporate income tax is calculated and paid in accordance with *P.R. China Corporate Income Tax Law* ("Income Tax Law"). The Company was recognized the High-tech enterprise in 2014, with

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the certificate valid for 3 years. Afterwards, in accordance with relevant regulations in *High-tech Enterprise Recognition Management Approaches* (GKFH [2016] No. 32) and the *High-tech Enterprise Recognition Management Work Guidelines* (GKFH [2016] No. 195) and the *Notification on Announcing List of Second Batch of Shanghai Municipality 2017 High-tech Enterprises Recognition*, the Company replied and passed the reexamination in 2017, and was awarded the High-tech Enterprise Certificate (certificate number: GR201731002345). The certificate shall be valid for 3 years. According to the regulations in Article 28 of the *Income Tax Law*, the Company actually applied the corporate income tax rate of 15% this year (2016: 15%).

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IV. Taxation (continued)

1. Main taxes and tax rates (continued)

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

	Registration place	2017 Applicable tax rate	2016 Applicable tax rate
The Company	Pudong New Area, Shanghai	15%	15%
Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd.	Chongming District, Shanghai	25%	25%
Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd. (Note 1)	Hong Kong	16.5%	16.5%
Shanghai Zhenhua Shipping Co., Ltd.	Pudong New Area, Shanghai	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%
Nantong Zhenhua Heavy Industries Electric Co., Ltd. (Note 2)	Pudong, Shanghai	15%	25%
Jiangyin Zhenhua Port Machinery Steel Structure Manufacturing Co., Ltd.	Jiangyin, Jiangsu	25%	25%
Shanghai Zhenhua Heavy Industries Steel Structure Co., Ltd.	Pudong, Shanghai	25%	25%
Shanghai Zhenhua Ocean Engineering Services Co., Ltd. (former: Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd)	Yangshan, Shanghai Bonded port	25%	25%
Shanghai Zhenhua Testing Technology Consulting Co., Ltd.	Pudong, Shanghai	25%	25%
Shanghai Zhenhua Port Machinery General Equipment Co., Ltd	Pudong, Shanghai	25%	25%
Shanghai Port Machinery Heavy Industries Co., Ltd.	Pudong, Shanghai	25%	25%
Shanghai Zhenhua Heavy Industries (Group)	Jingang, Jiangsu	25%	25%
Zhangjiagang Port Machinery Co., Ltd.	Port area		
Shanghai Zhenhua Heavy Industries	Nantong, Jiangsu	15%	15%

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Qidong Ocean Engineering Co., Ltd. (Note 2)			
Jiangsu Daoda Ocean Engineering Co., Ltd. (Note 18)	Nantong, Jiangsu	NA	25%
Jiahua Shipment Co., Ltd (Note 1)	Hong Kong	16.5%	16.5%
Zhenhua Pufeng Wind Power (Hong Kong) Co., Ltd (Note 1)	Hong Kong	16.5%	16.5%
CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd (Note 2)	Changshu, Jiangsu	15%	15%
Fujian CCCC Qianda Heavy Industries Co., Ltd.	Fuzhou, Fujian	25%	25%
Najing Ninggao New Channel Construction Co., Ltd.	Nanjing, Jiangsu	25%	25%
CCCC Investment & Development Qidong Co., Ltd.	Nantong, Jiangsu	25%	25%
CCCC Liyang Urban Investment and Construction Co., Ltd.	Liyang Jiangsu	25%	25%

IV. Taxation (continued)

1. Main taxes and tax rates (continued)

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

	Registration place	2017 Applicable tax rate	2016 Applicable tax rate
CCCC (Huaian) Construction Development Co., Ltd.	Huaian, Jiangsu	25%	25%
CCCC Zhengjiang Investment Construction Management Development Co., Ltd	Zhenjiang, Jiangsu	25%	25%
CCCC Rudong Construction Development Co., Ltd	Nantong, Jiangsu	25%	NA
ZPMC Netherlands Coöperatie U.A. (Note 3)	Rotterdam, Netherlands	20%	20%
ZPMC Netherlands B.V. (Note 3)	Rotterdam, Netherlands	20%	20%
Verspannen B.V (Note 3)	Rotterdam, Netherlands	20%	NA
ZPMC Espana S.L. (Note 4)	Spain	28%	28%
	Los Barrios		
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 America Inc. (Note 7)	Delaware, USA	15%	15%
ZPMC Korea Co., Ltd. (Note 8)	Pusan, Korea	10%	10%
ZPMC Engineering Africa	The Republic of South	28%	28%

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(Pty) Ltd. (Note 9)	Africa		
	KwaZulu - Natal		
ZPMC Engineering	Strabang,	30%	30%
(India) Private Limited (Note10)	Mahala, India		
ZPMC Southeast	Singapore	17%	17%
Asia Holding Pte. Ltd. (Note 11)			
ZPMC Engineering	Malaysia	20%	20%
(Malaysia) Sdn. Bhd. (Note 12)			
ZPMC Australia Company	New South Wales,	30%	30%
(Pty) Ltd. (Note 13)	Australia		
ZPMC Brazil Serviço	Rio de Janeiro, Brazil	25%	25%
Portuários LTDA (Note 14)			
ZPMC Limited Liability	Moscow, Russia	20%	20%
Company (Note 15)			

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Notes to Financial Statements (continued)

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IV. Taxation (continued)

1. Main taxes and tax rates (continued)

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

	Registration place	2017 Applicable tax rate	2016 Applicable tax rate
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%	0%
ZPMC UK LTD (Note 17)	Cardiff, UK	20%	20%
Greenland Heavylift (Hong Kong) Limited (Note 1)	Hong Kong	16.5%	NA
GPO Grace Limited (Note 19)	Marshall Islands	0%	NA
GPO Amethyst Limited (Note 19)	Marshall Islands	0%	NA
GPO Sapphire Limited (Note 19)	Marshall Islands	0%	NA
GPO Emerald Limited (Note 19)	Marshall Islands	0%	NA
GPO Heavylift Limited (Note 20)	Cayman Islands	0%	NA
GPO Heavylift AS (Note 21)	Oslo, Norway	0%	NA

Note 1: Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd., Jiahua Shipping Co., Ltd, Zhenhua Pufeng Wind Power (Hong Kong) Co., Ltd and Greenland Heavylift (Hong Kong) Limited are legal entities registered in Hong Kong, China. Based on Hong Kong's taxation regulations, the actual profits tax rate applicable to such companies is 16.5% (2016: 16.5%).

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Notes to Financial Statements (continued)

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IV. Taxation (continued)

1. Main taxes and tax rates (continued)

Note 2: Shanghai Zhenhua Heavy Industry Group (Nantong) Drive Machinery was recognized as hi-tech enterprise in August, 2013 and won *Hi-tech Enterprise Certificate* (No. GR201632001352) in 2016, with the valid term of 3 years. Shanghai Zhenhua Heavy Industries Electric Co., Ltd was recognized as hi-tech enterprise in November, 2017 and won *Hi-tech Enterprise Certificate* (No.: GR201731003143) with the valid terms of 3 years. ZMPC Qidong Ocean Engineering Company was recognized as hi-tech enterprise in November, 2015 and won *Hi-tech Enterprise Certificate* (No.GF201532000832) with the valid term of 3 years. Tianhe Mechanical Equipment Manufacturing Co., Ltd of CCCC was recognized as hi-tech enterprise in August, 2015 and won *Hi-tech Enterprise Certificate* (No. GF201532000389) with the valid term of 3 years. In accordance with relevant provisions in Article 28 of the Income Tax Law, the Company actually applied a 15% corporate income tax rate this year (2016: Shanghai Zhenhua Heavy Industries Group (Nantong) Transmission Machinery Co., Ltd., CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd. and ZMPC Qidong Ocean Engineering Co., Ltd. was 15%, while Shanghai Zhenhua Heavy Industries Electric Co., Ltd was 25%).

Note 3: ZPMC Netherlands Coöperatie U.A., ZPMC Netherlands B.V. and Verspannen B.V. 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 200,000EUR, and 25% for the profit over 200,000 EUR. The actual income tax rate is 20% this year (2016: 20%).

Note 4: ZPMC Espana 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

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of the Company. The tax rate is 25% for the consolidated profits of the Company less than 300,000 EUR, and 28% for the profit over 300,000EUR. The actual income tax rate is 28% this year. (2016: 28%).

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Notes to Financial Statements (continued)

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IV. Taxation (continued)

1. Main taxes and tax rates (continued)

Note 5: ZPMC GmbH Hamburg is registered in Germany, a limited liability company; according to related provisions of income tax law in Germany, the 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 applicable income tax rate is 32.28% (2016: 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% (2016: 17.5%).

Note 7: ZPMC North America Inc., ZPMC NA East Coast Inc. and 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% (2016: 15%).

Note 8: ZPMC Korea Co., Ltd. is a 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 KRW, and 20% for the profit between 200 million KRW and 20,000 million KRW, and 22% for the profit over 200 million KRW. The actual income tax rate is 10% this year (2016: 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% (2016: 28%).

Note 10: ZPMC Engineering (India) Private Limited is a limited liability company registered in India; according to the related income

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Notes to Financial Statements (continued)

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tax provisions of India, the applicable income tax rate is 30% (2016: 30%).

IV. Taxation (continued)

1. Main taxes and tax rates (continued)

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% (2016: 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% (2016: 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% (2016: 30%).

Note 14: ZPMC Brazil Serviço Portuários LTDA is a limited liability company registered in Brazil, and former ZPMC Brazil Holdings Ltda. was cancelled in 2017. According to the related income tax provisions of Brazil, the applicable income tax rate is 25% (2016: 25%).

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% (2016: 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% (2016: 0%).

Note 17: ZPMC UK LTD is a limited liability company registered in Cardiff, UK; according to the related income tax provisions of Cardiff, the applicable income tax rate is 20% (2016: 20%).

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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IV. Taxation (continued)

1. Main taxes and tax rates (continued)

Note 18 : Jiangsu Marine Equipment Technology Co., Ltd. was cancelled in 2016, and the applicable income tax rate in 2016 was 25%.

Note 19: GPO Grace Limited, GPO Amethyst Limited, GPO Sapphire Limited and GPO Emerald Limited are limited liability companies registered in Marshall Islands. In accordance with relevant provisions of income tax law of Marshall Islands, the applicable income tax rate for the Company in the year is 0% (2016: not applicable).

Note 20: GPO Heavylift Limited is a limited liability company registered in Cayman Islands. In accordance with relevant provisions of income tax law of Cayman Islands, the applicable income tax rate for the Company in the year is 0% (2016: not applicable).

Note 21: GPO Heavylift AS is a limited liability company registered in Oslo, Norway. In accordance with relevant provisions of income tax law of Norway, the applicable income tax rate for the Company in the year is 0% (2016: not applicable).

V. Notes to Main Items of Consolidated Financial Statements

1. Monetary fund

	2017	2016
Cash on hand	1,365,865	774,626
Bank deposit	5,672,481,136	3,496,430,560
Other monetary funds	<u>96,380,368</u>	<u>99,839,013</u>
	<u>5,770,227,369</u>	<u>3,597,044,199</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

1. Monetary fund (continued)

As of Dec, 31, 2017, the other monetary funds, including the restricted deposit of RMB 96,380,368 Yuan, were the margin deposit that our Group applied to banks for letters of credit and bank guarantees (Dec, 31, 2016: RMB 99,839,013 Yuan).

As of Dec, 31, 2017, the monetary fund deposited abroad by the Group is RMB 637,201,842 Yuan (Dec, 31, 2016: RMB 621,197,660 Yuan).

As of Dec, 31, 2017, the bank deposit included deposit money and short-term fixed deposit. The 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 with changes included in current profits and loss

	2017	2016
Trading financial assets		
-Equity instrument investment (i)	8,438,278	-
-Derivative financial assets	<u>-</u>	<u>4,615,775</u>
	<u>8,438,278</u>	<u>4,615,775</u>

(i) As of Dec. 31, 2017, the trading financial assets - equity instrument investment held by the Company was acquired at the acquisition of Greenland Heavylift (Hong Kong) Limited. The fair value of purchase right corresponding to 1% stock rights can be purchased with 1 USD at any time in the future.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

3. Notes receivable

	2017	2016
Banker acceptance bill	395,649,259	286,220,781
Commercial acceptance bill	<u>25,136,753</u>	<u>10,700,000</u>
	<u>420,786,012</u>	<u>296,920,781</u>

As of Dec. 31, 2017, the notes receivable of RMB 32,340,000 Yuan (Dec. 31, 2016: none) had been pledged to the bank as a pledge to open a new bank acceptance bill.

The notes receivable that have been endorsed or discounted but not yet matured on the balance sheet date are as follows:

	2017		2016
	Derecognition	Non-derecognition	Derecognition Non-derecognition
Bank acceptance bill	<u>1,519,002,534</u>	<u>-</u>	<u>471,132,348</u> <u>4,390,096</u>

4. Accounts receivable

The aging analysis of accounts receivables is as follows:

	2017	2016
Within 6 months	2,301,189,821	2,412,791,452
7~12 months	402,959,451	762,252,912
1~2 years	874,631,229	864,213,900
2~3 years	390,411,499	363,374,243
3~4 years	257,848,181	383,314,678
4~5 years	316,465,411	136,097,550
Over 5 years	<u>771,913,799</u>	<u>648,577,646</u>
	5,315,419,391	5,570,622,381
Less: provision for bad debt of accounts receivable	<u>1,335,401,780</u>	<u>1,339,875,923</u>
	<u>3,980,017,611</u>	<u>4,230,746,458</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

4. Accounts receivable (continued)

The changes in provision for bad debt of accounts receivable are as follows:

	Opening balance	Proportion in current year	Reversal in current year	Write-off in current year	Closing balance
2017	1,339,875,923	248,322,946	(252,797,089)	-	1,335,401,780
2016	1,136,848,761	209,863,641	(4,997,815)	(1,838,664)	1,339,875,923

	2017				2016			
	Book balance		Provision for bad debt		Book balance		Provision for bad debt	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
With significant single amount and for separate provision for bad debt	182,649,892	3	182,649,892	100	159,594,037	3	159,594,037	100
Provision for bad debt by credit risk portfolio								
-related party	837,635,985	16	-	-	567,576,374	10	-	-
-Non-related party	4,079,011,980	77	936,630,354	23	4,557,809,557	82	895,607,566	20
In significant single amount but for separate provision for bad debt	216,121,534	4	216,121,534	100	285,642,413	5	284,674,320	100
	<u>5,315,419,391</u>	<u>100</u>	<u>1,335,401,780</u>	<u>25</u>	<u>5,570,622,381</u>	<u>100</u>	<u>1,339,875,923</u>	<u>24</u>

As of Dec. 31, 2017, the accounts receivable with significant single amount and for separate provision for bad debt is as follows:

	Book balance	Provision for bad debt	Provision proportion%	Reason
Accounts receivable 1	<u>182,649,892</u>	<u>182,649,892</u>	<u>100</u>	Contract disputes

As of Dec. 31, 2016, the accounts receivable with significant single amount and for separate provision for bad debt is as follows:

	Book balance	Provision for bad debt	Provision proportion%	Reason
Accounts receivable 1	<u>159,594,037</u>	<u>159,594,037</u>	<u>100</u>	Contract disputes

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

4. Accounts receivable (continued)

The accounts receivable of non-related party for the provision for bad debt by aging analysis method is as follows:

	2017			2016		
	Book balance	Provision for bad debt		Book balance	Provision for bad debt	
	Amount	Amount	Proportion (%)	Amount	Amount	Proportion (%)
Within 6 months	1,686,464,114	-	-	2,127,697,593	-	-
7~12 months	426,601,821	4,266,018	1	691,765,805	6,917,658	1
1~2 years	754,431,295	113,164,694	15	668,819,686	100,322,953	15
2~3 years	371,207,128	111,362,139	30	302,286,737	90,686,021	30
3~4 years	226,157,120	113,078,560	50	101,304,733	50,652,291	50
4~5 years	77,566,235	58,174,676	75	75,625,443	56,719,083	75
Over 5 years	536,584,267	536,584,267	100	590,309,560	590,309,560	100
	<u>4,079,011,980</u>	<u>936,630,354</u>	<u>23</u>	<u>4,557,809,557</u>	<u>895,607,566</u>	<u>20</u>

As of Dec. 31, 2017, the accounts receivable with insignificant single amount but for separate provision for bad debt is as follows:

	Book balance	Provision for bad debt	Provision proportion%	Reason
Accounts receivable 1	107,819,500	107,819,500	100	Counter-party in funds shortage
Accounts receivable 2	50,365,000	50,365,000	100	Counter-party in funds shortage
Accounts receivable 3	26,136,865	26,136,865	100	Contract disputes
Accounts receivable 4	10,730,715	10,730,715	100	Contract disputes
Accounts receivable 5	7,802,300	7,802,300	100	Contract disputes
Accounts receivable 6	6,990,320	6,990,320	100	Contract disputes
Accounts receivable 7	3,355,177	3,355,177	100	Contract disputes
Accounts receivable 8	2,083,103	2,083,103	100	Contract disputes
Accounts receivable 9	838,554	838,554	100	Contract disputes
	<u>216,121,534</u>	<u>216,121,534</u>	<u>100</u>	

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

4. Accounts receivable (continued)

As of Dec. 31, 2016, the accounts receivable with insignificant single amount but for separate provision for bad debt is as follows:

	Book balance	Provision for bad debt	Provision proportion %	Reason
Accounts receivable 1	107,819,500	107,819,500	100	Counter-party in funds shortage
Accounts receivable 2	50,365,000	50,365,000	100	Counter-party in funds shortage
Accounts receivable 3	27,748,069	27,748,069	100	Contract disputes
Accounts receivable 4	21,932,297	21,932,297	100	Contract disputes
Accounts receivable 5	19,480,920	18,512,827	95	Contract disputes
Accounts receivable 6	17,735,070	17,735,070	100	Contract disputes
Accounts receivable 7	10,049,240	10,049,240	100	Contract disputes
Accounts receivable 8	7,664,629	7,664,629	100	Contract disputes
Accounts receivable 9	7,421,237	7,421,237	100	Contract disputes
Accounts receivable 10	7,306,800	7,306,800	100	Contract disputes
Accounts receivable 11	4,557,644	4,557,644	100	Contract disputes
Accounts receivable 12	3,562,007	3,562,007	100	Contract disputes
	285,642,413	284,674,320	100	

As of Dec. 31, 2017, the accounts receivable of the top five balances collected by debtor is summarized and analyzed as follows:

	Balance	Amount of provision for bad debt	Proportion of total balance of accounts receivable %
Total accounts receivable of the top five balances	<u>777,865,552</u>	<u>279,069,695</u>	<u>15</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

As of Dec. 31, 2016, the accounts receivable of the top five balances collected by debtor is summarized and analyzed as follows:

	Balance	Amount of provision for bad debt	Proportion of total balance of accounts receivable%
Total accounts receivable of the top five balances	<u>862,228,750</u>	<u>382,166,701</u>	<u>15</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

5. Prepayment

The aging analysis of prepayment is as follows:

	2017		2016	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year	819,125,581	79	743,820,095	83
1~2 years	108,191,230	10	72,700,327	8
2~3 years	28,266,965	3	41,846,911	4
Over 3 years	81,199,394	8	42,054,901	5
	<u>1,036,783,170</u>	<u>100</u>	<u>900,422,234</u>	<u>100</u>

As of Dec. 31, 2017, the repayment of the company with the age over one year was RMB 217,657,589 Yuan (Dec. 31, 2016: RMB 156,602,139Yuan), mainly the prepayment for the procurement of imported parts, which has not been yet settled because the purchased imported parts have not been delivered.

As of Dec. 31, 2017, the prepayment of the top five balances collected by debtor is summarized and analyzed as follows:

	Amount	Proportion in total prepayment amount%	Proportion of total balance of accounts receivable%
Total prepayment of the top five balances	<u>210,805,030</u>	<u>20</u>	<u>4</u>

As of Dec. 31, 2016, the prepayment of the top five balances collected by debtor is summarized and analyzed as follows:

	Amount	Proportion in total prepayment amount%	Proportion of total balance of accounts receivable%
Total prepayment of the top five balances	<u>265,464,546</u>	<u>29</u>	<u>5</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

6. Other receivables

The aging analysis of other receivables is as follows:

	2017	2016
Within 6 months	1,076,997,530	722,015,188
7~12 months	31,600,949	3,320,248
1~2 years	239,277,814	5,050,048
2~3 years	2,061,944	17,396,586
3~4 years	5,438,287	3,690,767
4~5 years	3,007,066	223,263
Over 5 years	15,616,617	22,533,895
	<u>1,374,000,207</u>	<u>774,229,995</u>
Less: Provision for bad debt of other receivables	<u>377,838,841</u>	<u>37,675,402</u>
	<u>996,161,366</u>	<u>736,554,593</u>

The changes of provision for bad debt of other receivables are as follows:

	Opening balance	Proportion in current year	Reversal in current year	Write-off in current year	Closing balance
2017	37,675,402	347,764,450	(7,601,011)	-	377,838,841
2016	28,062,537	9,612,865	-	-	37,675,402

	2017				2016			
	Book balance		Provision for bad debt		Book balance		Provision for bad debt	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
With significant single amount and separate provision for bad debt	366,281,031	26	354,460,071	97	23,410,851	3	7,023,255	30
Provision for bad debt by credit risk features portfolio								
- Guarantee deposit (excluding quality guarantee deposit)	408,645,730	30	-	-	227,641,095	30	-	-
- Personal borrowing and petty fund of employee	117,930,613	9	-	-	119,097,936	15	-	-
- Others	465,113,551	34	7,349,488	2	386,333,011	50	12,905,045	3
With insignificant single amount but for separate provision for bad debt	<u>16,029,282</u>	<u>1</u>	<u>16,029,282</u>	<u>100</u>	<u>17,747,102</u>	<u>2</u>	<u>17,747,102</u>	<u>100</u>
	<u>1,374,000,207</u>	<u>100</u>	<u>377,838,841</u>	<u>27</u>	<u>774,229,995</u>	<u>100</u>	<u>37,675,402</u>	<u>5</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

6. Other receivables (continued)

As of Dec. 31, 2017, the other receivables with significant single amount and separate provision for bad debt are as follows:

	Book balance	Provision for bad debt	Provision proportion%	Reason
				Counter-party in funds shortage
Other receivables1	164,124,678	164,124,678	100	Contract disputes
Other receivables2	150,327,138	150,327,138	100	Contract disputes
Other receivables3	51,829,215	40,008,255	77	
	<u>366,281,031</u>	<u>354,460,071</u>	<u>97</u>	

As of Dec. 31, 2016, the other receivables with significant single amount and separate provision for bad debt are as follows:

	Book balance	Provision for bad debt	Provision proportion%	Reason
				Contract disputes
Other receivables1	<u>23,410,851</u>	<u>7,023,255</u>	<u>30</u>	

The situations of other receivables of the Group with the provision for bad debt based on aging analysis method are followings:

	2017			2016		
	Book balance	Provision for bad debt		Book balance	Provision for bad debt	
	Amount	Amount	Proportion (%)	Amount	Amount	Proportion (%)
Within 6 months	455,410,636	-	-	357,174,789	-	-
7~12 months	993,082	9,931	1	2,872,043	28,720	1
1~2 years	191,090	28,664	15	1,530,100	229,515	15
2~3 years	658,927	197,678	30	14,946,482	4,483,945	30
3~4 years	195,769	97,884	50	3,203,035	1,601,517	50
4~5 years	2,594,866	1,946,150	75	180,855	135,641	75
Over 5 years	<u>5,069,181</u>	<u>5,069,181</u>	<u>100</u>	<u>6,425,707</u>	<u>6,425,707</u>	<u>100</u>
	<u>465,113,551</u>	<u>7,349,488</u>	<u>2</u>	<u>386,333,011</u>	<u>12,905,045</u>	<u>3</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

6. Other receivables (continued)

As of Dec. 31, 2017, the situations of other receivables with insignificant single amount but for separate provision for bad debt are as follows:

	Book balance	Provision for bad debt	Provision proportion%	Reason
Other receivables 1	4,214,642	4,214,642	100	Counter-party bankruptcy
Other receivables 2	3,037,042	3,037,042	100	Contract cancellation
Other receivables 3	1,692,765	1,692,765	100	Contract cancellation
Other receivables 4	1,539,600	1,539,600	100	Contract cancellation
Other receivables 5	1,170,282	1,170,282	100	Contract cancellation
Others	<u>4,374,951</u>	<u>4,374,951</u>	<u>100</u>	Contract cancellation
	<u>16,029,282</u>	<u>16,029,282</u>	<u>100</u>	

As of Dec. 31, 2016, the situations of other receivables with insignificant single amount but for separate provision for bad debt are as follows:

	Book balance	Provision for bad debt	Provision proportion%	Reason
Other receivables 1	5,540,286	5,540,286	100	Contract cancellation
Other receivables 2	4,214,642	4,214,642	100	Counter-party bankruptcy
Other receivables 3	3,037,042	3,037,042	100	Contract cancellation
Other receivables 4	1,692,765	1,692,765	100	Contract cancellation
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>	

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

6. Other receivables (continued)

The classification of other receivables by nature is as follows:

	2017	2016
Bid and performance bond	509,244,563	153,797,532
Unpaid taxed receivable	359,755,913	169,252,637
Guarantee liability repayment (i)	164,124,678	-
Money on call for product field service	83,673,256	93,565,532
Deposit receivable	45,458,548	6,742,361
Staff borrowings receivable	34,257,357	43,553,963
Lease payment receivable	33,434,668	33,434,668
The third party's funds advanced receivable	26,010,084	39,969,061
Customs guarantee deposit	4,269,756	71,148,199
Export rebates	4,258,496	63,023,350
Others	109,512,888	99,742,692
	<u>1,374,000,207</u>	<u>774,229,995</u>

- (i) In 2016, the Group provided the loan guarantee of 25.51 million USD for the joint venture Zhenhua Ocean Energy (Hong Kong) Co., Ltd. The guarantee expired on Apr. 14, 2017. As Zhenhua Ocean Energy (Hong Kong) Co., Ltd failed to repay the matured loan principal, the Group fulfilled the guarantee obligation and paid 25.1178 million USD to the bank, with the closing balance equivalent to RMB 164,124,678 Yuan.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

6. Other receivables (continued)

As of Dec. 31, 2017, the top five other receivables are as follows:

	Closing balance	Proportion in the total balance of other receivables (%)	Nature	Age	Closing balance of provision for bad debt
Other receivables 1	176,800,000	13	Performance bond	Within one year	-
Other receivables 2	164,124,678	12	Guarantee liability repayment	Within one year	164,124,678
Other receivables 3	150,327,138	11	Performance bond	1~2 years	150,327,138
Other receivables 4	51,829,215	4	Advance money for another	1~2 years	40,008,255
Other receivables 5	46,715,000	3	Bid bond	Within one year	-
	<u>589,796,031</u>	<u>43</u>			<u>354,460,071</u>

As of Dec. 31, 2016, the top 5 other receivables are as follows:

	Closing balance	Proportion in the total balance of other receivables (%)	Nature	Age	Closing balance of provision for bad debt
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 receivables 4	33,434,668	5	Lease payment	Within 1 year	-
Other receivables 5	23,410,851	3	Advance money for another	2~3 years	7,023,255
	<u>227,993,718</u>	<u>29</u>			<u>7,023,255</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

7. Inventory

	2017			2016		
	Book balance	Falling price reserves	Book value	Book balance	Falling price reserves	Book value
Raw material and purchased parts	2,160,945,988	78,519,214	2,082,426,774	2,851,653,926	141,839,752	2,709,814,174
Unfinished products	6,492,603,460	1,516,893,869	4,975,709,591	5,190,856,986	1,124,585,146	4,066,271,840
Merchandise inventory	24,284,499	11,153,985	13,130,514	11,153,985	11,153,985	-
	<u>8,677,833,947</u>	<u>1,606,567,068</u>	<u>7,071,266,879</u>	<u>8,053,664,897</u>	<u>1,277,578,883</u>	<u>6,776,086,014</u>

The unfinished products of the Group mainly refer to the marine heavy equipment products and prepared parts that are already under construction but not yet signed sales orders.

The changes in inventory falling price reserves are as follows:

2017

	Beginning amount	Proportion in current year	Reduction in current year Reversal or write-off	Closing balance
Raw material and purchased parts	141,839,752	10,050,143	(73,370,681)	78,519,214
Unfinished products	1,124,585,146	414,123,334	(21,814,611)	1,516,893,869
Merchandise inventory	11,153,985	-	-	11,153,985
	<u>1,277,578,883</u>	<u>424,173,477</u>	<u>(95,185,292)</u>	<u>1,606,567,068</u>

2016

	Beginning amount	Proportion in current year	Reduction in current year Reversal or write-off	Closing balance
Raw material and purchased parts	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	11,153,985	-	-	11,153,985
	<u>568,152,935</u>	<u>896,936,113</u>	<u>(187,510,165)</u>	<u>1,277,578,883</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

7. Inventory (continued)

The information of inventory falling price reserves is as follows:

off-of	Particular basis for determining net realizable value	Reason for reversal or write inventory falling price reserves in current year
Raw material and for sale	Difference between net realizable value of	Steel price rise or
purchased parts	raw materials and purchased parts and the book value due to the decline in product prices	
Unfinished products	Difference between the net realizable value and the book value of unfinished products	Value recovery or disposal
Merchandise inventory	Difference between the net realizable value and the book value of merchandise inventory	None

8. Construction completed account yet has not been settled/Amount due from customer for contract work

Construction completed account yet has not been settled

	2017	2016
Accumulated costs incurred	51,707,541,499	41,699,798,181
Plus: Accumulated gross profit recognized	5,478,940,652	4,502,784,376
Less: Accumulated settled cost Accumulated recognized expected contract loss	43,565,127,875	34,669,961,103
	<u>167,373,950</u>	<u>426,807,687</u>
	<u>13,453,980,326</u>	<u>11,105,813,767</u>

Amount due from customer for contract work

	2017	2016
Accumulated settled cost	11,936,912,116	18,189,689,578
Less: Accumulated gross profit recognized	1,047,746,429	2,105,056,605
Accumulated costs incurred	8,502,920,498	13,716,197,938
Plus: Accumulated recognized expected contract loss	<u>122,353,724</u>	<u>25,011,087</u>
	<u>2,508,598,913</u>	<u>2,393,446,122</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

8. Construction completed account yet has not been settled/Amount due from customer for contract work (continued)

Expected contract loss

	Opening balance	Increase in current year	Reduction in current year	Closing balance
2017				
Completed but not settled	426,807,687	114,395,849	(373,829,586)	167,373,950
Settled but not completed	<u>25,011,087</u>	<u>103,234,343</u>	<u>(5,891,706)</u>	<u>122,353,724</u>
	<u>451,818,774</u>	<u>217,630,192</u>	<u>(379,721,292)</u>	<u>289,727,674</u>
2016	Opening balance	Increase in current year	Reduction in current year	Closing balance
Completed but not settled	302,295,092	315,817,045	(191,304,450)	426,807,687
Settled but not completed	<u>101,149,431</u>	<u>73,576,110</u>	<u>(149,714,454)</u>	<u>25,011,087</u>
	<u>403,444,523</u>	<u>389,393,155</u>	<u>(341,018,904)</u>	<u>451,818,774</u>

As of Dec. 31, 2017, the total amount of contracts still in construction (VAT not included) was about RMB 32,334,004,931 Yuan (Dec. 31, 2016: 38,629,601,047 Yuan).

In case of failing to fulfill the obligations as contracted, the total penalty may be imposed:

	2017	2016
Valid letter of guarantee signed by the bank	15,315,071,475	19,456,969,669
No letter of guarantee signed by the bank	<u>4,101,363,500</u>	<u>281,462,898</u>
	<u>19,416,434,975</u>	<u>19,738,432,567</u>

9. Non-current assets due within one year

	2017	2016
Long-term receivables mature within one year (Note V, 12)	<u>1,896,475,472</u>	<u>1,384,438,569</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

10. Other current assets

	2017	2016
Input tax to be deducted	<u>591,311,853</u>	<u>553,363,139</u>

11. Financial assets available-for-sale

	2017			2016		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Available-for-sale equity instruments						
Measured at fair value	1,261,209,745	-	1,261,209,745	1,270,578,346	-	1,270,578,346
Measured at 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>1,334,203,905</u>	<u>30,000,000</u>	<u>1,304,203,905</u>	<u>1,343,572,506</u>	<u>30,000,000</u>	<u>1,313,572,506</u>

Financial assets available-for-sale measured at fair value:

	2017	2016
Cost of available-for-sale equity instruments	937,641,194	937,641,194
Changes in fair value accumulated included in other comprehensive income	<u>323,568,551</u>	<u>332,937,152</u>
	<u>1,261,209,745</u>	<u>1,270,578,346</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

11. Financial assets available-for-sale (continued)

Available-for-sale equity instruments measured at fair value include (continued):

- (i) The Group holds 5.9% shares of stock of Jiangxi Huawu Brake Co., Ltd (Dec 31, 2016: 5.9%) and the initial investment cost was RMB 11,071,606Yuan.

The available-for-sales equity instruments measured at fair value shall be confirmed by the closing price on the last trading day of Shenzhen Stock Exchange. As of Dec 31, 2017, the Company had confirmed the accumulated revenue of RMB 167,881,106 Yuan for available for-sales equity instruments, included in other comprehensive income.

The Group received the cash dividends of RMB 665,346 Yuan from Jiangxi Huawu Brake Co., Ltd, included in the gain on investment.

- (ii) The Group holds 1.71% (Dec 31, 2016: 2.16%) shares of stock of Qingdao Port International Co., Ltd and the initial investment cost was RMB 308,515,588 Yuan.

The available-for-sales equity instruments measured at fair value is confirmed by the closing price on the last trading day of Hong Kong Stock Exchange. As of Dec 31, 2017, the Company has confirmed the revenue of RMB 143,013,072 Yuan for the available-for-sale equity instruments, included in other comprehensive income.

The Group received the cash dividends of RMB 12,103,621 Yuan from Qingdao Port International Co., Ltd, included in the gain on investment.

- (iii) The Group holds 1.40% (Dec 31, 2016: 1.40%) shares of stock of CRSC and the initial investment costs was RMB 617,854,000 Yuan.

The available-for-sale equity instruments measured at fair value is confirmed by the closing price on the last trading day of Hong Kong Stock Exchange. As of Dec 31, 2017, the Company has confirmed the revenue of RMB 11,700,373 Yuan for the available-for-sale equity instruments, included in other comprehensive income.

The Group received the cash dividends of RMB 11,075,670 Yuan from CRSC, accounted in investment income.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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V. Notes to Main Items of Consolidated Financial Statements (continued)

11. Financial assets available-for-sale (continued)

Financial assets available-for-sale measured at 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 on the last trading day of Shenzhen Stock Exchange. As of Dec 31, 2017, the Company has confirmed the revenue of RMB 974,000 Yuan for the available-for-sale equity instruments, accounted in other comprehensive income

The Group received the cash dividends of RMB 21,866 Yuan from Shenwan Hongyuan Group, accounted in investment income.

Financial assets available-for-sale measured at cost :

2017

	Book balance			Closing	Shareholding ratio (%)	Cash bonus in current year
	Opening	Increase in current year	Reduction in current year			
21 st 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 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	2,691,286
ZMPC Ningbo Transmission Machinery Co., Ltd	1,296,000	-	-	1,296,000	10	-
Hunan Fengri Power & Electric Co., Ltd.	19,998,160	-	-	19,998,160	6.38	-
	<u>72,994,160</u>	<u>-</u>	<u>-</u>	<u>72,994,160</u>		<u>2,691,286</u>
Available-for-sale equity instruments-Depreciation reserves						
21st Century Science and Technology Investment Co., Ltd.	(30,000,000)	-	-	(30,000,000)		-
	<u>42,994,160</u>	<u>-</u>	<u>-</u>	<u>42,994,160</u>		<u>2,691,286</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

11. Financial assets available-for-sale (continued)

Financial assets available-for-sale measured at cost (continued):

2016

	Beginning of year	Book balance Increase in current year	Reductio n in current year	End of the year	Sharehol ding ratio (%)	Cash bonus in current year
21 st 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 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	-
ZMPC Ningbo Transmission Machinery Co., Ltd	1,296,000	-	-	1,296,000	10	-
Hunan Fengri Power & Electric Co., Ltd.	19,998,160	-	-	19,998,160	6.38	-
	<u>72,994,160</u>	<u>-</u>	<u>-</u>	<u>72,994,160</u>		<u>-</u>
Available-for-sale equity instruments-Depreciation reserves						
21st Century Science and Technology Investment Co., Ltd.	<u>(30,000,000)</u>	<u>-</u>	<u>-</u>	<u>(30,000,000)</u>		<u>-</u>
	<u>42,994,160</u>	<u>-</u>	<u>-</u>	<u>42,994,160</u>		<u>-</u>

The available-for-sale financial assets measured at 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.

Shanghai Zhenhua Heavy Industries Co., Ltd.

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V. Notes to Main Items of Consolidated Financial Statements (continued)

12. Long-term receivables

	2017	2016
“Construction-Transfer” project receivables		
- Capital	5,893,243,470	5,142,731,788
- Interest receivable	241,936,829	32,924,801
	<u>6,135,180,299</u>	<u>5,175,656,589</u>
Less: Long-term receivables mature within one year (9 of Note V)	<u>1,896,475,472</u>	<u>1,384,438,569</u>
	<u>4,238,704,827</u>	<u>3,791,218,020</u>

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; total investment of the project was RMB 5,918,800,000 Yuan, with the construction period of 2 years and the buy-back period of 2.5 years, and the return on investment shall be 30% higher than the benchmark interest rate of 3-5 years' bank loan. 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 receivables mature within one year in 2018 according to the contract terms.

The Group undertook Jiangsu Qidong Lvsi Port Surrounded PPP Project in 2015, with total investment of RMB 2 billion Yuan. The project construction period is 2 years, and the buy-back period shall be 10 years, the return on investment shall be 30% higher than the benchmark interest rate of over 5 years' bank loan. The Group, CCCC Tianjin Waterway Bureau Co., Ltd. and Jiangsu Qidong Lvsi Port Economic Development Zone Management Committee jointly established CCCC Qidong Investment Development Co., Ltd. responsible for the project investment, financing and construction management.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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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 RMB 3.7 billion Yuan, with the construction period of 2 years and the buy-back period of 4 years, the return on investment shall be 30% higher than the benchmark interest rate of over 5 years' bank loan. The Group, CCCC Shanghai Dredging 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 Urban Investment Construction Co., Ltd. responsible for the project investment, financing and construction management.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

12. Long-term receivables (continued)

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 buy-back period is 3 years, the return on investment is the annual rate 7%. The Group, CCCC Second Harbor Engineering Co., Ltd., CCCC Highway Planning and Design Institute Co., Ltd., CCCC East China Investment Co., Ltd. and 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.

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

The project undertook the renovation and resettlement housing and supporting facilities construction project for shanty town in the core area of Dongming County in 2017. The total investment of the project is RMB 2.7 billion Yuan, the construction period is 3 years, the buy-back period is 3 years, and the gain on investment shall be the annual interest rate of 6.5%. The Group, CCCC Water Transportation Planning and Design Institute Co., Ltd. and CCCC First Harbor Engineering Co., Ltd. are jointly responsible for the investment, financing, construction and management of the project.

The Group, CCCC Third Highway Engineering Co. Ltd. and CCCC Highway Consultants Co., Ltd. jointly signed the investment and construction cooperation agreement on Xiashesi – Yinsuhe – Huashi Highway Project Phase I of Xiangtan City in 2017, with the total investment of RMB 2.0 billion Yuan, the construction period of 3 years

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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and the buy-back period of 12. Within the term of cooperation, the return on project capital shall be calculated 20% above the benchmark interest rate for over 5 years' loan recognized by People's Bank of China for corresponding period.

The Group, CCCC East China Investment Co., Ltd., Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd. and CCCC Second Harbor Engineering Co., Ltd. jointly established the project company CCCC Rudong Construction and Development Co., Ltd., and signed the cooperative contract on *Bridges and Liquefaction Dock Project in Nantong Yangkou Port Area* with Jiangsu Yangkou Port Affairs Co., Ltd. authorized by the People's Government of Rudong County on in June, 2017, with the predicted total investment of RMB 1.77 billion Yuan, the construction period of 2 years and the buy-back period of 10 years. The gain on investment shall be 15% above the benchmark interest rate for over 5 years' loan of People's Bank of China for corresponding period.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

12. Long-term receivables (continued)

As of Dec. 31, 2017, the long-term receivables referred to the investment amount as principal the Group invested in above “Construction – Transfer” project, interest receivable was subject the financing return confirmed by contract.

As of Dec. 31, 2017, the long-term receivables of Jiangsu Qidong Lvsi Port Surrounded PPP Project, Huaian Huaiyin Port Area East Operation Area and Transportation Infrastructure Project and Infrastructure and Public Utilities Project Phase I of Jiangsu Zhongguancun Science and Technology Industrial Park were RMB 2,571,908,986 Yuan (Dec. 31, 2016: RMB 2,996,201,650 Yuan), which had been pledged to the bank as the guarantee for the long-term loans of RMB 1,066,150,000 Yuan (Dec. 31, 2016: long-term loans of RMB 727,000,000Yuan), please refer to 34(ii) in Note V.

The aging analysis of long-term receivables is as follows:

	2017	2016
Within 1 year	2,274,432,739	1,956,609,083
1~2 years	1,935,013,530	518,450,490
2~3 years	518,450,490	2,700,597,016
Over 3 years	1,407,283,540	-
	<u>6,135,180,299</u>	<u>5,175,656,589</u>
Less: Long-term receivables mature within one year	<u>1,896,475,472</u>	<u>1,384,438,569</u>
	<u>4,238,704,827</u>	<u>3,791,218,020</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

13. Long-term equity investment

	2017	2016
Joint venture	268,510,756	200,209,849
Associated enterprise	<u>2,051,959,765</u>	<u>2,001,211,604</u>
	<u>2,320,470,521</u>	<u>2,201,421,453</u>

Joint venture:

2017

		Change in current year					
	Opening balance	Additional investment	Negative investment	Investment profit and loss under equity method	Closing balance	Depreciation reserves at the end of year	
Jiangsu LongYuan Zhenhua Ocean Engineering Co., Ltd	196,624,211	-	-	34,685,071	231,309,282	-	
CCCC Tianhe Xi'an Equipment Manufacturing Co., Ltd (iii)	-	30,000,000	-	(179,653)	29,820,347	-	
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	2,835,358	-	-	939,788	3,775,146	-	
Zhenhua Shende Ocean Engineering Installation Co., Ltd. (iv)	-	2,976,740	-	-	2,976,740	-	
Zhenhua Ocean Energy (Hong Kong) Co., Ltd. (i)	-	-	-	-	-	-	
Cranetech Global Sdn. Bnd. (ii)	750,280	-	-	(121,039)	629,241	-	
	200,209,849	32,976,740	-	35,324,167	268,510,756	-	

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

13. Long-term equity investment (continued)

2016

	Opening balance	Change in current year			Closing balance	Depreciated on reserves at the end of year
		Additional investment	Negative investment	Investment profit and loss under equity method		
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	171,577,489	-	-	25,046,722	196,624,211	-
Zhenhua Ocean Energy (Hong Kong) Co., Ltd. (i)	3,059,427	-	-	(224,069)	2,835,358	-
Cranetech Global Sdn. Bnd.(ii)	-	-	-	-	-	-
	<u>750,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>750,280</u>	<u>-</u>
	<u>175,387,196</u>	<u>-</u>	<u>-</u>	<u>24,822,653</u>	<u>200,209,849</u>	<u>-</u>

Joint venture (continued):

- (i) On May 5, 2014, the subsidiary of the Company and the partner invested to establish Zhenhua Ocean Energy (Hong Kong) Co., Ltd (Zhenhua Ocean 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 Ocean Energy) signed the exit contract about Zhenhua Ocean Energy. The Group has the rights to sell 51% of the total shares of Zhenhua Ocean Energy to RBF HK Limited when meeting the related articles of the exit contract; or purchased 32.5% of the total shares of Zhenhua Ocean Energy from RBF HK Limited. RBF HK Limited began to execute its right of holding 51% shares of Zhenhua Ocean 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.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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V. Notes to Main Items of Consolidated Financial Statements (continued)

13. Long-term equity investment (continued)

Joint venture (continued):

In March, 2017, the Group once again signed an exit framework agreement with RBF HK Limited on the sale of Zhenhua Ocean Energy held by the Group. Under this agreement, RBF HK Limited had the right to exercise its right of purchasing the shares of Zhenhua Ocean Energy held by the Group before Sept. 30, 2017; however, the right was ultimately unfilled and expired automatically. By Dec. 31, 2017, there was no equity purchase agreement in process between this Group and RBF HK Limited.

- (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 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 Group controls the company together with the partner.
- (iii) On May 5, 2017, the subsidiary of the Company and the partner jointly established CCCC Tianhe Xi'an Mechanical Equipment Manufacturing Co., Ltd. The registered capital of the company is RMB 300 million Yuan, of which, the contribution its subsidiary is RMB 3,000,000 Yuan, with the shareholding ratio of 50%. The company is mainly engaged in machinery manufacture of tunnel boring machine. Based on the regulations of the shareholder agreement, the significant issues of the company shall be agreed by both parties. Therefore, the Group controls the company together with the partner.
- (iv) On Nov. 22, 2017, the Company sold 20% stock right of its original subsidiary Zhenhua Shende Ocean Engineering Installation Co., Ltd. at the price of 400,000 USD. After alternation, the registered capital of the company became 2,000,000 USD for the shareholding ratio of 50%. The company is mainly engaged in

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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shipping business. Based on the regulations of the shareholder agreement, the significant issues of the company shall be agreed by both parties. Therefore, the Group controls the company together with the partner.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

13. Long-term equity investment (continued)

Associated enterprise:

2017

	Opening balance	Additional investment	Change in current year Investment profit and loss under equity method	Other comprehensive income adjustment	Declaration of cash dividend or profit	Closing balance	Depreciation reserves at the end of year
CCCC Financial Leasing Co., Ltd. (i)	1,605,244,853	-	73,336,694	(30,964)	-	1,678,550,583	-
CCCC Real Estate Yixing Co., Ltd.	175,614,528	-	2,485,179	-	-	178,099,707	-
CCCC South American Regional Company SARL (ii)	114,321,760	-	(13,520,543)	(4,605,830)	-	96,195,387	-
China Communications Construction USA Inc.(iii)	75,612,903	-	(4,569,705)	(3,812,748)	-	67,230,450	-
CCCC Ocean Engineering Vessel Technology Research Centre Co., Ltd	15,645,518	-	204,026	-	-	15,849,544	-
Changzhou Paint Co., Ltd. of Shanghai Zhenhua Heavy Industries Co., Ltd	14,772,042	-	1,014,396	-	-	15,786,438	-
ZPMC Southeast Asia Pte. Ltd (iv)	-	247,656	-	-	-	247,656	-
	<u>2,001,211,604</u>	<u>247,656</u>	<u>58,950,047</u>	<u>(8,449,542)</u>	<u>-</u>	<u>2,051,959,765</u>	<u>-</u>

2016

	Opening balance	Additional investment	Change in current year Investment profit and loss under equity method	Other comprehensive income adjustment	Declaration of cash dividend or profit	Closing balance	Depreciation reserves at the end of year
CCCC Financial Leasing Co., Ltd. (i)	1,141,740,698	420,000,000	75,648,845	255,310	(32,400,000)	1,605,244,853	-
CCCC Real Estate Yixing Co., Ltd.	174,697,785	-	916,743	-	-	175,614,528	-
CCCC South American Regional Company SARL (ii)	-	114,321,760	-	-	-	114,321,760	-
China Communications Construction USA Inc.(iii)	75,413,782	-	(4,347,559)	4,546,680	-	75,612,903	-
CCCC Ocean Engineering Vessel Technology Research Centre Co., Ltd	15,269,200	-	376,318	-	-	15,645,518	-
Changzhou Paint Co., Ltd. of Shanghai Zhenhua Heavy Industries Co., Ltd	14,626,156	-	1,978,952	-	(1,833,066)	14,772,042	-
	<u>1,421,747,621</u>	<u>534,321,760</u>	<u>74,573,299</u>	<u>4,801,990</u>	<u>(34,233,066)</u>	<u>2,001,211,604</u>	<u>-</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

13. Long-term equity investment (continued)

- (i) On May 29, 2015, the Company increased the capital to CCCC Financial Leasing Co., Ltd. of RMB 540,000,000 Yuan. After the capital increase, the Group's investment costs to CCCC Financial Leasing Co., Ltd. increased to RMB 1,080,000,000 Yuan. The holding proportion remained unchanged at 30%. As of May 31, 2016, the Company increased the capital to CCCC Financial Leasing Co., Ltd. of RMB 420,000,000 Yuan. After the capital increase, the Group's investment costs to CCCC Financial Leasing Co., Ltd. increased to RMB 1,500,000,000 Yuan. The holding proportion remained unchanged at 30%.
- (ii) On Dec. 15, 2016, the Company invested 16,480,000 USD (equivalent to RMB 114,321,760 Yuan) to share CCCC South American Regional Company SARL. The registration capital is 103,000,000 USD, equivalent to 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) On Oct. 8, 2015, the Company participated and invested to establish China Communications Construction USA Inc. The registered capital is 50,000,000 USD, of which, the Company's contribution is 12,000,000 USD, equivalent to RMB 76,206,000 Yuan, holding 24% of the share. The company focuses on port construction business.
- (iv) On Dec. 21, 2017, the Company sold 30% stock rights of its original subsidiary ZPMC Southeast Asia Pte. Ltd at the price of 186,321 SGD. After alternation, the registered capital of the company was 620,770 SGD, and the shareholding ratio of the Company changed from 70% to 40%. The company focuses on port construction business.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

14. Real estate as investment

Subsequent measurement with cost model:

2017

	Housing & buildings	Land use right	Total
Original cost			
Opening and closing balance	<u>397,820,689</u>	<u>209,845,794</u>	<u>607,666,483</u>
Accumulated depreciation and amortization			
Opening balance	84,123,319	50,162,913	134,286,232
Provision	<u>12,991,865</u>	<u>5,324,663</u>	<u>18,316,528</u>
Closing balance	<u>97,115,184</u>	<u>55,487,576</u>	<u>152,602,760</u>
Book value			
At the end of year	<u>300,705,505</u>	<u>154,358,218</u>	<u>455,063,723</u>
At the beginning of year	<u>313,697,370</u>	<u>159,682,881</u>	<u>473,380,251</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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V. Notes to Main Items of Consolidated Financial Statements (continued)

14. Real estate as investment (continued)

Subsequent measurement with cost model (continued):

2016

	Housing & buildings	Land use right	Total
Original cost			
Opening balance	260,039,373	209,845,794	469,885,167
Fixed assets transfer-in	137,781,316	-	137,781,316
Closing balance	<u>397,820,689</u>	<u>209,845,794</u>	<u>607,666,483</u>
Accumulated depreciation and amortization			
Opening balance	63,874,113	44,838,246	108,712,359
Fixed assets transfer-in	9,647,865	-	9,647,865
Provision	10,601,341	5,324,667	15,926,008
Closing balance	<u>84,123,319</u>	<u>50,162,913</u>	<u>134,286,232</u>
Book value			
At the end of year	<u>313,697,370</u>	<u>159,682,881</u>	<u>473,380,251</u>
At the beginning of year	<u>196,165,260</u>	<u>165,007,548</u>	<u>361,172,808</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

14. Real estate as investment (continued)

As of Dec. 31, 2017, the real estate as investment not completing the certificate of title is as follows:

	Book value	Reason for not completing the certificate of title
Housing & buildings	273,401,305	Relevant formalities of property right are still in process

15. Fixed assets

2017

	Housing & buildings	Machinery equipment	Office and electronic equipment	Means of transport (except for vessels)	Vessels	Total
Original cost						
Opening balance	11,650,983,133	6,718,732,274	241,095,395	273,277,738	7,429,855,803	26,313,944,343
Purchase	2,793,908	40,259,218	14,773,519	11,944,155	669,393,206	739,164,006
Construction in process						
transfer-in	24,021,338	377,168,935	1,003,053	950,265	2,542,295,845	2,945,439,436
Disposal or scrap	(1,962,638)	(74,923,742)	(8,823,895)	(11,380,895)	(323,453,989)	(420,545,159)
Change in exchange rate	-	-	-	-	(66,561,579)	(66,561,579)
Closing balance	<u>11,675,835,741</u>	<u>7,061,236,685</u>	<u>248,048,072</u>	<u>274,791,263</u>	<u>10,251,529,286</u>	<u>29,511,441,047</u>
Accumulated depreciation						
Opening balance	3,105,519,139	4,790,498,563	171,293,007	185,091,350	3,038,759,918	11,291,161,977
Provision	382,349,971	429,564,030	20,591,575	11,357,767	378,659,028	1,222,522,371
Disposal or scrap	(355,570)	(67,093,654)	(7,118,467)	(9,999,797)	(248,325,464)	(332,892,952)
Change in exchange rate	-	-	-	-	(4,701,960)	(4,701,960)
Closing balance	<u>3,487,513,540</u>	<u>5,152,968,939</u>	<u>184,766,115</u>	<u>186,449,320</u>	<u>3,164,391,522</u>	<u>12,176,089,436</u>
Book value						
At the end of year	<u>8,188,322,201</u>	<u>1,908,267,746</u>	<u>63,281,957</u>	<u>88,341,943</u>	<u>7,087,137,764</u>	<u>17,335,351,611</u>
At the beginning 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>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

15. Fixed assets (continued)

2016

	Housing & buildings	Machinery equipment	Office and electronic equipment	Means of transport (except for vessels)	Vessels	Total
Original cost						
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 process transfer-in	21,998,269	28,683,570	-	-	299,120,833	349,802,672
Transferred to investment real estate	(137,781,316)	-	-	-	-	(137,781,316)
Disposal or scrap	(1,607,253)	(119,329,316)	(5,728,314)	(15,671,365)	(9,995,664)	(152,331,912)
Closing balance	<u>11,650,983,133</u>	<u>6,718,732,274</u>	<u>241,095,395</u>	<u>273,277,738</u>	<u>7,429,855,803</u>	<u>26,313,944,343</u>
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
Transferred to investment real estate	(9,647,865)	-	-	-	-	(9,647,865)
Disposal or scrap	(481,275)	(111,702,878)	(5,448,937)	(15,331,361)	(7,326,920)	(140,291,371)
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>
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>

As of Dec. 31, 2017, the following fixed assets were taken as loan mortgage:

	Original cost	Book value	Borrowing	
			Nature	Amount
Machinery equipment	1,403,907,681	437,072,634	Long-term payables	447,048,030
Vessel	<u>4,455,152,847</u>	<u>3,687,007,865</u>	Long-term payables	<u>2,103,131,945</u>
	<u>5,859,060,528</u>	<u>4,124,080,499</u>		<u>2,550,179,975</u>

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V. Notes to Main Items of Consolidated Financial Statements (continued)

15. Fixed assets (continued)

As of Dec. 31, 2016, the following fixed assets were taken as loan mortgage:

	Original cost	Book value	Borrowing	
			Nature	Amount
Machinery equipment	1,403,907,681	555,450,350	Long-term payables	575,223,848
Vessel	<u>2,532,724,844</u>	<u>1,882,864,040</u>	Long-term payables	<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, 2017 and Dec. 31, 2016, the book value of fixed assets for operating lease was as follows:

	2017	2016
Vessel	<u>1,733,818,283</u>	<u>1,882,864,040</u>

As of Dec. 31, 2017, the fixed assets not completing the certificate of title were as follows:

	Book value	Reason for not completing the certificate of title
Housing & buildings	2,825,816,582	Relevant formalities are still in process

16. Construction in process

	Dec. 31, 2017			Dec. 31, 2016		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Infrastructure construction of Nantong Base	53,508,755	-	53,508,755	53,892,601	-	53,892,601
Infrastructure construction of Changxing Base	30,242,212	-	30,242,212	16,743,055	-	16,743,055
Large machinery and engineering	1,123,208,028	-	1,123,208,028	3,202,580,355	-	3,202,580,355

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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equipment of the base under construction						
Shield machine parts project	74,507,300	-	74,507,300	55,402,134	-	55,402,134
Infrastructure construction of Nanhui Base	3,893,442	-	3,893,442	5,888,313	-	5,888,313
Large mechanical reconstruction and upgrading project	<u>603,786,272</u>	<u>-</u>	<u>603,786,272</u>	<u>690,943,003</u>	<u>-</u>	<u>690,943,003</u>
	<u>1,889,146,009</u>	<u>-</u>	<u>1,889,146,009</u>	<u>4,025,449,461</u>	<u>-</u>	<u>4,025,449,461</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

16. Construction in process (continued)

The changes of major construction in process in 2017 are as follows:

	Budget	Opening balance	Increase in current year	Transfer-in fixed assets in current year (15 in Note V)	Transfer-in intangible assets in current year (17 in Note V)	Closing balance
Infrastructure construction of Nantong Base	6,465,698,000	53,892,601	7,993,285	(8,377,131)	-	53,508,755
Infrastructure construction of Changxing Base	8,645,540,000	16,743,055	18,781,424	(5,037,121)	(245,146)	30,242,212
Large machinery and engineering equipment of the base under construction	4,832,518,861	3,202,580,355	728,933,794	(2,808,306,121)	-	1,123,208,028
Shield machine parts project	99,956,500	55,402,134	44,296,307	(25,191,141)	-	74,507,300
Infrastructure construction of Nanhui Base	504,500,000	5,888,313	1,329,915	(3,324,786)	-	3,893,442
Large mechanical reconstruction and upgrading project	709,925,368	690,943,003	8,046,405	(95,203,136)	-	603,786,272
		<u>4,025,449,461</u>	<u>809,381,130</u>	<u>(2,945,439,436)</u>	<u>(245,146)</u>	<u>1,889,146,009</u>

The changes of major construction in process in 2016 are as follows:

	Budget	Opening balance	Increase in current year	Transfer-in fixed assets in current year (15 in Note V)	Transfer-in intangible assets in current year (17 in Note V)	Closing balance
Infrastructure construction of Nantong Base	6,465,698,000	29,440,311	28,515,986	(4,063,696)	-	53,892,601
Infrastructure construction of Changxing Base	8,645,540,000	32,251,760	6,100,428	(21,609,133)	-	16,743,055
Large machinery and engineering equipment of the base under construction	3,916,155,861	2,889,709,277	639,000,626	(322,437,123)	(3,692,425)	3,202,580,355
Office building and ancillary facilities	5,000,000	606,274	-	(606,274)	-	-
Shield machine parts project	99,956,500	-	55,402,134	-	-	55,402,134
Infrastructure construction of Nanhui Base	504,500,500	3,893,441	1,994,872	-	-	5,888,313
Large mechanical reconstruction and upgrading project	700,000,000	621,470,441	70,559,008	(1,086,446)	-	690,943,003
		<u>3,577,371,504</u>	<u>801,573,054</u>	<u>(349,802,672)</u>	<u>(3,692,425)</u>	<u>4,025,449,461</u>

The changes of major construction in process in 2017 are as follows:

	Proportion of project investment in budget%	Work progress(Not e 1)%	Accumulative amount of interest capitalization	Including: Interest capitalization in current year	Interest capitalization rate in current year%	Source of funds
Infrastructure construction of Nantong Base	99	99	-	-	-	Own funds and bank loans
Infrastructure construction of Changxing Base	82	82	23,531,836	-	-	Own funds and bank loans
Large machinery and engineering equipment of the base under construction	85	85	96,492,705	-	-	Own funds and bank loans
Shield machine parts project	99	99	5,762,616	5,494,319	4.75	Bank loans
Infrastructure construction of Nanhui Base	91	91	-	-	-	Own funds
Large mechanical reconstruction and upgrading project	98	98	-	-	-	Own funds
			<u>125,787,157</u>	<u>5,494,319</u>		

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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V. Notes to Main Items of Consolidated Financial Statements (continued)

16. Construction in process (continued)

The changes of major construction in process in 2016 are as follows:

	Proportion of project investment in budget%	Work progress(Note 1)%	Accumulative amount of interest capitalization	Including: Interest capitalization in current year	Interest capitalization rate in current year%	Source of funds
Infrastructure construction of Nantong Base	99	99	-	-	-	Own funds and bank loans
Infrastructure construction of Changxing Base	82	82	23,531,836	-	-	Own funds and bank loans
Large machinery and engineering equipment of the base under construction	87	87	96,492,705	-	-	Own funds and bank loans
Office building and ancillary facilities	100	100	-	-	-	Own funds
Shield machine parts project	55	55	268,297	268,297	4.75	Bank loans
Infrastructure construction of Nanhui Base	91	91	-	-	-	Own funds
Large mechanical reconstruction and upgrading project	99	99	-	-	-	Own funds
			<u>120,292,838</u>	<u>268,297</u>		

Note 1: The work progress shall be estimated based on the budget and accumulated investments.

17. Intangible assets

	Land use right	Software usage fee	Know-how	Total
Original cost				
Opening balance	4,262,474,969	52,118,848	65,201,810	4,379,795,627
Construction in process transfer-in	-	245,146	-	245,146
Purchase	<u>34,603,859</u>	<u>2,682,840</u>	<u>-</u>	<u>37,286,699</u>
Closing balance	<u>4,297,078,828</u>	<u>55,046,834</u>	<u>65,201,810</u>	<u>4,417,327,472</u>
Accumulated amortization				
Opening balance	555,310,659	35,762,796	44,273,566	635,347,021
Provision	<u>86,920,486</u>	<u>6,688,876</u>	<u>5,205,481</u>	<u>98,814,843</u>
Closing balance	<u>642,231,145</u>	<u>42,451,672</u>	<u>49,479,047</u>	<u>734,161,864</u>
Book value				
At the end of year	<u>3,654,847,683</u>	<u>12,595,162</u>	<u>15,722,763</u>	<u>3,683,165,608</u>
At the beginning of year	<u>3,707,164,310</u>	<u>16,356,052</u>	<u>20,928,244</u>	<u>3,744,448,606</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

17. Intangible assets (continued)

2016

	Land use right	Software usage fee	Know-how	Total
Original cost				
Opening balance	4,246,345,484	46,219,868	65,201,810	4,357,767,162
Construction in process transfer-in	-	3,692,425	-	3,692,425
Purchase	16,129,485	2,206,555	-	18,336,040
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 amortization				
Opening balance	467,548,195	33,094,826	37,686,275	538,329,296
Provision	87,762,464	2,667,970	6,587,291	97,017,725
Closing balance	<u>555,310,659</u>	<u>35,762,796</u>	<u>44,273,566</u>	<u>635,347,021</u>
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>
At the beginning of year	<u>3,778,797,289</u>	<u>13,125,042</u>	<u>27,515,535</u>	<u>3,819,437,866</u>

In 2017, the Group totally expended RMB 702,392,513 Yuan on R&D (2016: RMB 851,544,356 Yuan, see Note V (48)). The expenses were not capitalized. Above mentioned intangible assets as of Dec. 31, 2017 and Dec. 31, 2016 excluded any expenditure on R&D

As of Dec. 31, 2017, there was no mortgage of the loan in the intangible assets.

As of Dec. 31, 2017, the intangible assets not completing the certificate of title were as follows:

	Book value	Reason for not completing the certificate of title
Land use right	395,895,729	Application for property right under approval

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

18. Goodwill

2017

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Zhenhua Heavy Industries Qidong Ocean Engineering Co., Ltd	149,212,956	-	-	149,212,956
Verspannen B.V.	-	5,412,807	-	5,412,807
Greenland Heavylift (Hong Kong) Limited	-	110,562,702	-	110,562,702
	<u>149,212,956</u>	<u>115,975,509</u>	<u>-</u>	<u>265,188,465</u>

2016

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Zhenhua Heavy Industries Qidong Ocean Engineering Co., Ltd	<u>149,212,956</u>	<u>-</u>	<u>-</u>	<u>149,212,956</u>

The Group acquired Verspannen B.V. and Greenland Heavylift (Hong Kong) Limited (“GHHL”) respectively in April 2017 and June 2017, forming the goodwill of RMB 5,412,807 Yuan and RMB 110,562,702 Yuan respectively. The calculation process is given in Note VI.1.

As of Dec, 31, 2017, the Group did not accrue the goodwill depreciation reserves. In impairment testing, the book value of the goodwill is allocated to asset group portfolio benefiting from synergistic effect of expected business combination.

The goodwill acquired from business combination has been distribution to the following asset group for impairment testing:

- Heavy equipment asset group
- GHHL semi-submerged ship transport assets group

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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Heavy equipment asset group

The recoverable amount of heavy equipment asset group is measured based on five-year budget approved by the management and shall be measured with cash flow forecast method. Cash flow over 5-year period shall be calculated based on the estimated growth rate.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

18. Goodwill (continued)

Main assumptions based on future cash flow discount method:

Growth rate in forecast period	9.09%-14.37%
Perpetual growth rate	3%
Gross profit rate	13.87%-15.28%
Discount rate	11%

GHHL semi-submerged ship transport assets group

The recoverable amount of GHHL semi-submerged ship transport assets group is determined based on the expected future cash flow of the asset group, and the expected future cash flow is determined according to the cash flows based on the customized short-distance and long-distance transport service contract revenue expected to be obtained within the service life of vessel and general charter party revenue

Main assumptions based on future cash flow discount method:

Number of customized short-distance and long-distance transport service contracts expected to be obtained	3 /year/vessel;
Vessel utilization rate of general charter party	65%
Charter rate of general charter party	65,000 USD/day
Discount rate	11%

The distributions of the book value of goodwill to asset groups are as follows:

	Heavy equipment asset group		GHHL semi-submerged ship transport assets group			Total
	2017	2016	2017	2016	2017	2016
Book amount of goodwill	154,625,763	149,212,956	110,562,702	-	265,188,465	149,212,956

The perpetual growth rate adopted by the management is consistent with the forecast data contained in the industry report, and shall not exceed the long-term average growth rate of the industry. Based on the historical experience and the forecasts of market development, the management determines the budget gross profit rate and adopts the pretax interest rate which can reflect the specific risk of relevant asset group portfolio as the discount rate. The above assumptions are used to analyze the recoverable amount of the asset group portfolio.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

19. Long-term deferred expenses

2017

	Opening balance	Increase in current year	Amortization in current year	Other reductions	Closing balance
Improvement expenditure of fixed assets under operating lease	<u>10,881,263</u>	<u>-</u>	<u>(3,116,762)</u>	<u>-</u>	<u>7,764,501</u>

2016

	Opening balance	Increase in current year	Amortization in current year	Other reductions	Closing balance
Improvement expenditure of 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>

20. Deferred income tax assets/liabilities

Deferred income tax assets before offset:

	2017		2016	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Assets depreciation reserves	3,492,989,876	526,410,350	3,034,109,090	455,116,363
Unrealized profit of internal transaction	93,487,825	14,515,523	141,961,692	22,041,889
Predicted liabilities	451,642,802	67,746,420	285,223,845	42,783,577
Unpaid wages and salaries	27,824,781	4,173,717	27,802,006	4,170,301
Unpaid interest	102,690,137	15,403,520	128,368,841	19,255,326
Deferred income	90,237,676	13,535,651	47,536,247	7,130,437
Special reserves	1,234,252	185,138	-	-
Deductible loss	<u>8,441,406</u>	<u>1,266,211</u>	<u>6,815,216</u>	<u>1,022,282</u>
	<u>4,268,548,755</u>	<u>643,236,530</u>	<u>3,671,816,937</u>	<u>551,520,175</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

20. Deferred income tax assets/liabilities (continued)

Deferred income tax liabilities not offset:

	2017		2016	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Depreciation of fixed assets	814,903,900	134,459,143	409,482,226	74,116,286
Changes in fair value of the financial assets measured at fair value with changes included in current profits and losses	-	-	4,615,775	692,369
Changes in fair value of financial assets available-for-sale	323,568,551	50,953,384	332,937,152	50,495,661
Assets appreciation from business combination under the same control	154,879,706	23,231,959	166,224,963	24,933,745
	<u>1,293,352,157</u>	<u>208,644,486</u>	<u>913,260,116</u>	<u>150,238,061</u>

The net amounts of deferred income tax assets and deferred income tax liabilities after offset are listed as follows:

	2017		2016	
	Offset amount	Balance after offset	Offset amount	Balance after offset
Deferred income tax assets	<u>25,182,166</u>	<u>618,054,364</u>	<u>46,073,488</u>	<u>505,446,687</u>
Deferred income tax liabilities	<u>25,182,166</u>	<u>183,462,320</u>	<u>46,073,488</u>	<u>104,164,573</u>

The unrecognized deductible loss and temporary difference of deferred income tax assets are as follows:

	2017	2016
Deductible temporary difference	154,900,393	42,779,534
Deductible loss	<u>1,336,383,846</u>	<u>1,276,126,566</u>
	<u>1,491,284,239</u>	<u>1,318,906,100</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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V. Notes to Main Items of Consolidated Financial Statements (continued)

20. Deferred income tax assets/liabilities (continued)

The unrecognized deductible loss of deferred income tax assets shall mature or be returned in the following years:

	2017	2016
2017	-	185,000,368
2018	257,678,634	262,745,183
2019	320,476,005	341,404,744
2020	373,462,715	373,462,715
2021	111,737,653	113,513,556
2022	273,028,839	-
	<u>1,336,383,846</u>	<u>1,276,126,566</u>

21. Other non-current assets

	2017	2016
Advance payment for vessels	148,060,378	-
Advance payment for office buildings	28,666,235	-
	<u>176,726,613</u>	<u>-</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

22. Assets depreciation reserves

2017

	Opening balance	Proportion in current year	Reduction in current year		Closing balance
			Reversal	Write-off	
Provision for bad debt	1,377,551,325	596,087,396	(260,398,100)	-	1,713,240,621
Including: accounts receivable	1,339,875,923	248,322,946	(252,797,089)	-	1,335,401,780
Other receivables	37,675,402	347,764,450	(7,601,011)	-	377,838,841
Expected contract loss	451,818,774	217,630,192	(143,381,459)	(236,339,833)	289,727,674
Inventory falling price reserves	1,277,578,883	424,173,477	(9,275,058)	(85,910,234)	1,606,567,068
Depreciation reserves of available –for-sale financial assets	30,000,000	-	-	-	30,000,000
	<u>3,136,948,982</u>	<u>1,237,891,065</u>	<u>(413,054,617)</u>	<u>(322,250,067)</u>	<u>3,639,535,363</u>

2016

	Opening balance	Proportion in current year	Reduction in current year		Closing balance
			Reversal	Write-off	
Provision for bad debt	1,164,911,298	219,476,506	(4,997,815)	(1,838,664)	1,377,551,325
Including: accounts receivable	1,136,848,761	209,863,641	(4,997,815)	(1,838,664)	1,339,875,923
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
Depreciation reserves of available –for-sale financial assets	30,000,000	-	-	-	30,000,000
	<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>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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V. Notes to Main Items of Consolidated Financial Statements
(continued)

23. Short-term loans

	2017	2016
Debt of honor	22,214,681,401	18,618,358,297
Guarantee loan (i)	3,254,299,000	2,863,171,000
Pledged loan (ii)	-	4,390,096
	<u>25,468,980,401</u>	<u>21,485,919,393</u>

On Dec. 31, 2017, the annual interest rate of above loans was 1.1%~4.79% (Dec. 31, 2016: 0.81%~5.65%).

- (i) As of Dec. 31, 2017, the bank guarantee loan of 265,000,000 USD, equivalent to RMB 1,731,563,000 Yuan (Dec. 31, 2016: 191,500,000 USD, equivalent to RMB 1,328,435,500 Yuan) was the bank loans borrowed by the subsidiary of the Company, which was guaranteed by the letter of guarantee issued by the bank for the Company within the scope of credit.

As of Dec. 31, 2017, the bank guarantee loan of RMB 1,000,000,000 Yuan (Dec. 31, 2016: RMB 900,000,000 Yuan) was the bank loan borrowed by the Company, and the subsidiaries of Company provided joint and several liability repayment guarantee.

As of Dec. 31, 2017, the bank guarantee loan of 80,000,000 USD, equivalent to RMB 522,736,000 Yuan (Dec. 31, 2016: 91,500,000 USD, equivalent to RMB 634,735,500 Yuan) was the bank loan borrowed by the Company, and the subsidiaries of Company provided joint and several liability repayment guarantee.

- (ii) As of Dec. 31, 2017, the Company had no pledged loan (Dec. 31, 2016: RMB 4,390,096 Yuan). Refer to Note V (3).

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Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

24. Notes payable

	2017	2016
Bank acceptance bill	<u>1,893,227,482</u>	<u>1,905,121,706</u>

25. Accounts payable

	2017	2016
Material purchase and product manufacturing payables	6,189,910,557	4,853,217,936
Equipment and vessel purchase payables	303,044,496	121,413,650
Infrastructure payables	81,145,537	86,257,192
Quality guarantee deposit payable	309,201,127	37,826,248
Port charge payable	<u>4,296,454</u>	<u>4,303,871</u>
	<u>6,887,598,171</u>	<u>5,103,018,897</u>

The aging analysis of accounts payable is as follows:

	2017		2016	
	Amount	Proportion in total amount%	Amount	Proportion in total amount%
Within 1 year	5,301,236,729	77	3,749,654,509	73
Over 1 year	<u>1,586,361,442</u>	<u>23</u>	<u>1,353,364,388</u>	<u>27</u>
	<u>6,887,598,171</u>	<u>100</u>	<u>5,103,018,897</u>	<u>100</u>

As of Dec. 31, 2017, the accounts payable aged over 1 year were mainly the purchase receivable for imported parts, which had not been liquidated.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

26. Advances from customers

	2017	2016
Advances for product sales received	<u>591,727,255</u>	<u>292,941,206</u>

The aging analysis of advances from customers is as follows:

	Dec. 31, 2017		Dec. 31, 2016	
	Amount	Proportion in total amount t%	Amount	Proportion in total amount t%
Within 1 year	474,250,196	80	268,730,790	92
Over 1 year	<u>117,477,059</u>	<u>20</u>	<u>24,210,416</u>	<u>8</u>
	<u>591,727,255</u>	<u>100</u>	<u>292,941,206</u>	<u>100</u>

As of Dec. 31, 2017, the advances from customers aged over 1 year mainly included the hull construction and spare parts sales money received in advance, which had not been liquidated.

V. Notes to Main Items of Consolidated Financial Statements (continued)

27. Employee remuneration payable

	2017	2016
Short-term compensation	272,766,860	263,414,249
Post-employment welfare (defined contribution plans)	<u>966,347</u>	<u>1,135,507</u>
	<u>273,733,207</u>	<u>264,549,756</u>

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Notes to Financial Statements (continued)

Dec. 31, 2017

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V. Notes to Main Items of Consolidated Financial Statements (continued)

27. Employee remuneration payable (continued)

The short-term compensation is as follows:

2017

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Wage, bonus, allowance and subsidy	228,974,939	1,331,833,695	(1,323,727,003)	237,081,631
Employee welfare expense	-	46,449,241	(46,449,241)	-
Social insurance charges Including: medical insurance premiums	620,676	118,832,051	(118,898,275)	554,452
Industrial injury insurance premiums	515,155	100,110,487	(100,180,148)	445,494
Birth insurance premium	73,131	9,302,735	(9,306,528)	69,338
Housing fund	32,390	9,418,829	(9,411,599)	39,620
Labor union expenditure and staff training expense	463,700	116,585,167	(116,569,481)	479,386
Other short-term compensations	33,354,934	26,132,282	(24,946,183)	34,541,033
	-	6,230,457	(6,120,099)	110,358
	<u>263,414,249</u>	<u>1,646,062,893</u>	<u>(1,636,710,282)</u>	<u>272,766,860</u>

2016

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Wage, bonus, allowance and subsidy	222,647,867	1,223,482,995	(1,217,155,923)	228,974,939
Employee welfare expense	-	24,847,047	(24,847,047)	-
Social insurance charges Including: medical insurance premiums	747,129	123,657,388	(123,783,841)	620,676
Industrial injury insurance premiums	614,763	104,976,902	(105,076,510)	515,155
Birth insurance premium	98,397	8,787,233	(8,812,499)	73,131
Housing fund	33,969	9,893,253	(9,894,832)	32,390
Labor union expenditure and staff training expense	435,294	113,233,900	(113,205,494)	463,700
Other short-term compensations	32,476,555	19,136,815	(18,258,436)	33,354,934
	-	8,424,852	(8,424,852)	-
	<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.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

27. Employee remuneration payable (continued)

The defined contribution plans are as follows:

2017

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Basic endowment insurance premium	1,079,153	212,439,518	(212,577,142)	941,529
Supplementary endowment insurance premium	-	49,316,808	(49,316,808)	-
Unemployment insurance expense	56,354	6,880,759	(6,912,295)	24,818
	<u>1,135,507</u>	<u>268,637,085</u>	<u>(268,806,245)</u>	<u>966,347</u>

2016

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Basic endowment insurance premium	1,429,703	216,311,014	(216,661,564)	1,079,153
Supplementary endowment insurance premium	-	48,394,936	(48,394,936)	-
Unemployment insurance expense	86,062	11,665,639	(11,695,347)	56,354
	<u>1,515,765</u>	<u>276,371,589</u>	<u>(276,751,847)</u>	<u>1,135,507</u>

28. Tax payable

	2017	2016
VAT	58,341,748	72,920,316
Corporate income tax	98,206,405	142,223,431
Individual income tax	12,386,558	4,734,973
Urban maintenance and construction tax	1,758,287	2,720,271
Educational surtax	2,018,432	2,561,018
Others	<u>22,237,497</u>	<u>25,840,715</u>
	<u>194,948,927</u>	<u>251,000,724</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

29. Interest payable

	2017	2016
Loan interest	118,825,582	79,127,386
Bond interest	<u>-</u>	<u>61,068,417</u>
	<u>118,825,582</u>	<u>140,195,803</u>

30. Dividend payable

	2017	2016
CCCC Tianjin Dredging Co., Ltd.	25,079,494	25,079,494
Chuwa Bussan Co. Ltd.	6,269,873	6,269,873
Zhenhua (Hong Kong) Engineering Co., Ltd,	346,005	346,005
Zhenhua Harbour Construction Co., Ltd.	<u>6,593</u>	<u>6,593</u>
	<u>31,701,965</u>	<u>31,701,965</u>

As of Dec. 31, 2017, the dividend payable aged over 1 year of RMB 31,701,965 Yuan (Dec. 31, 2016: RMB 31,701,965 Yuan) was because the minority shareholder of related party had not requested for actual payment by the Group.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

31. Other payables

	2017	2016
Engineering deposit and quality guarantee deposit	225,779,472	278,510,650
Payables to related party	133,772,685	308,637,187
Investment section payable to China Communications Construction Company Ltd. (i)	100,971,833	100,971,833
Borrowings from related party	38,700,000	523,000,000
Others	193,456,139	14,015,758
	<u>692,680,129</u>	<u>1,225,135,428</u>

- (i) The Group completed the cancellation of a subsidiary in the year 2011. RMB 25,971,833 Yuan in the balance was the investment liquidation fund payable by the Group and attributable to China Communications Construction Company Ltd., another shareholder of the subsidiary; meanwhile, the Group completed the merger and acquisition of the subsidiary of CCCC under the same control in 2015, and RMB 75,000,000 Yuan in the balance was the purchase fund payable by the Group to China Communications Construction Company Ltd.

The aging analysis of other payables is as follows:

	Dec. 31, 2017		Dec. 31, 2016	
	Amount	Proportion%	Amount	Proportion %
Within 1 year	355,748,932	51	978,705,261	80
Over 1 year	336,931,197	49	246,430,167	20
	<u>692,680,129</u>	<u>100</u>	<u>1,225,135,428</u>	<u>100</u>

As of Dec. 31, 2017, the other payables aged over 1 year were mainly the investment section payable to China Communications Construction Company Ltd., payable deposit and quality guarantee deposited collected from outsourcing engineering team and payables to related party.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

**V. Notes to Main Items of Consolidated Financial Statements
(continued)**

32. Non-current liabilities due within one year

	2017	2016
Long-term loans due within one year (Note V. 34)	1,343,956,000	270,000,000
Long-term payables due within one year (Note V. 35)	<u>854,975,219</u>	<u>529,574,356</u>
	<u><u>2,198,931,219</u></u>	<u><u>799,574,356</u></u>

33. Other current liabilities

	2017	2016
2016 short-term commercial paper Series 1	-	1,998,695,891
2016 Super & Short-term Commercial Paper Series 1	<u>-</u>	<u>1,997,329,444</u>
	<u><u>-</u></u>	<u><u>3,996,025,335</u></u>

The short-term bonds payable are as follows:

	Total par value	Issue cost	Issue cost amortization	Repayment in current period	Dec. 31, 2017
2017					
2016 short-term commercial paper Series 1	<u>2,000,000,000</u>	<u>(4,000,000)</u>	<u>4,000,000</u>	<u>2,000,000,000</u>	<u>-</u>
2016 Super & Short-term Commercial Paper Series 1	<u>2,000,000,000</u>	<u>(3,450,000)</u>	<u>3,450,000</u>	<u>2,000,000,000</u>	<u>-</u>
	Total par value	Issue cost	Issue cost amortization	Repayment in current period	Dec. 31, 2016
2016					
2016 short-term commercial paper Series 1	<u>2,000,000,000</u>	<u>(4,000,000)</u>	<u>2,695,891</u>	<u>-</u>	<u>1,998,695,891</u>
2016 Super & Short-term Commercial Paper Series 1	<u>2,000,000,000</u>	<u>(3,450,000)</u>	<u>779,444</u>	<u>-</u>	<u>1,997,329,444</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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V. Notes to Main Items of Consolidated Financial Statements (continued)

33. Other current liabilities (continued)

As approved by NAFMII ZSXZ (2016) No. SCP321 *Notice on Acceptance of Registration, the Document of National Association of Financial Market Institutional Investors* (NAFMII), the registered amount for issuing Super & Short-term Commercial Paper by the Company was RMB 10,000,000,000 Yuan which would be valid for 2 years from Oct. 19, 2016.

The Company issued 2016 short-term commercial paper Series 1 of RMB 2,000,000,000 Yuan on Apr. 28, 2016, with the tenor of 1 year and the coupon annual rate of 3.7%, the maturity date would be Apr. 29, 2017 and the capital with interest would be repaid at maturity.

The Company issued the 2016 Super & Short-term Commercial Paper Series 1 of RMB 2,000,000,000 Yuan on Oct. 28, 2016, with the tenor of 270 days and the coupon annual rate of 3.2%, the maturity date would be July 28, 2017 and the capital with interest would be repaid at maturity.

The bonds above have no mortgage or guarantee.

34. Long-term loans

	2017	2016
Debt of honor	6,616,010,383	3,121,485,497
Guarantee loan (i)	326,710,000	346,850,000
Pledged loan (ii)	<u>1,066,150,000</u>	<u>727,000,000</u>
	<u>8,008,870,383</u>	<u>4,195,335,497</u>
Less: Long-term loans due within one year		
Debt of honor	(971,446,000)	-
Guarantee loan	(326,710,000)	-
Pledged loan	<u>(45,800,000)</u>	<u>(270,000,000)</u>
	<u>(1,343,956,000)</u>	<u>(270,000,000)</u>
	<u>6,664,914,383</u>	<u>3,925,335,497</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

34. Long-term loans (continued)

As of Dec. 31, 2017, the annual interest rate of the above loans was 1.20% - 5.13% (Dec. 31, 2016: 1.20% - 6.89%).

- (i) As of Dec. 31, 2017, the bank guarantee loan of 50,000,000 USD, equivalent to RMB 326,710,000 Yuan (Dec. 31, 2016: 50,000,000 USD, equivalent to RMB 346,850,000 Yuan), was the bank loan borrowed by the subsidiary of the Company in Hong Kong, and the guarantee was provided by the Company. The interest shall be paid quarterly and the principal shall be paid at maturity on July 27, 2018.
- (ii) As of Dec. 31, 2017, the total amount of multiple pledged loans of RMB 1,066,150,000Yuan (Dec. 31, 2016: RMB 727,000,000 Yuan) took the long-term accounts receivable of the "construction-transfer" project of the Group as pledge (Note V, 12). The interest shall be paid quarterly, and the principal shall be paid at maturity between June 21, 2020 and Dec. 31, 2026 (Dec 31, 2016: the principal shall be paid respectively between June 21, 2017 and Nov. 25, 2018).

35. Long-term payables

	2017	2016
Sale and leaseback financing fund (i)	2,550,179,975	2,082,370,386
"Construction-transfer" project funds (ii)	108,466,881	65,565,134
Engineering quality guarantee deposit	81,314,696	-
Less: Sale and leaseback financing fund due within one year (Note V, 32)	(854,975,219)	(529,574,356)
	<u>1,884,986,333</u>	<u>1,618,361,164</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

35. Long-term payables (continued)

- (i) Dec. 31, 2017, the long-term payables of RMB 2,550,179,975 Yuan (Dec. 31, 2016: 2,082,370,386 Yuan) were obtained from the vessel with the book value of RMB 3,687,007,865 Yuan (Dec. 31, 2016: RMB 1,882,864,040 Yuan) (Note V, 15) and the mechanical equipment with book value of RMB 437,072,634 Yuan (Dec. 31, 2016: RMB 555,450,350 Yuan) (Note V, 15) in sale and leaseback transaction way from the financial leasing company, with the financing maturity of 4~6 years (Dec. 31, 2016: 4~6 years). The Group pays the sale and leaseback financing fund on schedule each year in accordance with the contract terms. The Group takes the above series of transactions as mortgage loans for accounting treatment.
- (ii) The Group and the Construction Party of “construction-transfer” project agreed that part of the project payments would 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 will be paid between 2020 and 2022.

36. Predicted liabilities

2017

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Estimated after-sales service cost	290,216,116	285,144,031	(198,844,436)	376,515,711
Product quality assurance	241,517	524,561	(251,616)	514,462
Litigation compensation (i)	-	85,200,340	-	85,200,340
Others	2,658,150	-	-	2,658,150
	293,115,783	370,868,932	(199,096,052)	464,888,663

2016

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Estimated after-sales service cost	216,306,557	235,780,889	(161,871,330)	290,216,116
Product quality assurance	1,176,471	-	(934,954)	241,517
Others	2,658,150	-	-	2,658,150
	220,141,178	235,780,889	(162,806,284)	293,115,783

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

36. Predicted liabilities (continued)

- (i) In 2008, the Company and Fluor Limited (hereinafter referred to as “Fluor”) signed an agreement on 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, maintained the normal dispute settlement and communication mechanism. In 2010, for the issues in contract execution process, after reviewed by the board of directors of the Company, the Company signed a mutual exemption letter with Fluor, and settled the remaining payment in 2011. Afterwards, Fluor lodged a quality claim against the Company, and requested the payment of the demand quality guarantee issued by the Company, while the Company rejected the claim. On March 20, 2014, Fluor cashed the above letter of guarantee with the amount of 23,409,750 EUR in the bank opening the letter of guarantee.

In September 2014, Fluor initiated proceedings for the breach attributed to 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 total compensation of 250 million Pounds for additional test and repair cost, project period delay and other related loss (including the cashed letter of guarantee amount of 23,409,750 EUR). 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, June of 2016, British High Court TCC court was in trial for first instance on obligation part. In May 2017, the trial of quantitative part of this case was conducted. In July 2017, both parties exchanged the written final address. In Aug. 2017, the proceeding at law for the quantitative part of this case was settled.

On Jan. 11, 2018, the court made quantized judgment on this case and adjudicated this Company to pay USD 5,893,591 dollars, 15,033,681 pounds, 7,165,740 Euro dollars, 7,259 Canadian dollars and RMB 485,346 Yuan to Fluor. On Mar. 16, 2018, the court made the judgment on the interest and adjudicated this Company to pay 3,518,549 pounds to Fluor. However, the legal cost and other expenses related to the judgment amount were additionally measured. The above amount is equivalent to RMB 85,200,340 Yuan.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

37. Deferred income

2017

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Governmental subsidy	370,780,323	69,526,880	(64,068,935)	376,238,268
Land compensation	80,255,701	25,030,000	(2,349,849)	102,935,852
	<u>451,036,024</u>	<u>94,556,880</u>	<u>(66,418,784)</u>	<u>479,174,120</u>

2016

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Governmental subsidy	323,237,563	70,020,819	(22,478,059)	370,780,323
Land compensation	82,188,384	-	(1,932,683)	80,255,701
	<u>405,425,947</u>	<u>70,020,819</u>	<u>(24,410,742)</u>	<u>451,036,024</u>

As of Dec. 31, 2017, the liabilities involving governmental subsidy were as follows:

	Opening balance	Newly increase in current year	Included in other revenues of current year	Other changes	Closing balance
Hoisting and pipe laying ship R&D project	92,500,000	-	-	-	92,500,000
Submarine pipeline laying R&D project	41,125,500	175,000	-	-	41,300,500
Automated dock R&D project	25,620,000	-	(800,000)	-	24,820,000
Floating crane R&D project	19,510,000	-	(1,370,200)	-	18,139,800
Intelligent equipment for container yard	17,945,000	13,500,000	(30,000,000)	-	1,445,000
Deep sea drilling ship and auxiliary equipment research project	14,860,000	-	-	-	14,860,000
50000 ton semi-submerged ship R&D project	14,000,000	-	(373,333)	-	13,626,667
Drilling platform R&D project	12,810,000	-	-	(3,420,000)	9,390,000
Transportation positioning system R&D project	10,000,000	-	-	-	10,000,000
Comprehensive standardization of intelligent manufacturing of ocean engineering equipment	10,000,000	7,000,000	-	-	17,000,000
Research and development of large-scale underwater robot work-system	9,208,000	-	-	(675,000)	8,533,000
ocean engineering positioning system R&D project	9,192,339	-	(1,495,018)	-	7,697,321
Drilling package R&D project	8,400,000	8,560,000	-	(2,550,000)	14,410,000
Manufacturing process optimization R&D project in ocean engineering field	8,000,000	-	-	-	8,000,000
Nantong Transmission R&D project	7,200,000	-	(7,200,000)	-	-

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Notes to Financial Statements (continued)

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Intelligent transportation system of Automatic Guided Vehicle (AGV)	6,000,000	-	-	-	6,000,000
CCC DCM ship achievement transformation project	5,906,250	1,000,000	(2,875,000)	-	4,031,250
Development and industrialization of large deep water crane piping ship	5,572,000	-	-	-	5,572,000
Self-elevating platform central control system	3,500,000	2,370,000	(2,060,000)	-	3,810,000
Finishing intelligent production line of special gear shaft for port machinery	2,560,000	-	-	-	2,560,000
Intelligent electric differential traction bridge crane	1,444,000	-	-	(321,100)	1,122,900
Intelligent manufacturing workshop for crane box of automated terminal	-	16,860,000	-	(2,688,204)	14,171,796
Retractable boarding trestle system R&D project	-	2,160,300	-	-	2,160,300
Others	45,427,234	17,901,580	(5,158,580)	(3,082,500)	55,087,734
	<u>370,780,323</u>	<u>69,526,880</u>	<u>(51,332,131)</u>	<u>(12,736,804)</u>	<u>376,238,268</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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V. Notes to Main Items of Consolidated Financial Statements (continued)

37. Deferred income (continued)

As of Dec. 31, 2016, the liabilities involving governmental subsidy are as follows:

	Opening balance	Newly increase in current year	Included in non-operating business of current year	Other changes	Closing balance
Hoisting and pipe laying ship R&D project	92,500,000	-	-	-	92,500,000
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
Deep sea drilling ship and auxiliary equipment research project	5,360,000	9,500,000	-	-	14,860,000
50000 ton semi-submerged ship R&D project	14,000,000	-	-	-	14,000,000
Drilling platform R&D 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
Comprehensive standardization of intelligent manufacturing of ocean engineering equipment	5,300,000	4,700,000	-	-	10,000,000
Research and development of large-scale underwater robot work-system	7,000,000	3,000,000	-	(792,000)	9,208,000
ocean 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
Manufacturing process optimization R&D project in Ocean Engineering field	-	8,000,000	-	-	8,000,000
Nantong Transmission R&D project	17,900,000	-	(10,700,000)	-	7,200,000
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
Finishing intelligent production line of special gear shaft for port machinery	-	3,200,000	-	(640,000)	2,560,000
Intelligent electric differential traction bridge crane	-	2,030,000	-	(586,000)	1,444,000
Other R&D projects	41,697,063	4,818,819	(960,751)	(127,897)	45,427,234
	<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>

The above governmental subsidies are related to income.

Other changes in current year are the R&D subsidies allocated to the partner in accordance with the research and development agreement.

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Land compensation refers to the land compensation acquired by the subsidiary of the Company, which shall be amortized over the 50 years' land use term.

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Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

38. Other non-current liabilities

	2017	2016
Stay-recognition tax	<u>152,954,098</u>	<u>56,025,416</u>

On balance sheet date, the income of some construction contracts and interest income of “construction-transfer” projects of the Company had not reached the time point of the VAT liability. In accordance with the requirements of the *Provisions on Accounting Treatment of VAT* (CK 2016 No. [22]), the Group reclassified the ending credit balance of the item “Tax payable - Stay-recognition tax” from “Tax payable” to “Other non-current liabilities” and listed in the balance sheet.

39. Capital stock

2017

	Opening balance	Changes in current year					Closing balance
		Issue of new shares	Issue of bonus share	Share increase from accumulation fund	Others	Subtotal	
Unrestricted shares							
-RMB common stock	2,768,331,384	-	-	-	-	-	2,768,331,384
-Foreign capital stock listed in China	<u>1,621,963,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,621,963,200</u>
	<u>4,390,294,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,390,294,584</u>

2016

	Opening balance	Changes in current year					Closing balance
		Issue of new shares	Issue of bonus share	Share increase from accumulation fund	Others	Subtotal	
Unrestricted shares							
-RMB common stock	2,768,331,384	-	-	-	-	-	2,768,331,384
-Foreign capital stock listed in China	<u>1,621,963,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,621,963,200</u>
	<u>4,390,294,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,390,294,584</u>

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**V. Notes to Main Items of Consolidated Financial Statements
(continued)**

40. Capital reserves

2017

	Opening balance	Increase in current year	Reductio n in current year	Closing balance
Capital stock premium	5,415,833,470	-	-	5,415,833,470
Other capital reserves				
-Business combination under the same control	(16,203,111)	-	-	(16,203,111)
- Acquisition of minority shareholders' equity of the subsidiary	(711,345)	-	-	(711,345)
-Capital reserves transferred-in from original system	<u>128,059,561</u>	<u>-</u>	<u>-</u>	<u>128,059,561</u>
	<u>5,526,978,575</u>	<u>-</u>	<u>-</u>	<u>5,526,978,575</u>

2016

	Opening balance	Increase in current year	Reductio n in current year	Closing balance
Capital stock premium	5,415,833,470	-	-	5,415,833,470
Other capital reserves				
-Business combination under the same control	(16,203,111)	-	-	(16,203,111)
- Acquisition of minority shareholders' equity of the subsidiary	(711,345)	-	-	(711,345)
- Capital reserves transferred-in from original system	<u>128,059,561</u>	<u>-</u>	<u>-</u>	<u>128,059,561</u>
	<u>5,526,978,575</u>	<u>-</u>	<u>-</u>	<u>5,526,978,575</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

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V. Notes to Main Items of Consolidated Financial Statements (continued)

41. Other comprehensive income

Accumulative balance of other comprehensive income attributable to parent company in balance sheet table:

	Jan. 1, 2016	Changes	Dec. 31, 2016	Changes	Dec. 31, 2017
Other comprehensive income that will be reclassified into gains and losses subsequently					
Shares in other comprehensive income of the invested party to be reclassified to the profits and losses under equity method	1,256,397	4,801,990	6,058,387	(8,449,542)	(2,391,155)
Fair value changes in financial assets available for sale	198,105,686	84,335,801	282,441,487	(9,826,324)	272,615,163
Converted difference in foreign currency statements	<u>8,298,154</u>	<u>25,605,643</u>	<u>33,903,797</u>	<u>(30,234,827)</u>	<u>3,668,970</u>
	<u>207,660,237</u>	<u>114,743,434</u>	<u>322,403,671</u>	<u>(48,510,693)</u>	<u>273,892,978</u>

Current amount of other comprehensive income in income statement:

2017

	Pretax amount incurred	Less: Included in other comprehensive income in prior period and transferred into profits and losses of current period	Less: income tax	Attributable to parent company	Attributable to minority shareholders' equity
Other comprehensive income that will be reclassified into gains and losses subsequently					
Shares in other comprehensive income of the invested party to be reclassified to the profits and losses under equity method	(8,449,542)	-	-	(8,449,542)	-
Fair value changes in financial assets available for sale	(9,368,601)	-	457,723	(9,826,324)	-
Converted difference in foreign currency statements	<u>(48,401,660)</u>	<u>-</u>	<u>-</u>	<u>(30,234,827)</u>	<u>(18,166,833)</u>
	<u>(66,219,803)</u>	<u>-</u>	<u>457,723</u>	<u>(48,510,693)</u>	<u>(18,166,833)</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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2016

	Pretax amount incurred	Less: Included in other comprehensive income in prior period and transferred into profits and losses of current period	Less: income tax	Attributable to parent company	Attributable to minority shareholders' equity
Other comprehensive income that will be reclassified into gains and losses subsequently					
Shares in other comprehensive income of the invested party to be reclassified to the profits and losses under equity method	4,801,990	-	-	4,801,990	-
Fair value change 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>-</u>	<u>-</u>	<u>25,605,643</u>	<u>7,765,004</u>
	<u>139,567,963</u>	<u>-</u>	<u>17,059,525</u>	<u>114,743,434</u>	<u>7,765,004</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

42. Special reserves

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Safe production cost	-	45,958,231	(44,043,399)	1,914,832

According to the relevant requirements of the *Administrative Measures for the Extraction and Use of Safe Production Costs*, the enterprises engaged in large - scale machinery manufacture, engineering construction, etc., shall draw safe production costs according to the standards. Increase and decrease the safe production cost of the Group in current year in accordance with relevant requirements.

43. Surplus reserves

2017

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Statutory surplus reserves	1,310,744,314	15,420,989	-	1,326,165,303
Discretionary surplus reserves	292,378,668	-	-	292,378,668
	1,603,122,982	15,420,989	-	1,618,543,971

2016

	Opening balance	Increase in current year	Reduction in current year	Closing balance
Statutory surplus reserves	1,283,722,118	27,022,196	-	1,310,744,314
Discretionary surplus reserves	292,378,668	-	-	292,378,668
	1,576,100,786	27,022,196	-	1,603,122,982

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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In accordance with P. R. China Company Law, the Company's Article of Association and board meeting resolutions, the Company accrues 10% of its net profit as statutory surplus reserve. When the accumulated amount of statutory surplus reserve reaches 50% or more 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 was RMB 15,420,989 Yuan in 2017 (2016: RMB 27,022,196 Yuan).

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Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

44. Undistributed profit

	2017	2016
Opening undistributed profit	3,353,936,451	3,168,538,701
Net profit attributable to the shareholders of parent company	300,195,422	212,419,946
Less: Statutory surplus reserves withdrawn	(15,420,989)	(27,022,196)
Common stock dividends payable	(439,029,458)	-
Ending undistributed profit	<u>3,199,681,426</u>	<u>3,353,936,451</u>

45. Operating revenue and cost

	2017		2016	
	Revenue	Cost	Revenue	Cost
Main business	21,642,271,179	17,893,942,874	24,143,396,762	19,525,829,470
Other business	<u>216,542,821</u>	<u>125,132,425</u>	<u>204,691,166</u>	<u>201,834,405</u>
	<u>21,858,814,000</u>	<u>18,019,075,299</u>	<u>24,348,087,928</u>	<u>19,727,663,875</u>

Main business income and cost are listed below:

	2017		2016	
	Main business income	Main business cost	Main business income	Main business cost
Container cranes	13,120,859,480	9,940,403,610	17,082,391,036	13,067,811,357
Bulk machine members	1,615,504,267	1,551,779,298	3,154,983,915	3,054,772,000
Heavy equipment	3,384,886,419	3,084,117,712	1,284,872,909	1,279,775,256
Steel structures and related income	1,520,119,032	1,487,522,614	1,035,829,290	938,105,979
“Construction-transfer” project	1,549,820,489	1,548,520,638	1,005,087,825	1,019,082,565
Vessel shipping and others	<u>451,081,492</u>	<u>281,599,002</u>	<u>580,231,787</u>	<u>166,282,313</u>
	<u>21,642,271,179</u>	<u>17,893,942,874</u>	<u>24,143,396,762</u>	<u>19,525,829,470</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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V. Notes to Main Items of Consolidated Financial Statements (continued)

45. Operating revenue and cost (continued)

Other business income and cost are listed below:

	2017		2016	
	Other business income	Other business cost	Other business income	Other business cost
Sales of materials	58,465,010	58,551,465	81,273,472	139,919,381
Equipment leasing and others	158,077,811	66,580,960	123,417,694	61,915,024
	<u>216,542,821</u>	<u>125,132,425</u>	<u>204,691,166</u>	<u>201,834,405</u>

46. Taxes and surcharges

	2017	2016
Housing property tax	52,506,650	48,028,255
Land use tax	27,395,297	16,874,815
Stamp tax	14,088,249	9,661,367
Urban maintenance and construction tax	9,591,497	15,645,413
Educational surtax	8,764,726	12,504,639
Business tax	-	47,494,080
Others	<u>1,894,225</u>	<u>1,967,268</u>
	<u>114,240,644</u>	<u>152,175,837</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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**V. Notes to Main Items of Consolidated Financial Statements
(continued)**

47. Selling expenses

	2017	2016
Employee compensation	58,860,634	53,604,675
Travel expenses	28,710,299	24,261,692
Sales service expenses	6,616,534	3,561,444
Office expenses	5,997,281	5,063,286
advertising and publicity costs	4,332,045	1,370,622
Bidding and tendering expenses	2,394,084	1,582,134
Exhibition fees	2,038,404	2,866,724
Others	12,508,611	8,125,201
	<u>121,457,892</u>	<u>100,435,778</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

48. Management expenses

	2017	2016
Technical R&D expenses	702,392,513	851,544,356
Employee compensation	480,979,047	435,509,342
Expenses on employing intermediary	143,878,907	76,540,843
Intangible assets amortization	96,889,767	97,017,725
Depreciation of fixed assets	74,485,191	73,752,507
Office expenses	47,525,626	43,843,424
Consulting fees	26,877,773	18,030,885
Travel expenses	26,332,516	21,821,209
Management and security fees	22,892,275	15,116,607
Informatization expense	17,283,659	13,574,204
Business entertainment expenses	14,644,990	15,921,003
Management and cleaning fee	14,560,712	13,862,656
Insurance expense	7,083,929	7,865,652
Maintenance charge	5,019,467	6,483,287
Taxes	-	39,216,370
Others	61,320,928	28,932,676
	<u>1,742,167,300</u>	<u>1,759,032,746</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

49. Financial expenses

	2017	2016
Interest expenditure	1,162,344,297	1,095,191,900
Less: Interest income	293,152,359	308,686,445
Less: Amount of interest capitalization	5,494,319	268,297
Exchange (gains)/losses	(180,764,448)	369,552,810
Bond issue cost discount amortization	3,974,665	7,869,961
Others	<u>71,293,469</u>	<u>55,332,859</u>
	<u>758,201,305</u>	<u>1,218,992,788</u>

The capitalized amount of borrowing cost has been included in the construction in process.

50. Assets impairment loss

	2017	2016
Loss on inventory valuation (Note V, 22)	414,898,419	803,814,035
Loss on bad debt (Note V, 22)	335,689,296	214,478,691
Expected contract loss (Note V, 22)	<u>74,248,733</u>	<u>202,823,449</u>
	<u>824,836,448</u>	<u>1,221,116,175</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

51. Gain/loss from fair value changes

	2017	2016
Financial assets measured at fair value with changes included in current profits and losses (Note V, 2)	(4,615,775)	3,939,693
Financial liabilities measured at fair value with changes included in current profits and losses	-	24,918,115
	<u>(4,615,775)</u>	<u>28,857,808</u>

52. Gain on investment

	2017	2016
Long-term equity investment income under equity method (Note V, 13)	94,274,214	99,395,952
Gain on investment from the disposal of long-term equity investment	2,536,928	-
Gain on investment from holding the equity instrument of financial assets available-for-sale (Note V, 11)	23,866,503	17,010,628
Gain on investment of financial assets available-for-sale under cost method (Note V, 11)	2,691,286	-
Investment income of bank financing products	-	2,101,669
Investment income from the disposal of the equity instrument of financial assets available-for-sale	-	5,176
	<u>123,368,931</u>	<u>118,513,425</u>

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Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

53. Gains from assets disposal

	2017	2016
Gains from assets disposal	17,491,522	6,649,827
Loss on assets disposal	<u>(6,742,466)</u>	<u>(5,309,215)</u>
	<u>10,749,056</u>	<u>1,340,612</u>

54. Other revenue

The governmental subsidies related daily activities are as follows:

	2017	2016	Related to asset/income
Financial appropriations	71,702,575	-	Related to income
Technological subsidies	2,145,783	-	Related to income
Land compensation	<u>2,349,849</u>	-	Related to assets
	<u>76,198,207</u>	<u>-</u>	

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Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

55. Non-operating income

	2017	2016	Included in on-recurring profit and loss of current period
Governmental subsidy (Note)	7,304,337	45,042,910	7,304,337
Insurance indemnity income	12,383,293	45,531	12,383,293
Others	<u>9,655,928</u>	<u>11,904,975</u>	<u>9,655,928</u>
	<u>29,343,558</u>	<u>56,993,416</u>	<u>29,343,558</u>

The governmental subsidies included in current profits and losses are as follows:

	2017	2016	Related to asset/income
Financial appropriations (Note)	7,304,337	39,982,226	Related to income
Technological subsidies	-	3,128,000	Related to income
Land compensation	<u>-</u>	<u>1,932,684</u>	Related to assets
	<u>7,304,337</u>	<u>45,042,910</u>	

Note: The governmental subsidies or financial appropriations in 2007 are unrelated to daily activities.

56. Non-operating expenditures

	2017	2016	Included in on-recurring profit and loss of current period
Litigation compensation	85,200,340	-	85,200,340
Overdue fine expenditure	2,402,174	3,474,664	2,402,174
External donation	225,279	20,000	225,279
Others	4,288,460	2,020,182	4,288,460
	92,116,253	5,514,846	92,116,253

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

57. Cost classification by nature

The supplementary information about the Group's operating costs, selling expenses and management expenses classified by nature are as follows:

	2017	2016
Raw material and low value consumables consumed	12,641,926,856	14,371,771,965
Employee compensation expense (Note V, 27)	1,914,699,978	1,789,154,586
Depreciation and amortization charge (Note V, 14, 15, 17, 19)	1,342,770,504	1,285,028,932
External coordination cost	1,092,912,581	1,277,245,080
Transportation cost	762,378,145	671,016,351
Technical R&D expenses (Note V, 48)	702,392,513	851,544,356
On-site installation expenses	337,664,631	216,944,442
Energy cost	222,598,174	298,219,379
Rental charge	183,475,422	172,780,365
Expenses on employing intermediary	143,878,907	76,540,843
After-sales cost	109,885,037	127,301,003
Travel expenses	55,042,815	46,082,901
Office expenses	53,522,907	48,906,710
Informatization expense	17,283,659	13,574,204
Business entertainment expenses	14,644,990	15,921,003
Bidding and tendering expenses	2,394,084	1,582,134
Taxes (Note V, 48)	-	39,216,370
Other expenses	285,229,288	284,301,775
	<u>19,882,700,491</u>	<u>21,587,132,399</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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58. Income tax expenses

	2017	2016
Current income tax expenses	126,087,069	136,856,233
Deferred income tax expenses	<u>(33,767,653)</u>	<u>(75,339,325)</u>
	<u>92,319,416</u>	<u>61,516,908</u>

V. Notes to Main Items of Consolidated Financial Statements (continued)

58. Income tax expenses (continued)

The relationship between income tax expenses and total profit is listed below:

	2017	2016
Total profit	421,762,836	368,861,144
Income tax expense calculated based on the applicable tax rate (Tax rate: 15%)	63,264,425	55,329,171
Some subsidiaries applied to the influence of different tax rate	23,000,890	21,202,805
Profits and losses attributable to the joint venture and associated enterprise	(27,662,116)	(14,966,483)
Non-taxable income	(9,386)	(108,251)
Non-deductible expenses	3,546,281	2,972,594
Final settlement and adjustment for previous year	5,138,773	(8,933,223)
Use the deductible loss of the previous year	(7,493,909)	(10,334,298)
Unrecognized impact of deductible temporary difference and deductible loss	53,606,776	39,776,493
Weighted deduction of technological development cost	<u>(21,072,318)</u>	<u>(23,421,900)</u>
Income tax expenses calculated based on the effective tax rate of the Group	<u>92,319,416</u>	<u>61,516,908</u>

59. 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.

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Notes to Financial Statements (continued)

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The calculations of basic earnings per share and diluted earnings per share are as follows:

	2017	2016
Consolidated net profit attributable to common shareholders of parent company	300,195,422	212,419,946
Weighted average of outstanding common stock	<u>4,390,294,584</u>	<u>4,390,294,584</u>
Basic earnings per share	<u>0.07</u>	<u>0.05</u>

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Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

59. Earnings per share (continued)

In 2017 and 2016, the Company had no diluted potential common stock, so the diluted earnings per share were equal to the basic earnings per share.

60. Notes to items in cash flow statement

	2017	2016
Cash from other operating activities		
Customs guarantee deposit received	185,539,292	297,589,755
Cash received from governmental subsidy and grants	124,377,444	97,318,883
Employee loan recovered	9,296,606	4,488,988
Cash received from penalty incomes	7,234,130	532,240
Others	55,851,684	37,371,316
	<u>382,299,156</u>	<u>437,301,182</u>
	2017	2016
Other cash payments relating to operating activities		
Customs guarantee deposit paid	118,660,849	264,666,758
Selling and management expenses	240,550,811	201,911,238
Financial expenses commission	28,677,981	55,332,859
R&D subsidy paid to cooperation units	12,736,804	26,613,797
Others	121,302,882	40,102,571
	<u>521,929,327</u>	<u>588,627,223</u>

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Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

60. Notes to items in cash flow statement (continued)

	2017	2016
Cash received from other investing activities		
Interest income	<u>50,163,105</u>	<u>852,787,742</u>
	2017	2016
Other cash payments relating to investing activities		
Repayment on behalf due to obligation of guarantee	<u>173,076,659</u>	<u>-</u>
	2017	2016
Cash received relating to other financing activities		
Restricted bank deposits received	326,925,000	344,790,000
Related party borrowings received	1,034,005,000	2,420,845,793
Minority shareholders' contributions of capital	<u>206,029,110</u>	<u>273,048,439</u>
	<u>1,566,959,110</u>	<u>3,038,684,232</u>
	2017	2016
Cash paid relating to other financing activities		
Restricted bank deposits saved	323,466,355	326,925,000
Issue cost expenditure of short-term and super short-term commercial paper and super	-	7,450,000
Overseas loan expenditure under domestic guarantee	42,615,488	38,776,961
Related party loans repaid	<u>1,057,664,286</u>	<u>1,768,382,528</u>
	<u>1,423,746,129</u>	<u>2,141,534,489</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

61. Supplementary information of cash flow statements

(1) Supplementary information of cash flow statements

Adjust the net profit to the cash flow from operating activities:

	2017	2016
Net profit	329,443,420	307,344,236
Plus: Assets depreciation reserves	824,836,448	1,221,116,175
Real estate as investment and depreciation of fixed assets	1,240,838,899	1,184,754,917
Intangible assets and long-term amortization	101,931,605	100,274,015
Net income from disposal of fixed assets and intangible assets	(10,749,056)	(1,340,612)
Losses/gains on fair value changes	4,615,775	(28,857,808)
Financial expenses	747,304,445	1,256,194,822
Gain on investment	(123,368,931)	(118,513,425)
Net increase in deferred income tax assets (less the liabilities)	(33,767,653)	(75,339,325)
Increase in inventories	(710,079,284)	(1,794,200,703)
Increase in construction contract payment	(2,070,922,668)	(409,587,873)
Increase/decrease in operating receivables	(979,057,110)	94,234,166
Increase/decrease in operating payables	2,009,268,552	(77,655,949)
Increase in special reserves	1,914,832	-
Net cash flows from operating activities	<u>1,332,209,274</u>	<u>1,658,422,636</u>

	2017	2016
Endorsement of bank acceptance bill received from sales of goods and services	<u>3,030,329,565</u>	<u>2,038,671,320</u>

Changes in cash and cash equivalents:

	2017	2016
Closing balance of cash and cash equivalents	5,673,847,001	3,497,205,186
Less: Opening balance of cash and cash equivalents	3,497,205,186	2,337,925,611
	<u>6</u>	<u>2,337,925,611</u>
Net increase in cash and cash equivalents	2,176,641,815	1,159,279,575

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

61. Supplementary information of cash flow statements (continued)

(2) Information on acquisition or disposal of subsidiaries and other business units

Information on acquisition subsidiary

	2017	2016
Price for acquisition of subsidiary	61,873,500	-
Less: acquisition of cash and cash equivalents held by the subsidiary	<u>1,535,090</u>	<u>-</u>
Net cash paid for acquisition of subsidiaries and other business units	<u>60,338,410</u>	<u>-</u>

(3) Cash and cash equivalents

	2017	2016
Cash		
Cash on hand	1,365,865	774,626
- bank deposit available for payment at any time	5,672,481,136	3,496,430,560
- Other monetary fund available for payment at any time	<u>-</u>	<u>-</u>
Balance of cash and cash equivalents at the end of the year	<u>5,673,847,001</u>	<u>3,497,205,186</u>

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Notes to Financial Statements (continued)

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V. Notes to Main Items of Consolidated Financial Statements (continued)

62. Assets with restricted ownership and use right

	2017	2016	
Monetary fund(Note V, 1)	96,380,368	99,839,013	Note 1
Fixed assets (Note V, 15)	4,124,080,499	2,438,314,390	Note 2
Long-term receivables(Note V, 12)	<u>2,571,908,986</u>	<u>2,996,201,650</u>	Note 3
	<u>6,792,369,853</u>	<u>5,534,355,053</u>	

Note 1: As of Dec. 31, 2017, the restricted monetary fund of RMB 96,380,368 Yuan was the margin deposit saved by the Group for applying to the bank for letter of credit and bank guarantee (Dec, 31, 2016: RMB 99,839,013Yuan).

Note 2: As of Dec. 31, 2017, the vessel with the book value of RMB 3,687,007,865 Yuan (Dec. 31, 2016: RMB 1,882,864,040 Yuan) and the mechanical equipment with the book value of RMB 437,072,634 Yuan (Dec. 31, 2016: RMB 555,450,350 Yuan) had been used for sale and lease-back transaction with the financial leasing company, with the financing term of 4 to 6 years.

Note 3: As of Dec. 31, 2017, the long-term accounts receivable of "construction-transfer" project of CCCC Investment Qidong Co., Ltd, CCCC Liyang Urban Construction Co., Ltd and CCCC Huaian Construction Development Co., Ltd with the book value of RMB 2,571,908,986 Yuan (Dec. 31, 2016: RMB 2,996,201,650 Yuan) had been used as the pledge for obtaining bank loans.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

63. Foreign currency monetary items

	2017			2016		
	Original currency	Exchange rate	Equivalent to RMB	Original currency	Exchange rate	Equivalent to RMB
Monetary fund						
USD	425,144,321	6.5342	2,777,978,022	356,373,402	6.9370	2,472,162,288
EUR	18,173,433	7.8023	141,794,576	25,423,957	7.3068	185,767,768
SGD	1,228,561	4.8831	5,999,186	20,744,399	4.7995	99,562,745
NZD	625	4.6327	2,895	625	4.8191	3,012
HKD	45,494,381	0.8359	38,028,753	18,540,418	0.8945	16,584,404
GBP	2,968,594	8.7792	26,061,880	1,462,267	8.5094	12,443,017
KEW	2,021,852,290	0.0061	12,333,299	2,038,285,822	0.0058	11,822,058
OMR	606,629	18.1404	11,004,493	567,011	18.0060	10,209,598
Yen	47,374,873	0.0579	2,743,005	144,285,734	0.0596	8,598,131
ZAR	31,696,233	0.5277	16,726,102	14,635,312	0.5083	7,439,129
LKR	140,778,939	0.0424	5,969,027	168,823,164	0.0463	7,816,513
AUD	978,149	5.0928	4,981,517	1,190,016	5.0157	5,968,763
INR	20,869,322	0.1020	2,128,671	23,686,064	0.1023	2,422,824
BRL	165,211	1.9725	325,879	708,428	2.1357	1,512,989
Ruble	3,757,976	0.1135	426,530	12,938,990	0.1161	1,502,217
MYR	534,419	1.5779	843,260	838,089	1.5507	1,299,625
CAD	392	5.2009	2,039	423	5.1406	2,176
AED	654,883	1.7790	1,165,037	-	-	-
			<u>3,048,514,171</u>			<u>2,845,117,257</u>

	2017			2016		
	Original currency	Exchange rate	Equivalent to RMB	Original currency	Exchange rate	Equivalent to RMB
Accounts receivable						
USD	237,611,976	6.5342	1,552,604,174	382,943,787	6.9370	2,656,481,050
EUR	59,375,663	7.8023	463,266,735	50,412,079	7.3068	368,350,979
SGD	19,780,477	4.8831	96,590,047	62,524,894	4.7995	300,088,229
QAR	17,363,477	2.0746	36,022,269	-	-	-
CAD	4,132,514	5.2009	21,492,792	5,248,147	5.1406	26,978,624
SAR	6,510,484	1.7423	11,343,216	5,865,574	1.8497	10,849,552
ZAR	18,087,082	0.5277	9,544,553	1,631,102	0.5083	829,089
KEW	1,368,788,719	0.0061	8,349,611	142,923,050	0.0058	828,954
GBP	868,960	8.7792	7,628,774	3,311,616	8.5094	28,179,865
LKR	50,117,375	0.0424	2,124,977	67,543,175	0.0463	3,127,249
AUD	224,642	5.0928	1,144,057	272,129	5.0157	1,364,917
INR	5,460,783	0.1020	557,000	181,114	0.1023	18,526
Ruble	4,893,519	0.1135	555,414	481,395	0.1161	55,890
HKD	13,500	0.8359	11,285	196,859	0.8945	176,090
BRL	-	-	-	4,828	2.1357	10,311
AED	-	-	-	6,268,825	1.8890	11,841,810
			<u>2,211,234,904</u>			<u>3,409,181,135</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

63. Foreign currency monetary items (continued)

	2017			2016		
	Original currency	Exchange rate	Equivalent to RMB	Original currency	Exchange rate	Equivalent to RMB
Other receivables						
USD	34,192,234	6.5342	223,418,895	3,989,080	6.9369	27,671,849
EUR	362,703	7.8023	2,829,918	12,329	7.3070	90,088
SGD	507,308	4.8831	2,477,236	-	-	-
INR	23,073,417	0.1020	2,353,489	-	-	-
Ruble	15,955,229	0.1135	1,810,918	-	-	-
ZAR	3,027,546	0.5277	1,597,636	-	-	-
BRL	552,575	1.9725	1,089,954	-	-	-
AUD	172,003	5.0928	875,977	103,710	5.0157	520,178
KEW	86,341,866	0.0061	526,685	5,285,609	0.0058	30,657
GBP	-	-	-	195,990	8.5094	1,667,757
			<u>236,980,708</u>			<u>29,980,529</u>

	2017			2016		
	Original currency	Exchange rate	Equivalent to RMB	Original currency	Exchange rate	Equivalent to RMB
Accounts payable						
USD	166,604,576	6.5342	1,088,627,620	120,343,389	6.9370	834,822,091
EUR	71,504,046	7.8023	557,896,018	38,684,841	7.3068	282,662,394
	4,402,716,49	0.0579	254,917,285			
Yen	4			161,884,564	0.0596	9,648,320
SGD	1,650,625	4.8831	8,060,167	20,934	4.7995	100,475
GBP	428,331	8.7792	3,760,404	67,565	8.5094	574,938
KEW	552,903,279	0.0061	3,372,710	-	-	-
ZAR	4,835,147	0.5277	2,551,507	-	-	-
Ruble	12,311,200	0.1135	1,397,321	-	-	-
AUD	10,018	5.0928	51,020	10,018	5.0157	50,247
			<u>1,920,634,052</u>			<u>1,127,858,465</u>

	2017			2016		
	Original currency	Exchange rate	Equivalent to RMB	Original currency	Exchange rate	Equivalent to RMB
Other payables						
USD	36,885,08	6.5342	241,014,529	4,985,404	6.9370	34,583,748
EUR	3,706,727	7.8023	28,920,996	10,092,794	7.3509	74,191,119
SGD	1,096,576	4.8831	5,354,690	1,501,789	4.7995	7,207,838
	36,964,22	0.1020		-	-	-
INR	5		3,770,351	-	-	-
GBP	178,694	8.7792	1,568,790	-	-	-
HKD	-	-	-	17,000	0.8945	15,207
			<u>280,629,356</u>			<u>115,997,912</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

V. Notes to Main Items of Consolidated Financial Statements (continued)

63. Foreign currency monetary items (continued)

	2017			2016		
	Original currency	Exchange rate	Equivalent to RMB	Original currency	Exchange rate	Equivalent to RMB
Short-term loans						
USD	825,116,556	6.5342	5,391,476,600	837,000,000	6.9370	5,806,269,000
EUR	50,000,000	7.8023	390,115,000	67,901,197	7.3068	496,140,465
			<u>5,781,591,600</u>			<u>6,302,409,465</u>

	2017			2016		
	Original currency	Exchange rate	Equivalent to RMB	Original currency	Exchange rate	Equivalent to RMB
Long-term loans due within one year						
USD	50,000,000	6.5342	326,710,000	-	-	-
EUR	20,000,000	7.8023	156,046,000	-	-	-
			<u>482,756,000</u>			<u>-</u>

	2017			2016		
	Original currency	Exchange rate	Equivalent to RMB	Original currency	Exchange rate	Equivalent to RMB
Long-term payables due within one year						
USD	18,285,714	6.5342	119,482,512	17,604,054	6.9370	122,119,326

	2017			2016		
	Original currency	Exchange rate	Equivalent to RMB	Original currency	Exchange rate	Equivalent to RMB
Long-term loans						
USD	-	-	-	50,000,000	6.9370	346,850,000
EUR	-	-	-	20,000,000	7.3068	146,136,000
			<u>-</u>			<u>492,986,000</u>

	2017			2016		
	Original currency	Exchange rate	Equivalent to RMB	Original currency	Exchange rate	Equivalent to RMB
Long-term payables						
USD	174,285,714	6.5342	1,138,817,712	93,253,088	6.9370	646,896,674

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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RMB Yuan

VI. Changes in consolidation scope

1. Business combination not under the same control

- (1) In 2017, the Group acquired 50% stock equity of Greenland Heavylift (Hong Kong) Limited through paying the cash of 7,500,000USD (equivalent to RMB 50,829,000Yuan) to the original shareholders of Greenland Heavylift (Hong Kong) Limited and through increasing the capital of 56,000,000USD (equivalent to RMB 379,523,200 Yuan) to Greenland Heavylift (Hong Kong) Limited, and also obtained the right to buy its 1% stock equity with 1 USD at any time in the future. The purchase date was set for June 30, 2017.

In accordance with the acquisition agreement, the chairman of the board of directors appointed by the Group has super voting power in the voting rights of the board of director, and the Group also has the right to buy its 1% stock equity with 1 USD at any time in the future, therefore, the Group has control power over Greenland Heavylift (Hong Kong) Limited substantially.

The fair value and book value of the recognizable assets and liabilities of Greenland Heavylift (Hong Kong) Limited on purchase date are as follows:

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

VI. Changes in consolidation scope (continued)

1. Business combination not under the same control (continued)

	June 30, 2017 Fair value	June 30, 2017 Book value
Monetary fund	1,535,090	1,535,090
Receivables	110,130	110,130
Other receivables and prepayment	3,622,474	3,622,474
Other non-current assets	252,077,771	252,077,771
Other payables	(7,074,536)	(7,074,536)
Deferred income	<u>(6,923,077)</u>	<u>(6,923,077)</u>
	<u>243,347,852</u>	<u>243,347,852</u>
Capital increase invested	<u>379,523,200</u>	<u>379,523,200</u>
Minority shareholders' equity	<u>(311,519,832)</u>	<u>(311,519,832)</u>
	<u>311,351,220</u>	<u>311,351,220</u>
Goodwill arising from purchase	110,562,702	
Value of 1% stock equity recognized and to be purchased at 1 USD in the future	<u>8,438,278</u>	
	<u>430,352,200</u>	Note

Note: the amount includes the cash of 7,500,000 USD paid to the original shareholders during business combination and the capital increase of 56,000,000 USD to Greenland Heavylift (Hong Kong) Limited by the Group.

The business performance and cash flows of Greenland Heavylift (Hong Kong) Limited from the date of purchase to the end of the year are listed below:

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

VI. Changes in consolidation scope (continued)

1. Business combination not under the same control (continued)

June, 30, 2017~
Dec. 31, 2017

Operating revenue	85,079,934
Net profit	17,523,291
Net cash flows	39,479,155

- (2) In the year 2017, the Group acquired the 100% stock equity of Verspanen B.V. with the cash of 1,500,000EUR (equivalent to RMB 11,044,500 Yuan) and the purchase date was set for Apr. 30, 2017.

The fair value and book value of the recognizable assets and liabilities of Verspanen B.V. are listed below:

	Apr. 30, 2017 Fair value	Apr. 30, 2017 Book value
Accounts receivable	3,198,602	3,198,602
Other receivables and prepayment	32,012	32,012
Inventory	2,220,585	2,220,585
Other current assets	49,945	49,945
Fixed assets	4,695,840	4,695,840
Short-term loans	(1,104,069)	(1,104,069)
Accounts payable	(2,893,803)	(2,893,803)
Employee remuneration payable	(263,932)	(263,932)
Other payables	(159,678)	(159,678)
Deferred income tax liabilities	(143,809)	(143,809)
	<u>5,631,693</u>	<u>5,631,693</u>
Goodwill arising from purchase	<u>5,412,807</u>	
	<u>11,044,500</u>	

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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RMB Yuan

VI. Changes in consolidation scope (continued)

1. Business combination not under the same control (continued)

The business performance and cash flows of Verspanen B.V. from the date of purchase to the end of the year are listed below:

	Apr. 30, 2017~ Dec. 31, 2017
Operating revenue	9,150,537
Net profit	157,021
Net cash flows	271,442

2. Changes in consolidation scope for other reasons

Nantong Zhenhua Heavy Industries Steel Structure Processing Co., Ltd., an original subsidiary of the Company, was cancelled on May 24, 2017.

On June 15, 2017, the Company, CCCC Second Harbor Engineering Co., Ltd. and Jiangsu Yangkou Port Affairs Co., Ltd. jointly invested and incorporated the holding subsidiary CCCC Rudong Construction and Development Co., Ltd. with the cash of 10,000,000 USD. As of Dec. 31, 2017, the shareholding ratio of the Group in the subsidiary was 73%.

Hotel De Herberg B.V., an original subsidiary of the Company, was cancelled on June 19, 2017.

On Nov. 22, 2017, the Company sold 20% shares of its original subsidiary Zhenhua Shende Ocean Engineering Installation Co., Ltd. to another shareholder Offshore Tech, LLC of the subsidiary for 400,000 USD in cash. As of Dec. 31, 2017, the shareholding ratio of the Company in the original subsidiary was 50%, and the original subsidiary was changed to the joint venture of the Company.

On Nov. 22, 2017, the Company sold 30% shares of its original subsidiary ZPMC Southeast Asia Pte. Ltd to another shareholder of the subsidiary Satomas PTE LTD for 186,231 SGD in cash. As of Dec. 31, 2017, the shareholding ratio of the Company in the original subsidiary was 40%, and the original subsidiary was changed to the affiliated company of the Company.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

ZPMC Brazil Holdings LTDA., an original subsidiary of the Company,
was cancelled on Dec. 12, 2017.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

VII. Interests in Other Entities

1. Interests in subsidiaries

The information of the Company's subsidiaries is as follows:

	Main business location	Registered in	Business nature	Shareholding ratio (%)		Gaining way
				Direct	Indirect	
Shanghai Zhenhua Port Machinery up Heavy Industry Co., Ltd	Chongming, Shanghai	Chongming, Shanghai	Machinery manufacture	94.76%	-Invest	to set
Shanghai Zhenhua Port Machinery up (Hong Kong) Co., Ltd	Hong Kong	Hong Kong	Trade & sales	99.99%	-Invest	to set
Shanghai Zhenhua Shipping Co., Ltd. up	Pudong, Shanghai	Pudong, Shanghai	Shipping	55%	-Invest	to set
Nantong Zhenhua Heavy Equipment up Manufacturing Co., Ltd.	Nantong, Jiangsu	Nantong, Jiangsu	Machinery manufacture	100%	-Invest	to set
Shanghai Zhenhua Heavy Industries Co., Ltd. up	Nantong, Jiangsu	Nantong, Jiangsu	Machinery manufacture	100%	-Invest	to set
Drive Mechanism Company (Nantong) Shanghai ZPMC Electric Co., Ltd. up	Pudong, Shanghai	Pudong, Shanghai	Electrical equipment R&D	100%	-Invest	to set
Jiangyin Zhenhua Port Machinery Steel up Structure Fabrication Co., Ltd	Jiangyin, Jiangsu	Jiangyin, Jiangsu	Machinery manufacture	75%	25%Invest	to set
ZMPC Steel Structure Co., Ltd (Note 1) up	Pudong, Shanghai	Pudong, Shanghai	Machinery manufacture	-	49%Invest	to set
Shanghai Zhenhua Ocean Engineering up Service Co., Ltd	Yangshan Bonded Port Area, Yangshan Bonded Port	Yangshan Bonded Port	Shipping	100%	-Invest	to set
ZPMC Inspection Technology up Consulting Co., Ltd	Shanghai Pudong, Shanghai	Area, Shanghai Pudong, Shanghai	Technical consulting	100%	-Invest	to set
ZPMC Netherlands Coöperatie U.A. up	Rotterdam, Netherlands	Rotterdam, Netherlands	Trade & sales	100%	-Invest	to set
ZPMC Netherlands B.V. up	Rotterdam, Netherlands	Rotterdam, Netherlands	Trade & sales	100%	-Invest	to set
Verspanen B.V.	Rotterdam, Netherlands	Rotterdam, Netherlands	Machinery manufacture	-	100% Business Combination not under the same control	to set
ZPMC Espana S.L. up	Los Barrios Spain	Los Barrios Spain	Trade & sales	-	100%Invest	to set
ZPMC GmbH Hamburg up	Hamburg Germany	Hamburg Germany	Trade & sales	100%	-Invest	to set
ZPMC Lanka Company up (Private) Limited	Colombo, Sri Lanka	Colombo, Sri Lanka	Trade & sales	70%	-Invest	to set
ZPMC North America Inc. up	Delaware, USA	Delaware, USA	Trade & sales	100%	-Invest	to set
ZPMC Korea Co., Ltd. up	Pusan, Korea	Pusan, Korea	Trade & sales	70%	-Invest	to set
ZPMC Engineering Africa (Pty) Ltd. up	Kwazulu-Natal Province, Kwazulu-Natal Province,	Kwazulu-Natal Province,	Trade & sales	100%	-Invest	to set
ZPMC Engineering (India) Private up Limited	Republic of South Africa Maharashtra State, India	Republic of South Africa Maharashtra State, India	Trade & sales	100%	-Invest	to set
ZPMC Southeast Asia up Holding Pte. Ltd.	Singapore	Singapore	Trade & sales	100%	-Invest	to set
ZPMC Engineering (Malaysia) up Sdn. Bhd.	Malaysia	Malaysia	Trade & sales	-	70%Invest	to set

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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RMB Yuan

ZPMC Australia Company (Pty) Ltd. New South Wales, Australia up	New South Wales, Australia	Trade & sales	100%	-Invest to set
ZPMC General Equipment Co., Ltd. Pudong, Shanghai	Pudong, Shanghai	Machinery manufacture	100%	- Business combination under the same control
Shanghai Port Machinery Heavy Industries Co., Ltd. Pudong, Shanghai	Pudong, Shanghai	Machinery manufacture	- 74.02%	- Business combination under the same control
ZPMC Zhangjiagang Port Machinery Co., Ltd. Zhangjiagang, Jiangsu	Zhangjiagang, Jiangsu	Machinery manufacture	90%	- Business combination under the same control
Nanjing Ninggao New Channel Co., Ltd. up	Nanjing, Jiangsu	Trade & sales	100%	-Invest to set
Shanghai Zhenhua Heavy Industries Qidong Marine Engineering Co., Ltd. Engineering Co., Ltd. Nantong, Jiangsu	Nantong, Jiangsu	Machinery manufacture	67%	- Business combination not under the same control
Jiahua Shipment Co., Ltd up	Hong Kong	Shipping	-	70%Invest to set
Zhenhua Pufeng Wind Power (Hong Kong) Co., Ltd. up	Hong Kong	Shipping	-	51%Invest to set
ZPMC Brazil Serviço Portuários LTDA up	Rio DE Janeiro, Brazil	Trade & sales	80%	-Invest to set
ZPMC Limited Liability Company up	Moscow, Russia	Trade & sales	85%	-Invest to set
ZPMC NA East Coast Inc. up	Virginia	Trade & sales	-	100%Invest to set
ZPMC NA Huston Inc. up	Texas	Trade & sales	-	100%Invest to set

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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RMB Yuan

VII. Interests in Other Entities (continued)

1. Interests in subsidiaries (continued)

The information of the Company's subsidiaries is as follows (continued):

	Main business location	Registered in	Business nature	Shareholding ratio		Gaining way
				Direct	indirect	
CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd. (Note 2)	Changshu, Jiangsu	Changshu, Jiangsu	Machinery manufacture	32.51%	-	Business combination under the same control
Fujian CCCC Qianda Heavy Industry Co., Ltd.	Fuzhou, Fujian	Fuzhou, Fujian	Machinery manufacture	-	51%	Business combination under the same control
CCCC Investment Development up Qidong Co., Ltd (Note 3)	Nantong, Jiangsu	Nantong, Jiangsu	Engineering construction	47.50%	-	Invest to set
CCCC Liyang Urban Investment up and Construction Co., Ltd (Note 4)	Liyang, Jiangsu	Liyang, Jiangsu	Engineering construction	48%	-	Invest to set
ZPMC UK LD	Cardiff, UK	Cardiff, UK	Trade & sales	100%	-	Invest to set
ZPMC Middle East Fze	Dubai, UAE	Dubai, UAE	Trade & sales	100%	-	Invest to set
CCCC (Huaian) Construction and Development Co., Ltd	Huaian, Jiangsu	Huaian, Jiangsu	Engineering construction	-	76.02%	Invest to set
CCCC Zhenjiang Investment Construction, Management and Development Co., Ltd up	Zhenjiang, Jiangsu	Zhenjiang, Jiangsu	Engineering construction	70%	-	Invest to set
CCCC Rudong Construction and Development Co., Ltd.	Rudong, Jiangsu	Rudong, Jiangsu	Engineering construction	-	72.91%	Invest to set
Greenland Heavylift (Hong Kong) Limited (Note 5)	Hong Kong	Hong Kong	Shipping	-	50%	Business combination not under the same control
GPO Grace Limited	Marshall Islands	Marshall Islands	Shipping	-	100%	Business combination not under the same control
GPO Amethyst Limited	Marshall Islands	Marshall Islands	Shipping	-	100%	Business combination not under the same control
GPO Sapphire Limited	Marshall Islands	Marshall Islands	Shipping	-	100%	Business combination not under the same control
GPO Emerald Limited	Marshall Islands	Marshall Islands	Shipping	-	100%	Business combination not under the same control
GPO Heavylift Limited	Cayman Islands	Cayman Islands	Shipping	-	60%	Business combination not under the same control
GPO Heavylift AS	Oslo, Norway	Oslo, Norway	Shipping	-	100%	Business combination not under the same control

Note 1: In accordance with the Articles of Association of ZMPC Steel Structure Co., Ltd, the Group shall have the right to appoint and remove most members of the company's board of directors and, in essence, control the company, so it shall be incorporated into the financial statements of the Group.

Note 2: The Group obtained 55.98% of the shareholders' meeting and 80% of the board's voting rights of the company via amendment of *Articles of Association* of CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd., reconstruction of board of directors and signing the agreement for concerted action with China Communications Corporation (one of the shareholders of CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd.). In accordance with the regulations in the Articles of Association of the company, the Group has obtained the control rights of the company, and thus the company shall be in the consolidation scope of the Group.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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RMB Yuan

Note 3: By signing the agreement for concerted action with CCCC Tianjin Dredging Co., Ltd., the Group has obtained 95% voting power of the shareholders meeting and 100% voting power of the board of directors. In accordance with the regulations in the Articles of Association of the company, the Group has obtained the control rights of the company, and thus the company shall be in the consolidation scope of the Group.

Note 4: By signing the agreement for concerted action with CCCC Shanghai Dredging Co. Ltd. and CCCC East China Investment Co., Ltd., the Group has obtained 76% voting power of the shareholders meeting and 71% voting power of the board of directors. In accordance with the regulations in the Articles of Association of the company, the Group has obtained the control rights of the company, and thus the company shall be in the consolidation scope of the Group.

Note 5: In accordance with the acquisition agreement, the chairman of the board of directors appointed by the Group has super voting power in the voting rights of the board of director, and the Group also has the right to buy its 1% stock equity with 1 USD at any time in the future. The Group has control power substantially and the company shall be included in the consolidation scope of the financial statement of the Group.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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RMB Yuan

VII. Interests in Other Entities (continued)

1. Interests in subsidiaries (continued)

The information of the Company's subsidiaries is as follows (continued):

The subsidiaries with important minority shareholders' equity are as follows:

2017

	Minority shareholders' shareholding ratio %	Minority shareholders' contributions of capital	Interest income to minority shareholders	Provision of special reserves for minority shareholders	Accumulated minority shareholders' equity at the end of year
CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd.	67.49	-	39,217,954	2,562,277	603,423,242
CCCC Zhenjiang Investment, Construction, Management and Development Co, Ltd.	30.00	60,000,000	16,811,568	-	319,814,122
Greenland Heavylift (Hong Kong)Limited	50.00	309,405,935	(413,193)	-	308,992,742

2016

	Minority shareholder s' shareholdin g ratio %	Minority shareholder s' contributions of capital	Interest income to minority shareholder s	Provision of special reserves for minority shareholders	Accumulated minority shareholders' equity at the end of year
CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd.	67.49	-	57,388,211	-	561,643,011
CCCC Zhenjiang Investment, Construction, Management and Development Co, Ltd.	30.00	243,000,000	2,554	-	243,002,554

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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VII. Interests in Other Entities (continued)

1. Interests in subsidiaries (continued)

The information of the Company's subsidiaries is as follows (continued):

The table below lists the main financial information of above subsidiaries, which is the amount before mutual offset between enterprises of the Group:

			2017			
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd.	2,313,171,638	1,869,127,907	4,182,299,545	(2,460,195,680)	(828,278,015)	(3,288,473,695)
CCCC Zhenjiang Investment Construction, Management and Development Co., Ltd	13,909,597	1,074,783,059	1,088,692,656	(22,645,579)	-	(22,645,579)
Greenland Heavylift (Hong Kong)Limited	47,188,656	790,083,887	837,272,543	(218,380,034)	-	(218,380,034)
	2017					
		Operating revenue	Net profit	Total comprehensive income	Net cash inflows from operating activities	
CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd.		1,152,898,050	58,140,097	58,140,097	49,468,222	
CCCC Zhenjiang Investment Construction, Management and Development Co., Ltd		5,241,278	56,038,562	56,038,562	-	
Greenland Heavylift (Hong Kong) Limited		85,079,934	17,523,291	(2,977,632)	31,723,925	
	2016					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd.	1,498,862,582	1,224,395,571	2,723,258,153	(1,660,805,166)	(230,591,014)	(1,891,396,180)
CCCC Zhenjiang Investment Construction, Management and Development Co., Ltd	10,145,273	800,097,533	810,242,806	(234,292)	-	(234,292)
	2016					
		Operating revenue	Net profit	Total comprehensive income	Net cash inflows from operating activities	
CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd.		1,101,425,520	85,197,056	85,197,056	35,261,157	
CCCC Zhenjiang Investment Construction, Management and Development Co., Ltd		7,226,075	8,515	8,515	949,212	

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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VII. Interests in Other Entities (continued)

2. Equity in joint ventures and associated enterprises

	Main business location	Registered in	Business nature	Registered capital	Shareholding ratio		Accounting treatment
					Direct	Indirect	
Joint venture							
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd.	Nantong, Jiangsu	Nantong, Jiangsu	Ocean Engineering construction	RMB 260,000,000 Yuan	50%		-Equity method
ZPMC Mediterranean Liman Makinalari	Istanbul, Turkey	Istanbul, Turkey	Port equipment technical services	50,000 TRL	50%		-Equity method
Ticaret Anonim Sirketi							
Zhenhua Ocean Energy (Hong Kong) Co., Ltd. (Note 1)	Hong Kong	Hong Kong	Shipping	5,969,998 USD	-	51%	Equity method
Cranetech Global Sdn. Bhd.	Malaysia	Malaysia	Port equipment technical services	1,000,000 MYR	-	49.99%	Equity method
ZPMC – OTL Marine Construction Co., Ltd.	Hong Kong	Hong Kong	Shipping	2,000,000 USD	-	50%	Equity method
CCCC Tianhe Xi'an Equipment Manufacturing Co., Ltd.	Xi'an Shaanxi	Xi'an Shaanxi	Machinery manufacture	RMB 300,000,000 Yuan	-	50%	Equity method
Associated enterprise							
CCCC Ocean Engineering Vessel Technology Research Centre Co., Ltd	Pudong, Shanghai	Pudong, Shanghai	Ship technology development and consultancy	RMB 60,000,000 Yuan	25%		-Equity method
CCCC Real Estate Yixing Co., Ltd.	Quxi, Jiangsu	Wuxi, Jiangsu	Real estate development	RMB 900,000,000 Yuan	20%		-Equity method
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	Changzhou, Jiangsu	Changzhou, Jiangsu	Paint production	RMB 3,000,000 Yuan	20%		-Equity method
CCCC Financial Leasing Co., Ltd.	Pudong, Shanghai	pudong, Shanghai	Financial leasing	RMB 5,000,000,000 Yuan	30%		-Equity method
China Communications Construction USA Inc.	USA	USA	Port, water way, highway and bridge construction	50,000,000 USD	24%		-Equity method
CCCC South American Regional Company SARL (Note 2)	USA	USA	Port, water way, highway and bridge construction	103,000,000 USD	16%		-Equity method
ZPMC Southeast Asia Pte. Ltd	Singapore	Singapore	Trade & sales	787,760 USD	-	40%	Equity method

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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VII. Interests in Other Entities (continued)

2. Equity in joint ventures and associated enterprises (continued)

Note 1: On May 5, 2014, the subsidiary of the Company and the partner invested to establish Zhenhua Ocean Energy (Hong Kong) Co., Ltd. The registered capital was 5,969,998 USD and 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. Therefore, the Group has no control rights but controls the company jointly with the partner.

Note 2: On Dec. 15, 2016, the Company invested 16,480,000 USD (in RMB 114,321,760 Yuan) to buy shares of CCCC South American Regional Company SARL. The registration capital was 103,000,000 USD (in RMB 114,321,760 Yuan) and the shareholding ratio of the Company was 16%. 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.

Main financial information of significant associated enterprises:

The amount in the consolidated financial statements of the associated enterprise has taken into account the impacts of fair value of the recognizable assets and liabilities of associated enterprise in the acquisition of investments and the impact of unifying accounting policies.

CCCC Financial Leasing Co., Ltd.	2017	2016
Current assets	14,519,134,477	9,420,615,029
Non-current assets	12,061,010,402	13,727,208,395
Total assets	26,580,144,879	23,147,823,424
		(10,051,593,074)
Current liabilities	(8,365,784,476)	4
Non-current liabilities	(11,116,733,773)	(7,249,806,724)
Total liabilities	(19,482,518,249)	(17,301,399,798)
Minority shareholders' equity	1,502,458,020	495,607,449
Shareholders' equity attributable to parent company	5,595,168,610	5,350,816,177
Shares of net assets based on the shareholding ratio	1,678,550,583	1,605,244,853
Book value of investments in associated enterprise	1,678,550,583	1,605,244,853

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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VII. Interests in Other Entities (continued)

2. Equity in joint ventures and associated enterprises (continued)

CCCC Financial Leasing Co., Ltd.	2017	2016
Operating revenue	1,173,817,052	780,323,172
Financial expenses-Interest income	11,277,025	5,790,545
Financial expenses-Interest expenditure	23,808,003	8,495,925
Income tax expenses	89,532,048	85,261,887
Net profit	272,052,060	251,014,262
Net amount of other comprehensive income after tax	(848,960)	580,861
Total comprehensive income	271,097,816	258,329,639
Total comprehensive income attributable to parent company	244,352,430	252,162,817
Dividends received	-	32,400,000

Insignificant information summary of joint ventures and associated enterprises:

Joint venture

	2017	2016
Total book value of investments	268,510,756	200,209,849
Total amount calculated by shareholding ratio		
Net profit	35,324,167	24,822,653
Other comprehensive income	-	-
Total comprehensive income	35,324,167	24,822,653

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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VII. Interests in Other Entities (continued)

2. Equity in joint ventures and associated enterprises (continued)

Insignificant information summary of joint ventures and associated enterprises (continued):

Associated enterprise

	2017	2016
Total book value of investments	<u>373,409,182</u>	<u>395,966,751</u>
Total amount calculated by shareholding ratio		
Net profit	(14,386,647)	(1,075,546)
Other comprehensive income	<u>(8,418,578)</u>	<u>4,546,680</u>
Total comprehensive income	<u>(22,805,225)</u>	<u>(3,471,134)</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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VIII. Risks Related to Financial Instruments

1. Classification of financial instruments

The book values of various financial instruments on balance sheet date are as follows:

Dec. 31, 2017

Financial assets

	Financial assets measured at fair value with changes included in current profits and losses	Loan and Accounts receivable	Available-for-sale Financial asset s	Total
Monetary fund	-	5,770,227,369	-	5,770,227,369
Financial assets measured at fair value with changes included in current profits and losses	8,438,278	-	-	8,438,278
Notes receivable	-	420,786,012	-	420,786,012
Accounts receivable	-	3,980,017,611	-	3,980,017,611
Other receivables	-	627,877,201	-	627,877,201
Non-current assets due within 1 years	-	1,896,475,472	-	1,896,475,472
Financial assets available-for-sale	-	-	1,304,203,905	1,304,203,905
Long-term receivables	-	4,238,704,827	-	4,238,704,827
	<u>8,438,278</u>	<u>16,934,088,492</u>	<u>1,304,203,905</u>	<u>18,246,730,675</u>

Financial liabilities

	Other Financial liabilities
Short-term loans	25,468,980,401
Notes payable	1,893,227,482
Accounts payable	6,887,598,171
Interest payable	118,825,582
Dividend payable	31,701,965
Other payables	692,680,129
Non-current liabilities due within one year	2,198,931,219
Long-term loans	6,664,914,383
Long-term payables	1,884,986,333
	<u>45,841,845,665</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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VIII. Risks Related to Financial Instruments (continued)

1. Classification of financial instruments (continued)

Dec. 31, 2016

Financial assets

	Financial assets measured at fair value with changes included in current profits and losses	Loan and Accounts receivable	Available-for-sale Financial assets	Total
Monetary fund	-	3,597,044,199	-	3,597,044,199
Financial assets measured at fair value with changes included in current profits and losses	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 assets due within 1 year	-	1,384,438,569	-	1,384,438,569
Financial assets available-for-sale	-	-	1,313,572,506	1,313,572,506
Long-term receivables	-	3,791,218,020	-	3,791,218,020
	<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.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

VIII. Risks Related to Financial Instruments (continued)

1. Classification of financial instruments (continued)

Dec. 31, 2016(continued)

Financial liabilities

	Other Financial liabilities
Short-term loans	21,485,919,393
Notes payable	1,905,121,706
Accounts payable	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	1,618,361,164
	<u>40,230,389,544</u>

2. Transfer of Financial Assets

Transferred financial assets derecognized as a whole but involved continuously

As of December 31, 2017, the book value of the bank acceptance bill that the Group had endorsed to the supplier for clearing the accounts payable was RMB 1,519,002,534 Yuan (Dec. 31, 2016: RMB 471,132,348 Yuan), with the maturity term of 1~12 months. In accordance with the relevant provisions of the *Negotiable Instruments 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 book value of its settled accounts payable in connection with it. The maximum losses and undiscounted cash flows that continue to be involved are equal to their book value. The Group considers that continuous involvement of fair value is not important.

VIII. Risks Related to Financial Instruments (continued)

2. Transfer of Financial Assets (continued)

Transferred financial assets derecognized as a whole but involved continuously (continued)

In 2017, the Group failed to recognize any gain or loss (2016: none) on above-mentioned transfer date of financial assets. The Group had no income or expense recognized in current year or accumulatively due to overall termination of recognition but continuous involvement. The endorsement of bank acceptance bill was roughly balanced in current year.

3. Risks of financial instruments

Major financial instruments of the Group include bank loans, mortgage loan formed from sale and lease-back, other interest-bearing borrowings and monetary fund, and the like. The main purpose of these financial instruments is to finance for the operation of the Group. The Group has various other financial assets and liabilities directly arising from operations, such as accounts receivable, long-term receivables and accounts payable, etc.

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 risk

The Group manages the credit risks by category based on portfolio. 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 monetary fund, available-for-sale financial assets and other receivables, whose credit risks arise from that the counterparty default and the maximum exposure is equal to the carrying amount of these instruments. The Group also

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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faces credit risk for providing financial security, as disclosed in Note XI 2 (3).

Since the Group is trading only with a recognized and credibility third party, no collateral is required. The credit risks shall be managed in centralized manner according to the customer/counterparty, geographic region and industry. Since the Group's customers of accounts receivable and long-term receivables 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 and long-term receivables.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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VIII. Risks Related to Financial Instruments (continued)

3. Risks of financial instruments (continued)

Credit risk (continued)

Bank deposits of the Group in 2017 and 2016 are mainly saved in state-owned banks and other large or medium-sized listed banks. The Group holds that there is no significant credit risk and no great loss caused by the default of counterparty.

In addition, as for the notes receivable, accounts receivable, long-term receivables and other receivables, the Group has established related policies to control the credit risks exposure. The Group evaluates the 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 the Group's overall credit risks within the range of control.

On December 31, 2017, the term analysis of financial assets with maturity due to no impairment of either individual or combination was analyzed as follows:

2017

	Total	Not overdue No depreciation	Overdue			
			Within 1 year	1~2 years	2~3 years	3 years and above
Monetary fund	5,770,227,369	5,770,227,369	-	-	-	-
Notes receivable	420,786,012	420,786,012	-	-	-	-
Receivables	2,524,100,099	2,229,191,240	17,223,670	139,468,191	12,056,612	126,160,386
Other receivables	981,986,979	981,986,979	-	-	-	-
Non-current assets due within 1 year	1,896,475,472	1,896,475,472	-	-	-	-
Long-term receivables	4,238,704,827	4,238,704,827	-	-	-	-

2016

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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	Not overdue		Overdue			
	Total	No depreciation	Within 1 year	1~2 years	2~3 years	3 years and above
Monetary fund	3,597,044,199	3,597,044,199	-	-	-	-
Notes receivable	296,920,781	296,920,781	-	-	-	-
Receivables	2,695,273,967	2,405,484,653	70,487,107	18,329,699	58,173,966	142,798,542
Other receivables	703,913,820	703,913,820	-	-	-	-
Non-current assets due within 1 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.

Notes to Financial Statements (continued)

Dec. 31, 2017

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VIII. Risks Related to Financial Instruments (continued)

3. Risks of financial instruments (continued)

Credit risk (continued)

As of December 31, 2017, accounts receivable nor overdue or impaired were related to a large number of decentralized customers who had no default record recently.

As of December 31, 2017, the accounts receivable overdue but not impaired were related to a large number of independent customers bearing good transaction records with the Group. Based on past experiences, the Group considered that no provision for impairment was required since the credit quality had not changed significantly and was still considered recoverable.

Liquidity risk

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.

As of Dec. 31, 2017, the various financial liabilities of the Group are listed as follows by due dates in undiscounted contracted cash flow (principal and interest included):

	Within 1 year	1~2 years	2017 2-5 years	5 years and above	Total
Short-term loans	25,899,118,580	-	-	-	25,899,118,580
Notes payable	1,893,227,482	-	-	-	1,893,227,482
Accounts payable	6,890,814,503	-	-	-	6,890,814,503
Interest payable	118,825,582	-	-	-	118,825,582
Dividend payable	31,701,965	-	-	-	31,701,965
Other payables	693,597,496	-	-	-	693,597,496
Non-current liabilities due within 1 year	2,607,918,346	-	-	-	2,607,918,346
Long-term loans	-	3,068,866,936	3,639,532,692	410,067,125	7,118,466,753
Long-term payables	-	969,702,730	962,927,475	-	1,932,630,205
	38,135,203,954	4,038,569,666	4,602,460,167	410,067,125	47,186,300,912

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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VIII. Risks Related to Financial Instruments (continued)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

As of Dec. 31, 2016, the various financial liabilities of the Group are listed as follows by due dates in undiscounted contracted cash flow (principal and interest included):

	Within 1 year	1~2 years	2-5 years	5 years and above	Total
Short-term loans	21,839,991,371	-	-	-	21,839,991,371
Notes payable	1,905,121,706	-	-	-	1,905,121,706
Accounts payable	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 1 year	835,619,032	-	-	-	835,619,032
Other current liabilities	4,123,027,778	-	-	-	4,123,027,778
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
	<u>35,222,876,521</u>	<u>2,413,534,911</u>	<u>3,421,368,746</u>	<u>58,345,000</u>	<u>41,116,125,178</u>

Market risk

Interest rate risk

The interest rate risks of the Group mainly originate from long-term interest-bearing liabilities 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, 2017, the Group's long-term interest-bearing liabilities mainly included the contracts with flexible rates priced in USD and contracts with fixed rates priced in RMB.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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VIII. Risks Related to Financial Instruments (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

The risk of market interest rate changes which the Group faces is mainly related to the long-term liabilities bearing the interest at floating rate.

The financial division of the Group keeps close watch over the interest rates level of the Group. Since the rise in 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 and adversely impact the financial results of the Group, so the management will control the rate risks via swap contracts based on the latest market status. In 2016 and 2017, the Group had no such swap arrangements.

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 profits and losses (through the impact on loan with floating rate) and the net amount of other comprehensive income after tax.

2017

	Base point	Net profit and loss	Net amount of other comprehensive income after tax	Total shareholders' equity
	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)
RMB	100	(40,838,071)	-	(40,838,071)
RMB	(100)	40,838,071	-	40,838,071

2016

	Base point	Net profit and loss	Net amount of other comprehensive income after tax	Total shareholders' 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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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VIII. Risks Related to Financial Instruments (continued)

3. Risks of financial instruments (continued)

Exchange rate risk

The Group is exposed to transactional exchange rate 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.

The following table shows the sensitivity analysis of the exchange rate risk, reflecting the impact of reasonable and possible changed in USD exchange rate on net profit and loss (due to changes in the fair value of monetary assets and monetary liabilities) and net amount of other comprehensive income after tax (due to changes in the fair value of forward exchange contracts) based on the assumption of no change in other variables.

2017

	USD Exchange rate	Net profit and loss	Net amount of other comprehensive income after tax	Total shareholders' equity
	Increase/(decrease)%	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)
Appreciation of RMB against USD	1	32,343,556	-	32,343,556
Depreciation of RMB against USD	(1)	(32,343,556)	-	(32,343,556)

2016

	USD Exchange rate	Net profit and loss	Net amount of other comprehensive income after tax	Total shareholders' equity
	Increase/(decrease)%	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)
Appreciation of RMB against USD	1	26,232,074	-	26,232,074
Depreciation of RMB against USD	(1)	(26,232,074)	-	(26,232,074)

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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VIII. Risks Related to Financial Instruments (continued)

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 the 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 shareholders' equity 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. The net debt is the total borrowing (including short-term loans included in the consolidated balance sheet, other non-current liabilities due within one year, other current liabilities, long-term loans, other payable and interest-bearing liabilities in long-term payables) minus cash and cash equivalents. The total capital is the total shareholders' equity plus net debt.

On Dec. 31, 2017 and Dec. 31, 2016, the debt ratio of the Group was listed below:

	Dec. 31, 2017	Dec. 31, 2016
Debt ratio	<u>65%</u>	<u>64%</u>

IX. Disclosure of Fair Value

The tire attributed to the fair value measurement results is determined by the min tire of the input value with significant meaning to the fair value measurement.

Tier One: unadjusted quotation of the same kind of assets or liabilities on activate 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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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IX. Disclosure of Fair Value (continued)

1. Assets and liabilities measured at fair value

On Dec. 31, 2017, the assets continuously measured at fair value are listed as follows based on above 3 tiers:

	Input value used for fair value measurement			Total
	Quotation on active market	Important observable input value	Important unobservable input value	
	(Tire one)	(Tire two)	(Tire three)	
Financial assets				
Financial assets measured at fair value with changed included in current profits and losses				
Equity instrument investment	-	-	8,438,278	8,438,278
Financial assets available-for-sale				
Available-for-sale equity instruments	1,261,209,745	-	-	1,261,209,745
	<u>1,261,209,745</u>	<u>-</u>	<u>8,438,278</u>	<u>1,269,648,023</u>

On Dec. 31, 2016, the assets continuously measured at fair value are listed as follows based on above 3 tiers:

	Input value used for fair value measurement			Total
	Quotation on active market	Important observable input value	Important unobservable input value	
	(Tire one)	(Tire two)	(Tire three)	
Financial assets				
Financial assets measured at fair value with changed included in current profits and losses				
Forward exchange contract	-	4,615,775	-	4,615,775
Financial assets available-for-sale				
Available-for-sale equity instruments	1,270,578,346	-	-	1,270,578,346
	<u>1,270,578,346</u>	<u>4,615,775</u>	<u>-</u>	<u>1,275,194,121</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

IX. Disclosure of Fair Value (continued)

1. Assets and liabilities measured at fair value (continued)

The Group regards the event occurring date transferring between the tires as the time point for confirmation. There is no transfer between the tires this year.

As for the financial instrument traded on active market, the Group will confirm the fair value with the quotation on 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 risk-free interest rate and long exchange rate.

Information on the fair value measurement at tire two is as follows:

	Dec. 31, 2016 Fair value	Valuation technique	Observable input value	
			Name	Scope
Financial assets measured at fair value with changed included current profits and losses		Cash flow	KEW to USD Forward	1,145.45
- Forward exchange contract in USD	4,615,775	Discount model	exchange rate	1,145.50

The important unobservable input values measured at fair value at tire three are as follows:

	Dec. 31, 2017 Fair value	Valuation technique	Unobservable input value	
			Name	Weighted average
Financial assets measured at fair value with changed included current profits and losses				
Trading financial assets – equity instruments investment	8,438,278	Cash flow discount model	Weighted average capital cost	7.8%

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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IX. Disclosure of Fair Value (continued)

2. Assets and liabilities disclosed at fair value

The financial assets and liabilities measured at amortized cost of the Group mainly include monetary fund, notes receivable, receivables, long-term receivables, non-current assets due within one year, short-term loans, notes payable, payables, long-term loans, non-current liabilities due within one year and bond payables.

The long-term receivables of the Group are the receivables with floating rate, and the difference between the book value and fair value is small.

The management has evaluated the monetary fund, notes receivable, accounts receivables, notes payable and accounts payable, and the fair value is equal to the book value due to short remaining term.

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:

	2017		2016	
	Book value	Fair value	Book value	Fair value
Financial liabilities				
-Long-term loans	6,664,914,383	6,631,970,361	3,925,335,497	3,905,480,658
-Long-term payables	<u>1,884,986,333</u>	<u>1,911,741,919</u>	<u>1,618,361,164</u>	<u>1,638,536,115</u>
	<u>8,549,900,716</u>	<u>8,543,712,280</u>	<u>5,543,696,661</u>	<u>5,544,016,773</u>

As for the long-term loans and long-term payables, the fair value shall be confirmed by the future cash flow specified in the contract according to the present value after discount based on the interest rate with comparable credit level and the almost same cash flow rate provided in the same conditions on market.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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X. Related Party Relationships and Transactions

1. Parent company

	Registered in	Business nature	Registered capital	Shareholding ratio in the Company (%)	Voting proportion in the Company (%)
CCCC China Communications Construction Company Ltd.	Beijing	Port project contracting and related business	5,855,423,830	46.229	46.229
	Beijing	Port project contracting and related business	16,174,735,425	46.229	46.229

On July 18, 2017, the board of directors of China Communications Construction Company Ltd. approved through discussion *Proposal for Transfer of Some Shares of Shanghai Zhenhua Heavy Industries Co., Ltd through Agreement and Associated Transaction* and agreed to transfer totally 1,316,649,346 shares of this Company held by it to CCCC and CCCG (HK) HOLDING LIMITED (hereinafter referred to as “CCCG Hong Kong”), accounting for 29.990% of the total shares of this Company, after that, China Communications Construction Company Ltd. held 16.239% of the stock equity of this Company. The transfer and registration of shares was accomplished on Dec. 27, 2017. As of the date of the transfer of shares, CCCC directly held 552,686,146 A-shares of this Company (accounting for 12.589% of the total shares of this Company), indirectly held 763,963,200 B-shares of this Company through CCCG (Hong Kong) (accounting for 17.401% of the total shares of this Company) and held 712,951,703 A-shares of this Company through China Communications Construction Company Ltd. (accounting for 16.239% of the total shares of this Company), as a result, it became the holding shareholder of this Company.

The final controlling party of the Company in both 2017 and 2016 is China Communications Construction Company Ltd.

2. Subsidiary

Please refer to Note VII.1 for details of subsidiaries.

3. Joint venture and associated enterprise

Please refer to Note VII.2 for details of joint venture and associated enterprises.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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X. Related Party Relationships and Transactions (continued)

4. Other related parties

	Related party relationship
Friede & Goldman, LLC.	Controlled by the same final controlling party
Zhenhua Harbour Construction Co., Ltd.	Controlled by the same final controlling party
Hainan CCCC Fourth Harbor Construction Co., Ltd	Controlled by the same final controlling party
Road & Bridge International Construction Co., Ltd.	Controlled by the same final controlling party
Nanjing CCCC Weisanlu River Tunnel Co., Ltd	Controlled by the same final controlling party
Shanghai Jiangtian Industrial Co., Ltd	Controlled by the same final controlling party
Shanghai Communications Construction Co. Ltd.	Controlled by the same final controlling party
Zhenhua (Hong Kong) Engineering Co., Ltd,	Controlled by the same final controlling party
Yueyang Chenglingji New Port Co., Ltd.	Controlled by the same final controlling party
China Harbor Engineering Co., Ltd	Controlled by the same final controlling party
China Communications Materials & Equipment Co., Ltd	Controlled by the same final controlling party
China Road & Bridge Corporation	Controlled by the same final controlling party
Chuwa Bussan Co. Ltd.	Controlled by the same final controlling party
CCCC Finance Co., Ltd	Controlled by the same final controlling party
CCCC Second Highway Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC Second Highway Consultants Co. Ltd.	Controlled by the same final controlling party
CCCC Second Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC Third Highway Engineering Co. Ltd.	Controlled by the same final controlling party
CCCC Third Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC Third Harbor Consultants Co. Ltd.	Controlled by the same final controlling party
(To be continued)	

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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X. Related Party Relationships and Transactions (continued)

4. Other related parties (continued)

	Related party relationship
(Continued)	
CCCC Fourth Highway Engineering Co. Ltd.	Controlled by the same final controlling party
CCCC Fourth Harbor Engineering Co., Ltd	Controlled by the same final controlling party
CCCC-FHDI Engineering Co., Ltd	Controlled by the same final controlling party
CCCC First Highway Engineering Co. Ltd.	Controlled by the same final controlling party
CCCC First Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC First Harbor Consultants Co., Ltd.	Controlled by the same final controlling party
CCCC-SHEC Second Engineering Co. Ltd.	Controlled by the same final controlling party
CCCC-SHEC Third Highway Engineering Co. Ltd.	Controlled by the same final controlling party
CCCC-SHEC No.4 Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC-SHEC No.1 Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC-SHEC Railway Engineering Co., Ltd.	Controlled by the same final controlling party
China Communications Second Navigational Bureau Second Engineering Co., Ltd.	Controlled by the same final controlling party
No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
No.4 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
No.1 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC Highway Bridges National Engineering Research Centre CO., Ltd.	Controlled by the same final controlling party
CCCC Guangzhou Dredging Co. Ltd.	Controlled by the same final controlling party
CCCC International Shipping Co., Ltd.	Controlled by the same final controlling party
CCCC Marine Construction & Development Co., Ltd.	Controlled by the same final controlling party
CTTIC Shanghai Co., Ltd.	Controlled by the same final controlling party

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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CCCC East China Investment Co., Ltd.	Controlled by the same final controlling party
CCCC Electrical and Mechanical Engineering Bureau Co., Ltd.	Controlled by the same final controlling party
Road & Bridge South China Engineering Co., Ltd.	Controlled by the same final controlling party
Road & Bridge International Co., Ltd.	Controlled by the same final controlling party
CCCC Nanjing Traffic Engineering Management Co., Ltd.	Controlled by the same final controlling party
(To be continued)	

X. Related Party Relationships and Transactions (continued)

4. Other related parties (continued)

(Continued)	Related party relationship
No.2 Engineering Co., Ltd. of CCCC Third Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
No.3 Engineering Co., Ltd. of CCCC Third Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
XING AN JI Engineering Co., Ltd. of CCCC Third Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC Shanghai Dredging Co. Ltd.	Controlled by the same final controlling party
CCCC Shanghai Equipment Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC Dredging (Group) Co., Ltd.	Controlled by the same final controlling party
CCCC Water Transportation Planning and Design Institute Co., Ltd.	Controlled by the same final controlling party
CCCC Fourth Harbor Engineering Institute Co., Ltd.	Controlled by the same final controlling party
The Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC Tunnel Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC Tianjin Dredging - Binhai Environmental Protection Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC Tianjin Port Waterway Prospection & Design Research Institute Co., Ltd.	Controlled by the same final controlling party
CCCC Tianjin Industry and Trade Co., Ltd.	Controlled by the same final controlling party
CCCC Tianjin Dredging Co., Ltd.	Controlled by the same final controlling party

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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RMB Yuan

CCCC Wuhan Harbour Engineering Design and Research Co. Ltd	controlling party
The Sixth Engineering Co., Ltd. of CCCC First Highway Engineering Co., Ltd.	Controlled by the same final controlling party
Installation Engineering Company of CCCC First Highway Engineering Co. Ltd.	Controlled by the same final controlling party
CCCC-FHEC Urban Traffic Engineering Co., Ltd.	Controlled by the same final controlling party
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
Second Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	Controlled by the same final controlling party
CCCC Leasing JIA HUA ER Co., Ltd.	Controlled by the same final controlling party
CCCC Leasing JIA HUA YI Co., Ltd.	Controlled by the same final controlling party

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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X. Related Party Relationships and Transactions (continued)

5. Main transactions between the Group and related party

The transaction price between the Group and the related party is based on mutual agreement and with reference to market price.

(1) Goods and service transaction with related party

Selling goods/providing service to related party

	2017	2016
CCCC Financial Leasing Co., Ltd.	728,945,754	20,652,755
CCCC Tianjin Dredging Co., Ltd.	471,642,717	155,198,269
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd	439,726,261	16,648,649
CCCC First Harbor Engineering Co., Ltd.	311,673,509	8,219,845
China Harbor Engineering Co., Ltd	232,091,723	147,800,178
China Communications Construction Company Ltd.	221,713,310	11,627,327
Road & Bridge International Co., Ltd.	97,734,474	81,639,431
CCCC Tunnel Engineering Co., Ltd.	96,474,819	144,526,777
CCCC Second Harbor Engineering Co., Ltd.	62,392,577	389,557,043
No.1 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	57,742,023	-
CCCC Electrical and Mechanical Engineering Bureau Co., Ltd.	56,423,470	-
CCCC Second Highway Engineering Co., Ltd.	51,535,600	11,802,499
Road & Bridge South China Engineering Co., Ltd.	44,066,592	-
No.4 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	36,707,819	-
No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	28,130,115	69,043,050
CCCC First Harbor Consultants Co., Ltd.	27,435,897	-
CCCC Third Harbor Engineering Co., Ltd.	23,994,666	81,407,370
China Road & Bridge Corporation	23,045,665	179,013,839
Chuwa Bussan Co. Ltd.	20,992,826	193,053,287
CCCC-SHEC Third Highway Engineering Co. Ltd.	15,152,103	-
Hainan CCCC Fourth Harbor Construction Co., Ltd	7,710,256	19,279,683
CCCC Fourth Harbor Engineering Co., Ltd	5,805,005	17,389,362
(To be continued)		

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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X. Related Party Relationships and Transactions (continued)

(1) Goods and service transaction with related party (continued)

Selling goods/providing service to related party (continued)

	2017	2016
(Continued)		
CCCC-FHDI Engineering Co., Ltd.	5,058,462	121,403,077
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	4,167,390	-
CCCC Third Highway Engineering Co. Ltd.	2,752,482	22,068,890
CCCC Guangzhou Dredging Co. Ltd.	1,949,573	-
CCCC-SHEC Second Engineering Co. Ltd.	1,729,907	37,101,137
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	14,151	-
CCCC International Shipping Co., Ltd.	-	233,003,192
CCCC Third Harbor Consultants Co., Ltd.	-	175,876,344
China Communications Second Navigational Bureau Second Engineering Co., Ltd.	-	62,720,000
Second Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	-	42,279,112
Friede & Goldman, LLC.	-	26,755,168
CCCC Fourth Harbor Engineering Institute Co., Ltd.	-	26,568,685
CCCC East China Investment Co., Ltd.	-	10,697,446
CCCC Highway Bridges National Engineering Research Centre CO., Ltd.	-	4,829,060
Zhenhua (Hong Kong) Engineering Co., Ltd,	-	134,656
	<u>3,076,809,146</u>	<u>2,310,296,131</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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X. Related Party Relationships and Transactions (continued)

(1) Goods and service transaction with related party (continued)

Related party provides service for the Group

	2017	2016
CCCC Tianjin Dredging Co., Ltd.	462,492,064	331,677,108
CCCC Second Harbor Engineering Co., Ltd.	161,465,657	-
CCCC First Highway Engineering Co. Ltd.	137,930,629	-
CCCC Third Harbor Engineering Co., Ltd.	134,235,980	64,290,666
CCCC-SHEC Second Engineering Co. Ltd.	112,198,187	-
CCCC Fourth Highway Engineering Co. Ltd.	96,055,525	75,048,039
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	63,578,055	22,573,250
Shanghai Communications Construction Co. Ltd.	61,115,756	21,633,168
CCCC Second Highway Consultants Co., Ltd.	30,059,257	91,221,324
The Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd.	28,312,923	-
CCCC First Harbor Engineering Co., Ltd.	26,777,335	-
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd	21,662,715	14,565,939
No.3 Engineering Co., Ltd. of CCCC Third Harbor Engineering Co., Ltd.	17,743,903	-
CCCC Water Transportation Planning and Design Institute Co., Ltd.	12,105,094	-
No.2 Engineering Co., Ltd. of CCCC Third Harbor Engineering Co., Ltd.	10,427,350	-
Installation Engineering Company of CCCC First Highway Engineering Co. Ltd.	5,989,401	-
CCCC First Harbor Consultants Co., Ltd.	5,858,503	-
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	3,548,020	-
(To be continued)		

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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X. Related Party Relationships and Transactions (continued)

(1) Goods and service transaction with related party (continued)

Related party provides service for the Group (continued)

	2017	2016
(Continued)		
CCCC Highway Bridges National Engineering Research Centre CO., Ltd.	1,777,778	-
CCCC Shanghai Dredging Co. Ltd.	1,727,336	-
CTTIC Shanghai Co., Ltd.	929,915	17,094
CCCC Third Harbor Consultants Co., Ltd.	142,383	56,913
China Communications Construction Company Ltd.	-	13,661,221
CCCC Second Highway Engineering Co., Ltd.	-	7,079,715
CCCC Tianjin Industry and Trade Co., Ltd.	-	296,154
CCCC East China Investment Co., Ltd.	-	247,863
Shanghai Jiangtian Industrial Co., Ltd	-	25,173
	1,396,133,766	642,393,627

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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X. Related Party Relationships and Transactions (continued)

5. Main transactions between the Group and related party (continued)

(1) Goods and service transaction with related party (continued)

Purchase products from related party

	2017	2016
CCCC Shanghai Equipment Engineering Co., Ltd.	131,400,593	100,037,221
ZMPC Changzhou Paint Co., Ltd.	88,611,099	120,664,901
Chuwa Bussan Co. Ltd.	42,752,896	182,477,645
Shanghai Jiangtian Industrial Co., Ltd	15,435,145	-
China Communications Materials & Equipment Co., Ltd	5,989,665	14,248
CCCC Fourth Highway Engineering Co. Ltd.	4,868,840	2,993,504
Nanjing CCCC Weisanlu River Tunnel Co., Ltd	418,291	72,175
CCCC Tianjin Industry and Trade Co., Ltd.	22,846	-
CCCC Tianjin Port & Waterway Prospection & Design Research Institute Co., Ltd.	-	2,169,230
	<u>289,499,375</u>	<u>408,428,924</u>

(2) Dividend paid to related party

	2017	2016
China Communications Construction Company Ltd.	126,563,785	502,283
Zhenhua (Hong Kong) Engineering Co., Ltd,	74,967,750	-
Zhenhua Harbour Construction Co., Ltd.	1,428,570	-
	<u>202,960,105</u>	<u>502,283</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

5. Main transactions between the Group and related party (continued)

(3) Saving money in/(drawing money from) related party

	2017	2016
China Communications Construction Company Ltd.	20,206,089	-
CCCC Finance Co., Ltd	<u>(185,697,167)</u>	<u>528,772,323</u>
	<u>(165,491,078)</u>	<u>528,772,323</u>

(4) Borrowings to related party

	2017	2016
CCCC Finance Co., Ltd	1,150,000,000	300,000,000
CCCC Leasing JIA HUA YI Co., Ltd.	991,005,000	-
CCCC Financial Leasing Co., Ltd.	<u>43,000,000</u>	<u>2,120,845,793</u>
	<u>2,184,005,000</u>	<u>2,420,845,793</u>

(5) Interest collected from related party

	2017	2016
CCCC Finance Co., Ltd	1,527,782	513,218
China Communications Construction Company Ltd.	<u>143,106</u>	<u>-</u>
	<u>1,670,888</u>	<u>513,218</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

5. Main transactions between the Group and related party (continued)

(6) Interest paid to related party

	2017	2016
CCCC Financial Leasing Co., Ltd.	61,295,275	46,047,152
CCCC Finance Co., Ltd	22,784,195	11,201,250
CCCC Leasing JIA HUA YI Co., Ltd.	18,155,201	8,819,415
CCCC Leasing JIA HUA ER Co., Ltd.	18,155,201	8,819,415
	<u>120,389,872</u>	<u>74,887,232</u>

(7) Related party leasing

Rental income as lessor

	Type of leasing assets	2017	2016
Zhenhua Ocean Energy (Hong Kong) Co., Ltd	Vessel	158,746,932	169,580,194
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd	Vessel	27,414,329	-
CCCC First Navigational Bureau Urban Traffic Engineering Co., Ltd.	Shield	26,525,385	-
CCCC Second Highway Engineering Co., Ltd.	Shield	6,727,590	-
Road & Bridge International Co., Ltd.	Shield	3,499,733	-
CCCC Third Highway Engineering Co. Ltd.	Shield	2,928,360	-
China Communications Construction Company Ltd.	Shield	2,162,605	1,606,804
CCCC-SHEC No.4 Engineering Co., Ltd.	Shield	1,841,219	-
CCCC-SHEC No.1 Engineering Co., Ltd.	Shield	1,336,752	-
CCCC First Harbor Engineering Co., Ltd.	Shield	895,138	-
CCCC Tunnel Engineering Co., Ltd.	Shield	-	125,440,000
No.2 Engineering Co., Ltd. of CCCC Third Harbor Engineering Co., Ltd.	Shield	-	501,755
		<u>232,078,043</u>	<u>297,128,753</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

5. Main transactions between the Group and related party (continued)

(8) Compensation of key executives

	2017	2016
Compensation of key executives	<u>10,855,200</u>	<u>14,574,800</u>

The number of key executives of the Group in 2017 was 26 (2016: 24). The compensation of the newly added executives and the resigned executives are calculated according to the tenure. The compensation shall be calculated on a yearly basis for other employees.

6. Commitments with related parties

The following are the commitments contracted but not necessarily listed on balance sheet relating to related parties on balance sheet date:

Related parties provided labor service for the Group	2017	2016
CCCC Tianjin Dredging Co., Ltd.	927,318,851	1,344,348,653
CCCC Fourth Highway Engineering Co. Ltd.	734,725,379	835,973,095
CCCC First Highway Engineering Co. Ltd.	590,349,313	-
CCCC Third Harbor Engineering Co., Ltd.	326,513,794	387,588,088
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	74,178,156	139,829,924
CCCC Second Highway Consultants Co., Ltd.	10,832,844	34,418,446
CCCC Tunnel Engineering Co., Ltd.	5,265,067	5,265,067
Shanghai Communications Construction Co. Ltd.	-	650,837
	<u>2,669,183,404</u>	<u>2,748,074,110</u>
Leased assets to the related party	2017	2016
Zhenhua Ocean Energy (Hong Kong) Co., Ltd	<u>1,363,334,924</u>	<u>1,522,081,855</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

6. Commitments with related parties (continued)

Selling goods/providing service to related party

	2017	2016
CCCC Financial Leasing Co., Ltd.	558,387,580	41,121,422
CCCC Electrical and Mechanical Engineering Bureau Co., Ltd.	210,243,196	-
No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	117,245,158	69,043,050
China Communications Construction Company Ltd.	114,814,493	-
CCCC Second Highway Engineering Co., Ltd.	70,783,170	55,801,029
China Harbor Engineering Co., Ltd.	52,196,041	-
CCCC Tunnel Engineering Co., Ltd.	50,732,292	11,054,256
CCCC Second Harbor Engineering Co., Ltd.	47,304,779	126,518,010
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd.	46,426,694	-
Road & Bridge International Co., Ltd.	43,462,687	74,183,233
No.4 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	24,471,879	-
CCCC Tianjin Dredging Co., Ltd.	23,885,509	495,528,226
No.1 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	19,181,054	-
Road & Bridge South China Engineering Co., Ltd.	16,531,032	-
CCCC Third Harbor Engineering Co., Ltd.	9,069,488	11,620,766
CCCC Water Transportation Planning and Design Institute Co., Ltd.	6,672,629	6,672,629
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	5,264,957	5,264,957
China Road & Bridge Corporation	4,521,227	28,043,324
Chuwa Bussan Co. Ltd.	4,443,667	13,138,761
CCCC Third Harbor Consultants Co. Ltd.	4,130,393	-
CCCC-SHEC Third Highway Engineering Co. Ltd.	1,060,291	-
CCCC Third Highway Engineering Co. Ltd.	80,867	1,127,786
CCCC First Harbor Engineering Co., Ltd.	25,180	341,880
Hainan CCCC Fourth Harbor Construction Co., Ltd.	13,248	7,723,504
CCCC-SHEC Second Engineering Co. Ltd.	7,727	1,541,429
CCCC International Shipping Co., Ltd.	-	26,318,763
(To be continued)		

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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X. Related Party Relationships and Transactions (continued)

6. Commitments with related parties (continued)

Selling goods/providing service to related party (continued)

	2017	2016
(Continued)		
Friede & Goldman, LLC.	-	11,000,000
CCCC-FHDI Engineering Co., Ltd	-	5,058,462
Second Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	-	4,528,473
CCCC Fourth Harbor Engineering Institute Co., Ltd.	-	36,103
	<u>1,430,955,238</u>	<u>995,666,063</u>

Standby leasing agreement signed 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 (collectively referred to as “CCCC Jiahua”), with the rental term from March 5, 2016 to December 5, 2021. The contract will come into effect when the ship rental agreement signed by the subsidiary of the Company and CCCC Jiahua can't be performed normally. As of Dec. 31, 2017, the maximum payment amount of the contract was RMB 604,861,711 Yuan (Dec. 31, 2016: RMB 737,304,000 Yuan).

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

7. Balance of receivables from related parties

	2017 Book balance	Provision for bad debt	2016 Book balance	Provision for bad debt
<u>Accounts receivable</u>				
CCCC First Harbor Engineering Co., Ltd.	243,038,117	-	72,345,219	-
CCCC Tunnel Engineering Co., Ltd.	62,548,820	-	-	-
No.4 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	61,000,000	-	-	-
CCCC Second Harbor Engineering Co., Ltd.	54,546,226	-	31,166,430	-
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd.	40,731,949	-	37,087,652	-
No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	36,245,810	-	-	-
China Communications Construction Company Ltd.	34,548,987	-	58,509,343	-
CCCC Financial Leasing Co., Ltd.	33,507,250	-	-	-
CCCC-FHDI Engineering Co., Ltd.	29,592,000	-	88,776,000	-
Zhenhua Ocean Energy (Hong Kong) Co., Ltd.	27,901,034	-	-	-
CCCC Third Harbor Engineering Co., Ltd.	27,387,519	-	32,184,194	-
The Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd.	24,901,085	-	5,233,497	-
CCCC First Harbor Consultants Co., Ltd.	17,736,000	-	-	-
Friede & Goldman, LLC.	16,205,750	-	16,718,142	-
CCCC First Navigational Bureau Urban Traffic Engineering Co., Ltd.	15,268,940	-	-	-
China Communications Second Navigational Bureau Second Engineering Co., Ltd.	12,761,828	-	5,700,505	-
CCCC Fourth Harbor Engineering Co., Ltd.	12,000,000	-	24,670,995	-
CCCC Third Highway Engineering Co. Ltd.	11,901,177	-	-	-
Road & Bridge International Construction Co., Ltd.	11,429,413	-	-	-
CCCC Second Highway Engineering Co., Ltd.	11,311,717	-	-	-
Road & Bridge South China Engineering Co., Ltd.	11,279,627	-	-	-
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	11,000,668	-	-	-
CCCC-SHEC Third Highway Engineering Co. Ltd.	7,422,819	-	-	-
The Sixth Engineering Co., Ltd. of CCCC First Highway Engineering Co., Ltd.	6,098,300	-	6,098,300	-
Second Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	5,219,557	-	5,053,317	-
Road & Bridge International Co., Ltd.	4,544,688	-	9,032,783	-
CCCC-SHEC No.4 Engineering Co., Ltd.	4,384,226	-	-	-
(To be continued)				

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

7. Balance of receivables from related parties (continued)

	2017		2016	
	Book balance	Provision for bad debt	Book balance	Provision for bad debt
<u>Accounts receivable</u> (continued)				
(Continued)				
CCCC-SHEC Second Engineering Co. Ltd.	1,438,507	-	1,438,507	-
CCCC Ocean Engineering Vessel Technology Research Centre Co., Ltd	1,100,000	-	1,100,000	-
Installation Engineering Company of CCCC First Highway Engineering Co. Ltd.	253,297	-	253,297	-
CCCC Third Harbor Consultants Co., Ltd.	150,000	-	6,000,000	-
CCCC Tianjin Industry and Trade Co., Ltd.	56,700	-	140,711	-
CCCC Shanghai Equipment Engineering Co., Ltd.	52,777	-	45,635	-
Yueyang Chenglingji New Port Co., Ltd.	44,900	-	48,680	-
CCCC-SHEC Railway Engineering Co., Ltd.	26,297	-	-	-
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	-	-	100,793,713	-
China Harbor Engineering Co., Ltd	-	-	33,636,903	-
CCCC Water Transportation Planning and Design Institute Co., Ltd.	-	-	18,382,000	-
CCCC Highway Bridges National Engineering Research Centre CO., Ltd.	-	-	5,650,000	-
No.2 Engineering Co., Ltd. of CCCC Third Harbor Engineering Co., Ltd.	-	-	5,008,691	-
CCCC Tianjin Dredging - Binhai Environmental Protection Engineering Co., Ltd.	-	-	2,170,000	-
XING AN JI Engineering Co., Ltd of CCCC Third Harbor Engineering Co., Ltd	-	-	331,860	-
	<u>837,635,985</u>	<u>-</u>	<u>567,576,374</u>	<u>-</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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	2017		2016	
	Book balance	Provision for bad debt	Book balance	Provision for bad debt
<u>Monetary fund</u>				
CCCC Finance Co., Ltd	479,650,805	-	663,820,190	-
China Communications Construction Company Ltd.	<u>20,349,195</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>500,000,000</u>	<u>-</u>	<u>663,820,190</u>	<u>-</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

7. Balance of receivables from related parties (continued)

	2017		2016	
<u>Notes receivable</u>				
CCCC First Harbor Engineering Co., Ltd.	49,000,000	-	-	-
CCCC Second Harbor Engineering Co., Ltd.	796,000	-	-	-
	<u>49,796,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	2017	2016	2017	2016
	Book balance	Provision for bad debt	Book balance	Provision for bad debt
<u>Other receivables</u>				
CCCC Financial Leasing Co., Ltd.	176,800,000	-	-	-
Zhenhua Ocean Energy (Hong Kong) Co., Ltd.	164,124,678	164,124,678	-	-
China Communications Construction Company Ltd.	62,004,518	-	-	-
CCCC Nanjing Traffic Engineering Management Co., Ltd.	6,500,000	-	-	-
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd.	-	-	1,750,622	-
CCCC Second Harbor Engineering Co., Ltd.	-	-	100,000	-
	<u>409,429,196</u>	<u>164,124,678</u>	<u>1,850,622</u>	<u>-</u>
	2017	2016	2017	2016
	Book balance	Provision for bad debt	Book balance	Provision for bad debt
<u>Prepayment</u>				
CCCC First Harbor Engineering Co., Ltd.	10,000,000	-	-	-
Chuwa Bussan Co. Ltd.	6,680,981	-	-	-
CCCC Fourth Highway Engineering Co. Ltd.	6,000,003	-	-	-
The Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd.	5,000,000	-	-	-
CCCC Third Harbor Engineering Co., Ltd.	5,000,000	-	-	-
CCCC East China Investment Co., Ltd.	-	-	7,210,205	-
	<u>32,680,984</u>	<u>-</u>	<u>7,210,205</u>	<u>-</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

8. Balance of payables to related parties

	2017	2016
<u>Accounts payable</u>		
Chuwa Bussan Co. Ltd.	254,526,575	358,758,413
CCCC-SHEC Second Engineering Co. Ltd.	184,712,479	-
CCCC Tianjin Dredging Co., Ltd.	181,111,928	92,096,212
CCCC Second Harbor Engineering Co., Ltd.	178,914,819	-
CCCC Third Harbor Engineering Co., Ltd.	148,448,390	115,648,769
No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	134,081,469	221,168,711
CCCC First Highway Engineering Co. Ltd.	109,392,836	-
CCCC Fourth Highway Engineering Co. Ltd.	97,685,283	81,806,205
Shanghai Communications Construction Co. Ltd.	47,138,300	9,675,865
CCCC Second Highway Consultants Co. Ltd.	41,215,576	48,804,871
CCCC Shanghai Equipment Engineering Co., Ltd.	29,563,161	14,170,536
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	25,348,030	11,410,703
CCCC Second Highway Engineering Co., Ltd.	23,175,061	149,221,661
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	17,929,841	8,725,170
The Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd.	15,626,120	-
CCCC Tunnel Engineering Co., Ltd.	14,678,757	29,059,546
CCCC Water Transportation Planning and Design Institute Co., Ltd.	14,162,960	160,000
No.3 Engineering Co., Ltd. of CCCC Third Harbor Engineering Co., Ltd.	13,760,366	-
XING AN JI Engineering Co., Ltd. of CCCC Third Harbor Engineering Co., Ltd.	10,051,352	10,051,352
Shanghai Jiangtian Industrial Co., Ltd	9,942,274	4,380
CCCC Ocean Engineering Vessel Technology Research Centre Co., Ltd	9,363,830	9,363,830
Installation Engineering Company of CCCC First Highway Engineering Co. Ltd.	7,007,599	-
No.2 Engineering Co., Ltd. of CCCC Third Harbor Engineering Co., Ltd.	5,000,000	-
China Communications Construction Company Ltd.	4,388,938	8,777,876
CCCC Tianjin Port Waterway Prospection & Design Research Institute Co., Ltd.	2,999,400	-
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd	2,079,751	17,042,149
CCCC Shanghai Dredging Co. Ltd.	2,020,983	-
CCCC First Harbor Consultants Co., Ltd.	1,367,890	-
CTTIC Shanghai Co., Ltd.	1,088,000	-
CCCC Wuhan Harbour Engineering Design and Research Co. Ltd	700,000	-
CCCC Tianjin Industry and Trade Co., Ltd.	-	1,178,100
CCCC East China Investment Co., Ltd.	-	290,000
China Communications Materials & Equipment Co., Ltd	-	16,670
	1,587,481,968	1,187,431,019

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

8. Balance of payables to related parties (continued)

	2017	2016
<u>Advances from customers</u>		
CCCC Tianjin Dredging - Binhai Environmental Protection Engineering Co., Ltd.	65,257,080	-
CCCC Tunnel Engineering Co., Ltd.	45,095,030	-
CCCC First Highway Engineering Co. Ltd.	15,614,964	-
CCCC-SHEC Railway Engineering Co., Ltd.	9,564,373	-
CCCC Second Highway Engineering Co., Ltd.	1,000,000	-
Cranetech Global Sdn. Bhd.	218,242	-
CCCC Shanghai Dredging Co. Ltd.	13,690	-
China Harbor Engineering Co., Ltd	-	736,500
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd	-	366,574
CCCC Shanghai Equipment Engineering Co., Ltd.	-	100,000
	<u>136,763,379</u>	<u>1,203,074</u>
	2017	2016
<u>Dividend payable</u>		
CCCC Tianjin Dredging Co., Ltd.	25,079,494	25,079,494
Chuwa Bussan Co. Ltd.	6,269,873	6,269,873
Zhenhua (Hong Kong) Engineering Co., Ltd,	346,005	346,005
Zhenhua Harbour Construction Co., Ltd.	6,593	6,593
	<u>31,701,965</u>	<u>31,701,965</u>
	2017	2016
<u>Interest payable</u>		
CCCC Finance Co., Ltd	869,396	-
CCCC Financial Leasing Co., Ltd.	47,971	132,917
	<u>917,367</u>	<u>132,917</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

8. Balance of payables to related parties (continued)

	2017	2016
<u>Other payables</u>		
China Communications Construction Company Ltd.	102,784,486	103,327,306
CCCC Dredging (Group) Co., Ltd.	88,219,383	-
CCCC Financial Leasing Co., Ltd.	39,499,033	100,000,000
CCCC Marine Construction & Development Co., Ltd.	17,472,600	-
CCCC Third Harbor Engineering Co., Ltd.	12,285,000	3,195,324
Shanghai Jiangtian Industrial Co., Ltd.	4,586,085	16,754,583
China Harbor Engineering Co., Ltd.	3,625,000	-
CCCC Tianjin Dredging Co., Ltd.	2,861,844	2,000,000
CCCC Third Highway Engineering Co. Ltd.	1,172,612	-
Nanjing CCCC Weisanlu River Tunnel Co., Ltd.	306,974	-
CCCC Water Transportation Planning and Design Institute Co., Ltd.	199,812	-
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd.	143,395	143,395
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	100,000	99,606
CCCC Shanghai Equipment Engineering Co., Ltd.	89,000	89,000
CCCC First Harbor Engineering Co., Ltd.	87,893	-
The Second Engineering Company of CCCC Fourth Harbor Engineering Co., Ltd.	11,401	-
No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	-	7,912,758
CCCC Tunnel Engineering Co., Ltd.	-	1,819,211
CCCC Second Highway Engineering Co., Ltd.	-	1,437,244
	<u>273,444,518</u>	<u>236,778,427</u>
	2017	2016
<u>Notes payable</u>		
CCCC Shanghai Equipment Engineering Co., Ltd.	<u>4,885,855</u>	<u>-</u>
	2017	2016
<u>Short-term loans</u>		
CCCC Finance Co., Ltd.	<u>350,000,000</u>	<u>100,000,000</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

X. Related Party Relationships and Transactions (continued)

8. Balance of payables to related parties (continued)

	2017	2016
<u>Long-term loans</u>		
CCCC Finance Co., Ltd	500,000,000	-
	2017	2016
<u>Non-current liabilities due within one year</u>		
CCCC Financial Leasing Co., Ltd.	407,455,030	407,455,030
CCCC Leasing JIA HUA YI Co., Ltd.	387,778,932	61,059,663
CCCC Leasing JIA HUA ER Co., Ltd.	59,741,257	61,059,663
	854,975,219	529,574,356
	2017	2016
<u>Long-term payables</u>		
CCCC Leasing JIA HUA YI Co., Ltd.	896,118,857	323,448,337
CCCC Financial Leasing Co., Ltd.	556,387,041	905,899,356
CCCC Leasing JIA HUA ER Co., Ltd.	242,698,858	323,448,337
CCCC Tianjin Dredging Co., Ltd.	108,466,881	65,565,134
	1,803,671,637	1,618,361,164

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XI. Commitments and Contingencies

1. Important commitments

(1) Capital expenditure commitments

The following is the capital expenditure commitment signed by the Group but not necessarily listed on balance sheet on the balance sheet date:

	Dec. 31, 2017	Dec. 31, 2016
Housing, buildings and machinery equipment	<u>89,659,929</u>	<u>225,842,432</u>

(2) Operating leasing commitments

In accordance with the signed and irrevocable operating leasing contract, the minimum rental payable by the Company in the future is summarized as follows:

	Dec. 31, 2017	Dec. 31, 2016
Within 1 year	59,932,787	56,483,290
1~2 years	58,309,091	55,894,180
2~3 years	23,591,704	56,409,123
Over 3 years	<u>37,717,614</u>	<u>60,507,528</u>
	<u>179,551,196</u>	<u>229,294,121</u>

(3) L/C commitments

The company has entrusted the bank to issue several L/C to purchase imported components and parts. As of Dec. 31, 2017, the unpaid amount under the L/Cs was about RMB 1,783,453,627 Yuan (Dec. 31, 2016: RMB 2,464,170,714 Yuan).

XI. Commitments and Contingencies (continued)

2. Contingencies

As of Dec. 31, 2017, the major contingencies of the Group were listed below:

- (1) In 2013, the Company signed the construction and sales contract on 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 was delayed and met the termination articles. 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 issued by the Company for the project 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 had 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 filed a counterclaim, and asked the Company for compensating about 182 million USD or 213 million USD under the requirements of continuing or not continuing to construct the ship. At present, the arbitration court has been organized. 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 as of the date of this financial statement, and the relative materials are still in preparation, such as evidentiary document, testimony of witnesses and expert report. Therefore, the Company is unable to reliably estimate the possible result of the case, 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.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XI. Commitments and Contingencies (continued)

2. Contingencies (continued)

- (2) On Jan. 27, 2014, Lovanda offshore Ltd (hereafter referred to as “Lovanda”) and Lovansing offshore Ltd (hereafter referred to as “Lovansing”) signed the construction contracts (ZP14-2125 and ZP14-2126) on two JU2000E offshore drilling platforms respectively with this Company, which were designed, built, commissioned and delivered by this Company. In the construction process, some disputes arose between Lovanda and this Company and Lovansing and the Company regarding the construction schedule of this platform, the extension of delivery time and other aspects.

Lovanda and Lovansing submitted to arbitration to London Maritime Arbitrators Association against this Company on Mar. 6, 2017 and proposed to terminate the platform construction contract and required this Company to repay USD 13,800,000 dollars under each contract (27,600,000USD in total) including the advance cost of construction, related expenses and interest.

This Company attached great importance to this event and established a special working group and employed the professional domestic and foreign lawyers and experts to actively respond to action to maintain the legitimate right of this Company. On June 23, 2017, the Company submitted the written defense in arbitration and counterclaim application, and claimed the following under each contract: 1) the other party should pay the last sum of money payable under the contract and its interest arising herefrom, totaling USD 186,200,000 dollars to this party; 2) the income of this party from the sale of the platform minus the cost of sale should be used for deducting the account payable of the other party; 3) other losses, interest and other expenses that may occur in the future.

As of Dec. 31, 2017, the basic arbitration documents of the two arbitration cases have been submitted and the arbitral court has set the basic timetable for subsequent arbitration proceedings (including: disclosure, witness’ testimony and experts report), and it is tentatively scheduled to hold a court on January 7, 2019. Therefore, the Company is unable to reliably estimate the possible result of the case, 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.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XI. Commitments and Contingencies (continued)

2. Contingencies (continued)

- (3) On Dec. 31, 2017, the Group provided financial guarantee for its client, Jiangsu Yanwei Port Co., Ltd with the expiry date of May 8, 2018 and the amount of RMB 10,790,000 Yuan. The above amount reflects the maximum loss to the Group due to the company's default. Jiangsu Yanwei Port Co., Ltd is in good financial condition and there is no risk of significant financial default, so the Group has not recognized the predicted liabilities related to financial guarantee.

XII. Notes to items in the Company's financial statements

1. Accounts receivable

	2017	2016
Accounts receivable	7,854,910,710	7,787,866,391
Less: Provision for bad debt	<u>1,307,045,951</u>	<u>1,311,778,695</u>
	<u>6,547,864,759</u>	<u>6,476,087,696</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XII. Notes to items in the Company's financial statements (continued)

1. Accounts receivable (continued)

Aging of accounts receivable is analyzed as follows:

	2017	2016
Within 6 months	4,930,564,378	4,697,825,773
7~12 months	306,925,951	754,026,913
1~2 years	896,868,082	846,748,647
2~3 years	387,732,209	347,663,847
3~4 years	257,418,171	377,828,003
4~5 years	321,232,163	132,261,040
Over 5 years	754,169,756	631,512,168
Subtotal	<u>7,854,910,710</u>	<u>7,787,866,391</u>
Less: Provision for bad debt	<u>1,307,045,951</u>	<u>1,311,778,695</u>
	<u><u>6,547,864,759</u></u>	<u><u>6,476,087,696</u></u>

Changes in provision for bad debt of accounts receivable:

	Opening balance	Proportion in current year	Reversal in current year	Write-off in current year	Closing balance
2017	1,311,778,695	240,888,409	(245,621,153)	-	1,307,045,951
2016	1,108,321,774	203,456,921	-	-	1,311,778,695

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XII. Notes to items in the Company's financial statements (continued)

1. Accounts receivable (continued)

The accounts receivable is analyzed by types as follows:

	2017				2016			
	Book balance		Provision for bad debt		Book balance		Provision for bad debt	
	Amount	Proportion (%)	Amount	Provision on proportion (%)	Amount	Proportion (%)	Amount	Provision on proportion (%)
With significant individual amount and separate provision for bad debt	182,649,892	2	182,649,892	100	-	-	-	-
Total Provision for bad debt by credit risk features group								
- Related party	4,000,779,449	51	-	-	3,350,449,306	43	-	-
- Non-related party	3,455,359,835	44	908,274,525	26	3,992,180,635	51	867,510,413	22
With insignificant single amount but for separate provision for bad debt	216,121,534	3	216,121,534	100	445,236,450	6	444,268,282	100
	<u>7,854,910,710</u>	<u>100</u>	<u>1,307,045,951</u>	<u>17</u>	<u>7,787,866,391</u>	<u>100</u>	<u>1,311,778,695</u>	<u>17</u>

As of Dec. 31, 2017, the accounts receivable with significant single amount and for separate provision for bad debt is as follows:

	Book balance	Provision for bad debt	Provision proportion%	Reason
Accounts receivable 1	<u>182,649,892</u>	<u>182,649,892</u>	<u>100</u>	Contract disputes

As of Dec. 31, 2016, there is no account receivable with significant single amount and separate provision for bad debt.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XII. Notes to items in the Company's financial statements (continued)

1. Accounts receivable (continued)

The Company's accounts receivable of non-related parties with provision for bad debt based on aging analysis method is as follows:

	2017			2016		
	Book balance	Provision for bad debt		Book balance	Provision for bad debt	
	Amount	Amount	Proportion (%)	Amount	Amount	Proportion (%)
Within 6 months	1,257,505,519	-	-	1,638,214,661	-	-
7~12 months	281,527,110	2,815,271	1	669,637,393	6,696,374	1
1~2 years	736,866,863	110,530,029	15	649,760,167	97,704,025	15
2~3 years	361,064,289	108,319,287	30	293,717,341	88,115,202	30
3~4 years	225,727,110	112,863,555	50	95,818,058	47,909,029	50
4~5 years	75,690,244	56,767,683	75	71,788,934	53,841,700	75
Over 5 years	516,978,700	516,978,700	100	573,244,081	573,244,083	100
	<u>3,455,359,835</u>	<u>908,274,525</u>	<u>26</u>	<u>3,992,180,635</u>	<u>867,510,413</u>	<u>22</u>

As of Dec. 31, 2017, the accounts receivable with insignificant single amount but for separate provision for bad debt is as follows:

	Book balance	Provision for bad debt	Provision proportion %	Reason
Accounts receivable1	107,819,500	107,819,500	100	Counter-party in funds shortage
Accounts receivable 2	50,365,000	50,365,000	100	Counter-party in funds shortage
Accounts receivable 3	26,136,865	26,136,865	100	Contract disputes
Accounts receivable 4	10,730,715	10,730,715	100	Contract disputes
Accounts receivable 5	7,802,300	7,802,300	100	Contract disputes
Accounts receivable 6	6,990,320	6,990,320	100	Contract disputes
Accounts receivable 7	3,355,177	3,355,177	100	Contract disputes
Accounts receivable 8	2,083,103	2,083,103	100	Contract disputes
Accounts receivable 9	838,554	838,554	100	Contract disputes
	<u>216,121,534</u>	<u>216,121,534</u>	<u>100</u>	

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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XII. Notes to items in the Company's financial statements (continued)

1. Accounts receivables (continued)

As of Dec. 31, 2016, the accounts receivable with insignificant single amount but for separate provision for bad debt is as follows:

	Book balance	Provision for bad debt	Provision proportion%	Reason
Accounts receivable 1	159,594,037	159,594,037	100	Contract disputes
Accounts receivable 2	107,819,500	107,819,500	100	Contract disputes
Accounts receivable 3	50,365,000	50,365,000	100	Counter-party in funds shortage
Accounts receivable 4	27,748,069	27,748,069	100	Contract disputes
Accounts receivable 5	21,932,297	21,932,297	100	Contract disputes
Accounts receivable 6	19,480,920	18,512,752	95	Contract disputes
Accounts receivable 7	17,735,070	17,735,070	100	Contract disputes
Accounts receivable 8	10,049,240	10,049,240	100	Contract disputes
Accounts receivable 9	7,664,629	7,664,629	100	Contract disputes
Accounts receivable 10	7,421,237	7,421,237	100	Contract disputes
Accounts receivable 11	7,306,800	7,306,800	100	Contract disputes
Accounts receivable 12	4,557,644	4,557,644	100	Contract disputes
Accounts receivable 13	3,562,007	3,562,007	100	Contract disputes
	<u>445,236,450</u>	<u>444,268,282</u>	<u>100</u>	

As of Dec. 31, 2017, the accounts receivable of the top five balances collected by debtor is summarized and analyzed as follows:

	Balance	Amount of provision for bad debt	Proportion of total balance of accounts receivable
Total accounts receivable of the top five balances	<u>3,125,544,790</u>	<u>189,686,898</u>	<u>40%</u>

As of Dec. 31, 2016, the accounts receivable of the top five balances collected by debtor is summarized and analyzed as follows:

	Balance	Amount of provision for bad debt	Proportion of total balance of accounts receivable
Total accounts receivable of the top five balances	<u>2,641,634,401</u>	<u>42,868,900</u>	<u>34%</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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XII. Notes to items in the Company's financial statements (continued)

2. Other receivables

The aging analysis of other receivables is as follows:

	2017	2016
Within 1 year	13,624,001,088	13,861,142,297
1~2 years	188,472,977	4,247,938
2~3 years	1,420,864	14,168,062
3~4 years	5,223,339	3,685,185
4~5 years	2,557,426	180,855
Over 5 years	7,814,381	15,281,311
Subtotal	<u>13,829,490,075</u>	<u>13,898,705,648</u>
Less: Provision for bad debt	<u>163,639,459</u>	<u>20,702,632</u>
	<u><u>13,665,850,616</u></u>	<u><u>13,878,003,016</u></u>

The changes of provision for bad debt of other receivables are as follows:

	Opening balance	Proportion in current year	Reversal in current year	Write-off in current year	Closing balance
2017	20,702,632	150,537,838	(7,601,011)	-	163,639,459
2016	18,581,021	2,121,611	-	-	20,702,632

The analysis of other receivables by category is as follows:

	2017				2016			
	Book balance		Provision for bad debt		Book balance		Provision for bad debt	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
With significant single amount and separate provision for bad debt	150,327,138	1	150,327,138	100	-	-	-	-
Total Provision for bad debt by credit risk features group								
-Guarantee fund (excluding quality guarantee deposit)	152,659,281	1	-	-	99,337,723	1	-	-
Individual borrowing and petty cash of employee	101,743,565	1	-	-	102,865,415	1	-	-
-Others	13,415,037,536	97	3,589,766	-	13,685,062,135	98	9,262,257	-
With in significant amount but for separate provision for bad debt	<u>9,722,555</u>	-	<u>9,722,555</u>	100	<u>11,440,375</u>	-	<u>11,440,375</u>	100
	<u><u>13,829,490,075</u></u>	<u><u>100</u></u>	<u><u>163,639,459</u></u>	<u><u>1</u></u>	<u><u>13,898,705,648</u></u>	<u><u>100</u></u>	<u><u>20,702,632</u></u>	<u><u>-</u></u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XII. Notes to items in the Company's financial statements (continued)

2. Other receivables (continued)

As of Dec. 31, 2017, the other receivables with significant single amount and separate provision for bad debt are as follows:

	Book balance	Provision for bad debt	Provision proportion%	Reason
Accounts receivable 1	150,327,138	150,327,138	100	Contract disputes

As of Dec. 31, 2016, the other receivable without significant single amount and separate provision for bad debt are as follows:

The Company's other receivables with provision for bad debt based on aging analysis are as follows:

	2017			2016		
	Book balance	Provision for bad debt		Book balance	Provision for bad debt	
	Amount	Amount	Proportion (%)	Amount	Amount	Proportion (%)
Within 6 months	13,410,431,991	-	-	13,662,394,513	-	-
7~12 months	382,748	3,827	1	2,834,483	28,345	1
1~2 years	41,810	6,272	15	747,938	112,191	15
2~3 years	20,847	6,254	30	11,881,104	3,564,331	30
3~4 years	100,843	50,422	50	3,202,985	1,601,492	50
4~5 years	2,145,226	1,608,920	75	180,855	135,641	75
Over 5 years	1,914,071	1,914,071	100	3,820,257	3,820,257	100
	13,415,037,536	3,589,766	-	13,685,062,135	9,262,257	-

As of Dec. 31, 2017, the situations of other receivables with insignificant single amount but for separate provision for bad debt are as follows:

	Book balance	Provision for bad debt	Provision proportion (%)	Reason
Other receivables 1	3,037,042	3,037,042	100	Contract cancellation
Other receivables 2	1,692,765	1,692,765	100	Contract cancellation
Other receivables 3	1,170,282	1,170,282	100	Contract cancellation
Others	3,822,466	3,822,466	100	
	9,722,555	9,722,555	100	

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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XII. Notes to items in the Company's financial statements (continued)

2. Other receivables (continued)

As of Dec. 31, 2016, the situations of other receivables with insignificant single amount but for separate provision for bad debt are as follows:

	Book balance	Provision for bad debt	Provision proportion (%)	Reason
Other receivables 1	1,692,765	1,692,765	100	Contract cancellation
Other receivables 2	1,170,282	1,170,282	100	Contract cancellation
Other receivables 3	5,540,286	5,540,286	100	Contract cancellation
Other receivables 4	<u>3,037,042</u>	<u>3,037,042</u>		Contract cancellation
	<u>11,440,375</u>	<u>11,440,375</u>	<u>100</u>	

Other receivables are analyzed by nature as follows:

	2017	2016
Intercourse funds of subsidiaries	13,097,601,236	13,429,629,328
Bid and performance bond	298,716,662	29,189,524
Taxes on outstanding accounts receivable	198,696,002	119,175,846
Money on call for product field service	68,190,281	60,496,560
Staff borrowings receivable	33,553,284	42,368,855
Lease payment receivable	33,434,668	33,434,668
Customs guarantee deposit	4,269,756	71,148,199
Export rebates	-	55,755,562
Others	<u>95,028,186</u>	<u>57,507,106</u>
	<u>13,829,490,075</u>	<u>13,898,705,648</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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XII. Notes to items in the Company's financial statements (continued)

2. Other receivables (continued)

As of Dec. 31, 2017, the top five other receivables are as follows:

	Closing balance	Proportion in the total balance of other receivables (%)	Nature	Age	Closing balance of provision for bad debt
Other receivables 1	4,454,183,823	32	Intercourse funds of subsidiaries	Within one year	-
Other receivables 2	2,833,394,077	21	Intercourse funds of subsidiaries	Within one year	-
Other receivables 3	1,682,180,082	12	Intercourse funds of subsidiaries	Within one year	-
Other receivables 4	1,523,899,699	11	Intercourse funds of subsidiaries	Within one year	-
Other receivables 5	1,362,916,621	10	Intercourse funds of subsidiaries	Within one year	-
	<u>11,856,574,302</u>	<u>86</u>			<u>-</u>

As of Dec. 31, 2016, the top 5 other receivables are as follows:

	Closing balance	Proportion in the total balance of other receivables (%)	Nature	Age	Closing balance of provision for bad debt
Other receivables 1	4,370,239,666	31	Intercourse funds of subsidiaries	Within 1 year	-
Other receivables 2	2,518,908,707	18	Intercourse funds of subsidiaries	Within 1 year	-
Other receivables 3	2,092,489,070	15	Intercourse funds of subsidiaries	Within 1 year	-
Other receivables 4	2,077,530,443	15	Intercourse funds of subsidiaries	Within 1 year	-
Other receivables 5	1,458,611,248	10	Intercourse funds of subsidiaries	Within 1 year	-
	<u>12,517,779,134</u>	<u>89</u>			<u>-</u>

3. Long-term equity investment

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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	2017	2016
Subsidiary	6,634,723,602	6,381,423,422
Joint venture	235,084,428	199,459,569
Associated enterprise	<u>2,052,392,796</u>	<u>2,001,892,291</u>
	<u>8,922,200,826</u>	<u>8,582,775,282</u>

XII. Notes to items in the Company's financial statements (continued)

3. Long-term equity investment (continued)

(1) Subsidiary

2017

	Dec. 31, 2016	Changes in current year Additional or Negative investment	Dec., 31, 2017
Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd.	9,964,200	-	9,964,200
Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd.	-	-	-
Shanghai Zhenhua Shipping Co., Ltd.	140,260,673	-	140,260,673
ZPMC Zhangjiagang Port Machinery Co., Ltd.	4,518,000	-	4,518,000
Nantong Zhenhua Heavy Equipment Manufacturing Co., Ltd.	854,936,900	-	854,936,900
Nantong Zhenhua Heavy Industries Steel Structure Processing Co., Ltd.	598,110	(598,110)	-
Jiangyin Zhenhua Port Machinery Steel Structure Fabrication Co., Ltd	579,983	-	579,983
ZPMC General Equipment Co., Ltd.	2,201,086,744	-	2,201,086,744
ZPMC Drive Mechanism Company (Nantong)	600,000,000	-	600,000,000
Shanghai ZPMC Electric Co., Ltd.	50,000,000	-	50,000,000
ZPMC GmbH Hamburg	207,940	-	207,940
ZPMC Netherlands Cooperatie	15,618,079	11,044,500	26,662,579
Shanghai Zhenhua Ocean Engineering Service Co., Ltd	100,000,000	-	100,000,000
ZPMC Inspection 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 Marine Engineering 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

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

ZPMC Australia Company (Pty) Limited	2,708,500	-	2,708,500
ZPMC North America Inc.	18,564,520	-	18,564,520
ZPMC Southeast Asia Holding Pte. Ltd.	3,875,949	-	3,875,949
(To be continued)			

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XII. Notes to items in the Company's financial statements (continued)

3. Long-term equity investment (continued)

(1) Subsidiary (continued)

	Dec. 31, 2016	Changes in current year Additional or negative investment	Dec. 31, 2017
(Continued)			
ZPMC Brazil Holdings Ltda.	2,936,771	(2,936,771)	-
ZPMC Brazil Serviço Portuários LTDA	-	2,936,771	2,936,771
ZPMC Limited Liability Company CCCC Liyang Urban Investment and Construction Co., Ltd	4,357,626	2,853,790	7,211,416
CCCC Tianhe Mechanical Equipment Manufacturing Co., Ltd.	183,000,000	-	183,000,000
CCCC Investment Development Qidong Co., Ltd	242,542,999	-	242,542,999
CCCC Zhenjiang Investment Construction, Management and Development Co., Ltd	47,500,000	100,000,000	147,500,000
ZPMC Middle East Fze	567,000,000	140,000,000	707,000,000
ZPMC UK LD	5,271,120	-	5,271,120
	2,797,921	-	2,797,921
	<u>6,381,423,422</u>	<u>253,300,180</u>	<u>6,634,723,602</u>

2016

	Dec. 31, 2015	Changes in current year Additional or negative investment	Dec., 31, 2016
Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd.	4,950,000	5,014,200	9,964,200
Shanghai Heavy Industries Mechanical Components 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
ZMPC Zhangjiagang Port Machinery Co., Ltd.	4,518,000	-	4,518,000
Nantong Zhenhua Heavy Equipment Manufacturing Co., Ltd.	854,936,900	-	854,936,900
Nantong Zhenhua Heavy Industries Steel Structure Processing Co., Ltd.	598,110	-	598,110
Jiangyin Zhenhua Port Machinery Steel Structure Fabrication Co., Ltd	579,983	-	579,983
ZPMC General Equipment Co., Ltd.	2,201,086,744	-	2,201,086,744
ZMPC Drive Mechanism Company (Nantong)	300,000,000	300,000,000	600,000,000

(To be continued)

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XII. Notes to items in the Company's financial statements (continued)

3. Long-term equity investment (continued)

(1) Subsidiary (continued)

	Dec. 31, 2015	Changes in current year Additional or negative investment	Dec. 31, 2016
(Continued)			
Shanghai ZPMC (Nantong) Co., Ltd.	300,000,000	(300,000,000)	-
Shanghai ZPMC 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 Ocean Engineering Service Co., Ltd	100,000,000	-	100,000,000
ZPMC Inspection 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 Marine Engineering 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.	18,564,520	-	18,564,520
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 Urban Investment and Construction Co., Ltd	183,000,000	-	183,000,000
CCCC Tianhe Mechanical Equipment Manufacturing 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 and Development Co., Ltd	-	567,000,000	567,000,000
ZPMC Middle East Fze	-	5,271,120	5,271,120
ZPMC UK LD	-	2,797,921	2,797,921
	<u>5,793,119,602</u>	<u>588,303,820</u>	<u>6,381,423,422</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XII. Notes to items in the Company's financial statements (continued)

3. Long-term equity investment (continued)

(2) Joint venture

2017

	Opening balance	Change in current year			Closing balance	Depreciation reserves at the end of year
		Additional investmen t	Negative investme nt	Gain on investment under equity method		
Joint venture						
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd	196,624,211	-	-	34,685,071	231,309,282	-
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	<u>2,835,358</u>	<u>-</u>	<u>-</u>	<u>939,788</u>	<u>3,775,146</u>	<u>-</u>
	<u>199,459,569</u>	<u>-</u>	<u>-</u>	<u>35,624,859</u>	<u>235,084,428</u>	<u>-</u>

2016

	Opening balance	Change in current year			Closing balance	Depreciation reserves at the end of year
		Additional investmen t	Negative investme nt	Gain on investment under equity method		
Joint venture						
Jiangsu Longyuan Zhenhua Ocean Engineering Co., Ltd	171,577,489	-	-	25,046,722	196,624,211	-
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	<u>3,059,427</u>	<u>-</u>	<u>-</u>	<u>(224,069)</u>	<u>2,835,358</u>	<u>-</u>
	<u>174,636,916</u>	<u>-</u>	<u>-</u>	<u>24,822,653</u>	<u>199,459,569</u>	<u>-</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XII. Notes to items in the Company's financial statements (continued)

3. Long-term equity investment (continued)

(3) Associated enterprise

2017

	Opening balance	Change in current year			Declaration of cash dividend or profit	Closing balance	Depreciation reserves at the end of year
		Additional investment	Investment profit and loss under equity method	Other comprehensive income adjustment			
CCCC Ocean Engineering Vessel Technology Research Centre Co., Ltd	15,645,518	-	204,026	-	-	15,849,544	-
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	15,452,729	-	1,014,396	-	-	16,467,125	-
CCCC Real Estate Yixing Co., Ltd.	175,614,528	-	2,485,179	-	-	178,099,707	-
CCCC Financial Leasing Co., Ltd.	1,605,244,853	-	73,336,694	(30,964)	-	1,678,550,583	-
China Communications Construction USA Inc.	75,612,903	-	(4,569,705)	(3,812,748)	-	67,230,450	-
CCCC South American Regional Company SARL	114,321,760	-	(13,520,543)	(4,605,830)	-	96,195,387	-
	<u>2,001,892,291</u>	<u>-</u>	<u>58,950,047</u>	<u>(8,449,542)</u>	<u>-</u>	<u>2,052,392,796</u>	<u>-</u>

2016

	Opening balance	Change in current year			Declaration of cash dividend or profit	Closing balance	Depreciation reserves at the end of year
		Additional investment	Investment profit and loss under equity method	Other comprehensive income adjustment			
CCCC Ocean Engineering Vessel Technology Research Centre Co., Ltd	15,269,200	-	376,318	-	-	15,645,518	-
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	15,306,843	-	1,978,952	-	(1,833,066)	15,452,729	-
CCCC Real Estate Yixing Co., Ltd.	174,697,785	-	916,743	-	-	175,614,528	-
CCCC Financial Leasing 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	-	114,321,760	-	-	-	114,321,760	-
	<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>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XII. Notes to items in the Company's financial statements (continued)

4. Operating revenue and cost

	2017		2016	
	Income	Cost	Income	Cost
Main business	17,846,043,724	14,996,960,714	22,901,854,062	19,219,649,675
Other business	<u>1,136,241,004</u>	<u>1,065,401,225</u>	<u>1,346,629,631</u>	<u>1,326,296,433</u>
	<u>18,982,284,728</u>	<u>16,062,361,939</u>	<u>24,248,483,693</u>	<u>20,545,946,108</u>

	2017		2016	
	Main business income	Main business cost	Main business income	Main business cost
Container cranes	12,618,126,602	9,875,036,341	16,966,005,765	13,385,624,468
Bulk machine members	1,575,845,709	1,587,582,829	3,133,488,466	3,134,543,276
Heavy equipment	2,118,361,222	2,020,870,244	1,773,587,826	1,760,404,529
"Construction-transfer" project	50,908,132	44,850,390	-	-
Steel structures and related income	<u>1,482,802,059</u>	<u>1,468,620,910</u>	<u>1,028,772,005</u>	<u>939,077,402</u>
	<u>17,846,043,724</u>	<u>14,996,960,714</u>	<u>22,901,854,062</u>	<u>19,219,649,675</u>

Other business income and cost are listed below:

	2017		2016	
	Other business income	Other business cost	Other business income	Other business cost
Sales of materials	877,119,802	868,901,948	1,063,590,327	1,110,261,460
Equipment leasing and others	<u>259,121,202</u>	<u>196,499,277</u>	<u>283,039,304</u>	<u>216,034,973</u>
	<u>1,136,241,004</u>	<u>1,065,401,225</u>	<u>1,346,629,631</u>	<u>1,326,296,433</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

RMB Yuan

XII. Notes to items in the Company's financial statements (continued)

5. Gain on investment

	2017	2016
Investment income from long-term equity verified by cost method	58,570,536	400,633
Investment gains from long-term equity verified by equity method	94,574,906	99,395,952
Investment gains from available-for-sale financial assets during holding period	3,356,632	1,112,890
Gain on investment in bank's financial products	-	1,969,590
	<u>156,502,074</u>	<u>102,879,065</u>

6. Supplementary information of cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	2017	2016
Net profit	154,209,887	270,221,960
Plus: Assets impairment provision	619,199,093	1,208,850,889
Real estate as investment and depreciation of fixed assets	499,700,815	510,588,106
Intangible assets amortization	53,126,664	53,045,981
Net (gains) losses on disposal of fixed assets and intangible assets	(1,303,038)	2,996,936
Losses/(gains) from changes in fair value gains	4,615,775	(27,035,042)
Financial expenses	882,094,629	1,504,100,506
Gain on investment	(156,502,074)	(102,879,065)
Net increase of deferred income tax assets (-liabilities)	(69,483,616)	(70,957,061)
Increase of inventories	(613,086,964)	(295,457,421)
Increase (decrease) of construction contract price	(1,332,273,798)	321,427,489
Decrease /(increase) of operating items receivable	435,650,557	(2,249,861,228)
Decrease of operating items payable	(434,780,054)	(1,200,900,147)
Net cash flows from/(used for) operating activities	<u>41,167,876</u>	<u>(75,858,097)</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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XII. Notes to items in the Company's financial statements (continued)

6. Supplementary information of cash flow statement (continued)

Net alteration of cash and cash equivalents:

	2017	2016
Closing balance of cash and cash equivalents	3,301,302,585	1,872,410,585
Less: Opening balance of cash and cash equivalents	<u>1,872,410,585</u>	<u>1,806,066,316</u>
Net increase in cash and cash equivalents	<u>1,428,892,000</u>	<u>66,344,269</u>

XIII. Events after balance sheet date

As of the date of approval of this financial statement, this Company had no events after balance sheet date to be disclosed.

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.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

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XIV. Other important matters (continued)

1. Report by branches (continued)

Products and labor service

Income from external transaction

	2017	2016
Container crane	13,120,859,480	17,082,391,036
heavy equipment	3,384,886,419	1,284,872,909
Bulk machine part	1,615,504,267	3,154,983,915
Building-transfer project	1,549,820,489	1,005,087,825
Steel structure and related income	1,520,119,032	1,035,829,290
Shipping and others	451,081,492	580,231,787
Sales materials	58,465,010	81,273,472
Equipment leasing and others	158,077,811	123,417,694
	<u>21,858,814,000</u>	<u>24,348,087,928</u>

Geographic information

Income from external transaction

	2017	2016
Chinese Mainland	10,358,861,169	9,261,862,587
Asia (excluding Chinese Mainland)	5,410,267,855	8,774,618,285
America	2,548,717,321	1,660,773,333
Chinese Mainland (export sales)	1,372,828,183	1,939,957,027
Europe	462,606,586	1,694,807,875
Other	1,705,532,886	1,016,068,821
	<u>21,858,814,000</u>	<u>24,348,087,928</u>

Income from external transaction ascribes to the area where custom located.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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XIV. Other important matters (continued)

1. Report by branches (continued)

Geographic information (continued)

Total non-current assets

	2017	2016
Chinese Mainland	18,215,467,783	19,820,827,959
Asia (excluding mainland China)	5,114,032,367	3,418,721,827
Others	<u>40,991,302</u>	<u>37,392,161</u>
	<u>23,370,491,452</u>	<u>23,276,941,947</u>

Non-current asset ascribes to the local area, excluding financial asset and deferred income tax assets.

2. Comparative data

As stated in Note III. 30, due to the change in the statement mode of the losses and gains from the assets disposal, the accounting disposal and statements for several items as well as the amount in the financial statements had been modified to meet the new requirements. Correspondingly, some comparative data had been reclassified and restated to conform to the requirements of the statements and the accounting disposal of this year.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Notes to Financial Statements (continued)

Dec. 31, 2017

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1. Details of non-recurring profit and loss

	2017	2016
Gains from disposal of non-current assets	13,285,984	1,340,612
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)	83,502,544	45,042,910
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	20,563,270	23,420,959
Other non-operating incomes and expenditures except above items	<u>(70,077,032)</u>	<u>6,435,660</u>
Income tax influence	(10,351,890)	(14,557,550)
Minority shareholders' equity influence (after tax)	<u>(14,565,022)</u>	<u>(6,708,080)</u>
	<u>22,357,854</u>	<u>54,974,511</u>

2. Return on net assets and earnings per share

	Weighted average return on net assets yield %		Earnings per share			
			Basic earnings per share		Diluted earnings per share	
	2017	2016	2017	2016	2017	2016
Net profit attributable to holders of common shares of the Company	1.99	1.41	0.07	0.05	0.07	0.05
Net profit attributable to holders of common shares of the Company after deducting the non-recurring profit and loss	<u>1.84</u>	<u>1.05</u>	<u>0.06</u>	<u>0.04</u>	<u>0.06</u>	<u>0.04</u>

Chapter XII Catalogue of Documents available for Inspection

Inspection Documents Catalogue	Financial statements signed and sealed by legal representative, responsible person for accounting, and chief accountant.
Inspection Documents Catalogue	Original copies of audit report sealed by accounting firm and signed and sealed by Certified Public Accountant.
Inspection Documents Catalogue	Original copies of all documents and announcements disclosed on newspaper designated by China Securities Regulatory Commission within report period

Chairman of the board: Zhu Lianyu

Date of submission upon approved by the Board of Directors: Mar. 28, 2018