



Shanghai Zhenhua Heavy Industries Co., Ltd.

Stock code: 600320 900947

The company referred to:  
ShanghaiZhenhua Heavy,Zhenhua B share

## Shanghai Zhenhua Heavy Industries Co., Ltd. Annual Report 2014

### Important Notice

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

II. Directors who failed to attend the Board meeting

Post of director who failed to attend	Name of director who failed to attend	Reasons of failure	Name entrustee
Director	Liu Wensheng	On business trip	Song Hailiang
Independent director	Liu NingYuan	On business trip	Gu Wei
Independent director	She Lian	On business trip	Gu Wei



III.PrincewaterhouseCoopers Zhong Tian LLP.(Special general partnership)issued standard unqualified audit report for the Company.

IV.The Company's responsible person Song Hailiang, Finance Department chief Wang Jue and responsible person for finance (Chief Financial Controller) Sun Guangbo hereby declare that the financial reports in this Annual Report are true, accurate and complete.

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

VI.Whether non-operational fund occupied by the controller and its related parties exist with the Company:

No.

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

No.

## Contents

Chapter I Definition and Substantial Risk Reminding .....	3
Chapter II Company Profiles .....	3
Chapter III Summary of Accounting Data and Operational Indicators .....	6
Chapter IV Report of the Board of Directors .....	9
Chapter V Substantial Events .....	30
Chapter VI Equity Movement and Shareholder's Profile .....	39
Chapter VII Directors, Supervisors, Senior Executives and Employees .....	43
Chapter VIII Corporate Governance.....	43
Chapter IX Internal Control .....	53
Chapter X Chapter X Financial Statements.....	55



## Chapter I Definition and Substantial Risk Reminding

### I. Definition

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

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

### II. Substantial Risk Reminding

The Company has detailed in this report risks the Company may face. Please consult related description in the chapter of Report of the Board.

## Chapter II Company Profiles

### 1. Company information

Statutory company name in Chinese	上海振华重工(集团)股份有限公司
Statutory 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	Song Hailiang

### 2. Contact information

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

### 3. Basic information of the Company

Registered address	3470, Pudong Road South, Shanghai
Post code	200125
Office address	3261 Dongfang Road, Shanghai
Post code	200125
Website	<a href="http://www.zpmc.com">http://www.zpmc.com</a>
Email	<a href="mailto:zpmc@public.sta.net.cn">zpmc@public.sta.net.cn</a>

### 4. Information disclosure and reference

Designated media for information	Shanghai Securities News, Hong Kong Wen Wei Po disclosure
Website designated by China Security Regulatory Commission for disclosure of	<a href="http://www.sse.com.cn">www.sse.com.cn</a>



annual report	
Annual report available of the Company	Securities and Law Affairs Office

## 5. Stock Profiles of the Company

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

## 6. Business registration alterations in report period

### (I) Basic information

Registration date	Feb.14,1992
Registered address	3470, Pudong Road South, Shanghai
Registered code for business license of corporation	310000400519752
Registered code of tax	310115607206953
Organizational code	60720695-3

### (2) Main business change since its going public

The Company went public in 1997, and has since 1998 been ranked as first global winner of container crane orders. In search of better development, while searching consolidation of port machinery market, the Company is actively exploring the large steel and heavy marine equipment market; current operating range: design, construction, installation and contracting of large port handling systems and equipment, heavy marine equipment, construction machinery, engineering ships, and large metal structures, their parts and accessories; ship repair; self-produced crane rental business, selling self-made products; engaged in international maritime shipping using special transport ships for shipping whole-machinery; steel structure engineering professional contracting (subject to licensing in case of such requirement).

### (3) Successive changes of the controlling shareholders since listing

#### 1、Promoter shareholder at incorporation

In July 1997, as approved by the Securities Commission of the State Council coded Zengwei Fa Zi [1997] No. 42, Shanghai Port Machinery, Hong Kong Zhenhua and former Zhonggang Group together with Macau Zhenhua and Rongjin Investment as promoters, incorporated Shanghai Zhenhua Port Machinery Co., Ltd. by way of stock floatation, and issued 100 million b-shares to overseas investors.



## 2、 Successive changes of promoters and controlling shareholders

(1) On November 26, 2001, Shanghai Port Machinery signed Equity Transfer Agreement with the former Zhonggang Group, agreed that Shanghai Port Machinery transfer all the founder shares of 96,112,500 shares it held of the Company to the former Zhonggang Group. On February 10, 2002, Ministry of Finance issued Ministry of Finance's Reply to Issues

Concerning Shanghai Zhenhua Port Machinery Co., Ltd. Transfer of State-owned Shares (Cai Qi [2002] No. 41), which stated the approval of the mentioned share transfer. In 2002, former Zhonggang Group signed Equity Transfer Agreement with Rongjin Investment, agreeing that Rongjin Investment transfer all its founder's shares of 368,500 shares to the former Zhonggang Group. In July 2002, CSRC issued Letter of Exemption of Obligation of China Harbor Engineering Corporation (CHEC) Tender Offer to Purchase "Zhenhua Port Machinery" Stock (Zhengjian Han [2002]123), agreeing on the exemption of obligation of former Zhonggang Group concerning above shares transfer. After the completion of the share transfer, former Zhonggang Group became the Company's largest shareholder, holding 35.17% of the Company's total share capital.

(2) As approved by State-owned Asset Commission of State Council via Notification on Reorganization of China Harbor Engineering Corporation (CHEC) and China Road and Bridge Corporation (Guozi Gaige [2005] No. 703), former Zhonggang Group merged with former Road and Bridge Group on December 18, 2005 into China Communications Construction. As approved by State-owned Asset Commission of State Council with Reply to Matters Concerning Changes of Corporate Holders and Equity Transfer of State-owned Shares of 6 Companies including Shanghai Zhenhua Port Machinery Co., Ltd. (Guozi Chanquan [2006] 37), equity of the Company held by former Zhonggang Company is changed to that held by China Communications Construction.

In March 2006, CSRC issued the Reply to Agreement on China Communications Construction Group Announcing on Shanghai Zhenhua Port Machinery Co., Ltd. Purchase Report and Exemption of Its Tender Offer Obligation, agreeing to exempt China Communications Construction from its tender offer obligations.

(3) On August 16, 2006, State-owned Asset Commission of State Council issued Reply to Issue on China Communications Construction Co., Ltd. Overall Restructuring and Listing Home and Abroad (Guozi Gaige [2006] 1063), approved the overall reorganization of China Communications Construction, the exclusive incorporation of CCCC program. On September 30, 2006, State-owned Asset Commission of State Council issued Reply to Matters Regarding State-owned Share Management of China Communications Construction Co., Ltd. (Guozi Chanquan [2006] 1072), approved that assets including equity held by China Communications Construction transferred to CCCC. After the CCCC was established on October 8, 2006, China Communications Construction put the



equity of the Company it held into CCCC as investment. On October 30, 2006, CSRC issued Reply to Agreement on China Communications Construction Co., Ltd. Announcing Roads and Bridges Group International Construction Company Limited, Shanghai Zhenhua Port Machinery Co., Ltd. Purchase Report and Exemption of Tender Offer Obligations (Zhengjian Gongsi Zi [2006] 227), granting the exemption of CCCC from purchase offer obligations. On Oct. 25, 2006, equity of the Company held by China Communications Construction was transferred to CCCC and thus CCCC became controlling shareholder of the Company.

## 7. Miscellaneous

CPA's employed by the Company (Domestic)	Title	PrincewaterhouseCoopers Zhong Tian (Special General Partnership)CPAs Co., Ltd
	Office address	11 <sup>th</sup> Floor, No.202 Hubin Road, Shanghai
	CPAs to sign	Zhao Bo Jin Wen

## Chapter III Summary of Accounting Data and Operational

### Indicators

#### 1. Major accounting data and financial indicators of last three years as of report period end

##### (1) Major accounting data

Unit: RMB

Major accounting data	2014	2013		Growth over same period prior year (%)	2012	
		Change after	Change before		Change after	Change before
Operation revenue	25,069,421,487	23,201,555,800	23,201,555,800	8.05	18,255,152,096	18,255,152,096
Net profit attributable to shareholders of the listed company	199,386,986	139,836,320	139,836,320	42.59	-1,043,665,841	-1,043,665,841
Net profit after deducting non-recurring gains/losses	-79,581,135	-1,009,219,217	-1,009,219,217	92.11	-1,259,289,200	-1,259,289,200
Net cash flow from operating activities	-873,383,052	965,483,749	965,483,749	-190.46	3,065,603,998	3,065,603,998
	End of 2014	End of 2013		Growth	End of 2012	



Shanghai Zhenhua Heavy Industries Co., Ltd.

		Change after	Change before	over same period prior year (%)	Change after	Change before
Net asset attributable to shareholders of the listed company	14,780,603,810	14,510,604,831	14,510,604,831	1.86	14,210,952,596	14,210,952,596
Total assets	56,145,227,254	49,265,093,850	49,154,736,687	13.97	46,862,044,376	46,779,696,343

(2) Major financial data

Major financial index	2014	2013		Growth over same period end prior year (%)	2012	
		Change after	Change before		Change after	Change before
Basic EPS (Yuan/share)	0.045	0.032	0.032	42.59	-0.24	-0.24
Diluted EPS (Yuan/share)	0.045	0.032	0.032	42.59	-0.24	-0.24
Basic EPS after deducting non-recurring gains/losses (Yuan/share)	-0.02	-0.23	-0.23	91.30	-0.29	-0.29
Weighted average net assets earnings ratio (%)	1.36	0.97	0.97	Increase 0.39%	-7.09	-7.09
Weighted average net assets earnings ratio after deducting non-recurring gains/losses (%)	-0.54	-7.03	-7.03	Increase 6.49%	-8.56	-8.56

2 Items and amount of non-recurring gains/losses

√Applicable □ Not applicable

Unit: RMB

Items of non-recurring gains/losses	2014 Amount	Explanatory note (for example applicable)	2013 Amount	2012 Amount
Gains and losses from disposal of non-current assets	13,948,136		241,193,949	97,051,399
Government subsidy into current profit and loss statement except for those closely related to the Company's operation, enjoyed by certain state standard or certain quota.	20,316,889		47,878,876	28,730,126



Shanghai Zhenhua Heavy Industries Co., Ltd.

Gains/losses from fair value movement of tradable financial assets, tradable financial liabilities held except for valid hedging business related with company's normal operation, and investment income acquired from disposal of tradable financial assets, tradable financial liabilities and financial assets available for sale.	286,253,779		326,109,601	143,917,526
Investment income acquired from disposal of subsidiaries	0		749,942,782	0
Non-operation revenue/expense apart from above	15,164,034		3,993,654	-13,639,165
Minor shareholder's equity impact	-4,221,354		-70,237	-622,804
Income tax impact	-52,493,363		-219,993,088	-39,813,723
Total	278,968,121		1,149,055,537	215,623,359

**3. Items calculated by fair value**

Unit: RMB

Item name	Starting balance	Closing balance	Current movement	Impact on current profit
Forward foreign exchange contract-Fair value appraisal income	121,169,489	25,735,001	-95,434,488	-95,434,488
Forward foreign exchange contract-Fair value appraisal income loss	-644,404	-28,752,000	-28,107,596	-28,107,596
Equity tool available for sale-Jiangxi Huawu	172,770,000	159,932,631	-12,837,369	76,238,833
Equity tool available for sale-Qingdao port	0	273,247,822	273,247,822	0
Equity tool available for sale-Bank short-term financial products	4,202,678,325	5,686,257,756	1,483,579,431	278,843,280
Total	4,495,973,410	6,116,421,210	1,620,447,800	231,540,029





## Chapter IV Report of the Board of Directors

### 1. Discussion and analysis of business operation in report period by the Board

In 2014, Company Board of director and business leaders led all employees to overcome all problems and deeply carried out “4321” and “1521” strategy. Total 24 letters principle of “firm basis, always innovate, adjust structure, change type, integrate resources, reinforce management, develop culture and increase quality” was carried out completely. In the whole year, the company deepened the reform, reduced costs and increased effect, firmed the basis and strengthen team construction, which increased company’s operation quality and core competition advantage totally. It also speeded up the construction of world leading company with international competition and realized company’s stable and healthy continuous development. In period of report, Company realized operation revenue 25.069 billion RMB, increased 8.05%; realized net profits 199 million RMB which belongs to parent company, increased by 42.59%.

#### (1) Major business analysis

##### 1 P&L and Cash Flow Statement related item movement analysis

Unit: RMB

Item	Report Year	Prior Year	Growth (%)
Operation revenue	25,069,421,487	23,201,555,800	8.05
Operating cost	21,700,680,925	21,437,017,127	1.23
Selling expenses	64,745,357	68,647,704	-5.68
Management expenses	1,460,145,132	1,352,925,539	7.93
Financial expenses	1,301,686,454	627,184,455	107.54
Net cash flow from operating activities	-873,383,052	965,483,749	-190.46
Net cash flow from investment activities	-1,682,791,329	-2,690,576,061	37.46
Net cash flow from financing activities	1,274,498,968	2,546,263,488	-49.95
R&D expenses, cost of expenses	<b>759,691,386</b>	696,452,611	9.08

Analysis:

1、 The operation revenues and costs are increased because the company signed more new contracts and more new projects started. The average gross profit rate



rises because the operation revenues from the sales of products of the company increased, standardized management processes engaged and costs are reduced.

2、 The sales expense is decreased because standardized management process is specified and expenses control is strengthened.

3、 The management expenses are increased because the R&D expenses and amortization of intangible assets are increased this year.

4、 The financial expenses are increased because the investment and finance planning business are increased. The loan scale raises, and the interest increases and exchange loss caused by depreciation of the RMB against the USD

5、 The cash flow net amount in operation is decreased compared with the same period of last year, because the company order, raw materials purchasing expenses and payments of engineering expense are increased.

6、 The cash flow net amount in investment changes because the investment abroad business increases.

7、 The cash flow net amount in financing changes because the fixed deposit net disbursement investing increase this year..

## 2 Revenue

(1) Analysis of the factors affecting revenue from products mainly sold in kind

In 2014, the company operation revenue is 25.069 billion Yuan, increased by 8.05% against the 23.202 billion in 2013. The income increased because the company adjusted the market structure, changed the operation mode, and deepened the reform. All the business sectors obtained great achievement. It has great strength in port machinery products, keeping absolute leading position in global market. The products are sold in 88 countries. The marine equipment market increases and mass production is realized in drilling platform, which consolidated the marine equipment medium-& high-end market and supporting market. Large steel structure market operated very well, system integration and contracting market was full of highlights. The investment market influence raised, shipment market operating ability was improved. The electric equipment market consolidated the basis and integral service market layout had been finished basically.

(2) Orders analysis

During the report period, company signed new contracts with amount of \$ 5.1 billion, among which the new contract amount of traditional port machinery market is \$ 2.754 billion, increased by 6.36%. The port machinery products kept the global leadership. The company's products are sold in 88 countries and regions. The new contracts are signed for marine and steel with amount of \$ 1.848 billion, increased



by 20.86% comparing with the same period last year; other self-operating and shipment transport contracts are amounted to \$ 500 million.

(3) Top customer analysis

Operation revenue from top 5 customers is 5.58251 billion Yuan, taking up 22% of the company's total operation revenue.

**3 Cost**

(1) Cost analysis statement

Unit: Yuan

Product category						
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 same period last year ratio (%)
Container cranes	Raw material, labor, production cost	10,271,871,264	47.69	10,797,268,174	51.15	-4.87
Offshore heavy equipment	Raw material, labor production cost	4,387,726,757	20.37	4,111,296,503	19.48	6.72
Bulk-cargo machinery parts	Raw material, labor production cost	3,415,989,051	15.86	2,952,903,243	13.99	15.68
Nanjing Ninggao BT project	Subcontracting expenses, raw materials	2,441,043,673	11.33	2,117,812,203	10.03	15.26
Steel structures	Raw material, labor, production cost	834,669,679	3.88	846,489,536	4.01	-1.40
Vessel shipping and others	Labor, fuel consumption, depreciation etc.	185,793,610	0.86	283,937,929	1.35	-34.57
Total	-	21,537,094,034	100.00	21,109,707,588	100.00	2.02

(2) Key suppliers

Purchase amount from top 5 suppliers is 2.5288 billion Yuan, covering 20% of total purchase of the year.

**4 R&D expenses**

(1) R&D expenses breakdown

Unit: RMB

R&D into cost expenses	759,691,386
R&D into capital expenses	0
R&D expenses total	759,691,386
Total R&D expenses ratio in net assets (%)	5.07
Total R&D expenses ratio in Operating	3.03



## (2) Deliberation

During the reporting period, the company focused on the improvement on technology level. Lots of creative technologies were adopted in port machinery products; Xiamen Yuanhai automation port that is designed, developed, manufactured and commissioned independently started to operate successfully. The marine high-end technology realizes key breakthrough. The independently-developed dynamic positioning system finished the first prototype testing. The company mastered key technology of dynamic positioning system, breaking the overseas monopolization. “National Maritime Crane Pipe Laying Core Equipment Engineering Technology Research Center” passed a comprehensive site assessment and acceptance by Ministry of Science and Technology with official name. 91 national patent items were applied for approval, thereinto 33 patents of inventions; 67 national authorized patents, among them 10 patents of inventions; 2 international authorized patents; 29 company’s establishment of scientific research project.

## 5 Cash flow

The net cash flows from operating activities is -0.873 billion Yuan, reduced by 190.46% over last year, mainly due to increasing order and increasing payment for the purchase of raw materials and engineering costs. The equipment manufacturing business operating cash flow is net flow R analysis of operation by industry and product

## 1、 Major business by industry and product

Unit: Yuan Currency: RMB

Major business by products						
By product	Operation revenue	Operation cost	Gross margin (%)	Operation revenue increase over prior year (%)	Operation cost increase over prior year (%)	Gross margin increase over prior year (%)
Container cranes	12,295,041,201	10,271,871,264	16.46	0.25	-4.87	Increased by 4.5 percentage points
Offshore heavy equipment	4,984,474,241	4,387,726,757	11.97	17.72	6.72	Increased by 9.07 percentage points
Bulk-cargo machinery parts	3,597,166,505	3,415,989,051	5.04	17.44	15.68	Increased by 1.45 percentage points
Nanjing Ninggao BT project	2,885,494,223	2,441,043,673	15.40	31.67	15.26	Increased by 12.04 percentage points
Steel structure	852,128,970	834,669,679	2.05	-2.31	-1.40	Decreased by 0.91 percentage points



Shanghai Zhenhua Heavy Industries Co., Ltd.

Vessel shipping and others	267,698,353	185,793,610	30.60	-9.81	-34.57	Increased by 26.26 percentage points
Total	24,882,003,493	21,537,094,034	13.44	8.55	2.02	Increased by 5.53 percentage points

2、Major business by region

Unit: Yuan Currency: RMB

Region	Operation revenue	Operation revenue increased over prior year (%)
Mainland, China (export)(Note 1)	1,425,635,703	63.31
Asia (Excluding Mainland, China)	7,397,396,682	-5.72
Europe	2,399,223,127	-6.95
America	3,413,469,666	-16.60
Mainland, China	9,259,693,339	44.21
Africa	784,582,016	5.09
Oceania	202,002,960	-44.51
Total	24,882,003,493	8.55

Explanation of major business by region

Note 1: In this part, amounts listed in the Mainland China (export) for the years 2014 and 2013 items refer to the major operation revenue and cost the Company firstly exports to its overseas subsidiaries or related parties, who then sell to domestic customers.

(III) Assets and liabilities analysis

1 Assets/liabilities statements

Unit: Yuan

Item	Closing balance at report period end	Report period end over total assets (%)	Closing balance at prior period end	Prior period end over total assets (%)	Report period end amount over prior period end amount change ratio (%)
At fair value through profit or loss of financial assets	25,735,001	0.05%	121,169,489	0.25%	-78.76%
Interest receivable	45,655,159	0.08%	5,088,988	0.01%	797.14%
Other receivables	719,907,041	1.28%	1,084,341,531	2.20%	-33.61%
Inventory	4,292,389,192	7.65%	6,015,690,177	12.21%	-28.65%
Other current assets	5,960,761,626	10.62%	4,313,035,488	8.75%	38.20%
Available-for-sale financial assets	455,820,453	0.81%	200,410,000	0.41%	127.44%
Long-term receivables	5,339,170,148	9.51%	2,217,619,293	4.50%	140.76%
Long-term equity investment	925,350,083	1.65%	353,038,930	0.72%	162.11%
Construction in progress	2,805,490,499	5.00%	1,478,006,436	3.00%	89.82%
Short-term loans	20,658,839,765	36.80%	14,663,865,004	29.77%	40.88%
At fair value through profit or loss of	28,752,000	0.05%	644,404	0.00%	4361.80%



financial liabilities					
Notes payable	1,934,231,179	3.45%	1,218,223,112	2.47%	58.77%
Accounts payable	4,670,346,661	8.32%	3,592,110,836	7.29%	30.02%
Taxes and charges payable	221,167,212	0.39%	103,837,251	0.21%	112.99%
Interest payable	595,551,629	1.06%	418,390,614	0.85%	42.34%
Dividend payable	854,881	0.00%	33,825,412	0.07%	-97.47%
Other payables	371,606,304	0.66%	247,875,237	0.50%	49.92%
Non-current liabilities due within one year	2,606,660,000	4.64%	4,370,297,863	8.87%	-40.36%
Deferred income tax liabilities	62,796,958	0.11%	24,984,658	0.05%	151.34%
Deferred profit	292,776,131	0.52%	198,171,971	0.40%	47.74%

Analysis:

1. The financial assets counting at fair value and its change contained in current financial loss decreased mainly because the long-term foreign exchange contract at fair value is reduced this year.
2. The interest payable is increased mainly because the time deposit is increased this year.
3. Other receivables decreased mainly because the company retook the stock ownership of subsidiaries.
4. The inventory decreased mainly because consumption of raw materials increased since the marine products not sold were used by the company and more new projects started.
5. Other current assets are increased mainly because the Company purchased more financing products this year.
6. The financial assets for sale are increased mainly because the Company has purchased equity tools for sale this year.
7. Long-term receivables are increased mainly because the receivables from the Nanjing “construct-transfer” project are increased.
8. Long-term receivables are increased mainly because the Company had more investment in overseas corporates and gains from associates and joint ventures adjusted on equity basis.
9. Construction in progress is increased mainly because some construction projects in progress are increased this year.
10. The short-term loans are increased mainly because the Company increased bank borrowings to meet capital requirements this year.



11. The notes receivable is increased mainly because the materials purchasing is increased due to increasing new projects.
12. The accounts payable is increased mainly because the materials purchasing is increased due to increasing new projects.
13. The taxes and charges payable are increased because the Company's domestic sales are increased this year.
14. The interest payable is increased because the Company has more bank borrowings this year.
15. The dividend payable decreases because the bonus last year is paid this year.
16. The other payables are increased because the Company receives the capital from affiliated party this year.
17. Non-current liabilities due within one year decreased because the long-term loans that would be due within one year are reclassified into reduced non-current liabilities due within one year.
18. The deferred income tax liabilities are increased because the assets assessment value is increased in enterprise combination not controlled by one group.
19. The deferred profit is increased because the government subsidy is received which is not confirmed to satisfy the requirements.

#### (4) Core Competitiveness analysis

During reporting period, company core competitiveness does not change a lot.

#### (5) Investment analysis

##### 1、 External equity investment overall analysis

Unit: Yuan

Investment amount as of period end	1,381,170,536
Investment amount movement	827,721,606
Investment amount same period prior year	553,448,930
Investment amount movement ratio (%)	150%

##### Invested companies

Name of invested company	Operational activities	Equity ratio in invested company (%)
ZHENHUA OCEAN ENGINEERING RESOURCE (HONG KONG)CO, LTD.	Engaged in maritime transportation	51%
CCCC Financial Leasing Co., Ltd.	Engaged in financial leasing operation	30%



Shanghai Zhenhua Heavy Industries Co., Ltd.

QINGDAO PORT INTERNATIONAL CO., LTD.	Engaged in port service such as load and unload and storage	2.16%
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(1) Equity holding in other listed companies

Unit: Yuan

Stock code	Short form	Initial investment	Proportion in total equity (%)	Closing book value	Gains/loss in report period	Owner's equity movement in report period	Accounting entry	Origin of equity
300095	Huawu share	12,102,578	7.93	159,932,631	76,238,833	69,538,842	Financial assets for sale	Funding
HK6198	Qingdao port	308,515,588	2.16	273,247,822	0	- 35,267,766	Financial assets for sale	Market purchase
Total		320,618,166	/	433,180,453	76,238,833	34,271,076	/	/

(2) Shares held of non-listed financial enterprises

Name of shares held	Initial investment (Yuan)	Amount held (share)	Equity ratio (%)	Closing book value (Yuan)	Gains/losses report year (Yuan)	Equity movement report year (Yuan)	Accounting entry	Share origin
Shenyin & wanguo legal person shares	200,000	161,942	0.002978	200,000	0	0	Financial assets for sale	Subscription
Total	200,000	161,942	/	200,000	0	0	/	/





Shanghai Zhenhua Heavy Industries Co., Ltd.

(3) Share sales of other listed corporation

Share name	Initial share numbers (share)	Buying shares number in reporting period	Money amount in usage (Yuan)	Selling shares number in reporting period	Closing share number (share)	Cause investment profit (Yuan)
Huawu share	26,000,000	0	0	9,779,652	16,220,348	76,238,833

The investment profit of new shares sold subscriptions in reporting period is 0 Yuan.

2、 Non-financial companies entrusted investment financing and derivatives

(1) Entrusted financing

Unit: Yuan Currency: RMB

Partner	Financing product type	Amount	Starting day	Ending day	Reward	Expected profit	Principal actually covered	Income actually gained	Procedure via legal	The amount of provision for impairment	Related trade or not	Suit involved or not	Source of funds and whether it is fundraising
A Bank	Bank Financial Product	497,034,695	2013-3-19	2014-3-13	Interest upon maturity	20,776,731	497,034,695	20,776,732	Yes	0	No	No	No
A Bank	Bank Financial Product	497,202,541	2013-3-22	2014-3-13	Interest upon maturity	20,610,067	497,202,541	20,610,067	Yes	0	No	No	No
A Bank	Bank Financial Product	8,000,000	2014-2-28	2014-4-1	Interest upon maturity	35,770	8,000,000	35,770	Yes	0	No	No	No



Shanghai Zhenhua Heavy Industries Co., Ltd.

A Bank	Bank Financial Product	991,040,000	2014-3-28	2015-3-26	Interest upon maturity	53,222,921			Yes	0	No	No	No
B Bank	Bank Financial Product	475,000,000	2014-1-28	2014-12-29	Interest upon maturity	26,157,534	475,000,000	26,157,534	Yes	0	No	No	No
C Bank	Bank Financial Product	110,000,000	2014-3-12	2014-9-1	Interest upon maturity	2,971,808	110,000,000	2,971,808	Yes	0	No	No	No
C Bank	Bank Financial Product	120,000,000	2014-4-18	2014-10-9	Interest upon maturity	3,260,712	120,000,000	3,260,712	Yes	0	No	No	No
D Bank	Bank Financial Product	310,000,000	2013-3-21	2014-3-18	Interest upon maturity	16,909,863	310,000,000	16,909,863	Yes	0	No	No	No
D Bank	Bank Financial Product	310,000,000	2013-3-29	2014-3-25	Interest upon maturity	14,870,233	310,000,000	14,870,233	Yes	0	No	No	No
D Bank	Bank Financial Product	740,000,000	2013-4-17	2014-4-14	Interest upon maturity	35,595,014	740,000,000	35,595,014	Yes	0	No	No	No
D Bank	Bank Financial Product	610,000,000	2013-5-7	2014-4-23	Interest upon maturity	31,575,575	610,000,000	31,575,575	Yes	0	No	No	No
D Bank	Bank Financial Product	290,000,000	2013-5-22	2014-5-16	Interest upon maturity	13,548,562	290,000,000	13,548,562	Yes	0	No	No	No
D Bank	Bank Financial Product	720,000,000	2013-5-23	2014-5-19	Interest upon maturity	33,825,205	720,000,000	33,825,205	Yes	0	No	No	No
D Bank	Bank Financial Product	500,000,000	2014-2-14	2015-2-10	Interest upon maturity	32,638,356			Yes	0	No	No	No
D Bank	Bank Financial Product	750,000,000	2014-2-28	2015-2-12	Interest upon maturity	45,537,329			Yes	0	No	No	No



Shanghai Zhenhua Heavy Industries Co., Ltd.

D Bank	Bank Financial Product	620,000,000	2014-3-20	2015-3-13	Interest upon maturity	38,675,770			Yes	0	No	No	No
D Bank	Bank Financial Product	1,000,000,000	2014-4-10	2015-4-2	Interest upon maturity	65,971,644			Yes	0	No	No	No
E Bank	Bank Financial Product	89,000,000	2013-3-18	2014-3-18	Interest upon maturity	4,361,000	89,000,000	4,361,000	Yes	0	No	No	No
E Bank	Bank Financial Product	1,000,000,000	2014-1-14	2014-12-28	Interest upon maturity	54,345,205	1,000,000,000	54,345,205	Yes	0	No	No	No
E Bank	Bank Financial Product	770,000,000	2014-2-13	2015-2-12	Interest upon maturity	42,233,973			Yes	0	No	No	No
E Bank	Bank Financial Product	790,000,000	2014-2-25	2015-2-25	Interest upon maturity	45,030,000			Yes	0	No	No	No
Total	/	11,197,277,236	/	/	/	602,153,272	5,776,237,236	278,843,280	/	0	/	/	/
Cumulative amount of principal or proceeds unrecovered upon maturity (Yuan)						0							
Explanation trust management of finances						Note: As of the reporting date, the entrusted financing items the table covered had been approved by ninth meeting, the fifteenth meeting, the twenty-third meeting, and the twenty-sixth session of the fifth session of the Board and the 2013 First Interim General Meeting and 2013 session of Board, all relevant amount approved.							

(2) Entrusted loans

There is no entrusted loan in report period.

(3) Other investment financing and derivative product investment

There is no such status in report period



## 3、 Key subsidiaries and share-participating companies

Unit: Yuan Currency: RMB

Company	Major product or service	Registered capital	Asset scale	Net profit/(loss)
Shanghai Zhenhua Port Machinery Heavy Industries Co., Ltd	Large container cranes and the gear box gear processing and marketing; ship manufacturing, processing and marketing	5,500,000	8,108,171	-407,836
Shanghai Zhenhua Port Machinery Heavy Industries Co., Ltd	Production of precision foundry, metal cutting and cooling process	5,000,000	438,237,949	-50,495
Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd	Design, manufacturing and sales of port machinery, engineering vessel, steel structure and other parts	HKD 50,000,000	4,089,911,590	77,903,615
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	1,587,721,194	8,718,861
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	1,314,025,988	-24,156,935
Shanghai Zhenhua Heavy Industries Group (Nantong) Transmitter Co., Ltd	Construction and installation of large-scale port equipment, engineering vessels, offshore heavy equipment, machinery and equipment, wind power generation equipment to use gear box; large slewing bearings, transmission, dynamic positioning, large anchor cutter, offshore oil platform lifting device and components, accessories related weaving.	300,000,000	2,295,411,749	17,877,456
Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd	International land, air, maritime freight forwarding, business, domestic freight forwarding, undertaking large-scale port equipment, marine equipment, marine engineering materials sales, marine construction and engineering and ship leasing, engaged in import and export of goods and technologies, transit trade, trade between enterprises and trade agents within the free trade zone	100,000,000	106,734,728	-12,109,727
Shanghai Zhenhua Testing Technology Consulting Co., Ltd	Technical development, technical consultancy, technical services, transfer of technology in the field of testing; construction engineering testing, construction project	7,000,000	7,801,583	528,671



Shanghai Zhenhua Heavy Industries Co., Ltd.

	management services, physical and chemical testing of metallic materials and consulting, except metal, mechanical equipment, ships and steel structure equipment (subject to special approval) non-destructive testing services, test equipment rental (except financial leases), engaged in the import and export of goods and technology business.			
Shanghai Zhenhua Heavy Industries Group (Nantong) Co., Ltd	Design, construction, installation and contracting large port handling systems and equipment, engineering vessels and large metal structure parts, accessories; special heavy-duty Steel, Bridge structure, the waving of heavy machinery and equipment by sea, the installation; engineering ship, lifting machinery leasing; engineering consulting service, Steel structure engineering contractor; cargo storage and handling, loading and unloading containers.	300,000,000	291,454,070	-72,850,701
Shanghai Zhenhua Heavy Industries Electric Co., Ltd	Industrial automation equipment, electrical equipment research and development, design, testing, electrical and electrical equipment, computer hardware and software development, manufacturing, sales, technical services, systems integration, engaged in the import and export of goods and technology business	50,000,000	61,929,910	76,020
Nantong Zhenhua Heavy Industries Steel Structure Processing Co., Ltd	Machinery manufacturing and installing, steel structure processing, hardware processing, de-resting and painting, machinery engineering contracting etc.	UDS 100,000	79,336,740	111,297
Jiangyin Zhenhua Steel Structure Manufacturing Co., Ltd	Port machinery spare parts production; steel structure production, engineering, mechanical equipment, electrical equipment installation; and to provide relevant technology and post-sales service	UDS 100,000	5,717,480	9,495
Shanghai Zhenhua Heavy Industries Steel Structure Co., Ltd	Manufacturing and sales of steel structures and port machinery ports; installation of electric & port machinery equipment; providing related technology & service	UDS 150,000	3,826,843	212,779
ZPMC Netherlands B.V.	Port equipment technical service, sales, spare parts, offshore installation and steel structure	EURO 18,000	22,028,190	-3,116,144
ZPMC GmbH Hamburg	Sales, transport, maintenance of port equipment, ship steel structure parts and other parts	EURO 25,000	142,348,870	6,439,962
CCCC Shanghai Port Machinery Plant Co., Ltd	Sale of port bulk & container cranes & machinery, port engineering vessel (incl.barge engineering vessel) cargo carrying machinery and parts; sale, technical service, maintenance, installation and technical consulting of key parts & original and associate instruments of machinery	2,184,730,000	2,227,034,807	-48,608,618



Shanghai Zhenhua Heavy Industries Co., Ltd.

Shanghai Port Machinery Heavy Industry Co., Ltd	Manufacturing of port cranes and parts; making of cargo carrying machinery & parts, tunnel digging machinery, express railway special equipment, steel structure; repair, design & making of large engineering vessel (incl. barge crane) & ocean engineering equipment, sales of own products and provides related installation and maintenance service and technical advice.	USD 18,120,000	783,782,635	19,465,862
Shanghai Zhenhua Heavy Industries (Group) Zhangjiagang Assembly Co., Ltd.	Making, processing, repair and rebuilding of port crane, bulk & container machinery	15,000,000	149,340,784	9,897,269
Nanjing Ninggao New Channel Construction Co., Ltd	Engaged in construction, investment and consulting of Ninggao New Channel project	100,000,000	5,530,269,652	31,322,910
ZPMC LANKA COMPANY(PRIVATE) LIMITED	Engaged in port equipment technological service	Rupee 184,594,480	11,837,559	1,605,834
ZPMC North America Inc	Trade selling	USD 400,000	1,233,912	-604,001
ZPMC KOREA CO., LTD.	Trade selling	Won 490,000,000	3,604,335	-238,665
ZPMC ENGINEERING AFRICA (PTY) LTD.	Trade selling	USD 500,000	6,228,946	1,867,059
ZPMC Engineering (India) Private Limited	Trade selling	USD 480,000	2,885,101	-22,442
ZPMC SOUTHEAST ASIA HOLDING PTE. LTD.	Trade selling	USD 630,000	14,381,828	3,486,252
ZPMC AUSTRALIA COMPANY PTY LIMITED	Trade selling	Australian dollars 500,000	3,097,120	34,699
ZPMC Heavy Industries Qidong Marine Co., Ltd	Machinery manufacturing	303,000,000	2,185,295,776	-190,402,381
CCCC Financial Leasing Co., Ltd.	Financing lease	1,800,000,000	2,991,163,705	37,841,701
Shanghai Zhenhua Marine Engineering (Hong Kong) Co., Ltd	Maritime transportation	USD 5,969,998	146,858,111	-23,744,126
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	Engaged in port equipment technological service	LT 50,000	8,647,000	-69,463



CCCC Properties Yixing Co., Ltd	Engaged in real estate development	900,000,000	1,019,785,679	-16,310,097
Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd	Steel structure fabrication and installation, Foundation construction of offshore wind power facilities, equipment installation and maintenance, submarine cable system construction, maintenance, marine construction, equipment installation and maintenance, and installation of equipment leasing	260,000,000	578,138,084	35,438,514
CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd	Mainly engaged in steel ships and relevant equipment design, development, marketing and supply of technology transfer, technology consultation and technology services.	60,000,000	82,208,987	316,974
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd	Epoxy, polyurethane resin coating manufacturing and processing.	49,800,000	193,632,112	4,799,812

**4、 Non-raised funds**

√Applicable    □ Not applicable

During report period the Company’s major non-raised fund investment projects include Nantong, Changxing, Jiangyin base infrastructure construction etc. As of Dec.31, 2014, project investment, progress are as follows 54,15 million Yuan was invested to Nantong base infrastructure construction,99% completed; 411.17 million Yuan was invested to Base large machinery and engineering equipment construction in progress, 95% completed;4.81 million Yuan was invested to office building and affiliated facility, 100% completed; Amount involved in her projects is small, within the range of technical reform and sporadic vacancy

**II.Board of Director’s discussion and analysis of the Company’s future development**

**( I )Sector competition pattern and development trend**

In 2015 the slow development of world economy will become the “new ordinary state”. The risk of global deflation is high while RMB exchange rate change direction uncertainty increases. The nation faces unprecedented economy and society adjustment, reform, transition and upgrade. The task to stabilize reform and development becomes more and more difficult.

**Sector and market analysis**

1. The global equipment manufacturing industry appears three obvious characters: R&D and manufacturing division are arranged once again, high end manufacturing and re industrialization. Based on technological innovation, Euro-



America countries carry out “re industrialization” and create new high end manufacturing. In this case, labor intensive manufacturing with higher technology will return to Euro-America countries, which brings larger pressure of competition to new emerging market that is engaging in industrial structure upgrade and new growth pattern.

2. Industry 4.0 age is coming. Information revolution brings new digital chance and challenge, intelligent manufacturing, lean manufacturing, digital manufacturing and integrative manufacturing is the necessary direction.

3. International shipping industry market recovers slowly; port machinery market develops steadily with average market capacity between USD 2.5 billion to USD 3.5 billion. Domestic automated terminal is predicted to enter high speed development period, which will bring new development chances and growth.

4. Influenced by continuous fluctuation of oil price, marine machinery market in energy sector fluctuates. The volume decreases while risk and uncertainty increases greatly.

5. Thanks to national strategy “One Belt and One Road”, great opportunity is available in the market, including new market and space in port, shipping, investment and steel structure field.

6. With more automated terminals construction, electrics and service and spare parts market will have high potential to grow.

## **(II) The Company’s development strategy**

The Board systematically and scientifically studied the basic situation both at home and abroad, analyzed domestic reform status, analyzed major competitions and self-owned advantages and disadvantages. The Board clearly set the overall development concept, key tasks and guarantee measures in 2015, **focusing on efficiency, emphasizing value, innovating drive and improving quality, which ensures balance and continuous development on Company’s scale, efficiency and equality and starts Zhenhua Heavy Industry “4.0”Age.**

1、Strategic positioning: focusing on “4,3,2,1”to build the Company into an excellent international company

(1) 4-types-Stick to “learning-type, innovation-type, high-effectiveness-type, core value point of view-type” to shape Zhenhua Heavy Industries;





(2) 3-atoms-Stick to “vertical integration, horizontal correlation limited diversification and internationalization” approach to business and industry layout;

(3) 2-mega’s-Stick to “mega-machinery, mega-civil engineering” road of development;

(4) 1-excellent-Stick to building a sustainable and healthy international excellent company, including being the world’s leading supplier of equipment, first-class mechanical and electrical systems integrator, engineering contractor and investor.

**2、 The overall working concept for 2015:** to study and implement the spirit of the Party’s 18<sup>th</sup> National Congress, the 18<sup>th</sup> Congress’ Third Plenary Session and Fourth Plenary Session and CCCC’s working conference and Company’s **“4321” and “1521” strategies**; increase Company development quality and benefit; focus the efforts on the four main management lines to **“deepen reform and innovation, overall cost efficiency and continuous consolidation of its foundation, strengthen the personal construction”**; insist on **“24 word’s principle”** of **“solid foundation, constant innovation, structural adjustment, mode transmission, resource integration, strong management, nurturing culture, improving quality ”**; further clear strategy, deepen reform, consolidate the foundation and drive internationalization operation; improve **products chain, cost chain, responsibility chain, value chain** and management; put foundation of building international company of excellence and starting new development of **“13<sup>th</sup> Five-year Plan”**.

**3、 2015 major tasks:**

(1) Continuously center on reform and innovation principle and focus on organization construction and structure adjustment.

(2) Continuously center on overall cost efficiency and focus on basis management and benefit increasing.

(3) Continuously center on solid foundation and focus on “three bases” and risk control.

(4) Continuously strengthen team building and focus on personnel construction.



### **(III) Business planning**

In 2015, the Company plans to achieve steady growth in revenue, and sign more new orders, to grow around 6 sub groups planning and the reform in difficult areas and solid foundation to seize the market, accelerate the adjustment of the market and the business structure, strengthen the global market leader position in port machinery, vigorously develop the marine and key spare parts markets, make comprehensive planning for electronics markets, steadily march into the investment and services market, accelerate the pace of integration of resources, strengthen internal control, improve gross margins, enhance the Company's overall performance capabilities and development quality.

### **(IV) The Company's fund demand for maintaining current business and completing investment in progress**

Daily operating expenses and capital expenditure are mainly the Company's own funds, as well as through a variety of means of financing; capital expenditure is mainly used for items such as capital construction of the production base of the Company.

### **(V) Possible risks and counter measures**

**Market risk: international economy enters into deep structure adjustment period, slow economic development may become the normal state in the world, port machinery market is still in main position in scale and profit contribution, but the competition raises further and other markets are still being cultivated.**

Solution: facing the market challenges at home and abroad, the Company will focus on "1.5.2.1" for optimal adjustment of market and business structure; change operating mode to independent management, high end management, integrative management, self-management and dependence management; speed up eight industries' market layout, quest for diversified business model and innovative profit mode, drive structure adjustment and resource integration; drive enterprise sustainable development.

**Operation risk: the profit mode depends on the size. The basic management, system management, project management are to be improved. The control system integration capability is weak with high follow-up risk,**



**high service cost and low product comprehensive gross margin. It is difficult to realize the high quality development task.**

Solution: deepen the main direction of reform and innovation, focus on 8 core business sectors, further adjust structure, change mode, innovate commercial simulation, widen revenue streams, pursue comprehensive growth in revenue; reduced costs and increased effect; focus on basic management and benefit increase, optimize assets structure, improve asset quality, strengthen process management, strengthen production control, optimize process procedures, and obtain profit from management.

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

Solution: develop rational planning for forward rate look, control exchange rate risk, emphasis on research on policies and strategies of foreign exchange risk management, pay close attention to change in exchange rates, regularly complete analysis of exchange rate movements, conduct strict implementation of financial derivatives related to the approval process, produce good statistics on product current exchange rate, further reinforce the basic work of foreign exchange management, and reduce the company's exchange rate risk. By arranging favorable settlement terms in the contract (such as the signing of a contract with the RMB exchange rate pegged, increase the prepayments proportion plus early settlement, etc.), or within the range permitted by the country's financial foreign exchange policy, make use of hedging, foreign exchange factoring and other appropriate financial instruments or means to control and lock the exchange rate risk. As for credit risk, by reducing raw material reserves, compression of infrastructure spending, adjusting the company's debt structure through a variety of ways (such as medium-term notes, short-term bonds), reducing financing costs, strengthening the collection of accounts receivable, gradually reducing the amount of bank debt, reduce business risks.

### **III. Explanation of the Board about the “Non-Standard Auditor’s Report” from the CPAs Firm**

**( I ) Remarks from the Directors and Supervisory Board of the Company on the “Non-standard Audit Report” provided by the CPA firm.**

Applicable Not applicable



**( II ) Specification by the Board of Directors and the Supervisory Board of the Company on the “Non-standard Audit Report” provided by the CPA firm.**

√Applicable □Not applicable

1. With continuous development of Company business, in order to segment and improve management of Company receivable and permanent assets, to demonstrate Company’s financial status and operation achievement in a more objective and accurate way and provide more reliable and accurate accounting information, the accounting may be changed for the doubtful debts of account receivable, partial permanent assets classification, predicated service-life and predicted net salvage since Jan. 1<sup>st</sup>, 2014 based on practical experience of account receivable and permanent assets in previous years. Based on related regulations of Enterprise Accounting Standards No.28—Accounting Policies, Accounting Estimate Alteration and Error Corrections, the accounting estimate alteration will adopt the applicable method in the future for related accounting treatment. The accounting estimation alternation will influence the financial statement in 2014 and will not influence the financial statements in previous years. This alternation has been approved on the 25<sup>th</sup> meeting, 5<sup>th</sup> board of directors conference on 24<sup>th</sup>, Mar. 2015. The general meeting of shareholders in 2013 held on 30<sup>th</sup>, April, 2014 approved Proposal About Accounting Estimate Alteration

The accounting estimation alternation of account receivable bad debt preparation and partial permanent classification, predicated service-life and predicated net salvage brings 199, 189,374 Yuan of profit from amalgamation in 2014.

2. In 2014, Ministry of Finance issued Accounting Standard for Enterprises No. 39-- Fair Value Measurement, Accounting Standard for Enterprises No. 40-- Joint Venture Arrangement, Accounting Standard for Enterprises No. 41---Disclosure of Interests in Other Entities, revised Accounting Standard for Enterprises No. 2-- Long Term Equity Investment, Accounting Standard for Enterprises No. 9— Employee Salary, Accounting Standard for Enterprises No. 30- Presentation of Financial Statements and Accounting Standard for Enterprises No. 33 -- Consolidated Financial Statements and Accounting Standard for Enterprises No.37-- presentation of financial instruments. Except for Accounting Standard for Enterprises No. 37-- Presentation of Financial Too List and



Accounting Standards for Enterprises - Basic Standards were implemented in Finance Statement of 2014, other standards were implemented from July, 1<sup>st</sup>, 2014.

Based on Accounting Standard for Enterprise No. 2 –Long Term Equity Investment revised by Ministry of Finance in 2014, the Company adjusts the accounting policy of long-term equity investment under enterprise accounting standard: do not control, jointly control or influence the investment company, no quotation in activate market and equity investment that fair value can not be measured reliably; treat as Accounting Standard for Enterprise No. 22— recognition and Measurement of Financial Instruments, account in sale available financial assets, retroactively adjust number in financial statement year and adjusting amount is 27,640,000 Yuan.

Based on Accounting Standard for Enterprises No. 30--the Presentation of Financial Statements revised by Ministry of Finance in 2014, the Company adjusts partial items and listed type in financial statement and retroactively adjust beginning number at financial statement year, including: independent list of deferred income, other composite benefits, the translation difference of foreign currency statements and Capital re-classification (Financial Statement Note 2 (29))

Other 7 new accounting standards started from 1<sup>st</sup>, July, 2014 or at the beginning of 2014 do not materially influence Company's Financial Statement in 2013 and 2014.

### **(III) Specification by the Board of Directors on cause and effect of important corrections of prior period errors**

Applicable Not applicable

## **IV. Pre-plan for profit distribution or capital reserve transfer to increase capital stock**

### **( I )Cash dividend policy formulation, implementation and adjustment**

According to CSRC Notification on further implementation of issues concerning listed company cash dividends sharing (Zhengjian Fa [2012]37), as proposed by the 10<sup>th</sup> meeting of the Company's fifth session of Board, amendment would be made to the Articles of Association of the Company concerning profit distribution and cash dividends policy, and as a result, the 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 access to expressing their views and demands.

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

Unit: Yuan Currency: RMB

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
2014	0	0	0	0	199,386,986
2013	0	0	0	0	139,836,320
2012	0	0	0	0	-1,043,665,841

**V. Active fulfillment of social responsibilities****( I ) Social responsibility work**

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

The Company actively creates development platform for employees, encourages employees to innovate, build innovation pattern and forms good enterprise atmosphere; strengthens employee's humanistic care, builds workers' sports and leisure center to enrich leisure life for workers and strives to create a culture of safety production, working and living environment; in hot season, sending cooling gifts to workers to ease the high temperature, showing care for the health of the employees.

**Chapter V Substantial Events****I . Substantial lawsuits, arbitrations and media generally questioned events:**

√Applicable □Not applicable

**( I ) Events disclosed in the provisional announcement and without changes or progresses of following-up implementation**

Events overview	Index
Substantial lawsuits about Flour Company offshore wind power project	Shanghai Stock Exchange website: <a href="http://www.sse.com.cn">www.sse.com.cn</a> and Shanghai Securities News and Hong Kong Wen Wei Po on Sep. 30, 2014.



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

Unit: Yuan Currency: RMB

In the report period									
Prosecutor (applicant)	Defendant	Party with joint liabilities	Type of suit or arbitration	Suit (arbitration) profiles	Suit (arbitration) amount involved	Suit (arbitration) constitutes project liabilities or not	Suit (arbitration) progresses	Suit (arbitration) ruling and impact	Suit (arbitration) ruling implementation
Shanghai Zhenhua Heavy Industries (Group) Co., Ltd	Jiangsu Suzhong Construction Group Co., Ltd	No	Arbitration	Suzhong Construction Group Co., Ltd. (Hereinafter referred to as "Suzhong Construction") contracted the project construction of the industrial R&D Building in 2008, but the two sides entered into dispute after settlement upon completion. In September 2013 the Company filed a request Shanghai Arbitration Commission for Suzhong Construction to pay an overdue fine of 7,444 million Yuan due to delays of construction and so on, while in February 2014 Suzhong Construction filed a counterclaim to Shanghai Arbitration Commission requesting the Company to pay about 162 million Yuan for the project settlement and related interest costs; the arbitration case will be heard shortly	7,444 million Yuan +162 million and related interests	0	Court to be open soon	Not yet ruled	Not yet ruled

**II. Assets trading and business combination events**

√Applicable □Not applicable

**( I ) Company acquisition, income for sale and enterprise combination events without changes or progresses of following-up implementation**

Events overview	Index
The twenty-third meeting for the fifth session of Board of January 29 <sup>th</sup> , 2014 considered and approved 《Motion on increasing investment to Jiangsu Daoda Marine Heavy Industry Co., Ltd 》	Shanghai Stock Exchange website: <a href="http://www.sse.com.cn">www.sse.com.cn</a> and Shanghai Securities News and Hong Kong Wen Wei Po on January 30 <sup>th</sup> , 2014

**III. Company's equity incentive in report period**

√Applicable □Not applicable

**IV. Magnificent related transactions**

√Applicable □Not applicable

**( I ) Related transactions in connection with routine operations**

**1、 . Events not disclosed in the provisional announcement**

Unit: Yuan Currency: RMB

Related party transaction	Incidence relation	Type of related transaction	Content of related transaction	Pricing principle of related transaction	Price of related transaction	Related transaction amount (%)
Friede & Goldman, Llc.	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	336,411,733	1.35
China Harbour Engineering	Parent company's	Sell goods	Purchase port	Based on market price	246,448,541	0.99





Shanghai Zhenhua Heavy Industries Co., Ltd.

Co., Ltd	wholly-owned subsidiary		machinery from the Company			
CCCC Third Harbor Engineering Co., Ltd	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	69,723,632	0.28
CCCC Water Transportation Planning and Design Institute Co., Ltd	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	59,823,097	0.24
CCCC Fourth Harbor Engineering Co., Ltd	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	59,751,329	0.24
CCCC Stock	Parent company	Sell goods	Purchase port machinery from the Company	Based on market price	40,062,236	0.16
CCCC First Harbor Engineering Co., Ltd	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	34,362,246	0.14
Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd	Joint venture	Sell goods	Purchase port machinery from the Company	Based on market price	20,528,920	0.08
CCCC Tunnel Engineering Co., Ltd	Parent company's share controlled branch company	Providing service	Purchase port machinery from the Company	Based on market price	19,658,120	0.08
CCCC Third Harbor Engineering Co., Ltd	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	17,676,832	0.07
Hainan CCCC Fourth Construction Co., Ltd	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	16,347,733	0.07
CCCC Fouth Navigation Second Engineering	Parent company's wholly-owned	Sell goods	Purchase port machinery	Based on market price	12,868,943	0.05





Shanghai Zhenhua Heavy Industries Co., Ltd.

Co., Ltd	subsidiary		from the Company			
CCCC Second Navigation Second Engineering Co., Ltd	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	5,383,422	0.02
CCCC Marine Engineering Ship Technology Search Center Co., Ltd	Joint venture	Sell goods	Purchase port machinery from the Company	Based on market price	4,880,342	0.02
CCCC Tianjin Dredging_Bin Hai Environmental Channel Dredging Co., Ltd	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	2,649,573	0.01
CCCC Second Harbor Engineering Investigation and Design Institute Limited	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	1,775,726	0.01
The CCCC First Navigation Installation Engineering CO., Ltd	Parent company's wholly-owned subsidiary	Providing service	Purchase port machinery from the Company	Based on market price	1,745,283	0.01
CCCC Second Highway Engineering Co., Ltd	Parent company's wholly-owned subsidiary	Receiving services	Entrusted processing for the Company	Based on market price	1,212,974,461	4.87
CCCC Second Navigation Third Engineering CO., Ltd	Parent company's wholly-owned subsidiary	Receiving services	Entrusted processing for the Company	Based on market price	885,245,579	3.56
CCCC Third Harbor Engineering Co., Ltd	Parent company's share controlled branch company	Receiving services	Entrusted processing for the Company	Based on market price	190,385,882	0.77
CCCC Tunnel Engineering Co., Ltd	Parent company's wholly-owned subsidiary	Receiving services	Entrusted processing for the Company	Based on market price	79,835,548	0.32
CCCC Stock	Parent company	Receiving services	Entrusted processing for the Company	Based on market price	62,727,622	0.25
CCCC Third Navigation Xin'an Infrastructure Construction Engineering	Parent company's wholly-owned subsidiary	Receiving services	Entrusted processing for the Company	Based on market price	4,892,308	0.02



Co., Ltd						
CCCC Shanghai Equipment Engineering Co., Ltd	Parent company's wholly-owned subsidiary	Purchase products	Supply material for the Company	Based on market price	94,917,511	0.65
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd	affiliated company	Purchase products	Supply material for the Company	Based on market price	94,210,385	0.65
China Transportation Materials Co., Ltd	Parent company's wholly-owned subsidiary	Purchase products	Supply material for the Company	Based on market price	33,858,763	0.23
Explanation of related trade	Note: May 8, 2013, the Company 2012 Annual General Meeting approved "Motion on the Company Signing Framework Agreement with CHINA COMMUNICATIONS CONSTRUCTION CO., LTD on Routine Related Transactions." From 2013 to 2015, 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 8 billion Yuan. The Annual General Meeting has authorized the Company's management to handle relevant specific matters.					

**(II) Significant related transaction involving joint external investment**

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

Events overview	Index
The twenty-fifth meeting of fifth Board of Directors on Mar. 24 <sup>th</sup> , 2014, approved the "Proposal on Holding Equity in CCCC Real Estate financial leasing Co., Ltd"	Shanghai Stock Exchange website: <a href="http://www.sse.com.cn">www.sse.com.cn</a> and Shanghai Securities News and Hong Kong Wen Wei Po on Mar. 26 <sup>th</sup> , 2014.
The Twenty-third Meeting of the Fifth Session of the Board on Directors, on Dec. 19, 2014, approved the "Proposal on the CCCC America Company Increasing Capital "	Shanghai Stock Exchange website: <a href="http://www.sse.com.cn">www.sse.com.cn</a> and Shanghai Securities News and Hong Kong Wen Wei Po on Dec. 23rd, 2014.

**(III) Current accounts of credits and liabilities with related parties**

**1、 Events disclosed in the provisional announcement and without changes or progresses of follow-up implementation**

Events overview	Index
The twenty-fifth meeting of fifth Board of Directors on Mar. 24 <sup>th</sup> , 2014, approved the "Proposal on Company signing Deposit Services Framework Agreement and Loan Services Framework Agreement with CCCC Financial Co., Ltd" and discussed and passed by 2013 general meeting of shareholders.	Shanghai Stock Exchange website: <a href="http://www.sse.com.cn">www.sse.com.cn</a> and Shanghai Securities News and Hong Kong Wen Wei Po on Mar. 26, 2014

**2、 Events not disclosed in the provisional announcement**

Unit: Yuan Currency: RMB

Related party	Indidence relation	The Company providing fund to related party	Related party providing fund to the Company



Shanghai Zhenhua Heavy Industries Co., Ltd.

		Beginning balances	Current amount	Ending balance	Beginning balances	Current amount	Ending balance	
CCCC Financial leasing Co., Ltd	Associate companies	0	0	0	0	100,000,000	100,000,000	
CCCC Shares	Parent Company	0	0	0	59,443,847	-27,844,484	31,599,363	
Shanghai Jiang Tian Industrial Co., Ltd	Parent company's wholly-owned subsidiary	0	0	0	17,586,085	0	17,586,085	
Hong Kong Zhenhua Engineering Co., Ltd	Parent company's wholly-owned subsidiary	0	0	0	346,005	0	346,005	
Macau Zhenhua Harbor Engineering Co., Ltd	Parent company's wholly-owned subsidiary	0	0	0	6,593	0	6,593	
Total		0	0	0	77,382,530	72,155,516	149,538,046	
Current amount of Company provides funds to majority stockholder and its subsidiaries in report period (Yuan)								0
Balance amount of Company provides funds to majority stockholder and its subsidiaries (Yuan)								0
Reasons of related credits and liabilities		Dividends payable by the Company to related parties, investment of the cancellation of s subsidiary and current amount loan.						

V. Major contracts and their implementation

1 Entrusting, contracting and leasing

Applicable Not applicable

(1) Entrusting

The Company had no entrusting this year.

(2) Contracting

The Company had no contracting this year.

(3) Leasing

Unit: Yuan Currency: RMB

Lessor	Lessee	Leased assets	Amount involving leased assets	Lease start date	Lease termination date	Rental income	Rental income determined by Protocol	Rental revenue impace on the company	Whether related party transactions
Company	Shanghai Zhenlong Asset Management Co., Ltd. And other companies	Housing rental	183,024,841	2012.08.10	2025.07.09	43,340,809	Protocol agreed	43,340,809	No



**2 Guaranty**

√Applicable □Not applicable

Unit: Yuan Currency: RMB

External guaranty (excluding those for held subsidiaries)													
Guaranty party	Relationship between guaranty party and listed corporation	Guaranteed party	Guaranty amount	Guaranty current date (agreement sign date)	Guaranty start date	Guaranty terminal date	Guaranty classification	Whether guaranty is finished	Whether guaranty overdue	Guaranty overdue amount	Whether there is counter guarantee	Whether guaranteee to related party	Related relationship
Company	Home office	Jiangsu Yanwei Port Co., Ltd	19,184,000	11, Nov. 2014	11, Nov. 2014	11, Nov. 2017	With joint responsibility	No	No	0	No	No	
Company	Home office	Zhenhua Marine Energy (Hong Kong) Co., Ltd	122,380,000	26, May. 2014	26, May. 2014	26, May. 2015	General guaranty	No	No	0	No	Yes	Joint corporation
Total guaranties for subsidiaries incurred in report period (excluding those for held subsidiaries)										141,564,000			
Total Guarantee balance at the end of report period (A)										141,564,000			
Guaranties for Sbusidiaries													
Total guaranties for subsidiaries incurred in report period										654,000,000			
Total guaranties for subsidiary balance at the end of report period (B)										2,894,456,000			
Total guaranties of the Company (including those for subsidiaries)													
Total guarantee amount (A+B)										3,036,020,000			
Proportion of net assets of the Company (%)										20.29			
Including:													
Amount guaranties to shareholders, effective controller and its related parties (C)										0			
Direct or indirect guarantees for the guaranteed parties with an assets-liabilities rate over 70% (D)										3,016,836,000			
Amount of guaranties exceeding 50% of net assets (E)										0			
Total of the above 3 kinds of guarantee (C+D+E)										3,016,836,000			
Undue guarantee may take implicative liability for satisfaction explanation													
Guarantee status explanation													

**3. Other substantial contracts**

(1) On 26, June, 2014, the Company published announcement signed one JU2000E Jack up drilling platform sales contract with KS Ring Invest Five Ltd, details see Shanghai Securities News and Hong Kong Wen Wei Po.

(2) On 2, July, 2014, the Company published announcement signed one saturation diving support vessel sales contract with TOISA LIMITED, details see Shanghai Securities News and Hong Kong Wen Wei Po.

(3) On 28, August 2014, the Company published announcement signed one diving support engineering vessel sales contract with Singapore Company Ultra Deep Solution Ltd; details see Shanghai Securities News and Hong Kong Wen Wei Po.



(4) On 5, December 2014, the Company published announcement signed automatic track crane and bridge crane sales contract with Singapore Port Group, details see Shanghai Securities News and Hong Kong Wen Wei Po.

**VI. Commitments performance**

Applicable Not applicable

**VII. Appointment and dismissal of accounting firm**

Unit: Yuan Currency: RMB

Whether to hire other accounting firms	No	
	Former appointment	Current appointment
Domestic accounting firm	PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd. (Special general partnership )	PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd. (Special general partnership )
Domestic accounting firm payment		3,900,000
Domestic accounting firm audit period		21

	Name	Payment
Internal control audit accounting firm	PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd. (Special general partnership )	500,000

**VIII. Punishment and rectification of the Listing Corporation and its directors, supervisors, senior management personal, shareholders holding over 5% of the shares, the actual controller, acquirers**

No

**IX. The switching company bond status**

Applicable Not applicable

**X. Influence or performing new accounting rules to the combined financial statement**

**1 The influence of consolidated financial report from long term equity investment standard change**

Unit: Yuan Currency: RMB

Invested company	Basic trading information	Shareholder benefit belongs to parent company from 1st, January, 2013 (+/-)	31, Decemeber, 2013		
			Long term equity investment (+/-)	Financial assets available for sale (+/-)	Shareholder benefit belongs to parent company (+/-)
Twenty-first Century	Shareholding ratio		-30,000,000	30,000,000	



Shanghai Zhenhua Heavy Industries Co., Ltd.

Science and Technology Investment Company Limited	8.96%				
Nantong Zhenhua Hongsheng Heavy Forging Co., Ltd	Shareholding ratio 5%		-10,000,000	10,000,000	
Shanghai Zhenhua Port Machinery Longchang Lifting Equipment Co., Ltd	Shareholding ratio 10%		-800,000	800,000	
Shanghai Zhenhua Port Machinery (Group) Shenyang Elevator Co., Ltd	Shareholding ratio 10%		-1,500,000	1,500,000	
Shanghai Zhenhua Port Machinery (Group) Ningbo Transmission Machinery Co., Ltd.	Shareholding ratio 7.4%		-740,000	740,000	
Shenyin Wanguo corporate stock	Shareholding ratio <0.01%		-200,000	200,000	
CCCC Highway Bridge construction of National Engineering Research Center CO., Ltd	Shareholding ratio 10%		-8,000,000	8,000,000	
CCCC Dredging Technology National Engineering Research Center Co., Ltd	Shareholding ratio 8%		-6,400,000	6,400,000	
The provision for impairment of assets	Other long term equity investment on book has been accounted for provision of impairment of assets		30,000,000	-30,000,000	
Total	/		-27,640,000	27,640,000	

2 Influence of standard and other changes

Particular standard	Item	Reporting item	1, January, 2013	31, Decemerm, 2013
			Increase (+) /Reduce (-)	Increase (+) /Reduce (-)
Accounting Standards for Enterprises No. 30- Presentation of Financial Statement	Accounting Standard	Financial assets held for trading	-26,009,477	-121,169,489
		Financial assets accounted by fair value and change is counted into present loss	26,009,477	121,169,489
		Other current assets	82,348,033	110,357,163
		Tax payable	82,348,033	110,357,163
		Long term equity investment	-27,640,000	-27,640,000
		Financial assets available for sale	27,640,000	27,640,000
		Trading financial debt	-	-644,404
		Financial debt accounted by fair	-	644,404



	value and the change is accounted in present loss		
	Other accounts payable	-41,333,726	-155,255,304
	Other non-current debt	-43,916,667	-42,916,667
	Deferred income	85250393	198,171,971
	Capital surplus	-89,099,161	-248,889,422
	Other integrated income	89,112,134	248,928,049
	The difference of translation of foreign currency statements	-12,973	-38,627

## Chapter VI Equity Movement and Shareholder's Profile

### I. Particular about equity movement:

#### ( I ) Particular about capital stock change

##### 1. Particular about capital

In report period, Company share numbers and equity structure do not change.

### II. Particulars about shareholder and effective controller of the Company

#### ( I ) Number of shareholders

Number of shareholders at period end	342,808
Total shareholders end of 5 <sup>th</sup> trading day prior to release day of current annual report	328,113

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

Unit: share

Shareholding profile of top 10 shareholders							
Shareholder's Name	Movement During the Year	Total shares held	Ratio( %)	Share s held subject to conditional sales	Share pledged or frozen		Shareholder's Nature
					Share status	Amount	
China Communications Construction Co., Ltd.	0	1,265,637,849	28.83	0	None	0	State legal
ZHEN HUA ENGINEERING COMPANY LIMITED	0	749,677,500	17.08	0	None	0	Overseas institution
GIC PRIVATE LIMITED	-74,000	19,467,734	0.44		Unknown		Unknown
SCBHK A/C BBH S/A VANGUARD EMERGING MARKETS STOCK INDEX FUND	0	18,121,057	0.41		Unknown		Unknown
ZHEN HWA HARBOUR CONSTRUCTION COMPANY LIMITED	0	14,285,700	0.33	0	None	0	Overseas institution
TOYO SECURITIES ASIA LTD. A/C CLIENT	-2,692,395	12,786,974	0.29		Unknown		Unknown



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

KUWAIT GOVERNMENT INVESTMENT AUTHORITY-own funds	12,497,874	12,497,874	0.28		Unkn own	Unknown
NAITO SECURITIES CO., LTD.	-1,120,670	10,582,092	0.24		Unkn own	Unknown
Gu Xiaonong	7,397,244	9,997,244	0.23		Unkn own	Unknown
THE LIBRA GREATER CHINA FUND LTD	1,617,615	7,914,535	0.18		Unkn own	Unknown
Particulars about top 10 shareholders of shares not subject to conditional sales						
Shareholder's Name	Shares not subject to conditional sales held at period end	Type and quantity of shares				
		Type	Quantity			
China Communications Construction Co., Ltd	1,265,637,849	RMB common shares				
ZHEN HUA ENGINEERING COMPANY LIMITED	749,677,500	Shares with foreign investment listed on domestic market				
GIC PRIVATE LIMITED	19,467,734	Shares with foreign investment listed on domestic market				
SCBHK A/C BBH S/A VANGUARD EMERGING MARKETS STOCK INDEX FUND	18,121,057	Shares with foreign investment listed on domestic market				
ZHEN HWA HARBOUR CONSTRUCTION COMPANY LIMITED	14,285,700	Shares with foreign investment listed on domestic market				
TOYO SECURITIES ASIA LTD. A/C CLIENT	12,786,974	Shares with foreign investment listed on domestic market				
KUWAIT GOVERNMENT INVESTMENT AUTHORITY-own funds	12,497,874	RMB common shares				
NAITO SECURITIES CO., LTD.	10,582,092	Shares with foreign investment listed on domestic market				
Gu Xiaonong	9,997,244	RMB common shares				
THE LIBRA GREATER CHINA FUND LTD	7,914,535	Shares with foreign investment listed on domestic market				
Explanation on the above related relationship or consistent action	<p>1. Among above top 10 shareholders, CHINA COMMUNICATIONS CONSTRUCTION CO.,LTD. Constitutes related party relationship with ZHEN HUA ENGINEERING COMPANY LIMITED, ZHEN HWA HARBOUR CONSTRUCTION COMPANY LIMITED, with ultimate controller being China Communications Group Corporation. The Company is not aware of whether they have associated relationship amount them or belong to the consistent actionists as defined in Administrative Rules on Disclosure of Information on Stock Change of Listed Company's Shareholders.</p> <p>2. On January 8, 2014, the Company disclosed the "Announcement on Changes in Shareholders' Equity", according to which HongKong (ZHEN HUA ENGINEERING COMPANY LIMITED) was to transfer all the shares it held to CCCC International (Hongkong) Holdings Limited. After the transfer of shares, the controlling shareholder of the Company and the actual controller remain unchanged. The share transfer is required to obtain the SAC of the State Council and other department for approval.</p>					

**III. Controlling shareholders and actual controllers**

**( I ) Particulars about the corporate controlling shareholder**

**1 Legal Person**

Unit: Yuan Currency: RMB

Name	China Communications Construction Co., Ltd
The person in charge of the unit/legal representative	Liu Qitao
Date of incorporation	2006-10-8
Organizational Code	71093436-9





## Shanghai Zhenhua Heavy Industries Co., Ltd.

Registered capital	16,174,735,425
Principal business	Engaging in the general contracting of construction projects for ports, channels, highways and bridges both home and abroad, including technical and economic consultation of engineering, feasibility study, survey, construction, supervision, procurement and supply for related complete set of equipment or materials, and equipment installation; undertaking the general contracting of the construction of industrial and civil works, railway, metallurgy, petrochemical, power and water conservancy facilities, channel, mine and municipal works; import and export business; real estate development and property management, investment and management of logistics, transportation, hotel and tourist industries.

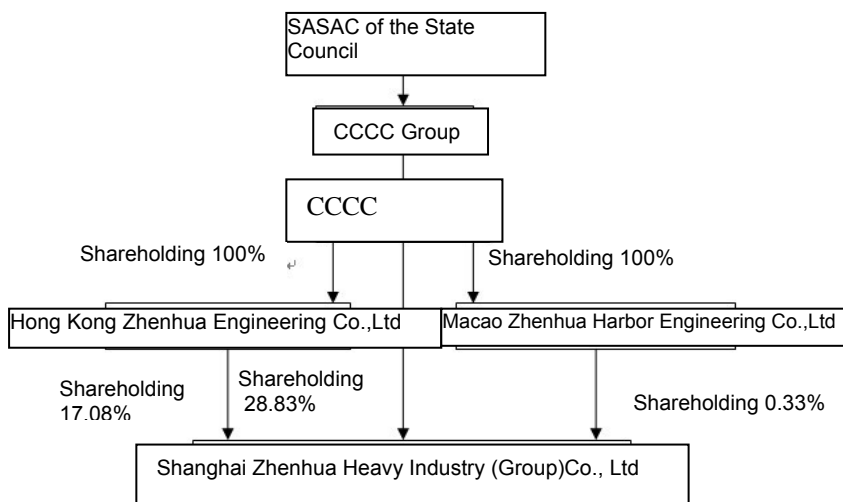
### (II) Particulars about the actual corporate controller

#### 1 Legal person

Unit: Yuan Currency: RMB

Name	China Communications Construction Co., Ltd
The person in charge of the unit/legal representative	Liu Qitao
Date of incorporation	December, 8, 2005
Organizational code	710933809
Registered capital	4,754,016,800
Principal business	Engaging in the general contracting of construction projects for ports, channels, highways and bridges both home and abroad, including technical and economic consultation of engineering, feasibility study, survey, construction, supervision, procurement and supply for related complete set of equipment or materials, and equipment installation; undertaking the general contracting of the construction of industrial and civil works, railway, metallurgy, petrochemical, power and water conservancy facilities, channel, mine and municipal works; import and export business; real estate development and property management, investment and management of logistics, transportation, hotel and tourist industries.

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



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

Unit: Yuan Currency: RMB

Corporate shareholders	Person in charge or legal	Date of establishment	Organization code	Registered Capital	Mian business and management activities
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## Shanghai Zhenhua Heavy Industries Co., Ltd.

	representative				
ZHEN HUA ENGINEERING COMPANY LIMITED	Wangyan	1982-05-14	-	35,000,000	Marine works, roads and bridges, dredging and site formation, port machinery, survey and design.
Explanation	China Communications Construction Co., Ltd. Holds 100% stake of ZHEN HUA ENGINEERING COMPANY LIMITED, the ultimate shareholder is China Communications Construction Group Co., Ltd				



## Chapter VII Directors, Supervisors, Senior Executives and Employees

### I . Change of holdings and remuneration

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

Unit: share

Name	Title (note)	Sex	Age	Start of Tenure	End of Tenure	Shares held at the beginning of year	Shares at end of year	Change in report period	Reason for change	Total paid by the Company during report period (RMB 10,000)(before tax)	Total paid by the shareholders units during report period (RMB 10,000)
Song Hailiang	Chairman of the board, president	M	50	2012-09-18	2014-05-20	0	0	0		0	89.32
Liu Wensheng	Director	M	55	2011-05-20	2014-05-20	0	0	0		0	89.96
Chen Qi	Director	F	53	2011-05-20	2014-05-20	0	0	0		0	70.37
Yan Yunfu	Executive director, Vice president	M	56	2011-05-20	2014-05-20	0	0	0		73.89	0
Liu Qizhong	Executive director, Vice president	M	51	2011-05-20	2014-05-20	0	0	0		76.35	0
Dai Wenkai	Executive director, Vice president	M	48	2011-05-20	2014-05-20	0	0	0		76.35	0
Bao Qifan	Independent director	M	64	2011-05-20	2014-05-20	0	0	0		11	0



Shanghai Zhenhua Heavy Industries Co., Ltd.

Liu NingYuan	Independent director	M	57	2011-05-20	2014-05-20	0	0	0		12	0
She Lian	Independent director	M	56	2013-05-08	2014-05-20	0	0	0		12	0
Gu Wei	Independent director	M	58	2013-05-08	2014-05-20	0	0	0		12	0
Zhang Minghai	Board of supervisors	M	53	2011-05-20	2014-05-20	20,259	20,259	0		66.85	0
Chen Bin	Supervisor	M	41	2011-05-20	2014-05-20	89,440	89,440	0		64.26	0
Zhao Guangjing	Supervisor	M	54	2011-05-20	2014-05-20	0	0	0		40.64	0
Huang Qingfeng	Vice president	M	40	2011-05-20	2014-05-20	0	0	0		75.27	0
Liu Jianbo	Vice president	M	52	2011-05-20	2014-05-20	0	0	0		75.27	0
Zhou Qi	Vice president	M	43	2011-05-20	2014-05-20	0	0	0		73.89	0
Fei Guo	Vice president	M	53	2011-05-20	2014-05-20	0	0	0		73.89	0
Wang Jue	CFO, Secretary of the Board of Directors	M	51	2011-05-20	2014-05-20	0	0	0		73.89	0
Sun Li	Vice president	M	43	2011-05-20	2014-05-20	0	0	0		73.89	0
Cao Weizhong	Vice president	M	59	2011-05-20	2014-05-20	0	0	0		73.89	0
Kang Fuxin	Independent director	F	59	2011-05-20	2014-01-28	0	0	0		1	0
Lu Jianzhong	Former Director, President, Deputy Secretary of party	M	52	2011-10-20	2014-03-21	0	0	0		20.53	0



Shanghai Zhenhua Heavy Industries Co., Ltd.

	Committee										
Huang Hongyu	Vice president	M	61	2011-05-20	2014-09-29	0	0	0		73.89	0
Chen Gang	Vice president	M	48	2011-05-20	2015-03-30	0	0	0		73.89	0
Total	/	/	/	/	/	109,699	109,699	0	/	1,134.64	/

Note: The term of office of the Company's Fifth Board and Directors and the Fifth Board of supervisors is from 20, May, 2011 to 20, May, 2014. On 30, March, 2015, the Company's board of directors and supervisors is in new term selection. Related proposals needed be to approved by 2014 general meeting of share holders and present company's directors, supervisors and higher management should perform the duty continuously.

Name	Working experience
Song Hailiang	Born in 1965, male, professor-level senior engineer, held degree of B.E. in port machinery design and manufacture at Wuhan Institute of Water Transport Engineering, Doctor of management at Tianjin University, started to work from July 1987, served as engineer, Design Office director, Vice President, member of Party Committee, Vice Secretary of the Party Committee, Chairman of the Board and simultaneously General Manager with CCCC Water Transportation Planning and Design Institute Co., Ltd.; currently vice President of China Communications Construction Co., Ltd. And simultaneously Chairman of the Board, President and Party Secretary of Zhenhua Heavy Industries.
Liu Wensheng	born in 1960, male, MBA, senior engineer; was assistant and deputy director with Tianjin Shipping Channel Bureau, vice chief economist and general manager of planning office with China Harbor Construction (Group) Company, is now secretary of board of directors and chief economist with China Communications Construction Co. Ltd., Chairman of the Board with CCCC International(Hong Kong) Co. Ltd., has been board director of the Company since 2006.
Chen Qi	Born in 1962, female, master, senior engineer, was project manager of China Harbour Engineering Co., Ltd. Import and Export Port Machinery Division, China Harbour (Group) Co., Ltd. Industry and Trade Business Unit deputy general manager, General manager; is now CHINA COMMUNICATIONS CONSTRUCTION CO., LTD. Industry and Trade Business Unit general manager; has been board director of the Company since 2011.
Yan Yunfu	born in 1959, male, master of engineering management and EMBA master, professor-level senior engineer, was Vice Chief of Technical Department, Manager of Mechanical Design Department, Vice General Engineer, General Engineer and VP of the Company. Is now the company's standing VP; is director of board of the Company since 2004.
Liu Qizhong	Born in 1964, male, Doctor, senior economist, doctor; was Vice Manager, Manager of Operating Department and VP of the Company; is now the Company's standing VP; is board director of the Company since 1997.
Dai	Born in 1967, male, master of physics, MBA, EMBA, senior engineer. Started to work in 1993, was Manger of Operating Department, Vice



## Shanghai Zhenhua Heavy Industries Co., Ltd.

Wenkai	Chief Economist, Chief Economist, VP of the Company; is now the executive VP of the Company; is board director of the Company and director of F&G since 2012.
Bao Qifan	Born in 1951, male, master, professor-level senior engineer; former Shanghai Port fourth loading and unloading zone machine repair shop deputy director, Shanghai Port Timber Handling Technology Co., Ltd. technology section chief, deputy manager in technology of Shanghai Port Nanpu Port Co, Ltd., Shanghai Port Longwu Port Co., Ltd. manager, vice director of Shanghai Port Bureau, Shanghai International Port (Group) Co., Ltd. VP; now Shanghai municipal government counselor, part-time vice chairman of Chinese Mechanical Engineering Society, China Water Transport Engineering Association vice chairman, Vice-Chairman of Shanghai Science and Technology Association etc.; independent board director of the Company since 2011.
Liu NingYuan	Liu NingYuan, born in 1958, male, master, professor, instructor of doctorate students; currently East China University of Politics and International Law School Dean and Secretary of the Party committee, part-time Chinese Private International Law Society executive director, Chinese Arbitration Law executive director, Shanghai Law Society International Law Studies vice president, Shanghai Arbitration Commission arbitrator, Shanghai Zhongxin Zhengyi Law Firm lawyer; independent board director of the Company since 2011.
She Lian	born in 1959, male, professor, doctoral tutor; from 1995 on, enjoys special government allowances from the State Council; 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. has been independent board director of the Company since 2013.
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 Electrotechnical 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 Electrotechnical 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; has been independent board director of the Company since 2013.
Zhang Minghai	Born in 1962, male, master, professor-level senior engineer; formerly Shanghai Port Machinery Plant Technology Division engineer; mechanical office deputy manager, deputy chief engineer, general manager of Mechanical Office Shore Bridge First Company, of the machinery to do the shore bridge, general manager of Land-based Heavy Industry Co., Ltd. with Shanghai Zhenhua Heavy Industries (Group) Co., Ltd.; currently Land-based Heavy Industry Research Design vice president and also Shore Bridge Design Institute director; chief supervisor of the Company since 2011.
Chen Bin	Born in 1974, male, MBA, senior engineer; deputy manager of tire crane office of quality control office, manager of quality control office, deputy general manager and general manager of quality control company, vice director of quality and safety office, manager of Quality Safety Office;



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

	supervisor of the Company since 2008
Zhao Guangjing	Born in 1961, male, college diploma, served as Shanghai Port Machinery Plant discipline officer; audit department Senior Staff Member; inspection and supervision audit office deputy director(in charge), vice secretary and chief director of the discipline inspection and supervision audit office, the organs of the Party branch secretary, asset management vice general manager; Shanghai Zhenhua Heavy Industries (Group) Co., Ltd. Quality Security Comprehensive Office deputy manager, comprehensive room of the executive office deputy manager; currently Audit and Supervision manager of the company; from 2011 employee supervisor of the Company.
Huang Qingfeng	Born in 1975, male, master, senior engineer; 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, assistant president of the Group; from Jan. 2005 on is VP of the Company.
Liu Jianbo	Born in 1963, male, master's degree in engineering administration , senior engineer; was engineer at technological office of Shanghai Port Machinery Plant; assistant director in engineering with Technology Office of Shanghai Container Dock Co. Ltd., deputy general manager and general manager of ZPMC Changxing Base; is now VP of the Company.
Zhou Qi	Born in 1972, male, master's degree in engineering administration, senior engineer; was manager and deputy general engineer, general manager and chief engineer of the Electric Appliance Office of the Company; is now VP of the Company.
Fei Guo	Born in 1962, male, master's degree in engineering administration, professor-level senior engineer; was engineer with Shanghai Port Machinery Plant; director of Electric Appliance Office 5 and vice general engineer with Shanghai Zhenhua Port Machinery Co., Ltd.; is now VP of the Company and simultaneously executive director of Shanghai Zhenhua Heavy Electric Co. Ltd.
Sun Li	Born in 1972, male, doctor, senior engineer; was Project Supervisor of Operating Department, Vice Manager and Assistant of General Manager of the Company. He has acted as Vice President of the Company since 2001.
Wang Jue	Born in 1964, male, MBA, CPA and senior accountant, successively held the posts of director of the Financial Office of No.3 Engineering Co., Ltd. Of CCCC Third Harbor Engineering Co., Ltd., General Accountant of CCCC 5th and 7th Harbor Engineering Co., Ltd., Director of the Audit Section, Director of the Financial Section and Vice General Accountant of Third Harbor Engineering Co., Ltd.; is the Chief Controller and Secretary of the Board of Directors of the Company since November of 2005.
Cap Weozhong	Born in 1956, male, worked as Vice Manager of Installation Section, Managing General Manager of Jiangyin Base, Vice Manager of Production Department of the Company, General Manager of QC Company, Assistant to General Manager and VP; now standing VP, has been chairman of the Trade Union since 2006.

**II. Office holding profile of directors, supervisors and senior executives in office or retired during report period**

**( I ) Particulars about office-hoding with shareholding companies**

√Applicable □Not applicable

Name	Name of shareholder	Title in the shareholding company	Starting date of service term
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**Shanghai Zhenhua Heavy Industries Co., Ltd.**

Song Hailiang	China Communication Construction Co., Ltd	Vice president	2014-01-27
Liu Wensheng	China Communications Construction Co., Ltd.	Secretary with the Board, Economist General	2009-12-29
Chen Qi	China Communications Construction Co., Ltd.	General manager of Industry and Trade Department	2009-12-29

**( II ) Particulars about office-holding with other companies**

√Applicable □Not applicable

Name	Name of compnies	Title
Bao Qifan	Shanghai Municipal Government, Chinese Mechanical Engineering Society, China Water Transportation Association Shanghai Association for Science & Technology	Counselor, Vice Director-General, Vice Chiarman
Liu NingYuan	International Law Faculty of the East China University of Politics and Law, China Association of PRIVATE International Law, China of Arbitration Law, China Academy of Arbitration Law, International Law Research Association of Shanghai Law Society, Shanghai Arbitration Commission, Shanghai Trust Justic Law Office	President, secretary of the Party committee, professor, doctor mentor, executive member, vice chief, arbitrator and lawyer
She Lian	CEIBS Emergency Management Institute incumbent National School of Administratio	Professor, doctoral tutor
Gu Wei	Shipping Technology and Enginneering key Lab of Ministry of Transportation, Vessel Electrical Committee of China Electrotechnical Society, Control Committee of Experts of Shanghai Jiaotong Electronics Industry Association; procurement consulting expert of Shanghai Municipal Government; Committee of Experts of Ministry of Transport East China Sea Rescue Bureau and other duties	Director, professor, doctoral tutor, council member, committee member

**III. Remuneration of Directors, Supervisors and senior executives**

Decision-making procedures for remuneration of Directors,	In accordance with the Articles of Association, the remuneration of Diresctors and
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Shanghai Zhenhua Heavy Industries Co., Ltd.

Supervisors and senior executives	Supervisors are subject to the Annual Shareholder's General Meeting and the remuneration of the management are assessed and approved by the President.
Calculation basis for remuneration of Directors, Supervisors and senior executives	Basic salary plus performance bonus, combined with assessment utilizing quantizing index of production and operation.
Total remuneration received by all directors, supervisors and senior executives	Chairman Song Hailiang, Director Chen Qi, Director Liu Wenshen are not paid by the Company, whereas all other director, supervisor and senior executives are paid by the Company
Total remuneration received by all directors, supervisors and senior executives at period end	11,346,400 Yuan

**III. Particulars about changes of directors, supervisors and senior executives**

Name	Title	Change	Reason
Song Hailiang	Chairman	Appointment	New appointment
Lu Jianzhong	Director, President	Leaving post	Resignation
Tang Fuxin	Independent director	Leaving post	Resignation
Huang Hongyu	Vice president	Leaving post	Retirement

**V. Particulars about Company key technical team and key technician**

No change in report period

**VI. Employee status of the Parent Company and its key subsidiaries****(1) Particulars about employees**

Number of employees of Parent Company in service	3,116
Number of employees of key subsidiaries in service	3,711
Total headcount in employment	6,827
Particulars about staff condition of the Company	0
In specialties	
Classification	Number
Production staff	2,192
Sales staff	127
Technical staff	3,757
Financial staff	101
Administrative staff	650
Total	6,827
In educational level	
Education	Number (person)
Technical secondary school	1,344
Junior College	2,021
Undergraduate	2,999
Master	443
Doctor	20
Total	6,827

**(II) Remuneration policies**

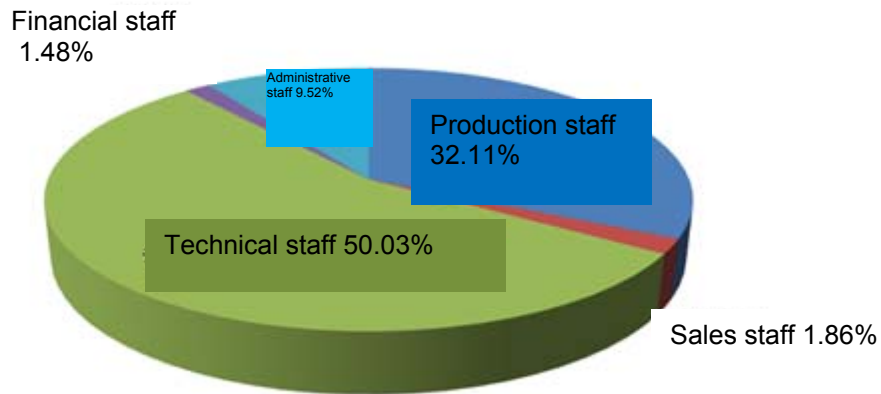
In line with the Company's development strategy, continuously perfect distribution incentive system, perfect performance assessment system, establish a system linking performance distribution and unit or office performance, staff performance, industrial characters and post value; establish a salary incentive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

**(III) Training program**

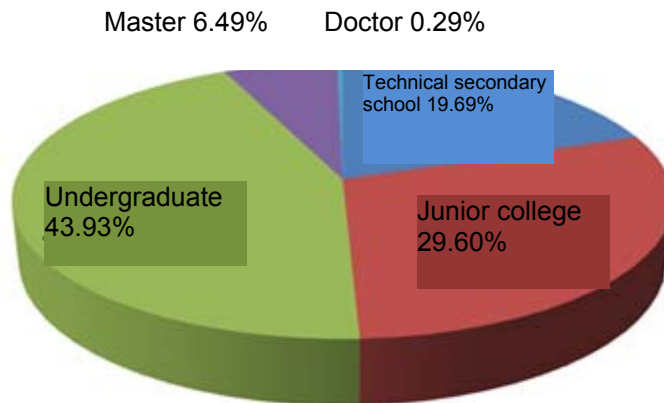
At the beginning of each year, the Company sets up all-staff annual educational and training plan and implements according to the plan to improve the competence level and professional quality of staff at various levels. In line with the Company's development strategy, gradually establish

a rigid staff training system with systematic, directional and continuous features.

**(IV) Specialty composition chart:**



**(V) Educational level statistics chart:**



**(I) Labor outsourcing**

The total number of man-hours of labor outsourcing	14,901,792 hours
The total remuneration payment of labor outsourcing	416,495,000 Yuan

## Chapter VIII Corporate Governance

### I. Corporate governance and information insider registration management

During the report period, the Company has focused on standardizing routine operation, enforcing information disclosure and establishment and development of the legal representative management system according to the Company Law, Securities Law, Rules for Listed Securities, Articles of Associations and other regulations promulgated by CSRC. The inside information management is enhanced, the information disclosure is strengthened, the corporate governance level is improved. The company continuously makes efforts to improve the legal representative governance structure, gradually establish the modern enterprise system, maintain the legal rights of the Company and all the shareholders and ensure the stable and continuous development.

To regulate the Company's inside information management, strengthen the work of company insider confidentiality maintenance, the Company developed Shanghai Zhenhua Heavy Industry (Group) Co., Ltd Insider Management System. The insiders don't purchase and buy the shares using internal information before the significant information about the stock price of the Company is disclosed via self-assessment.

There is no difference between the corporate governance and governance requirements of CSRC

#### Summary of shareholders general meeting

Session time of meeting	Date of meeting	Motions of meeting	Resolutions	Index of the resolution published website	Date of resolutions published
2013 Annual Shareholder's General Meeting	April, 30, 2014	2013 Board of Directors' Work Report and other 14 motions	All motions passed through consideration	www.sse.com.cn, input the stock code and then retrieve	May 5, 2014

### III. Duty fulfillment of directors

#### (1) Attendance of directors at meeting of the Board of Directors

Name	Independent Directors or not	Board of directors in attendance						General meeting of shareholders in attendance
		Expected attendances	Actual attendances	Number of attendances by correspondence	Entrusted attendances	Absences	Two absences in succession or not	Number of attendances of general meeting of shareholders



				e				
Song Hailiang	No	11	11	10	0	0	No	1
Liu Wensheng	No	11	10	10	1	0	No	0
Chen Qi	No	11	10	10	1	0	No	1
Yan Yunfu	No	11	11	10	0	0	No	1
Liu Qlzhong	No	11	11	10	1	0	No	1
Dai Wenkai	No	11	11	10	0	0	No	1
Bao Qifan	Yes	11	11	10	1	0	No	1
Liu Ningyuan	Yes	11	11	10	1	0	No	0
She Lian	Yes	11	11	10	1	0	No	1
Gu Wei	Yes	11	11	10	0	0	No	1
Lu Jianzhong	No	1	1	1	0	0	No	0

Number of board meeting in report year	11
Including: number of field meeting	1
Number of meeting field & by correspondence	10

## (2) Dissent expressed by Independent Directors on related issues of Company

During the report period, Independent Directors of the Company did not express the dissent on resolutions approved by the Board of Directors and any other issues.

### IV. In report period, the establishment and implementation of evaluation and motivation of senior executives

The Company appointed and removed Directors, Supervisors and senior executives in accordance with Company Law and Article of Associations. It has preliminarily established a practical system for cultivation, selection, supervision, evaluation, rewards and disciplinary sanctions, and control of senior executives, and promulgated relevant management method of senior executives. Focusing on both political integrity and professional competence, the Company evaluates, appoints and removes senior executives based on actual requirements of its operation and development and the senior executive shall take a lower as well as a higher post. The Company will continuously improve the existing performance assessment and remuneration system and carry out the middle and long range incentive system based on diligence and performance among all the senior executives and core technicians in order to motivate senior executives to create new accomplishments and ensure maximum benefit and standard operation of the Company.

## Chapter IX Internal Control

### I. Internal control responsibility statement and internal control system construction

According to the Enterprise Internal Control Basic Specifications and supporting guide regulations and other internal control monitor requirement, combined with the actual situation of the company, the company develop the Internal Control Specification Implementation Working Plan and established the internal control regulation implementation work leading group and project work group which are in charge of the Company's internal



control system construction and daily operation under the leadership of the Board of Director of the Company. It effectively evaluates the internal control effectiveness as of Dec 31, 2014 (internal control assessment report basic day) based on the daily monitoring and special monitoring of internal control.

Based on the approval standard of internal control defect of financial statements of the Company, there is no significant or major defect about internal control of financial statements as of the internal control assessment report basic day. The Company has kept the financial statements internal control in all major aspects according to the internal control specification system and regulations.

Based on the approval standard of internal control defect of non-financial statements of the Company, there is no significant or major defect about internal control of non-financial statements as of the internal control assessment report basic day.

There are no factors that will influence the effective evaluation conclusion of internal control between the internal control assessment control evaluation basic day to internal control assessment report issuing day.

Internal Control Seessment Report for details.

Internal control self assessment report disclosed or not: Yes

## **II. Explanation about the internal control auditor's report**

The employed PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd (Special general partnership) has conducted audit on the effectiveness of internal control in the financial report as of Dec 31, 2014 and produced unqualified standard auditor's report (see attachment).

Internal control audit report disclosed or not: Yes

## **III. Explanation about annual report significant error accountability system and the implementation**

In order to improve the level of corporate governance, strengthen the truthfulness, accuracy, completeness and timeliness of information disclosure, and improve the quality and transparency of annual information disclosure, according to CSRC and Shanghai Stock Exchange documentation requirements, combined with the Company's realities, the 28th meeting of the fourth session of the Board, held on Mar. 18, 2010, reviewed and approved the Shanghai Zhenhua Heavy Industry Co., Ltd Annual Information Disclosure Significant Error Accountability System. The Company does not have significant errors of annual information disclosure during the report period.



Audit Report  
PricewaterhouseCoopers Zhongtian Shenzi (2015) No. 10027

(Page 1 of 2)

To the shareholders of Shanghai Zhenhua Heavy Industries Co., Ltd  
We have audited the accompanying consolidated as well as company's financial statement of Shanghai Zhenhua Heavy Industries Co., Ltd , including the company's and the consolidated balance sheets as of 31. December 2014, 2014's P&L and company's income statement, shareholders' equity movement statements, cash flow statements and notes to the financial statements.

I . The Management responsibilities on the statements

Preparing and fairly stating financial statements are the responsibilities of the management of Shanghai Zhenhua Heavy Industries Co., Ltd. These responsibilities include:

- (1) The preparation of financial statements in accordance with the provisions of the corporate accounting standards, and to achieve a fair reflection.
- (2) Design, implement and maintain the necessary internal controls, to material misstatement due to fraud or error in the financial statements.

II . The CPA's Responsibilities

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

The audit includes implementing the audit procedures to acquire financial statements figures and audit evidence. Audit procedures are chose based on CPA's judgment, including the estimate of risks for possible misreports due to cheating or errors. When estimating risks, certified public accountants consider internal control related to the financial statements preparation and fair presentation, in order to design audit procedures that are appropriate, but not to provide opinions on effectiveness of the interior controls. The audit also Includes the evaluating of the appropriateness of utilization of accounting policies and accounting estimates by the management, and the evaluating of the total reporting of the financial statements.

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



Audit Report (continued)

PricewaterhouseCoopers Zhongtian Shenzi (2015) No. 10027  
(Page 1 of 2)

III. Auditor's Opinions

In our opinion, the accompanying financial statements of Zhenhua Heavy Industries has been prepared according to stipulations of the enterprise accounting norms and present fairly, in all material respects, the financial position of the Consolidation and Zhenhua Heavy Industries as of 31, December 2014 and of the results of its operations and its cash flows for the year then ended.

PricewaterhouseCoopers China Limited  
The accounting firm (special general partnership)

CPA \_\_\_\_\_  
Zhao Bo

Shanghai, China  
CPA \_\_\_\_\_

30, Mar, 2015

Jin Wen





Shanghai Zhenhua Heavy Industries Co., Ltd.

Shanghai Zhenhua Heavy Industries Co., Ltd.  
Dec 31, 2014 consolidated assets  
balance sheet  
(Unless otherwise specified, the amount  
units is RMB.) )

Assets	Note	Dec 31, 2014 consolidated	Dec 31, 2013 consolidated (iterated)	Jan 1, 2013 consolidated (iterated)
Current assets				
Monetary capital	IV (1)	3,213,863,458	3,515,643,963	5,380,769,224
Financial assets measured at fair value with the change accounted in current profit and loss	IV (2)	25,735,001	121,169,489	26,009,477
Notes receivable	IV (3)	289,299,440	334,519,241	115,069,863
Receivables	IV (5)	3,617,250,552	3,548,903,103	3,710,721,111
Prepayment	IV (7)	1,251,617,828	1,285,291,251	995,684,680
Interest receivable	IV (4)	45,655,159	5,088,988	33,231,552
Other receivables	IV (6)	719,907,041	1,084,341,531	413,305,303
Stock	IV (8)	4,292,389,192	6,015,690,177	7,581,683,025
Construction completed account not closed	IV (9)	7,915,107,868	6,766,208,145	6,620,155,339
Other current assets	IV (10)	5,960,761,626	4,313,035,488	1,082,348,033
Total current assets		<u>27,331,587,165</u>	<u>26,989,891,376</u>	<u>25,958,977,607</u>
Non-current assets				
Financial assets available- for -sale	IV (11)	455,820,453	200,410,000	151,862,545
Long-term receivables	IV (12)	5,339,170,148	2,217,619,293	-
Long-term stock ownership investment	IV (13)	925,350,083	353,038,930	176,079,472
Real estate as investment	IV (14)	374,881,869	388,992,266	402,411,440
Fixed assets	IV (15)	14,981,803,507	14,079,867,109	14,075,197,757
Projects in process	IV (16)	2,805,490,499	1,478,006,436	3,692,553,744
Intangible assets	IV (17)	3,382,763,696	3,159,277,976	2,021,511,880
Deferred corporate tax assets	IV (19)	399,146,878	397,990,464	383,449,931
Goodwill	IV (18)	149,212,956	-	-
Total non-current assets		<u>28,813,640,089</u>	<u>22,275,202,474</u>	<u>20,903,066,769</u>
Total assets		<u>56,145,227,254</u>	<u>49,265,093,850</u>	<u>46,862,044,376</u>



Shanghai Zhenhua Heavy Industries Co., Ltd.

Shanghai Zhenhua Heavy Industries Co., Ltd.

Dec 31, 2014 consolidated assets balance sheet  
(continued)  
(Unless otherwise specified, the amount units is  
RMB.) )

Liabilities and stockholders' equity	Note	Dec 31, 2014 consolidated	Dec 31, 2013 consolidated (iterated)	Jan 1, 2013 consolidated (iterated)
<b>Current liabilities</b>				
Short term loans	IV (21)	20,658,839,765	14,663,865,004	11,936,687,998
Financial liabilities measured at fair value with its change accounted in current profit and loss	IV (2)	28,752,000	644,404	-
Notes payable	IV (22)	1,934,231,179	1,218,223,112	980,906,529
Payables	IV (23)	4,670,346,661	3,592,110,836	2,603,418,685
Pre-received payment Construction not completed account closed	IV (24)	273,533,666	232,328,686	1,035,763,588
Employee remuneration payable	IV (9)	2,719,392,340	3,143,218,938	2,389,804,893
Tax payables	IV (25)	245,562,935	206,241,298	37,550,139
Interest payable	IV (26)	221,167,212	103,837,251	35,381,219
Dividend payable	IV (27)	595,551,629	418,390,614	315,058,291
Other payables	IV (28)	854,881	33,825,412	33,825,412
Non-current liabilities due within one year	IV (29)	371,606,304	247,875,237	250,816,766
	IV (30)	<u>2,606,660,000</u>	<u>4,370,297,863</u>	<u>3,667,922,000</u>
Total current liabilities		<u>34,326,498,572</u>	<u>28,230,858,655</u>	<u>23,287,135,520</u>
<b>Non-current liabilities</b>				
Long-term loans	IV (31)	2,490,090,000	2,113,256,000	873,684,500
Bond payables	IV (32)	3,799,615,401	3,797,777,911	7,984,665,674
Predicted liabilities	IV (33)	212,244,416	186,334,750	193,307,685
Deferred corporate tax liabilities	IV (19)	62,796,958	24,984,658	20,747,048
Deferred profit	IV (34)	<u>292,776,131</u>	<u>198,171,971</u>	<u>85,250,393</u>
Total non-current liabilities		<u>6,857,522,906</u>	<u>6,320,525,290</u>	<u>9,157,655,300</u>
Total liabilities		<u>41,184,021,478</u>	<u>34,551,383,945</u>	<u>32,444,790,820</u>
<b>Shareholders' equity</b>				
Share capital	IV (35)		4,390,294,584	4,390,294,584



Shanghai Zhenhua Heavy Industries Co., Ltd.

		4,390,294,584		
Contributed surplus	IV (36)	5,543,176,483	5,543,176,483	5,543,176,483
Other comprehensive profits	IV (37)	319,540,042	248,928,049	89,112,134
surplus reserves	IV (38)	1,554,606,025	1,520,147,861	1,520,147,861
Profit not distributed	IV (39)	2,972,986,676	2,808,057,854	2,668,221,534
Total shareholders' equity attributed to parent company		14,780,603,810	14,510,604,831	14,210,952,596
Minority equity	VI (1)	180,601,966	203,105,074	206,300,960
Total shareholders' equity		14,961,205,776	14,713,709,905	14,417,253,556
Total liabilities and shareholders' equity		56,145,227,254	49,265,093,850	46,862,044,376

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

Enterprise principal: Song Hailiang Chief financial officer: Wang Jue Financial manager: Sunguangbo

Shanghai Zhenhua Heavy Industries Co., Ltd.

Dec 31, 2014 company B/S  
(Unless otherwise specified, the amount units is RMB.) )

Assets	Note	Dec 31, 2014 company	Dec 31, 2013 company (iterated)	Jan 1, 2013 company (iterated)
Current assets				
Monetary capital		2,597,001,684	3,098,787,795	5,140,007,496
Financial assets measured at fair value with its change accounted in current profit and loss		25,735,001	107,398,445	19,196,699
Notes receivable		283,662,738	331,519,241	115,069,863
Receivables	XIV (1)	6,005,595,333	5,118,743,309	4,470,459,959
Prepayment		1,881,878,541	1,810,482,001	1,469,746,463
Interest receivable		45,655,159	5,088,988	33,231,552
Other receivables	XIV (2)	8,721,426,218	8,166,740,918	7,492,431,701
Stock		4,768,572,615	4,940,313,059	6,343,052,035
Construction completed account not closed		6,846,110,101	5,620,521,199	5,740,676,634
Other current assets		5,847,224,344	4,225,449,521	1,000,000,000
Total current assets		37,022,861,734	33,425,044,476	31,823,872,402



Shanghai Zhenhua Heavy Industries Co., Ltd.

Non-current assets				
Financial assets available-for-sale		182,372,631	200,210,000	151,862,545
Long-term stock ownership investment	XIV (3)	6,205,231,635	4,829,205,862	4,216,229,183
Real estate as investment		374,881,869	388,992,266	402,411,440
Fixed assets		6,532,874,684	7,076,923,256	7,339,176,130
Projects in process		921,306,519	724,832,092	1,145,271,492
Intangible assets		1,264,092,505	1,301,763,322	1,339,935,316
Deferred corporate tax assets		399,100,325	397,990,464	383,449,931
Total non-current assets		<u>15,879,860,168</u>	<u>14,919,917,262</u>	<u>14,978,336,037</u>
Total assets		<u>52,902,721,902</u>	<u>48,344,961,738</u>	<u>46,802,208,439</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

Dec 31, 2014 company B/S (continued)  
((Unless otherwise specified, the amount units is RMB.) )

Liabilities and stockholders' equity	Note	Dec 31, 2014 company	Dec 31, 2013 company (iterated)	Jan 1, 2013 company (iterated)
Current liabilities				
Short term loans		17,265,833,765	11,944,593,404	9,966,183,748
Financial liabilities measured at fair value with its change accounted in current profit and loss		28,752,000	644,404	-
Notes payable		1,925,331,179	918,223,112	980,906,529
Payables		5,915,107,284	4,914,219,485	4,272,986,149
Pre-received payment		174,334,030	269,282,825	1,211,974,729
Construction not completed account closed		3,288,089,572	4,061,856,201	3,053,896,148
Employee remuneration payable		236,198,026	199,934,578	34,284,485
Tax payables		6,577,373	4,537,731	22,985,239
Interest payable		578,367,210	412,168,548	306,693,557
Dividend payable		352,598	33,323,129	33,323,129
Other payables		1,360,934,528	810,028,050	485,481,837
Non-current liabilities due within one year		<u>1,139,520,000</u>	<u>4,370,297,863</u>	<u>3,234,222,500</u>
Total current liabilities		<u>31,919,397,565</u>	<u>27,939,109,330</u>	<u>23,602,938,050</u>



Shanghai Zhenhua Heavy Industries Co., Ltd.

Non-current liabilities			
Long-term loans	1,773,090,000	1,747,442,000	496,554,500
Bond payables	3,799,615,401	3,797,777,911	7,984,665,674
Predicted liabilities	191,656,260	175,426,592	188,568,114
Deferred profit	233,929,227	146,955,304	41,333,726
Total non-current liabilities	<u>5,998,290,888</u>	<u>5,867,601,807</u>	<u>8,711,122,014</u>
Total liabilities	<u>37,917,688,453</u>	<u>33,806,711,137</u>	<u>32,314,060,064</u>
Shareholders' equity			
Share capital	4,390,294,584	4,390,294,584	4,390,294,584
Contributed surplus	5,789,984,601	5,789,984,601	5,789,984,601
Other comprehensive profits	351,090,634	248,889,422	89,099,161
Surplus reserves	1,554,097,752	1,519,639,588	1,519,639,588
Profit not distributed	2,899,565,878	2,589,442,406	2,699,130,441
Total shareholders' equity	<u>14,985,033,449</u>	<u>14,538,250,601</u>	<u>14,488,148,375</u>
Total liabilities and shareholders' equity	<u>52,902,721,902</u>	<u>48,344,961,738</u>	<u>46,802,208,439</u>

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

Enterprise principal: Song Hailiang Chief financial officer: Wang Jue Financial manager: Sun Guangbo



2014 Financial Statements Note  
(Unless otherwise specified, the amount units is RMB.)

Shanghai Zhenhua Heavy  
Industries Co., Ltd.

Dec 31, 2014 consolidated and  
company profit sheet  
(Unless otherwise specified,  
the amount units is RMB.)

Item	Note	2014 consolidated	2013 consolidated	2014 company	2013 company
1. Operating revenue	IV (40) 、 XIV (4)	25,069,421,487	23,201,555,800	22,795,548,087	21,252,999,320
Less					
: Operating cost	IV (40) 、 XIV (4)	(21,700,680,925)	(21,437,017,127)	(19,845,306,991)	(19,781,670,974)
Business tax and charges	IV (41)	(128,028,777)	(95,296,484)	(10,482,359)	(7,065,816)
Selling expenses	IV (42)	(64,745,357)	(68,647,704)	(61,207,168)	(60,390,117)
General expenses	IV (43)	(1,460,145,132)	(1,352,925,539)	(1,036,025,654)	(1,059,203,931)
Financial expenses - Net	IV (44)	(1,301,686,454)	(627,184,455)	(1,263,434,946)	(650,420,469)
Assets impairment loss	IV (48) 、 IV (20)	(548,441,842)	(785,673,951)	(548,851,542)	(793,738,223)
Add					
: Fair value change loss -Net	IV (46)	(123,542,084)	94,515,608	(109,771,041)	87,557,341
Investment gains	IV (47) 、 XIV (5)	370,922,986	898,036,468	383,101,264	581,854,755
In which: net investment gains/(loss) to affiliated companies and joint ventures		14,737,413	(3,111,958)	26,846,917	(3,111,958)
2. Operating profit/(loss)		113,073,902	(172,637,384)	303,569,650	(430,078,114)
Add					
: Non-operating income	IV (49)	52,418,714	314,889,951	22,347,516	296,870,540
Less					
: Non-operating expense	IV (50)	(2,989,655)	(21,823,472)	(237,801)	(19,078,648)
In which: non-current assets disposal loss		(293,220)	(19,598,889)	-	(17,292,087)
3. Profit/(loss) amount		162,502,961	120,429,095	325,679,365	(152,286,222)
Less					
: Corporate income tax expenses	IV (51)	(14,454,560)	13,647,527	18,902,271	42,598,187
4. Net profit/(loss)		148,048,401	134,076,622	344,581,636	(109,688,035)
Net profit/(loss) attributed to parent company	IV (39)	199,386,986	139,836,320	344,581,636	(109,688,035)



shareholders					
Minority profit and loss	VI (1)	(51,338,585)	(5,759,698)	-	-
5. Net amount of other integrated profit after tax	IV (37)	70,602,113	159,729,451	102,201,212	159,790,261
Net amount of other integrated profit after tax attributed to parent company shareholders					
Other integrated profits after re classification in the profit and loss					
Fair value change profit or loss of financial assets available for sale		72,752,627	159,790,261	102,201,212	159,790,261
Conversion difference of foreign currency statements		(2,140,634)	25,654	-	-
Net amount of other integrated profit after tax attributed to minority shareholders		(9,880)	(86,464)	-	-
6. Total integrated profit		218,650,514	293,806,073	446,782,848	50,102,226
Total integrated profit attributed to parent company shareholders		269,998,979	299,652,235	446,782,848	50,102,226
Total integrated profit attributed to minority shareholders		(51,348,465)	(5,846,162)	-	-
7. Total profit per share					
Basic earning per share	IV (52)	0.05	0.03	—	—
Diluted earnings per share	IV (52)	0.05	0.03	—	—

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

Enterprise principal: Song Hailiang  
manager: Sun Guangbo

Chief financial officer: Wang Jue

Financial

Shanghai Zhenhua Heavy Industries Co., Ltd.

Dec 31, 2014 consolidated and company cash flow



((Unless otherwise specified, the amount units is RMB.))

Item	Note	2014	2013	2014	2013
		consolidated	consolidated	company	company
1. Cash flow from the operating activities					
Cash receipt from products sales and labour provision		18,500,251,727	19,399,598,391	17,831,248,876	18,478,654,094
Tax return received		583,212,505	629,736,552	553,762,828	629,736,552
Cash receipt related with other operational activities	IV (53)(a)	301,169,823	243,552,945	259,416,523	231,479,730
Subtotal of cash receipt from operation activities		<u>19,384,634,055</u>	<u>20,272,887,888</u>	<u>18,644,428,227</u>	<u>19,339,870,376</u>
Cash payment of purchase commodity and receiving labour		(18,081,033,665)	(17,520,919,606)	(16,805,992,872)	(16,938,312,849)
Cash payment to and for the employee		(1,538,471,738)	(1,336,945,044)	(812,328,705)	(812,025,989)
Tax payment		(287,262,053)	(217,867,205)	(42,716,867)	(43,373,625)
Cash payment related with other operational activities	IV (53)(b)	(351,249,651)	(231,672,284)	(266,403,800)	(182,527,728)
Subtotal cash disburse of operating activities		<u>(20,258,017,107)</u>	<u>(19,307,404,139)</u>	<u>(17,927,442,244)</u>	<u>(17,976,240,191)</u>
Net cash flow of operating activities	IV (54)(a)、XIV (6)(a)	<u>(873,383,052)</u>	<u>965,483,749</u>	<u>716,985,983</u>	<u>1,363,630,185</u>
2. Cash flow of investment					
Cash receipt of investment return		5,783,534,659	4,763,990,000	5,783,534,659	4,763,990,000
Net cash receipt of disposal of fixed assets and intangible assets		43,341,800	452,808,255	12,452,238	452,270,384
Net cash receipt of disposal of subsidiaries		672,193,178	159,394,016	403,315,906	100,828,977
Cash receipt of obtaining investment gains		357,668,907	151,205,644	357,737,681	151,188,587
Net cash received by subsidiaries acquisition	IV (54)(c)	57,873,562	-	-	-
Cash receipt related with other investment activities	IV (53)(c)	63,650,660	135,189,201	61,174,796	108,069,251
Subtotal of investment cash receipt		<u>6,978,262,766</u>	<u>5,662,587,116</u>	<u>6,618,215,280</u>	<u>5,576,347,199</u>
Cash payment of purchase and construction of fixed assets, project in process and intangible assets		(654,441,433)	(345,935,942)	(241,274,254)	(61,937,688)
Cash payment of investment		(8,006,612,662)	(8,007,227,235)	(8,489,702,190)	(8,513,411,213)
Subtotal of cash disburse of investment		<u>(8,661,054,095)</u>	<u>(8,353,163,177)</u>	<u>(8,730,976,444)</u>	<u>(8,575,348,901)</u>
Net cash flow of investment		<u>(1,682,791,329)</u>	<u>(2,690,576,061)</u>	<u>(2,112,761,164)</u>	<u>(2,999,001,702)</u>
3. Cash flow of financing activities					
Cash receipt of loans		34,477,992,392	23,726,574,867	29,379,507,992	21,312,148,267
Receipt of other cash related to financing activities	IV (53)(d)	3,792,951,073	6,160,056,453	3,690,587,843	6,157,492,641
Subtotal of cash receipt of financing activities		<u>38,270,943,465</u>	<u>29,886,631,320</u>	<u>33,070,095,835</u>	<u>27,469,640,908</u>
Cash to pay the debts		(30,863,669,778)	(22,876,376,591)	(27,289,929,378)	(20,849,157,341)
Cash payment of dividend distribution or interest		(1,417,237,644)	(967,541,716)	(1,167,219,204)	(868,202,063)





Shanghai Zhenhua Heavy Industries Co., Ltd.

Payment of other cash related to financing activities	IV (53)(e)	(4,715,537,075)	(3,496,449,525)	(4,680,480,148)	(3,496,449,525)
Subtotal of cash disburse of financing activities		(36,996,444,497)	(27,340,367,832)	(33,137,628,730)	(25,213,808,929)
Net cash flow of financing activities		1,274,498,968	2,546,263,488	(67,532,895)	2,255,831,979
4. Influence of exchange rate change to cash		(3,341,587)	(26,307,413)	(941,298)	(21,274,189)
5. Cash net (decrease)/increase	IV (54)(b) 、 XIV (6)(b)	(1,285,017,000)	794,863,763	(1,464,249,374)	599,186,273
Add: starting cash balance		3,152,471,807	2,357,608,044	2,736,478,139	2,137,291,866
6. Closing cash balance	IV (54)(d) 、 XIV (6)(b)	1,867,454,807	3,152,471,807	1,272,228,765	2,736,478,139

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

Enterprise principal: Song Hailiang

Chief financial officer: Wang Jue

Financial manager: Sun Guangbo

Shanghai Zhenhua Heavy Industries Co., Ltd.

Dec 31, 2014 consolidated shareholders' equity sheet ((Unless otherwise specified, the amount units is RMB.))

Item	Note	Shareholders' equity attributed to parent company					Minority equity	Total shareholders' equity
		Capital stock	Contributed surplus	Other integrated profits	Surplus reserves	Undistributed profit		
Jan 1, 2013 starting balance		4,390,294,584	5,543,176,483	89,112,134	1,520,147,861	2,668,221,534	206,300,960	14,417,253,556
2013 movement								
Total integrated profits								
Net profit	IV (39)	-	-	-	-	139,836,320	(5,759,698)	134,076,622
Other integrated profits								
- Fair value change profit or loss of financial assets available for sale	IV (37)	-	-	159,790,261	-	-	-	159,790,261
- Conversion difference of foreign currency statements		-	-	25,654	-	-	(86,464)	(60,810)
Total integrated profits		-	-	159,815,915	-	139,836,320	(5,846,162)	293,806,073
Capital increased and reduced by shareholders								
Capital increased by shareholders	VI (1)	-	-	-	-	-	2,650,276	2,650,276
Dec 31, 2013 closing balance		4,390,294,584	5,543,176,483	248,928,049	1,520,147,861	2,808,057,854	203,105,074	14,713,709,905
Jan 1, 2014 starting balance		4,390,294,584	5,543,176,483	248,928,049	1,520,147,861	2,808,057,854	203,105,074	14,713,709,905



## Shanghai Zhenhua Heavy Industries Co., Ltd.

2014 movement

Total integrated profits								
Net profit	IV (39)	-	-	-	-	199,386,986	(51,338,585)	148,048,401
Other integrated profits								
- Fair value change profit or loss of financial assets available for sale	IV (37)	-	-	72,752,627	-	-	-	72,752,627
- Conversion difference of foreign currency statements		-	-	(2,140,634)	-	-	(9,880)	(2,150,514)
<hr/>								
Total integrated profits		-	-	70,611,993	-	199,386,986	(51,348,465)	218,650,514
Capital increased and reduced by shareholders								
Capital increased by shareholders	VI (1)	-	-	-	-	-	28,845,357	28,845,357
Profit distributed								
Picking surplus reserves	IV (39)	-	-	-	34,458,164	(34,458,164)	-	-
<hr/>								
Dec 31, 2014 closing balance		4,390,294,584	5,543,176,483	319,540,042	1,554,606,025	2,972,986,676	180,601,966	14,961,205,776

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

Enterprise principal: Song Hailiang      Chief financial officer: Wang Jue      Financial manager: Sun Guangbo

Shanghai Zhenhua Heavy Industries Co., Ltd.

Dec 31, 2014 company shareholders' equity change list  
(Unless otherwise specified, the amount units is RMB.)

Item	Note	Capital stock	Contributed surplus	Other integrated profits	Surplus reserves	Undistributed profit	Total shareholders' equity
Jan 1, 2013 starting balance		4,390,294,584	5,789,984,601	89,099,161	1,519,639,588	2,699,130,441	14,488,148,375
2013 movement							
Total integrated profits							
Net loss		-	-	-	-	(109,688,035)	(109,688,035)
Other integrated profits							
- Fair value change profit or loss of financial assets available for sale		-	-	159,790,261	-	-	159,790,261
<hr/>							
Total integrated profits		-	-	159,790,261	-	(109,688,035)	50,102,226
<hr/>							
Dec 31, 2013 closing balance		4,390,294,584	5,789,984,601	248,889,422	1,519,639,588	2,589,442,406	14,538,250,601
<hr/>							
Jan 1, 2014, starting balance		4,390,294,584	5,789,984,601	248,889,422	1,519,639,588	2,589,442,406	14,538,250,601
2014 movement							
Total integrated profits							



## Shanghai Zhenhua Heavy Industries Co., Ltd.

Net profit	-	-	-	-	344,581,636	344,581,636
Other integrated profits						
-Fair value change profit or loss of financial assets available for sale	-	-	102,201,212	-	-	102,201,212
<hr/>						
Total integrated profits	-	-	102,201,212	-	344,581,636	446,782,848
Profit distribution						
Picking surplus reserves	-	-	-	34,458,164	(34,458,164)	-
<hr/>						
Dec 31, 2014 closing balance	4,390,294,584	5,789,984,601	351,090,634	1,554,097,752	2,899,565,878	14,985,033,449

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

Enterprise principal: Song Hailiang

Chief financial officer: Wang Jue

Financial manager: Sun Guangbo



Shanghai Zhenhua Heavy Industries Co., Ltd.

# Shanghai Zhenhua Heavy Industries Co., Ltd.

FINANCIAL STATEMENTS & AUDITORS REPORT 2014



2014 Financial Statements Note  
(Unless otherwise specified, the amount units is RMB.)

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**FINANCIAL STATEMENTS & AUDITORS REPORT 2014**

Auditor's Report

Financial Statements 2014

Consolidated and Company's B/S

Company's B/S

Consolidated and Company's P/L

Consolidated and Company's Cash Flow Statements

Consolidated Shareholder's Equity Movement Statements

Company Shareholder's Equity Movement

Financial Statements Notes

Supplementary Information

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### The Company's basic situation

I

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

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

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

In accordance with ZhenJianFaXingZi (2007) No. 346 by China Securities Regulatory Commission, the Company issued 125,515,000 A-shares to domestic investors on Oct. 15, 2007. The said issuances were listed at Shanghai Stock Exchange respectively on Oct. 23, 2007 and Jan. 23, 2008 for trading.

As approved by CSRC Zheng Jian Xuke (2009) No. 71 document, the Company issued non-publicly 169,794,680 A-shares on Sep. 22, 2008, to its controller China Communications Construction Co., Ltd. ("China Communications Corporation"). From Mar. 20, 2012 on, limitation term expires for above-mentioned A-shares which are listed at Shanghai Stock Exchange for trading (Note V(34)).

As of Dec. 31, 2014, after all issues of shares and bonus shares distribution, capital stock of the Company is increased to 4,390,294,584 shares, par value per share 1 Yuan, totally 4,390,294,584 Yuan.

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

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

The Company and its subsidiaries (jointly called "the Group") are engaged in design, building, installation of heavy port handling system and machinery, heavy ocean equipment, engineering machinery, engineering vessels, large metal structures & components, parts; leasing of self-manufactured cranes; sales of self-produced products; professional contracting of international ocean shipping and steel structure engineering with special vessels for whole-machine transportation.

Refer to Note VI for main subsidiaries in scope of consolidation this year. The company covered in scope of consolidation is Shanghai Zhenhua Heavy Qidong Marine Engineering limited Company (Qidong Marine Company). Refer to Note V (1) and (2) for details.

This financial report is disclosed on Mar. 30, 2015 through approval by the Company's board of directors.

#### II Major accounting policies and accounting estimates

The Group determines concrete accounting policies and accounting estimates

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

based on production and operating characters. It mainly shows in provision for bad debts of accounts receivable (Note II (10)), inventory valuation method (Note II (11)), judgment standard of impairment of available for sale equity instruments impairment (Note II (9)), depreciation of fixed assets and amortization of intangible assets (Note II (15)and (18)), judgment standard of development expenditure capitalized (Note II (18)), measurement of investment real estate (Note II (14)) and Recognition of income (Note II (23)), etc.

Refer to Note II (30) for key assumptions used in important accounting estimates by Group



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

**II Major accounting policies and accounting estimates (continued)**

(1) Basis of preparation for financial statements

(a) Standards and rules for financial statements establishment

The financial statements are prepared on the basis of *Enterprise Accounting Standards – Basic Standards* and 38 concrete accounting standards issued on Feb. 15, 2006, guidelines and explanation of the accounting standards, and other related stipulations (hereafter totally called “Enterprise Accounting Standards”) and CSSRC’s Listed Company with Public Securities Information Disclosure Coding Rules No. 15 – General Rules on Financial Report (Revised in 2010).

(b) Concern basis

As of December 31, 2014, the Group's current liabilities exceed current assets by about 7,000,000,000 Yuan and net cash flow caused in operating is about 870,000,000 Yuan. In the preparation of the financial statements for the year, given the amount of bank credit, financing record the Group has achieved to obtain, good cooperation relationship with banks and financial institutions and the operating performance, the board of directors of the Company consider 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 annual financial statements do not include any adjustment of the Group and the Company which fails to meet the conditions included in continuous operation.

(2) Declaration on abiding by the Enterprise Accounting Standards

The Company follows the requirements of enterprise accounting standards in preparing 2014 financial statements, which authentically and completely reflect the consolidated and the Company’s financial status on Dec. 31 of 2014 and the consolidated and the Company’s operating result and cash flow during 2014.

(3) Accounting period

Calendar year, from January 1 till December 31

(4) Recording currency

RMB is the monetary currency of the Group

**II Major accounting policies and accounting estimates (continued)**

(5) Enterprise merger

(a) Merger of enterprises under the same controller

Merger consideration paid and the net assets acquired by the merger party are valued by book value. 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. Direct expenses related to enterprise merger are booked into current P&L at the time of incurrence. Transaction expenses from issuing equity securities or liability securities for the purpose of enterprise merger are booked into initially recognized amount of equity securities or liability securities.

(b) Merger of enterprises not under the same controller

Merger cost of the merger party and recognizable net assets acquired in the merger are valued by fair value. The difference of the merger cost larger than fair value of the recognizable assets of the purchased on purchase day is confirmed as goodwill. The difference of the merger cost smaller than fair value of the recognizable assets of the purchased on purchase day is booked into current P&L. Direct expenses related to enterprise merger are booked into enterprise merger cost. Transaction expenses from issuing equity securities or liability securities for the purpose of enterprise merger are booked into initially recognized amount of equity securities or liability securities.

(6) Preparation of consolidated statements

The consolidated statements consist of those of the Company and the consolidated subsidiaries.

Subsidiary is consolidated from the date on which effective control over the subsidiary is exercised by the Company; subsidiary is no longer consolidated from the date when that control ceases. All material intercompany transactions, balance and unrealized profit on transactions between group companies are compensated. In the consolidated statements, minority interests not owned by the Company are listed under shareholder's equity as individual entry.

When there exists discrepancy between accounting policies adopted by subsidiaries and the Company, statements of subsidiaries are adjusted according to the Company's policies upon consolidation. When subsidiary acquired through merger of enterprise not under the same controller, its financial statements are adjusted on the basis of fair value of the recognizable net assets as of purchase day.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(6) Preparation of consolidated statements (continued)

All significant accounts' balance, transaction and unrealized profit within the Group are deviated in preparation of the consolidated statements. Owners' equity of subsidiaries and that part of the current net profit and loss not attributable to the Company is shown under shareholders' equity and net profit in consolidated financial and current net profit and loss statements as minority interest and minority gains and losses. As for the unrealized profit and loss of internal transaction that the subsidiaries sell assets to the Company, it is distributed and deviated in the net profit attributed to the shareholders of the Company and the profit and loss of minority shareholders according to the proportion attributed to the subsidiaries. As for the unrealized profit and loss of internal transaction that the subsidiaries sell assets to each other, it is distributed and deviated in the net profit attributed to the shareholders of the parent Company and the profit and loss of minority shareholders according to the proportion of the subsidiaries.

The transaction shall be adjusted from the point of the Group if the Group or Company or subsidiaries has different reorganization for the same transaction as the accounting main body.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits readily available for the payment of and investment holdings of short-term, highly liquid and readily convertible to known amounts of cash, with an insignificant risk of changes in value.

(8) Foreign currency translation

(a) Foreign currency translation

Transactions denominated in foreign currencies are translated into RMB by the sight rate on the transaction day.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rates at sight. Exchange differences from special borrowing of foreign currency for the purpose of purchasing or manufacturing assets meeting qualifications for loan expenses capitalization are capitalized during the period of capitalization; other exchange differences are directly booked into current P&L. Non-currency items of foreign currency calculated on historical cost basis are translated at the rate at sight on the date of transaction. Amount of impact of exchange rate fluctuation on cash amount is separated in the cash flow statements.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

(b) Foreign currency financial statements transaction

For Assets/liabilities items in the Assets/liabilities statements for business operating abroad, exchange rate at sight on the Assets/liabilities statements date is used for transaction. In the shareholders ' equity, except retained earnings items, other items are translated using the spot exchange rate at the time of incurrence. Overseas operating revenues and expenses items in the income statements are translated using spot exchange rate on the day of incurrence. Difference of foreign currency statement transaction mentioned above is shown as a separate item in the shareholders ' equity. Overseas operation cash flow items are translated by the spot exchange rate on the day of cash flows incurrence. Effect of exchange rate changes on cash amount is shown separately in the cash flow statements.

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### II Major accounting policies and accounting estimates (continued)

##### (9) Financial instruments

###### (a) Financial assets

###### (i) Classification on financial instruments

The Group's financial assets are classified at the beginning of recognition into: Financial assets calculated by fair value whose movement booked into current income statement, Receivables, Available-for-sale financial assets and the held to maturity investment. Classification of financial assets is determined by the intention and capability of the group in holding the financial assets. The Group do not hold maturity investment.

Financial assets calculated by fair value, changes of which booked into current income statement

Financial assets calculated by fair value, whose movement booked into current income statement, refer to the financial assets originated from derivative financial instruments, which are shown in B/S as marketable financial assets.

###### Receivables

Receivables are non-derivative financial assets which have no quotation on active market, whose collectable amount is fixed or can be determined.

###### Available-for-sale financial assets

Available-for-sale financial assets are marketable non-derivative financial assets fixed at the beginning of recognition and financial assets not classified into Others. Available-for-sale financial assets to be sold within 12 months from B/S day are booked in B/S as Other current assets.

###### (ii) Recognition and Measurement

Financial assets at the time when the Group becomes a party to the contract of financial instruments are recognized in the balance sheet at fair value. Of the financial assets whose amount initially recognized fair value and changes into current profit or loss statement, related transaction costs incurred at acquisition are included directly in current profit or loss; other financial assets transaction costs are included in the initially recognized amount.

Financial assets measured at fair value and whose changes booked into current profit or loss and financial assets available-for-sale are subsequently measured at fair value, but equity instrument investments which are not quoted in an active market and whose fair value cannot be reliably measured are measured at cost; receivables are measured by cost after amortization, using the effective interest rate method.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and account estimates (continued)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Recognition and Measurement (continued)

Changes in fair value of financial assets measured by fair value and whose changes include in the current profit or loss are included in current profit or loss as gains/losses of fair value change; interest or cash dividends in the asset holding period, as well as disposal gains and losses at disposal are included in the current profit and loss.

In addition to impairment losses and the exchange gains and losses from foreign currency monetary financial assets, fair value changes of financial assets available for sale are recognized directly in shareholders' equity, and upon de-recognition of the said financial assets, the cumulative amount of changes in the fair value formerly recorded in shareholder's equity is reversed into current P&L. Cash dividends which the investment units have declared issuing related to equity instruments available for sale investment are included in current profit or loss as investment income.

(iii) Financial assets impairment

Apart from financial assets measured by fair value and whose changes included in current profit or loss, the Group conducts, on balance sheet date, check up over the carrying value of the financial assets. If there is objective evidence that particular financial assets are impaired, provision for impairment is made.

Objective evidence that a financial asset is impaired, refers to matters that after initial recognition of the financial asset the actual financial assets incurred, the estimated future cash flows affected, and the Group can reliably measure the effect.

Objective evidence proving impairment of available-for-sale equity instruments investments includes serious or non-temporary decline in fair value with equity instruments investments. This Group checks separately various available-for-sale equity instrument investments as of B/S day. In case the fair value of equity instrument investment on the B/S day is more than 50% (including 50%) of the initial investment cost or during of fair value being lower than its initial investment exceeds more than one year (including one year), it indicates that impairment incurs; In case the fair value of equity instrument investment on the B/S day is more than 20% (inclusive) but not yet to 50% of the initial investment cost, the group will take into account other relevant factors such as price volatility, to determine whether the investment in equity instrument are impaired. The Group values the initial investment cost of tradable equity tools on weighted average basis.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

When financial assets carried at amortized cost are impaired, provision for impairment is made according to the difference of the present value of the estimated future cash flows (not including the future credit losses that have not yet occurred) lower than the book value. If there is objective evidence that the financial assets value has been restored, and it is objectively related with the events incurred after the confirmation of the loss, the previously recognized impairment loss is reversed into current profit or loss.

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### II Major accounting policies and accounting estimates (continued)

##### (9) Financial instruments (continued)

##### (a) Financial assets (continued)

##### (iii) Financial assets impairment (continued)

When impairment of available for sale financial assets measured by fair value incurs, the cumulative loss originally included directly in shareholders' equity due to decline in the fair value is transferred out and included in the impairment loss. For available-for-sale debt investments whose impairment loss has been confirmed, when in future period fair value increases and is objectively related to the events following the impairment loss confirmation, the impairment loss previously recognized shall be reversed and accounted for in current P&L. For impairment loss of available-for-sale equity instruments investments confirmed, increased fair value in future period is directly carried forward to shareholders' equity.

When the financial assets available for sales accounted as cost decrease in value, the difference between the book value and the actual value confirmed by the cash flow realization in future according to the current market profit rate of similar financial assets is regarded as value decrease loss, accounted in the current profit and loss. The occurred value decrease loss is not returned in the next period.

##### (iv) Termination of recognition of financial assets

When financial assets meet one of the following conditions, recognition is terminated: (1) contractual right to receive the financial assets cash flow terminates; (2) the said financial assets have been transferred and the Group has transferred almost all of the risks and rewards concerning the financial assets ownership to the transferee; or (3) the financial assets have been transferred, although the Group has neither transferred nor retained almost all of the risks and rewards concerning the financial assets ownership, has given up the control over the Financial assets.

When the Financial assets are derecognized, the difference between the book value and the sum of the equity price received and the cumulative amount of fair value change originally booked in equity is booked in current profit or loss.

##### (b) Financial liabilities

Financial liabilities are classified at the initial recognition into financial liabilities measured by fair value and booked into current P&L, and other financial liabilities. Financial liabilities of the group mainly include financial liabilities calculated by fair value, whose movement booked into current income statement and other financial liabilities.



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Financial Liabilities calculated by fair value, whose movement booked into current income statement

Financial liabilities calculated by fair value, whose movement booked into current income statement, refer to the financial Liabilities originated from derivative financial instruments. Financial Liabilities calculated by fair value, whose movement booked into current income statement, valued by fair value initially, followed up by valuing post-amortization cost on the basis of actual interest rate.

Other Financial Liabilities

Other Financial Liabilities include: payables, loans and bonds payable. Payables include accounts payable, other payables, valued by fair value initially, followed up by valuing post-amortization cost on the basis of actual interest rate.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(9) Financial instruments (continued)

(b) Financial Liabilities (continued)

Loans and bonds payable are initially valued by the amount of fair value after deducting transaction expenses, and followed up by valuing post-amortization cost on the basis of actual interest rate.

Other financial liabilities due less than one year (inclusive) are listed as current liabilities; those due within more than one year but due within one year from the balance sheet date (inclusive) are listed as non-current liabilities due within one year; the rest are listed as non-current liabilities.

When present obligation of financial liabilities is entirely or partially dismantled, the related financial liabilities or those whose obligation has been dismantled are terminated as recognition. The difference between the book value of the terminated and the consideration paid is booked into current P&L.

(c) Confirmation of the fair value of financial instruments

Financial instruments with active market decide their fair value by the quotation on the active market, while financial instruments without active market decide its fair value by evaluation technology. When estimating the value, the Group adopt the applicable value estimation technology with enough data and supported by other information, select the input value in accordance with the assets or debt feature considered in the related assets or debt transaction of the participants in the market. The related observable input value shall take the priority. If it is not possible and practical to obtain the related observable input value, use the input value not observable.

(10) Receivables

Receivables refer to accounts receivable and other receivables. The Group confirms the initial amount of accounts receivable from exported goods or provided labor by the fair value of contracted agreed upon price receivable from purchaser or labor acceptor.

(a) Accounts receivable

The Group has changed the accounting estimation of receivable bad debt provision (Note II (29)) since Jan 1, 2014. The following method is adopted for the bad debt provision after changing.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimate (continued)

(10) Accounts receivable (continued)

(a) Accounts receivable (continued)

(i) Accounts receivable with big single amount and individual bad debt provision is made

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

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

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

(ii) Accounts receivable whose bad debt provision is totally made in group

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

Credit risk groups are determined by the following criteria:

Group 1	Accounts receivable from related party
Group 2	Accounts receivable from third party

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

Group 1	Bad debt provision shall not be made of accounts receivable from related party except proof shows the Group is not able to collect them.
Group 2	Debt age analysis method (considering future collection)

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

Term overdue	% of provision
1—6 months	-
7—12 months	1%
1—2 years	15%
2—3 years	30%

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

3—4 years	50%
4—5 years	75%
5 years above	100%

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(10) Accounts receivable (continued)

(a) Accounts receivable (continued)

(iii) Accounts receivable not of big single amount but individually provided for bad debt:

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

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

(b) Other receivables

The Group has changed the accounting estimation of receivable bad debt provision (Note II (29)) since Jan 1, 2014. The following method is adopted for the bad debt provision after changing.

(i) Other receivables of big single amount and individually provided for bad debt:

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

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

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

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(10) Accounts receivable (continued)

(b) Other accounts receivable (continued)

(ii) Other accounts receivable whose bad debt provision is totally made in group

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

Credit risk groups are determined by the following criteria:

Group 1	Guarantee deposit (not include quality guarantee deposit)
Group 2	Employee's loan and reserve fund
Group 3	Other accounts receivable in other nature

The provision method of bad debt provision by credit risk portfolio

Group 1	Except for that the objective evidence proves that the Group can't retake the payment according to the original articles of other receivables, the Group shall not make bad debt provision for the cash deposit (excluding quality cash deposit)
Group 2	Bad debt provision shall not be made of accounts receivable from employee's loan and reserve fund except proof shows the Group is not able to collect them.
Group 3	Debt age analysis method

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

Term overdue	% of provision
1—6 months	-
7—12 months	1%
1—2 years	15%
2—3 years	30%
3—4 years	50%
4—5 years	75%
5 years above	100%

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(10) Accounts receivable (continued)

(b) Other accounts receivable (continued)

(iii) Bad debt provision of other receivables not of big single amount but individually provided for bad debt

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

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

(c) Bad debt loss confirmation standard

To the proven non-collectable receivables such as when debtors are dissolved or bankrupted or insufficient assets to cover debts or insufficient cash flow, bad debt loss is confirmed and will offset accrued corresponding bad debt provision.

(d) Transfer of receivables

In case of account receivable the Group transfers to financial institutions with no retrospective rights retained, the difference between the transaction amount and the moved receivables' book value and related taxes is taken into current period income statement.

(11) Stock

(a) Classification

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

(b) Valuation method of issuing stock

Cost of goods in stock and semi-products includes raw material cost, direct labour cost and manufacturing cost calculated in systematic way under normal productivity.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

- (c) Basis on deciding cashable present value of stock and accrual of inventory depreciation reserve:

When stock cost higher than net realizable value, the part less than the net realizable value is provided as impairment provision. Stock impairment provision is made based on individual items when cost higher than net realizable value. The net realizable value of items in normal manufacturing process is calculated on the amount of estimated selling price deducting future cost, selling expenses and taxes till the completeness of the manufacture.

- (d) The Group's stock inventory system adopts a perpetual inventory system.



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates

(11) Stock (continued)

(e) Amortization of perishables and packing materials

Turn-over materials include perishables and packing materials etc. Perishables are amortized by turns while packing is amortized at one time.

(12) Building contracts

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

(a) If the selling result of individual building contract can be reliably estimated, the revenue and expenses can be recognized in proportion of completeness on the day of balance sheet.

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

Stage 1: body steel structure completed and erected;

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

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

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

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

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

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

- (b) When individual building contract result is not able to be reliably estimated, the following methods are used:
  - (i) When contract cost can be covered, contract revenue is recognized according to real contract cost that can be covered, contract cost is recognized as expenses in the period when cost incur.
  - (ii) When contract cost cannot be covered, it can be recognized as expenses immediately when it incurs; no contract revenue is confirmed.
- (c) When expected total contract cost exceeds total revenue, the expected losses should be immediately recognized as expenses in current period.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(12) Construction contract (continued)

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

(13) Long term equity investment

Long term equity investment including: Long term equity investment into the Company's subsidiaries; Long term equity investment into the joint undertaking; Long term equity investment for which the Group exercises no control or co-control over the investee company

Subsidiary is the investee company over which the Company exercises control; a joint undertaking is an investee over which the Company exercises control together with other parties. Investment to subsidiaries is recorded in the amount confirmed by cost method in the Company's individual financial statements, and consolidated after adjustment in equity method while compiling consolidated statements.

A joint undertaking is accounted on equity basis; while other long term equity investments are accounted on cost basis.

(a) Confirmation of investment cost

As of long-term equity investments from enterprise merger: long-term equity investment obtained from the merger of enterprises under the same controller, investment costs are recognized by the share of the owner's equity book value as of the merger date; long-term equity investment obtained from the merger of enterprises not under the same controller, investment costs are recognized by the costs of merger.

As of long-term equity investments from other ways rather than enterprise merger: initial investment costs of long-term equity investment obtained from paying cash are recognized by the actual purchase price; as of long-term equity investments from issuing equity securities, their initial costs are recognized by the fair value of the issued equity securities.

(b) Follow-up valuation and gains/losses recognition method

Long term share investment accounted in cost method is valued by original cost.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Cash dividend or profit announced by the investee is confirmed into current period's investment income.

As of long-term equity investment based on equity, when the initial investment cost is larger than the share of the fair value of recognizable net assets enjoyed of the investee at the time of the investment, long-term equity investment cost is recognized by the initial investment cost; when initial investment cost is smaller than the share of the fair value of recognizable net assets enjoyed of the investee at the time of the investment, the difference is included in current P&L, and long-term equity investment cost is adjusted to increase accordingly.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(13) Long term equity investment (continued)

(b) Follow-up valuation and gains/losses recognition method (continued)

In equity method, gains/losses of investment are recognized by the amount of investee's current period net profit or net loss share enjoyable or bearable by the Group. The confirmed investee's net loss is limited to zero in the book value of the long term share investment. Whereas when the Group bears extra liability for loss and when the extra liability meets requirements for stipulated probable events, investment loss and expected liability is further confirmed. For the movement of investee's equity other than net gains/losses, when proportion of hold remains unchanged, the Group calculates the part it enjoys or bears in accordance with its proportion of share holding and directly book it into capital reserve. The announced investee's distributed profit or cash dividends shall correspondingly deduct the book value of long term equity investment of the Group at the time of the announcement. However when cash dividends exceed already confirmed investment gains but do not exceed that part of the investee's book value profit realized after the investment is made which is enjoyed by the Group in proportion of holding, it is confirmed as current period investment income. Gains/losses from internal transactions between the Group and the investee enjoyed by the group according to proportion of share-holding are confirmed as investment gains/losses after setoff is made. When loss from internal transactions between the Group and the investee belongs to asset impairment loss, the loss is fully confirmed, unrealized gains/losses from which will not be set off.

(c) Basis for determining the control or co-control over investee

Control means having the power to decide on investee, and thus obtaining the variable gains from its operation, with the ability to utilize the power of the investee to influence the gains amount..

Co-control means enjoying control over certain arrangement according to contract,. Such arranged activities must be decided upon agreement of the Group and the other participants that share the control rights.

Significant effect means that the company possesses the right of decision-making participation in the financial and operating policies of the investee but is not able to control or co-control with other party the making of such policies.

(d) Long term equity investment impairment

As of long term equity investment in subsidiary or joint undertaking, when collectable amount is lower than the book value, the book value is decreased to the collectable amount (Note II (19)).

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(14) Real estate as investment

Real estate as investment, including leased-out land use right and land and buildings for rental purposes as well as buildings in the process of being constructed or developed for rental in the future, initial measurement is made by cost. Subsequent expenditure relating to investment real estate, when related economic benefits are likely to flow into the Group and its cost can be measured reliably, is accounted into the cost of investment real estate; Otherwise, it is included in the current profits and losses statements.

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

	Estimated useful life	Estimated residual value rate	Annual depreciation (amortization) rate
Building	30 years	0%	3.3%
Land use right	Land use years	0%	Decided by estimated net residual value and land use years

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

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

When the investment real estate is disposed of, or permanently terminates its use and no economic benefits are expected from its disposal, terminate the confirming of the investment real estate. Disposal income of investment property for sale, transfer, disposal of scrap or being destroyed is charged to current P&L after deducting its book value and related taxes.

When the recoverable amount of the investment real estate is below its book value, book value is written down to its recoverable amount (Note II (19)).

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### II Major accounting policies and accounting estimates (continued)

##### (15) Fixed assets

###### (a) Validation of fixed assets and initial valuation

Fixed assets include buildings and constructions, manufacturing equipment, transportation facilities, other equipment and office equipment.

Fixed assets are confirmed when financial benefits related will probably flow into the Group and their costs can be reliably valued. Fixed assets purchased or newly constructed are initially valued by cost at acquisition. Fixed assets invested by the state shareholders during the Company's reconstruction in the form of corporation are booked by the value appraised by the state-asset managerial authorities

Follow-up expenses related to fixed assets, when related economic benefits will most probably flow in the Group and related cost can be reliably valued, are accounted into fixed assets cost; for the replaced part, related book value ceases confirmation; all other follow-up expenses are booked into current income statement at the time of incurrence

###### (b) Fixed assets depreciation method

Depreciation of fixed assets is made in average year method and is accrued by deducting expected net residual value from purchase value within the expected years for use. When impairment provision has been made to fixed assets, the depreciation ratio and amount will be decided on the net book value after impairment and the remaining years for use.

Since Jan 1, 2014, the Group segmented the category of the fixed assets. The accounting estimation of partial assets expected years for use and net residual value is changed (Note II (29)). Fixed assets expected years for use, net residual value ratio and annual depreciation ratio after changing are listed as below:

	Expected years for use	Expected residual value	net value	Annual depreciation ratio
House and building costs	20-40 years		0%	2.5%-5%
Manufacturing equipment	3-20 years	Based on international market price of wasted vessel steel		Calculated in average years after purchase value less net residual value
Office equipment			0%	20%-33.3%
Transportation means	3-5 years		0%	20%

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

(other than vessels)

5 years

Vessels

5%/10%

3.6%-9.5%

10-25 years

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



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(15) Fixed assets (continued)

(c) When collectable amount of fixed assets is lower than its book value, the book value is deducted to the collectable amount (see Note II (19)).

(d) Disposal of fixed assets

Fixed assets terminate recognition when they are disposed of, or expected to generate no economic benefits. Difference between disposal income from fixed assets sales, transfer, waste or damage and the book value and taxes is taken into current period P&L.

(16) Construction in progress

Construction in progress is booked as project costs in real expenditure. Project costs consist of building expenses, other necessary expenses which make the construction in progress reach expected status of use, and loan expenses occurred before it reaches the condition for use which meets qualification of capitalization. When the project under construction reaches the expected condition for use, it is transferred into fixed assets items and depreciation will be made from the following month.

When collectable amount of construction in progress is lower than its book value, the book valued is deducted to the collectable amount (see Note II (19)).

(17) Loan expenses

Loan expenses incurred from fixed assets which take rather long period of time to purchase or manufacture in order to reach their expected state of use or sale are capitalized and booked into the costs of the said assets at the time when asset expenditure and loan expenses incur and when purchasing or building activities start as a necessity to make that asset reach expected usable condition. When the fixed assets that are purchased or built reached expected usable condition, capitalization stops and loan expenses that follow are taken into current profit/loss statement. In case purchasing activities of assets ceases accidentally and term of cease exceeds 3 months on end, capitalization of loan expenses stops until purchasing activities resume

Amount of expenses of special loans to be capitalized which are borrowed to purchase fixed assets applicable to be capitalized is determined by the actual interest expenses in current period minus interest income of those part not yet used or by the invest income from temporary investment.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Amount of expenses of general loans to be capitalized which are borrowed to purchase fixed assets applicable to be capitalized is determined by the weighted average amount of expenses of accumulated asset expenses exceeding that of special loans to multiply the weighted average actual interest rate of the general expenses. Actual interest rate means that used to recognize initial amount of the loans translated by discounted future cash flow in the expected loan existence term or short applicable term.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(18) Intangible assets

Intangible assets consist of land use rights, software using cost and proprietary technology, booked as cost. The evaluation value confirmed by the state-owned administration department acts as the book value for the intangible assets invested by the state-owned shareholders at the re-structuring of the Company. 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 are amortized in straight line method in the following expected years for use.

(a) Intangible asset amortization years

	Expected years for use
Land use rights	Years of land use
Software using cost	5 years
Patented technologies	10 years

(b) Regular double-check of life in use and amortization method

Double check is made by end of each year to expected life in use and amortization method of intangible assets with limited use of life and adjustment is thus made.

(c) R&D

Expenses of internal R&D projects are classified into that in research stage and that in development stage, according to their nature and whether there exists much uncertainty in the ultimate intangible assets resulted from the R&D.

Expenses in research stage are put into current P&L at occurrence; 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;
- It's able to prove how the intangible assets yield financial benefits;
- Enough technology and financial resources and other resources support

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

and will enable the completion of the development of the intangible assets and make them to be used to sold;

- Expenses belonging to the intangible assets can be reliably measured.

Expenses of development stage not satisfying the conditions are put into current P&L. Development expenses booked into P&L of prior years will not be re-recognized as assets. Expenses of development stage already capitalized are shown as development expenses on B/S, to be transferred into intangible assets from the day when the project reaches its planned goal.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(18) Intangible assets (continued)

(d) Intangible assets impairment

When collectable amount of intangible assets is lower than its book value, the book value is deducted to the collectable amount (Note II (19)).

(19) Long-term asset impairment

When signs of impairment exist on B/S day with long term equity investment in subsidiaries and associates, fixed assets, construction in progress and intangible assets, simulating test is made to the impairment. Impairment test is made at least once each year for the intangible assets not reaching the usable state no matter whether there is sign of impairment. When test result shows collectible amount is lower than its book value, provision is made on basis of the difference and booked into impairment loss. The collectible amount is the higher between net amount of asset's fair value deducting disposal expenses and the present value of expected future cash flow. Asset impairment provision is calculated and confirmed by individual piece of asset. In case collectible amount of individual asset is difficult to value, collectible amount of asset group to which said individual asset belongs is confirmed. Asset group refers to the minimum asset portfolio which independently generates cash in-flow.

Goodwill individually reported in the financial statements, no matter whether there exists sign of impairment, test of impairment is conducted at least once a year. In the test, the book value of the goodwill is amortized into the asset group or asset portfolio beneficiary from the concord effect at enterprise consolidation day. The lower part of the collectable amount of the asset group or portfolio in which goodwill is enclosed over the book value, as shown by the test result, is confirmed as impairment loss. The 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 even though the asset value is resumed in later period.

(20) Employee remuneration

The employee remuneration is the salary and compensation in various forms provided by the Group to the employee for the service provided or rescission of the labor relationship, including short-term remuneration and benefit after

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)  
demission.

(a) Short-term remuneration

Employee's remuneration consists of salary, bonus, allowance and subsidy, benefits, medical insurance, work-related injury insurance, maternity insurance and housing fund, trade union fund and education fund. The Group takes the actual short-term remuneration as debt during the accounting period when the employees provide service. It will be booked in the current profit and loss or related assets cost, in which the non-currency benefit is accounted according to the fair value.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(20) Employee remuneration (continued)

(b) Benefit after retirement

The Group classifies the benefit after retirement as set drawing plan and set profit plan. The set drawing plan is the profit plan that the Group deposits the fixed money to independent foundation and doesn't have the further payment obligation. The set profit plan is the profit plan after retirement rather than the set drawing plan. Within the report period, the Group's profit plan after retirement is the basic endowment insurance, supplementary endowment insurance and unemployment paid for the employee, belonging to the set deposit plan.

Basic pension insurance

The employees of the Group participated in the social basic endowment insurance implemented by the local labour and social security departments. The Group pays the endowment insurance to the local social basic endowment insurance organization on a monthly basis according to the base and proportion specified by the local social basic endowment insurance organization. After the employee retires, the local labour and social security departments are responsible to pay the basic pension to the retired employees. During the accounting period when the employees provide service, the Group regards the payable amount based on the social insurance as debt. It shall be booked in the current profit and loss or related assets cost.

Supplementary endowment insurance

The Group establishes the enterprise annuity plan based on the related policies of national annuity system. The Group provides annuity according to the proportion of the total salary. The payment is booked as current profit and loss.

(c) Demission profit

When the Group proposes rescission of the labor relationship with the employee before the labor contract expires, or proposes compensation proposal to encourage employees to voluntarily accept labor cuts, and the Group is unable to unilaterally withdraw the plan on the cancellation of labor relationship or the layoff proposal, confirmation is made as of liabilities arising compensation estimated from the cancellation of the labor relationship with the employee, which is included in the current cost.

(21) Profit and dividends distribution

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Cash dividends approved by general annual meeting are confirmed as liabilities within the period of the approval.



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(22) Expected liabilities

When fulfillment of present obligation generated from product quality warranty and loss contract may possibly cause outflow of financial interest, expected liabilities are confirmed when the obligation amount can be reliably valued.

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. In case currency's time value is significant, best estimate is made by discounted cash flow-out in the future related. Addition to the book value of expected liabilities generated from recovery of discount with passing of time is confirmed as interest expense.

The book value of expected liabilities is double-checked and thus adjusted as of B/S day to reflect present best estimates.

(23) Revenue recognition

Revenue is confirmed by the fair value of the contracted or agreed upon price related to commodity sales and service providing in routine operating activities of the Group. Revenue is recorded by the net value after deducting selling discount and return of sales.

Revenue is confirmed when related benefits can flow into the Group, sales can be reliably calculated and when revenue meets the special sales income recognition standards of the following operating activities:

- (a) Revenue from sales of large port equipment and ocean heavy equipment is recognized by the proportion of completeness. (See Note II (12))
- (b) Income from ship transportation is recognized at the completion of the voyage.
- (c) Income is recognized at the time of delivery for the sale of spare goods or parts.
- (d) Interest income is recognized by deposit term and real interest rate.
- (e) Operating leasing income is recognized in leasing period by straight line method.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

- (f) Activities under the construction and transfer of contracts usually include construction and transfer. As for constructing Item the Group responsible for, in the construction phase, in accordance with the construction contract standards, when the results can be estimated reliably, the construction contract revenue should be valued by the fair value of consideration chargeable, at the same time to confirm the "Long term receivables", to be written off when payment received from the owners.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(24) Government subsidy

Government subsidy refers to monetary assets or non-monetary assets obtained from the government free of charge, including tax return and financial subsidies etc.

Government subsidy is recognized at receipt when satisfy the Group's conditions. Monetary assets are booked by amount received or receivable. Non-monetary assets are booked by fair value; when fair value is not reliable, amount in name is used.

Government subsidy related to assets refers to the government subsidy obtained by the enterprise to use for the construction or make long-term assets in other forms. The government subsidy related to the gains refers to the subsidy rather than the government subsidy related to assets.

Government subsidy related with income when used to compensate related expenses or losses in future periods is recognized as deferred income and is booked into current P&L in the period when related expenses are recognized. That used to compensate paid expenses or losses is booked directly into current P&L.

(25) Deferred corporate tax assets and liabilities

The Company confirms deferred income tax assets and deferred income tax liabilities by the difference between the taxable base and the book value (provisional difference). Compensable loss which can compensate future periods' taxable amount by taxable laws and regulations is confirmed as deferred income taxable asset. In regard to provisional differences generated from initial confirmation of assets or liabilities as a result of non-enterprise consolidation transaction which neither influences accounting profit nor affects taxable amount (or compensable loss), corresponding deferred income tax assets and deferred income tax liabilities are not confirmed. On B/S day, deferred income tax assets and deferred income tax liabilities are calculated by tax rate applicable to the period of term the assets or liabilities are expected to be collected back.

The confirmation of deferred income tax assets is limited to the taxable amount to compensate compensable provisional difference, compensable loss and setoff of tax payment.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Deferred income tax liabilities generated from investment-related provisional difference of subsidiaries, associates and joint ventures are confirmed as liabilities, except for when the Group is able to control the return time of provisional difference and when the provisional difference will not be returned in foreseen future. 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 provisional difference can be transferred back in the foreseeable future and when possible taxable income which is used to compensate the provisional difference can be possibly obtained in future.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(25) Deferred corporate tax assets and liabilities (continued)

Deferred income tax assets and deferred income tax liabilities simultaneously meeting the following conditions are listed in the offset net amount:

- Deferred income tax assets and deferred income tax liabilities are related to the income tax collected to the same tax paying body in the group by the same taxation collector.
- The tax paying body of the Group owns the legal rights to calculated current period's income tax assets and current income tax liabilities.

(26) Leases

When all risks and rewards related to assets ownership are actually transferred, the lease is recognized as financing leasing; other leases are operating ones. Operating lease expenses are recognized as current expenses on straight line basis within lease period.

(27) Segment information

Operating segment is determined by the Group's internal organizational structure, management requirements, internal reporting system; and based on the operating segment, the reporting segment is determined and the disclosure of information of the segment is made.

An operating segment is an integral part of the Group which at the same time meets the following conditions: (1) an integral part in daily activities to generate revenue, and costs incur; (2) the management of the Group is able to regularly evaluate the components of the operating results in order to decide to allocate resources, evaluate their performance; (3) the Group is able to obtain accounting information about the financial condition, results of operations and cash flows of the segment. Two or more operating segments have similar economic characteristics and meet certain conditions, they can be a disclosed for information as one operating segment.

The Group determines the Group's business as one operating segment to analyze and evaluate in accordance with the internal organizational structure, regulatory requirements and internal reporting system.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(28) Important accounting policies change

Ministry of Finance issued *Accounting Standard for Business Enterprise No. 39 –Fair Value Measurement*, *Accounting Standard for Business Enterprise No. 40 –Joint Venture Arrangement*, *Accounting Standard for Business Enterprise No. 41-Disclosure of Interests in Other Entities* and revised *Accounting Standard for Business Enterprise No. 2 Long –term Equity Investments*, *Accounting Standard for Business Enterprise No. 9-Employee compensation*, *Accounting Standard for Business Enterprise No. 30-Presentation of Financial Statements*, *Accounting Standard for Business Enterprise No. 33-Consolidated Financial Statements*, *Accounting Standard for Business Enterprise No.37-Presentation of Financial Instruments and Accounting Standard for Business Enterprise-Basic Standard*. Among, revised *Accounting Standard for Business Enterprise No.37-Presentation of Financial Instruments* is carried out since financial statements 2014, revised *Accounting Standard for Business Enterprise-Basic Standard* is carried out since published day and other standards are carried out since July 1, 2014.

The standards above are adopted to prepare 2014 financial statements, which impacts the Group financial statements by the following:

Contents and reasons of accounting policies change	Approval procedures	Impacted statements items name and amount
Several financial statement items are listed according to standards above. In comparison period, financial information has been adjusted and list assets liabilities statements on Jan, 1, 2013 according to application guide <i>Accounting Standard for Business Enterprise No.30-Presentation of financial statements</i> .	It is approved in the 32 <sup>nd</sup> Meeting of the Fifth Session of the Board, on Oct. 30, 2014	See the table below
Several disclosure information related to fair value has been prepared according to <i>Accounting Standard of Business Enterprise No.39-Fair Value Measurement</i> and related	It is approved in the 32 <sup>nd</sup> Meeting of the Fifth Session of the Board, on Oct. 30, 2014	No

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

information in comparison financial statements do not adjusted based on this standard.

Several disclosure information related to other body right in Group has been prepared according to *Accounting Standard of Business Enterprise No.41-Disclosure of Interests in Other Entities*. Except the disclosure of structure entities not included in consolidated financial statements, comparison financial statements have been adjusted.

It is approved in the 32<sup>nd</sup> Meeting of the Fifth Session of the Board, on Oct. 30, 2014

No

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(28) Important accounting policies change (continued)

Statement items and amount impacted by the first accounting policies change above:

Item	Dec. 31, 2013	Jan, 1, 2013
	Addition/(deduction)	Addition/(deduction)
Trading financial assets	(121,169,489)	(26,009,477)
Financial assets measured at fair value and its movement listed in current profit /loss	121,169,489	26,009,477
Other current assets	110,357,163	82,348,033
Taxes and charges payable	110,357,163	82,348,033
Long-term equity investment	(27,640,000)	(27,640,000)
Financial assets available	27,640,000	27,640,000
Trading financial liabilities	(644,404)	-
Financial liabilities measured at fair value and its movement listed in current profit /loss	644,404	-
Other payables	(155,255,304)	(41,333,726)
Other non-current flow liabilities	(42,916,667)	(43,916,667)
Deferred income	198,171,971	85,250,393
Capital reserve	(248,889,422)	(89,099,161)
Other integrative profit	248,928,049	89,112,134
Difference of transaction of foreign currency statements	(38,627)	(12,973)

Accounting policies change above do not impact the net profit and net assets in prior years.



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(29) Important accounting estimate change

With great development of Group business, in order to segment and improve the Company's management to payables and fixed assets to response Company's financial situation, operating achievements and provide more reliable and correct accounting information, the Group changes accounting estimates of payable bad debt preparation, partial fixed assets classification, expected service life and expected net residual rate from Jan, 1, 2014 based on practical experiences on payable and fixed assets management in prior years before.

The impact of accounting estimates change to Group 2014 financial statements are shown as follows:

Accounting estimates change	Approval procedure	Impacted statements items	Impacted amount to Dec. 31, 2014 and 2014
Great judgment standard to big single amount, provided for bad debt separately is changed; credit risk of total bad debt provision accrued in groups is defined; at same time, proportion of accrual of analysis by ages used in credit risk groups (see Note (a)(b)).	It is approved in the 25 <sup>th</sup> Meeting of the Fifth Session of the Board, on Mar. 24, 2014	Accounts receivable Other receivables Asset impairment loss	Undercount bad debts provision 133,753,620 Yuan Overcount bad debts provision 8,661,573 Yuan
Partial fixed assets classification is defined; expected service life of partial fixed assets is changed; at the same time, estimates method to residual value rate are changed to fixed residual value rate (see Note (c)) according to ship steel in international market.	It is approved in the 25 <sup>th</sup> Meeting of the Fifth Session of the Board, on Mar. 24, 2014	Fixed assets Operating costs Sales expenses Management expenses	Undercount current depreciation 74,097,327 Yuan

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(29) Important accounting estimate change (continued)

Accounting estimates change contents:

(a) Accounts receivable	Before change		After change	
Judgment standard of Big single amount, provided for bad debt separately	Judgment standard: single amount exceeds 30,000,000 Yuan		Judgment standard: top 5 of the third party accounts receivable	
Among account receivable from total bad debt provision made in groups, portfolio analysis by ages	Term overdue	% of provision	Term overdue	% of provision
	1-6 months	-	1-6 months	-
	7-12 months	10%	7-12 months	1%
	1 -2 years	30%	1 -2 years	15%
	2-3 years	50%	2-3 years	30%
	Above 3 years	100%	3-4 years	50%
			4-5 years	75%
			Above 5 years	100%

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(29) Important accounting estimate change (continued)

(b) Other receivables	Before change	After change
Judgment standard of other Big single amount, provided for bad debt separately	Judgment standard: single amount exceeds 30,000,000 Yuan	Judgment standard: top 5 of the third party accounts receivable
Among other account receivable from total bad debt provision made in groups, portfolio analysis by ages	No provision made in groups	<p>Judgment standard:</p> <p>Group 1: cash deposit (not including quality cash deposit)</p> <p>Group 2: Employee's loan and reserve fund</p> <p>Group 3: Other accounting receivable in other nature</p> <p>Provision foundation</p> <p>Group 1: Except for that the objective evidence proves that the Group can't retake the payment according to the original articles of other receivables, the Group shall not make bad debt provision for the cash deposit (excluding quality cash deposit)</p> <p>Group 2: Bad debt provision shall not be made of accounts receivable from employee's loan and reserve fund except proof shows the</p>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Group is not able to collect them.

Group 3: Debt age analysis method

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates  
(continued)

(29) Important accounting estimate change  
(continued)

(b) Other receivables Before change After change  
(continued)

Credit risks and provision of account receivable from total bad debt provision made in groups  
(continued)

Not Provision by group

In groups, provision proportion by debt ages in analysis are shown as follows

Term overdue	Term overdue
1-6 months	-
7-12 months	1%
1-2 years	15%
2-3 years	30%
3-4 years	50%
4-5 years	75%
Above 5 years	100%

(c) Fixed assets	Before change		After change	
	Expected service life	Expected net residual values	Expected service life	Expected net residual values
House and building	30 years	0%	20-40 years	0%
Manufacturing equipment	10 years	0%	3-20 years	0%/Account according to scrap steel price
Office and electrical equipment	5 years	0%	3-5 years	0%
Transportation tool(except for the vessel)	5 years	0%	5 years	0%
Vessel	5-14 years	Account	10-25 years	5%/10%

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

			according to scrap steel price in the international vessel market		
Other equipment	3-5 years	0%/	Account according to scrap steel price	no	no

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(30) Major accounting estimates and key hypotheses

The Group makes continuous valuation to major accounting estimates and key judgment adopted. Major accounting estimates and key hypotheses are listed as follows:

(a) Corporate income tax and deferred income tax

The Company was recognized as a hi-tech enterprise in 2014 and a 15% rate of corporate income tax is set for the Company according to laws and regulations. As stipulated by laws and regulations, one qualification for a hi-tech enterprise is that R&D expenses should not be lower than the designated percentage of the enterprise's major operating income, e.g. 3% is required for an enterprise whose annual sales exceeds 200 million Yuan. When taxation authorities find in the execution of preferential taxation policies the enterprise fails to meet hi-tech qualification, they shall remind recognizing authorities to double-check, during which time the enterprise is suspended from enjoying preferential taxation policies. Actual expenses of the Company in 2014 on R&D are 695,384,050 Yuan, taking up 3.05% of major operating income of the year. Therefore, the Company is recognized as a hi-tech and a 15% preferential rate is enjoyed. Meanwhile, in accordance with related taxation laws and regulations, the Company added a reduction of R&D expenses totally amounting to 140,225,006 Yuan in the calculation of 2014 corporate tax, which is subject to confirmation by the taxation authorities. Shall any difference arise, the difference will impact the corporate tax expenses of the year.

Besides, the Group calculates corporate tax and deferred corporate tax according to current laws and regulations, having considering applicable regulations on corporate tax and taxation preference. In normal operating activities, many taxation events are not finally certain. Therefore the Group has to make significant judgments while accruing corporate tax. The Group estimates whether it needs to pay extra tax on expected taxation adjustment items and confirms corresponding corporate tax liabilities. In case difference occurs between the final confirmation and initial booking, the difference will exercise influence over the amount of corporate tax and deferred corporate tax in the duration concerned.

In the valuation of temporary difference, the Group also takes into consideration the collectability of deferred tax assets. Temporary difference majorly consists of difference concerning bad debt provision, prepaid expenses not yet approved for tax deduction, stock impairment reserve and fixed asset depreciation. Recognition of deferred corporate assets is based on the Group's estimate or hypothesis that the deferred corporate assets be returned by means of acquiring sufficient taxable amount through sustainable operation in the foreseeable future. At the same time, the Group also takes into consideration the tax rates of deferred tax assets and deferred income tax liabilities at reversal. Based on historical experience that the

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

company for many years was honored high-tech enterprise and continuous investment in R&D items, the Company reasonably estimates in 2015 and beyond the Company obtains access to high-tech enterprise qualification, so calculation and confirmation of deferred tax assets and deferred income tax debt is done according to the preferential tax rate.



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (combined)

(30) Major accounting estimates and key hypotheses (continued)

(a) Corporate income tax and deferred income tax (continued)

The Group has accrued sufficient corporate tax liabilities and deferred corporate tax based on existing taxation regulations, best current estimate and hypothesis. It is possible the corporate tax liabilities and deferred corporate tax be adjusted subject to the possible change of taxation regulations or other related issues.

(b) Building contract

Revenue and cost of the building of large port equipment is recognized by proportion of completion. The Group makes continuous double-check and revision over the estimated building contract cost according to cost of the contract actually incurred and based on historical actual cost of similar product, in order to make the estimated cost of the building contract close to the actual eventual cost. In case the actual total cost of the contract differs from the estimated total cost, the difference will impact the cost confirmed by the Group for the present year.

At the same time, the Group's management conducts regular impairment tests to building contracts. In case the expected total cost of the building contract exceeds total revenue of the contract, expected contract loss provision will be made. The change of the expected total cost caused by the continuous double check and revision may influence the book value of the unsettled payment upon completion/ settled payment not completion, as well as the impairment loss in the estimation change period.

(c) Receivables impairment

The Group's management continuously watches over the collectability of receivables to estimate bad debt provision for the receivables, based on actual analysis (including but not limited to unit debtor's clearance capability, age of receivables and future collection etc.). In case anything happens or changes showing the estimates adopted have changed, estimates will be made and bad debt provision for the receivables will be made. If the estimates do not match former estimates, the difference will affect the book value of the receivables and the impairment loss during the period of estimate change.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(30) Major accounting estimates and key hypotheses (continued)

(d) Stock impairment

The Group's management timely judges the cashable net value of stock to estimate impairment provision of stock. In case anything happens or changes showing the stock might not fulfill its value, estimates will be made and bad debt provision for the stock will be made. If the estimates do not match former estimates, the difference will affect the book value of the stock and the impairment loss during the period of estimate change.

(e) Fixed assets service years and net residual value

The management of the Group estimates the expected useful life and estimated net residual values of fixed assets. The estimate is based on the nature and features of similar fixed assets by their past actual useful life and residual value. Such estimates may undergo significant change due to technological innovation and competition due to action taken by the severe industry cycle; the economic environment, technological environment, as well as other changes in the environment in which fixed assets are used may cause significant changes in the expected way of realization of economic benefits associated with the fixed assets.

(f) Fixed assets and construction in progress impairment

The management of the Group conducts impairment test on fixed assets and construction in progress showing signs of impairment as of B/S day. Collectable amount refers to the higher between the net value of the fair value of fixed assets and construction in progress less disposal expenses and the present value of the expected future cash flow of the fixed assets and construction in progress. It is estimated by the best information to acquire to reflect the capital amount (less disposal cost) generated from sales or disposal of fixed assets or construction in progress on fair trade basis as of B/S days among informant and willing parties or cash amount from continuously utilizing the fixed assets or construction in progress until final disposal. The estimate may be adjusted every time when impairment test is made. If the re-estimated collectable amount is higher than the former estimate made by the management of the Group, the Group shall not reverse formerly accrued impairment loss provision of the fixed assets and construction in progress.

(g) Accounting estimate of goodwill impairment provision

The Group conducts the impairment test for the goodwill each year. The

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

collectable amount including the goodwill assets group and portfolio is the current value of the expected cash flow in the future. The accounting estimate shall be used for calculation (Note IV (18)).

If the management revises the gross profit rate used in the future cash flow calculation of the assets group and portfolio and the revised gross profit rate is lower than the current one, the Group may made the goodwill provision or increase the impairment provision.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

II Major accounting policies and accounting estimates (continued)

(30) Major accounting estimates and key hypotheses (continued)

(g) Accounting estimate of goodwill impairment provision(continued)

If the management revise the pre-tax discount rate used in the cash flow and the revised pre-tax discount rate is lower than the current one, the Group may make the goodwill provision or increase the impairment provision.

If the actual gross profit rate or the pre-tax discount rate is higher or lower than the estimate from the management, the Group can't return the original goodwill impairment loss.

III Taxes

Tax types and the ratio applicable to the Group are listed as follows:

(1) VAT

VAT is applicable to the Company's sales business. Domestic sales output tax ratio is 17%, export sales output tax ratio is subject to "exemption, compensation, refund", refunding ratio is 17%. VAT is applicable to the vessel transport business revenue with the tax ratio of 11%. VAT is applicable for the equipment rental with tax ratio of 17%.

The Company's input tax for purchasing raw materials, partial fixed assets, fuel, power, transportation fee offsets the output tax. The Company's VAT payable is the balance after offset between current period's input and output taxes.

(2) Business tax

Business tax applied to revenues of the Group from shipping and transportation with rate of 5%.

Business tax is applicable to the revenues of "construction-transfer" projects with rate of 3%.

(3) Urban maintenance and construction tax and education surcharge

The Group calculates and pays city maintenance and construction tax and education surcharge by 7% and 3% of the payment of VAT and business tax respectively.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note  
(Unless otherwise specified, the amount units is RMB.)

III Taxes (continued)

(4) Corporate income tax

Corporate income tax is calculated and paid in accordance with P.R. China Corporate Income Tax Law (“Income Tax Law”).

According to the High-tech Enterprise Recognition Management Approaches (Guo Ke Fa Huo [2008] 172,) and the High-tech Enterprise Recognition Management Work Guidelines (Guo Ke Fa Huo [2008] 362) and the Notification on Announcing List of Second Batch of Shanghai Municipality 2011 High-tech Enterprises Recognition, the Company was recognized as a high-tech enterprise in 2011, and was awarded the High-tech Enterprise Certificate (certificate number: GR201431001646). The certificate is valid for 3 years. According to Article 28 of the Income Tax Law, the Company actually applied a 15% corporate income tax rate this year (2013: 15%).

Corporate income tax rates enjoyed by the Company and its controlled subsidiaries:

	Registered in	Applicable tax rate in 2014	Applicable tax rate in 2013
The Company	Shanghai Pudong New Area	15%	15%
Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd.	Shanghai Chongming County	25%	25%
Shanghai Zhenhua Heavy Industries Machinery Co., Ltd.	Shanghai Chongming County	25%	25%
Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd. (note 1)	Hong Kong	16.5%	16.5%
Shanghai Zhenhua Shipping Co. Ltd.	Shanghai Pudong New Area	25%	25%
Nantong Zhenhua Heavy Equipment Manufacturing Co., Ltd.	Jiangsu Nantong	25%	25%
Shanghai Zhenhua Heavy Industries Group (Nantong) Transmission Machinery Co., Ltd.(note 14)	Jiangsu Nantong	15%	25%
Shanghai Zhenhua Heavy Industries Group (Nantong) Co., Ltd.	Jiangsu Nantong	25%	25%
Shanghai Zhenhua Heavy Industries Electric Co., Ltd.	Shanghai Pudong New Area	25%	25%
Nantong ZPMC Steel Structure Processing Co., Ltd.	Jiangsu Nantong	25%	25%
Jiangyin ZPMC Steel Structure Manufacturing Co., Ltd.	Jiangsu Jiangyin	25%	25%
Shanghai Zhenhua Heavy Industries Steel Structure Co., Ltd.	Shanghai Pudong New Area	25%	25%
Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd	Shanghai Yangshan Bonded Port Area	25%	25%
Shanghai Zhenhua Testing Technology Consulting Co., Ltd.	Shanghai Pudong New Area	25%	25%
ZPMC Netherlands B.V.(note 2)	Rotterdam, the Netherlands	20%	n.a.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

Hotel de Herberg B.V.(note 2)	Rotterdam, the Netherlands	20%	n.a.
ZPMC España S.L.(note 3)	Los Barrios de Bureba, Spain	20%	n.a.
ZPMC GmbH Hamburg (note 4)	Hamburg, Germany	33.76%	33.76%
ZPMC Lanka Company (Private) Limited (note 5)	Colombo, SriLanka	28%	28%
ZPMC North Amercia Inc (note 6)	State of Delaware, USA	15%	n.a.
ZPMC Korea Co., LTD. (note 7)	Busan, South Korea	10%	n.a.
ZPMC Engineering Africa (PTY) LTD. (note 8)	Natal, South Africa	28%	n.a.
ZPMC Engineering (India) Private Limited (note 9)	Manharashtra, India	30%	n.a.
ZPMC Southeast Asia Holding PTE. LTD.(note 10)	Singapore	17%	n.a.
ZPMC Engineering (Malaysia) Sdn.Bhd. (note 11)	Malaysia	20%	n.a.
ZPMC Australia Company ( PTY) LTD. (note 12)	The New South Wales, Australia	30%	n.a.

**III Taxes (continued)**

**(4) Corporate income tax (continued)**

	Registered in	Applicable tax rate in 2014	Applicable tax rate in 2013
Shanghai Zhenhua Port Machinery General Equipment Co., Ltd (original: China Communications Shanghai Port Machinery Manufacturing Plant Co., Ltd)	Shanghai Pudong New Area	25%	25%
Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd	Shanghai Pudong New Area	25%	25%
Shanghai Zhenhua Heavy Industry (Group) Zhangjiagang Port Machinery Co., Ltd.	Jiangsu Jingang Port Area,	25%	25%
Nanjing Ninggao New Channel Co., Ltd. Qidong Marine Company (note 13)	Jiangsu Nanjing	25%	25%
Jiangsu Daoda Marine Engineering Co., Ltd	Jiangsu Nantong	15%	15%
Daoda (Holland) Marine Technology Co., Ltd (note 2)	Holland	25%	25%
		20%	20%

Note 1: Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd. is a legal entity registered in Hong Kong, China. Based on Hong Kong's taxation regulations, the company actually fits in a profit tax rate of 16.5% (2012: 16.5%).

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Note 2: ZPMC Netherlands B.V, Hotel de Herberg B.V. and Daoda (Holland) Marine Technology Co., Ltd are private limited liability companies registered in Holland. According to related provisions of the income tax in Holland, the enterprise revenue tax is collected with the progressive tax rate in excess of specific amount for the profit of the Company. The tax rate is 20% for the profit less than 200000 Euro, and 25% for the profit over 200000 Euro. The actual income tax rate is 20% this year.

Note 3: ZPMC España S.L. is limited liability company registered in Spain. According to related provisions of the income tax in Spain, the enterprise revenue tax is collected with the progressive tax rate in excess of specific amount for the profit of the Company. The tax rate is 20% for the profit less than 200000 Euro, and 25% for the profit over 200000 Euro. The actual income tax rate is 20% this year.

Note 4: ZPMC GmbH Hamburg is registered in Germany, a limited liability company; according to Germany's related provisions of the income tax act, applicable income tax rate for the year is 32%, and on the basis of the corresponding income tax amount, 5.5% of solidarity surcharge is imposed; the actual total income tax rate applicable to 33.76% (33.76%, 2013)

Note 5: 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 28%. (28%, 2013)

Note 6: ZPMC North American Inc is a limited liability company registered in USA; according to the related income tax provisions of USA, the applicable income tax rate is 15%.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

III Taxes (continued)

(4) Corporate income tax (continued)

Note 7: ZPMC Korea Co., LTD. is limited liability company registered in Korea. According to related provisions of the income tax in Korea, the enterprise revenue tax is collected with the progressive tax rate in excess of specific amount for the profit of the Company. The tax rate is 10% for the profit less than 200 million won, and 20% for the profit over 200 million won. The actual income tax rate is 10% this year.

Note 8: 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%.

Note 9: ZPMC Engineering (India) Private Limited is a limited liability company registered in India; according to the related income tax provisions of India, the applicable income tax rate is 30%.

Note 10: 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%.

Note 11: 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%.

Note 12: 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%.

Note 13: Qidong Marine Company is recognized as hi-tech enterprise in October, 2012 and won Hi-tech Enterprise Certificate (No. GR201232001748) with the valid terms of 3 years. Based on the regulations in Article 28 of Income Tax Law, the actual applicable enterprise income tax rate is 15% this year (2013: 15%)

Note 14: Shanghai Zhenhua Heavy Industry Group (Nantong) Drive Machinery is recognized as hi-tech enterprise in August, 2013 and won Hi-tech Enterprise Certificate (No. GR201332000207) with the valid terms of 3 years. Based on the communication results with the local tax authorization, the actual applicable enterprise income tax rate is 15% this year (2013: 25%)



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements

(1) Monetary capital

	Dec. 31, 2014	Dec. 31, 2013
Cash on hand	593,298	495,019
Bank deposit	1,831,618,392	3,002,350,930
Other currency funds	1,381,651,768	512,798,014
In which: total deposit in foreign countries	280,065,264	330,327,626
	<u>3,213,863,458</u>	<u>3,515,643,963</u>

(a) On Dec. 31, 2014, other monetary capital includes:

- (i) Restricted deposits amount to 1,346,408,651 Yuan (Dec. 31, 2013: 363,172,156 Yuan), among which, 1,261,718,180 Yuan (Dec. 31, 2013: 283,225,875 Yuan) is bank time deposit of one year; 84,690,471 Yuan (Dec. 31, 2013: 79,946,281 Yuan) is the margin deposit for the Group to apply for bank L/C and guarantee letter; and

Foreign exchange clearance capital of 35,243,117 Yuan deposited in the bank (December 31, 2012: 149,625,858 Yuan).

(b) Cash and cash equivalents recorded in cash flow statements:

	Dec. 31, 2014
Monetary capital	3,213,863,458
Less: restricted deposits (i)	(1,346,408,651)
Dec. 31, 2014 cash balance	<u>1,867,454,807</u>
Less: Dec. 31, 2013 cash balance	(3,152,471,807)
Net cash decrease	<u>(1,285,017,000)</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(2) Financial assets and debt measured at fair value with its change accounted in current profit and loss.

	Dec. 31, 2014		Dec. 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts - Fair valuation gains / (losses)	25,735,001	(28,752,000)	121,169,489	(644,404)

On Dec. 31, 2014, in the forward foreign exchange contract established by the Group with bank but not due:

Total amount of principal in USD for RMB contract is USD 900,000,000 (625,000,000 USD, 2013); agreed exchange rate is 6.1380 to 6.3756(6.1295 to 6.3756, 2013); contract is due between Feb. 27, 2015 and Dec. 10, 2015 (2013: Feb. 21, 2014 and Apr. 22, 2015)

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

(3) Notes receivable

	Dec. 31, 2014	Dec. 31, 2013
Commercial acceptance bills	2,350,000	-
Bank acceptance bills	286,949,440	334,519,241
	289,299,440	334,519,241

As of Dec. 31, 2014, the Group had no draft receivable pledged to banks.

Notes receivable the Group has endorsed to any other party but not yet due on Dec. 31, 2014 amounts to:

	Terminated	Not terminated
Bank acceptance bills	736,843,666	-

Notes receivable the Group have endorsed to any other party but not yet due on Dec. 31, 2014 amounts to 736,843,666 Yuan (Dec. 31, 2013: 326,116,891 Yuan). The Group has no acceptance bills not due to other parties (Dec 31, 2013: N/A)

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(4) Interest receivable

	Dec. 31, 2013	Increase report year	Decrease report year	Dec. 31. 2014
Time deposit interest	<u>5,088,988</u>	<u>104,216,831</u>	<u>(63,650,660)</u>	<u>45,655,159</u>

As of Dec 31, 2014 and 2013, the interest receivable balance is the time deposit interest not due.

(5) Accounts receivable

	Dec. 31, 2014	Dec. 31, 2013
Accounts receivable	4,475,378,829	4,278,018,396
Less: bad debt provision	<u>(858,128,277)</u>	<u>(729,115,293)</u>
	<u>3,617,250,552</u>	<u>3,548,903,103</u>

The debt age analysis of accounts receivable is as follows:

(a) Aging:

	Dec. 31, 2014
One to six months	2,566,020,262
Seven to twelve months	320,780,292
One to two years	746,891,289
Two to three years	184,905,804
Three to four years	137,810,365
Four to Five years	93,290,558
Above Five years	<u>425,680,259</u>
	<u>4,475,378,829</u>
	Dec. 31, 2013
within one year	3,324,499,186
one to two years	371,402,862
two to three years	211,670,817
above three years	<u>370,445,531</u>
	<u>4,278,018,396</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(5) Accounts receivable (continued)

(b) Accounts receivable listed in type as follows:

	Dec. 31, 2014				Dec. 31, 2013			
	book value balance		bad debt provision		book value balance		bad debt provision	
	Amount	proportion in total	Amount	Provision proportion	amount	proportion in total	amount	Proportion of accrual
Big single amount, provided for bad debt separately	107,819,500	2%	(107,819,500)	100%	158,184,500	4%	(158,184,500)	100%
Total bad debt provision accrued in groups								
Credit risk portfolio								
- related party	530,632,817	12%	-	-	628,967,824	15%	-	-
- third party	3,686,213,061	83%	(601,986,534)	16%	3,453,990,019	80%	(536,437,311)	16%
Single amount, though not significant, separate provision for bad debt made	150,713,451	3%	(148,322,243)	98%	36,876,053	1%	(34,493,482)	94%
	<u>4,475,378,829</u>	<u>100%</u>	<u>(858,128,277)</u>	<u>19%</u>	<u>4,278,018,396</u>	<u>100%</u>	<u>(729,115,293)</u>	<u>17%</u>

(c) As of Dec. 31, 2014, Accounts receivable that big single amount, provided for bad debt separately is as follows:

	Book balance	Provision for bad debts	Provision proportion	Reason
Accounts receivable 1	107,819,500	(107,819,500)	100%	(i)

(i) As of Dec. 31, 2014, Due to a serious funds shortage of the other party, the Company believes that the receivables are difficult to collect, therefore full amount prepared for bad debts.

(d) Among account receivable from total bad debt provision made in groups, portfolio analysis by ages:

	Dec. 31, 2014		
	book value balance	bad debt provision	
	Amount	Amount	Proportion of accrual
One to six months	2,348,711,012	-	-

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Seven to twelve months	273,846,369	(2,659,715)	1%
One to two years	372,674,288	(51,856,232)	14%
Two to three years	128,306,367	(38,491,910)	30%
Three to four years	75,898,450	(37,409,225)	49%
Four to five years	61,096,316	(45,889,193)	75%
Above five years	425,680,259	(425,680,259)	100%
	<u>3,686,213,061</u>	<u>(601,986,534)</u>	<u>16%</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(5) Accounts receivable (continued)

(d) Among account receivable from total bad debt provision made in groups, portfolio analysis by ages(continued):

	Dec. 31, 2013		
	Book value balance	Bad debt provision	
	Amount	Amount	Proporti on of accrual
Within one year	2,575,305,943	(15,316,076)	1%
One to two years	353,013,426	(102,148,743)	29%
Two to three years	190,309,119	(83,610,961)	44%
Above three years	335,361,531	(335,361,531)	100%
	<u>3,453,990,019</u>	<u>(536,437,311)</u>	<u>16%</u>

(e) As of Dec. 31, 2014, major accounts receivable whose single amount not significant but bad debts provided for:

	Book value balance	Bad debt provision	Provision proportion	Reason
Accounts receivable 1	50,365,000	(50,365,000)	100%	(i)
Accounts receivable 2	24,476,061	(24,476,061)	100%	(ii)
Accounts receivable 3	19,346,075	(19,346,075)	100%	(iii)
Accounts receivable 4	18,200,475	(18,200,475)	100%	(iii)
Accounts receivable 5	17,183,761	(14,792,553)	86%	(iv)
Accounts receivable 6	10,279,920	(10,279,920)	100%	(iii)
Accounts receivable 7	6,841,945	(6,841,945)	100%	(iii)
Accounts receivable 8	4,020,214	(4,020,214)	100%	(iii)
	<u>150,713,451</u>	<u>(148,322,243)</u>	<u>98%</u>	

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

- (i) As of Dec. 31, 2014 as involved in funds shortage of other parties the Company believes the accounts receivable are difficult to collect, therefore full amount prepared for bad debts.
  
- (ii) As of Dec. 31, 2014, due to delayed delivery, the Company made bad debt provision of 24,476,061 Yuan based on the highest fine in the contract.
- (iii) As of Dec. 31, 2014 as involved in contract dispute the Company believes the accounts receivable are difficult to collect, therefore full amount prepared for bad debts.
  
- (iv) As of Dec. 31, 2014, due to delayed delivery, the Company made bad debt provision of 14,792,553 Yuan based on the highest fine in the contract.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(5) Accounts receivable (continued)

(f) Change of accounts receivable provision bad debt in report period:

	Dec.31, 2013	Addition report period		Deduction report year		Dec. 31, 2014
		Purchase increasing subsidiaries	Accrued	Reverse (i)	Transferred sales	
		Accounts receivable's bad debt provision	<u>729,115,293</u>	<u>1,764,800</u>	<u>292,899,738</u>	

(i) Reversed bad debt preparation includes: reversed amount impacted by accounting estimates change of accrued by bad debt preparation is 31,897,934 Yuan. Important receivable or reserved amount are shown as follows:

	Reason for return or collection	Former bad debts basis and rationality	Amount of return or collection	Collection mode
Accounts receivable 1	Vigorous recovery	Analysis based on aging	10,005,000	Monetary fund
Accounts receivable 2	Vigorous recovery	Analysis based on aging	9,050,000	Monetary fund
Accounts receivable 3	Vigorous recovery	Analysis based on aging	3,626,115	Monetary fund
Accounts receivable 4	Vigorous recovery	Analysis based on aging	3,430,000	Monetary fund
Accounts receivable 5	Vigorous recovery	Analysis based on aging	2,771,682	Monetary fund
Accounts receivable 6	Vigorous recovery	Analysis based on aging	<u>1,012,576</u>	Monetary fund
			<u>29,895,373</u>	



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

- (g) As of Dec. 31, 2014, the accounts receivable summary analysis of top 5 arrears is shown as following:

	Amount	Bad debt provision	Proportion in total accounts receivable
Total accounts receivables of top 5	941,264,046	(282,353,232)	21%

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(6)

Other receivables

	Dec. 31, 2014	Dec. 31, 2013
Unsettled payment tax receivable	218,718,216	74,624,008
Export tax rebate	150,221,658	4,604,376
Customs guaranty deposit	69,159,590	9,879,707
Products or field service temporary loans	59,849,951	82,257,117
Employee's loans receivable	58,617,676	102,751,964
Bid bond payments	44,281,407	20,684,428
Lease receivables	32,965,403	31,700,229
Payments deposit for third party receivable	20,326,750	5,436,323
Disposal of assets from related parties receivable	10,000,000	10,000,000
Deposit receivable	26,500	6,970,500
Receivable from the parent company's stock transfer	-	672,193,178
Others	82,888,154	82,892,043
	<u>747,055,305</u>	<u>1,103,993,873</u>
Less: bad debt provision	<u>(27,148,264)</u>	<u>(19,652,342)</u>
	<u>719,907,041</u>	<u>1,084,341,531</u>

(a) Other receivables debt age analysis

	Dec. 31, 2014
One to Six months	510,951,412
Seven to twelve months	132,574,095
One to two years	28,748,240
two to three years	6,668,524
Three to four years	16,182,510
Four to five years	34,007,258
Above five years	17,923,266
	<u>747,055,305</u>
	Dec. 31, 2013
Within one year	930,838,493
One to two years	48,368,864
Two to three years	6,602,165
Above three years	118,184,351
	<u>1,103,993,873</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(6) Other receivables (continued)

(b) Other receivables listed in type as follows:

	Dec. 31, 2014			
	Book value balance		Bad debt provision	
	Amount	Proportion in total	Amount	Proportion in total
Big single amount, provided for bad debt separately	-	-	-	-
Total bad debt provision accrued in groups				
Credit risk portfolio				
- Cash deposit (excluding quality cash deposit)	113,467,497	15%	-	-
- Employee's loan and reverse fund	118,467,627	16%	-	-
- Others	496,703,490	67%	(8,731,573)	2%
Single amount, though not significant, separate provision for bad debt made	18,416,691	2%	(18,416,691)	100%
	<u>747,055,305</u>	<u>100%</u>	<u>(27,148,264)</u>	<u>4%</u>

	Dec. 31, 2013			
	Book value balance		bad debt provision	
	Amount	Proportion of total	Amount	Proportion of accrual
Big single amount, provided for bad debt separately	973,526,495	88%	-	-
Single amount, though not significant, separate provision for bad debt made	130,467,378	12%	(19,652,342)	15%
	<u>1,103,993,873</u>	<u>100%</u>	<u>(19,652,342)</u>	<u>2%</u>

(c) As of Dec. 31, 2014, the Company did not accrue bad debt provision for other receivables with big single amount, and provided for bad debt separately

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(6) Other receivables (continued)

(d) Among other account receivable from total bad debt provision made in groups, portfolio analysis by ages as follows:

	Dec. 31, 2014		
	book value balance	bad debt provision	
	Amount	Amount	Proportion of accrual
One to Six months	376,722,621	-	-
Seven to twelve months	107,742,262	(1,077,423)	1%
One to two years	4,218,676	(632,801)	15%
Two to three years	180,855	(54,256)	30%
Three to four years	521,922	(260,961)	50%
Four to five years	2,444,088	(1,833,066)	75%
Above five years	4,873,066	(4,873,066)	100%
	<u>496,703,490</u>	<u>(8,731,573)</u>	<u>2%</u>

(e)

As of Dec. 31, 2014, other receivables with single amount, though not significant, separate provision for bad debt made:

	book value balance	bad debt provision	Proportion of accrual	Reason
Other receivables 1	5,540,286	(5,540,286)	100%	(i)
Other receivables 2	4,214,642	(4,214,642)	100%	(ii)
Other receivables 3	3,037,042	(3,037,042)	100%	(i)
Other receivables 4	1,779,872	(1,779,872)	100%	(i)
Other receivables 5	1,692,765	(1,692,765)	100%	(i)
Others	2,152,084	(2,152,084)	100%	
	<u>18,416,691</u>	<u>(18,416,691)</u>	<u>100%</u>	

(i) As of Dec. 31, 2014, due to project contracts cancellation, the other parties did not return the money; the Company believes the other receivables are difficult to collect, therefore fully provided for bad debts.

(ii) As of Dec. 31, 2013, due to bankruptcy of the debtor, the Company believes the other receivable is difficult to collect, therefore fully provided for bad debts.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(6) Other receivables (continued)

(f) As of Dec. 31, 2014, other account receivable summary analysis of top 5 arrear is shown as following:

	Nature	Balance	Age	Proportion in other receivable s	Bad debt provision
Company A	Customs guarantee deposit	69,159,590	Within one y ear	9%	-
Company B	Leasing payment receivable	32,965,403	Within one year	4%	(264,018)
Company C	stock right transfer and equipment sales receivable	12,444,088	Within one year and four to five years	2%	(1,933,066)
Company D	Fixed asset disposal payment receivable	10,000,000	One to two years	1%	-
Company E	Unit borrower receivable	8,000,000	Within one year	1%	-
		<u>132,569,081</u>		<u>17%</u>	<u>(2,197,084)</u>

(g) As of Dec. 31, 2014, the company has no government subsidies confirmed as receivables. (Dec. 31, 2013: N/A).

(7) Advances

(a) Advances aging provision:

	Dec.31, 2014		Dec.31, 2013	
	amount	proportion in total	amount	proportion in total
within one year	1,089,915,302	87%	1,172,845,812	91%
one to two	68,499,834	5%	81,724,316	6%

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

years

two to

three years 70,546,682 6% 20,102,693 2%

above

three years 22,656,010 2% 10,618,430 1%

1,251,617,828 100% 1,285,291,251 100%

On Dec. 31, 2014, advances older than one year is 161,702,26 Yuan (Dec. 31, 2013: 112,445,439 Yuan), mainly prepayment for the processing payment of the vessel used in offshore heavy equipment products imported parts and steel purchase, not yet settled because purchased product not yet completed, steel purchased not delivered.

- (b) As of Dec. 31, 2014, the advances summary analysis of top 5 arrear is shown as following:

	Amount	Proportion in total
Total advances balance of top 5	<u>534,488,432</u>	<u>43%</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(8) Inventories

(a) Inventories classified as follows:

	Dec. 31, 2014			Dec. 31, 2013		
	book value balance	Inventories impairment provision	Book value	book value balance	Inventories impairment provision	Book value
Raw materials and purchased parts	3,578,786,315	(373,339,801)	3,205,446,514	3,329,093,383	(314,212,402)	3,014,880,981
Semi products	1,217,753,009	(130,810,331)	1,086,942,678	3,179,132,774	(179,323,578)	2,999,809,196
Inventories goods	11,153,985	(11,153,985)	-	11,153,985	(10,153,985)	1,000,000
	<u>4,807,693,309</u>	<u>(515,304,117)</u>	<u>4,292,389,192</u>	<u>6,519,380,142</u>	<u>(503,689,965)</u>	<u>6,015,690,177</u>

Semi products of the Group are marine heavy equipment and semi-products spare parts in building but order not placed.

The Group management approved the resolution on Dec 30, 2014 that the purpose of a large floating crane vessel for sales is changed as internal using. Therefore, the group has transferred the 1,745,748,965 Yuan semi-product to the products in process. (See Note IV (16)(a)).

(b) Inventories impairment provision:

	Dec.31, 2013	accrued report year		deduction report year		Dec.31, 2014
		Provision	Purchase increasing subsidiaries	Return or resell	Others	
Raw materials and purchased parts	314,212,402	54,217,364	4,910,035	-	-	373,339,801
Semi products	179,323,578	51,035,555	-	(99,548,802)	-	130,810,331
Inventories goods	10,153,985	1,000,000	-	-	-	11,153,985
	<u>503,689,965</u>	<u>106,252,919</u>	<u>4,910,035</u>	<u>(99,548,802)</u>	<u>-</u>	<u>515,304,117</u>

(c) Inventories impairment provision:

	Inventory impairment provision based on	Reason for return of impairment provision in report year
raw materials and purchased parts	the difference between the realizable value of raw material and purchased parts due to lower product sales price and the book value	No

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

Semi products

the difference between the realizable value  
of semi products and the book value

Applicable to the net realizable  
value is higher than the cost of  
production

Inventories goods

the difference between the realizable value  
of Inventories goods and the book value

No



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(8) Inventories (continued)

(d) Loan expenses Capitalization:

As of Dec. 31, 2014, among the balance of the semi products of marine heavy equipment for which orders have not been placed, loan expenses capitalization accumulated(Dec. 31,2013: 257,257,501 Yuan among which, in the year 2013 loan expenses capitalization amount was 25,116,779 Yuan).

(9) Construction completed account not closed/Account closed construction not completed

(a) Construction completed account not closed

	Dec. 31, 2014	Dec. 31, 2013
Accumulated cost incurred	35,448,627,163	29,099,060,088
Add: Accumulated margin confirmed	2,831,462,323	967,952,533
Less: Accumulated settled payment	(30,072,742,242)	(23,194,540,452)
Accumulated confirmed expected contract loss	(292,239,376)	(106,264,024)
	<u>7,915,107,868</u>	<u>6,766,208,145</u>

(b) Account closed construction not completed

	Dec. 31, 2014	Dec. 31, 2013
Accumulated settled payment	14,402,951,125	11,548,874,059
Less: Accumulated confirmed margin	(1,103,905,727)	(787,673,553)
Accumulated cost incurred	(10,600,431,627)	(7,628,070,698)
Add: Accumulated confirmed expected contract loss	20,778,569	10,089,130
	<u>2,719,392,340</u>	<u>3,143,218,938</u>

(c) Expected contract losses

Dec.31, 2013	Purchase increasing subsidiaries	Addition report period	Deduction report year	Dec. 31, 2014
				4

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

es

Constructi on completed account not closed	106,264,024	68,061,658	274,730,7 80	(156,817,0 86)	292,239,376
Account closed constructi on not completed	<u>10,089,130</u>	<u>93,718,453</u>	<u>50,049,08</u> <u>6</u>	<u>(133,078,1</u> <u>00)</u>	<u>20,778,569</u>
	<u>116,353,154</u>	<u>161,780,11</u> <u>1</u>	<u>324,779,8</u> <u>66</u>	<u>(289,895,1</u> <u>86)</u>	<u>313,017,945</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

- IV Notes to major items in the consolidated financial statements (continued)
- (9) Construction completed account not closed/Account closed construction not completed (continued)
- (d) As of Dec. 31, 2014, amount of contracts still in construction is about 48,400,598,010 Yuan(Dec. 31, 2013: 45,269,305,907 Yuan).

Probable fines in case of delay in delivery as contracted:

	Dec.31, 2014	Dec.31, 2013
bank issued valid guaranty letter	15,999,993,998	18,636,733,746
	<u>2,272,099,932</u>	<u>1,493,449,228</u>
bank not issued guaranty letter	<u>18,272,093,930</u>	<u>20,130,182,974</u>

- (10) Other current assets

	Dec.31, 2014	Dec.31, 2013
VAT to be deducted (Note IV (26))	274,503,870	110,357,163
Available-for-sale financial assets (Notes IV (11))	-	-
Bank short-term financing products	<u>5,686,257,756</u>	<u>4,202,678,325</u>
	<u>5,960,761,626</u>	<u>4,313,035,488</u>

Bank short-term financial products means that the Company purchased from a bank with low-risk. Since starting from December 31, 2014, these short-term financial products are due within the next 12 months, so they are listed as other current assets in the B/S.

The fair value of the bank short-term financial products is based on the financial product principal plus expected income as of the balance sheet date. On Dec. 31, 2014, the Company confirmed 265,217,756 Yuan (Dec.31, 2013:139,441,088 Yuan) revenue from the short-term bank financing products, and included in the other integrated profit (NotesIV (37)).

As of Dec. 31, 2014, short-term bank financing products 3,861,040,000 Yuan (Dec.31, 2013: 3,974,237,236 Yuan) as a pledge to the bank as the 3,870,000,000 Yuan (Dec.31, 2013: 3,980,000,000 Yuan) of short-term borrowing (NotesIV (21)).

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(11) Available-for-sale financial assets

	Dec.31, 2014	Dec.31, 2013
Measured at fair value		
-		
Available-for-sale equity instruments (a).(b)	433,180,453	172,770,000
- Bank short-term financing products(b) (Notes IV (10))	5,686,257,756	4,202,678,325
	<u>6,119,438,209</u>	<u>4,375,448,325</u>
Measured as cost		
- Available-for-sale equity instruments (c).	52,640,000	57,640,000
	<u>(30,000,000)</u>	<u>(30,000,000)</u>
Less: impairment reserve (d)	<u>6,142,078,209</u>	<u>4,403,088,325</u>
Less: assets available for sale listed in other current assets (Notes IV (10))	<u>(5,686,257,756)</u>	<u>(4,202,678,325)</u>
	<u>455,820,453</u>	<u>200,410,000</u>

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

(i) The Group holds 7.93% shares of stock of Jiangxi Huawu Brake Co., Ltd (Dec 31, 2013: 12.71%) and the initial investment cost is 19,400,000 Yuan.

The available-for-sales equity instruments measured at fair value is confirmed by the closing price of the last trading day of Shenzhen Stock Exchange. As of Dec 31, 2014, the Company has confirmed the profit of 147,830,053 Yuan available-for-sales equity instruments, accounted in other comprehensive profit (Note IV (37)).

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

The available-for-sales equity instruments measured at fair value is confirmed by the closing price of the last trading day of Hong Kong Stock Exchange. As of Dec 31, 2014, the Company has confirmed loss of 35,267,766 Yuan for available-for-sales equity instruments, accounted in other comprehensive profit (Note IV(37)).

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(11) Available-for-sale financial assets (continued)

(b) The available for sale financial assets analysis measured at fair value as follows:

	Dec.31, 2014	Dec.31, 2013
Available-for-sale equity instruments		
- Fair value	433,180,453	172,770,000
- Cost	320,618,166	19,400,000
- Accumulated in Other comprehensive income	112,562,287	153,370,000
Bank short-term financing products		
- Fair value	5,686,257,756	4,202,678,325
- Cost	5,421,040,000	4,063,237,236
- Accumulated in Other comprehensive income	265,217,756	139,441,089
Total		
- Fair value	6,119,438,209	4,375,448,325
- Cost	5,741,658,166	4,082,637,236
- Accumulated in Other comprehensive income	377,780,043	292,811,089

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(11) Available-for-sale financial assets (continued)

(c) Analysis on financial assets available for sales and measured by costs:

	Dec. 31, 2013	Addition report period	Deduction report year	Dec. 31, 2014	Invested Company shareholding ratio	Current year cash dividend
Available for sale equity instruments-costs						
21 <sup>st</sup> Century Science and Technology Investment Co., Ltd	30,000,000	-	-	30,000,000	8.96%	-
Nantong Zhenhua Hongsheng Heavy Forging Co., Ltd (i)	10,000,000	-	(10,000,000)	-	-	-
CCCC Highway Bridges National Engineering Research Centre Co., Ltd (ii)	8,000,000	5,000,000	-	13,000,000	10%	-
CCCC Dredging Technology Equipment State Engineering Research Center Co., Ltd	6,400,000	-	-	6,400,000	8%	-
ongchang Lifting Equipment Co., Ltd. of Shanghai Zhenhua Port Machinery (Group)	800,000	-	-	800,000	10%	127,265
Shenyang Elevator Co., Ltd of Shanghai Zhenhua Port Machinery (Group)	1,500,000	-	-	1,500,000	10%	418,595
Ningbo Transmission Machinery Co., Ltd of Shanghai Zhenhua Port Machinery (Group)	740,000	-	-	740,000	7.40%	557,600
Shenyin Wanguo Corporate Shares	200,000	-	-	200,000	Less than 0.01%	-
	<u>57,640,000</u>	<u>5,000,000</u>	<u>(10,000,000)</u>	<u>52,640,000</u>		<u>1,103,460</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Available for sale equity instruments-  
impairment reserve

21<sup>st</sup> Century Science and Technology  
Investment Co., Ltd

	<u>(30,000,000)</u>	<u>-</u>	<u>-</u>	<u>(30,000,000)</u>
	<u>27,640,000</u>	<u>5,000,000</u>	<u>(10,000,000)</u>	<u>22,640,000</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(11) Available-for-sale financial assets (continued)

(c) Available-for-sale financial assets—measured at cost (continued)

- (i) The Company has disposed the long-term stock investment of Nantong Zhenhua Huasheng Heavy Industry with amount of 10,000,000 Yuan this year.
- (ii) The Company has increased the long-term stock investment of CCCC Dredging Technology Equipment State Engineering Research Center Co., Ltd with amount of 5,000,000 Yuan this year, the holding proportion remains.

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



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(11) Available-for-sale financial assets (continued)

(d) The information analysis of available-for-sale financial assets impairment provision as follows:

Dec 31, 2013	30,000,000
This year provision	-
In which: other comprehensive gains input	-
This year reduction	-
In which: subsequent fair value return	-
Dec 31, 2014	<u>30,000,000</u>

(12) Long-term receivables

	Dec. 31, 2014	Dec. 31, 2013
Nanjing High Speed "Construction - transfer" item receivable		
- Principal	5,076,938,969	2,191,444,746
- Interest receivable	262,231,179	26,174,547
	<u>5,339,170,148</u>	<u>2,217,619,293</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 (referred to as "Nanjing High Speed 'Construction - transfer' Item"); total investment of the project 5,918,800,000 Yuan, the construction of Item for a period of 2 years, repurchase period is 2.5 years, return on investment 3 - 5 year, bank loans surface 30% over benchmark interest rate. The Group established a wholly owned subsidiary Nanjing Ninggao New Channel Construction Co., Ltd. responsible for the financing and construction management of the said project. By Dec 31, 2014, the Group predicted that the project will be completed in the second half year in 2015 and it is predicted to collect the payment of the project in 2016.

As of Dec. 31, 2014, the long-term receivables refer to the investment amount as principal the Group invested in Nanjing High Speed "Construction - Transfer" Item, interest receivable subject to confirmation of financing return according to the contract.

As of Dec. 31, 2014, the long-term receivable is pledged in full amount to the bank as the guarantee of short-term loan of 500,000,000 Yuan and (Dec 31,

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

2013: N/A) and long-term loan of 1,687,000,000 Yuan (Dec 31, 2013: N/A) (Note IV(21), IV(31)).

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(13) Long term equity investment

	Dec.31, 2014	Dec.31, 2013
joint ventures (a)	169,883,948	145,286,585
associates (b)	<u>755,466,135</u>	<u>207,752,345</u>
	<u>925,350,083</u>	<u>353,038,930</u>

There are no limits to value realization of the Group's long term equity investment.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(13) Long term equity investment (continued)

(a) Joint ventures

	<u>Report year movement</u>				
	Dec.31, 2013	Addition of investment	Net gains/losses adjusted on equity basis	Dec.31, 2014	Impairment provision
Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd.	145,203,385	-	17,719,256	162,922,641	-
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	83,200	313,902	(69,463)	327,639	-
Zhenhua Marine Energy (Hong Kong) Co., Ltd (i)	-	18,743,172	(12,109,504)	6,633,668	-
	<u>145,286,585</u>	<u>19,057,074</u>	<u>5,540,289</u>	<u>169,883,948</u>	<u>-</u>

(i) As of May 5, 2014, the wholly-owned subsidiary Shanghai Zhenhua Heavy Industry Vessel Transport Co., Ltd and its partner jointly invested to establish Zhenhua Marine Energy (Hong Kong) Co., Ltd. The registration capital is 5,969,998 USD and Shanghai Zhenhua Heavy Industry Vessel Transport Co., Ltd invested 3,044,699 USD with holding proportion of 51%. The company business range is vessel transport. Based on the regulations of the shareholder agreement, the significant issue shall be agreed by at least 75% shareholders by voting. Therefore, Shanghai Zhenhua Heavy Industry Vessel Transport Co., Ltd doesn't have the control rights, but jointly controlling this company with the partners.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(13) Long term equity investment (continued)

(b) Associates

	Report year movement					Dec.31, 2014 mpairment provision
	Dec.31, 2013	Addition of investment	Net gains/losses adjusted on equity basis	Releasing cash dividend or profit		
CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd	15,000,000	-	79,243	-	15,079,243	-
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	14,872,979	-	959,962	(1,483,334)	14,349,607	-
CCCC Estate Yixing Co., Ltd.	177,879,366	-	(3,192,556)	-	174,686,810	-
CCCC Financing Rental Co., Ltd(i)	-	540,000,000	11,350,475	-	551,350,475	-
	<u>207,752,345</u>	<u>540,000,000</u>	<u>9,197,124</u>	<u>(1,483,334)</u>	<u>755,466,135</u>	<u>-</u>

(i) On May 8, 2014, the Company invested to participate in establishment of CCCC Financing Rental Co., Ltd. The registration capital is 1,800,000,000 Yuan. The Company invested 540,000,000 Yuan with holding proportion of 30%. The business of the company is financing rental.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(14) Real estate as investment

	Dec.31, 2013	Depreciation and amortization report period	Dec. 31, 2014
Total purchase value	469,885,167	-	469,885,167
House and building	260,039,373	-	260,039,373
Land use rights	209,845,794	-	209,845,794
Total accumulative depreciation, amortization	(80,892,901)	(14,110,397)	(95,003,298)
House and building	(46,703,985)	(8,785,732)	(55,489,717)
Land use rights	(34,188,916)	(5,324,665)	(39,513,581)
Total net book value	388,992,266	(14,110,397)	374,881,869
House and building	213,335,388	(8,785,732)	204,549,656
Land use rights	175,656,878	(5,324,665)	170,332,213

Total depreciation and amortization amount of investment real estate in 2014 amounts to 8,785,732 Yuan and 5,324,665 Yuan included in other operating expenses (2013: 8,094,509 Yuan and 5,324,665 Yuan).

Shanghai Zhenhua Heavy Industries Co., Ltd.

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(15) Fixed Assets

		Dec. 31, 2013	Reclassification (Note II(29)(c))	Transfer from Construction in progress	Addition report year	Accrued report year	Disposal report year	Disposal of subsidia ries transferred out	Dec. 31, 2014
Total purchase value	Reclassification	22,000,590,079	-	888,469,450	31,759,801	-	(145,736,452)	1,442,097,907	24,217,180,785
House and building	House and building	9,498,943,165	-	785,800,606	2,338,983	-	(81,740,000)	1,050,139,975	11,255,482,729
Manufacturing equipment	Mechanical equipment	4,918,020,953	1,372,735,098	38,657,969	-	-	(44,860,464)	376,760,228	6,661,313,784
Office equipment	Office and electrical equipment	150,064,171	29,533,408	7,590,497	20,350,507	-	(2,658,279)	13,539,994	218,420,298
Transportation facilities	Transportation tool (except for vessel)	6,775,798,976	(6,477,503,445)	1,947,533	9,070,311	-	(16,477,709)	1,657,710	294,493,376
Other equipment	-	657,762,814	(657,762,814)	-	-	-	-	-	-
	Vessel	-	5,732,997,753	54,472,845	-	-	-	-	5,787,470,598
Total accumulative depreciation		(7,920,722,970)	-	-	-	(1,113,264,240)	60,206,756	(261,596,824)	(9,235,377,278)
House and building	House and building	(1,878,765,755)	-	-	-	(320,300,935)	1,016,171	(145,533,488)	(2,343,584,007)
Manufacturing equipment	Mechanical equipment	(2,425,572,420)	(1,103,326,062)	-	-	(502,996,153)	40,091,570	(107,258,439)	(4,099,061,504)
Office equipment	Office and electrical equipment	(122,096,091)	(1,099,079)	-	-	(17,520,316)	2,627,731	(7,455,639)	(145,543,394)
Transportation facilities	Transportation tool (except for vessel)	(3,112,109,474)	2,899,768,800	-	-	(15,903,372)	16,471,284	(1,349,258)	(213,122,020)
Other equipment	-	(382,179,230)	382,179,230	-	-	-	-	-	-

Shanghai Zhenhua Heavy Industries Co., Ltd.

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

	Vessel	-	(2,177,522,889)	-	-	(256,543,464)	-	-	(2,434,066,353)
Total net book value									
House and building		14,079,867,109	-	888,469,450	31,759,801	(1,113,264,240)	(85,529,696)	1,180,501,083	14,981,803,507
Manufacturing equipment	House and building	7,620,177,410	-	785,800,606	2,338,983	(320,300,935)	(80,723,829)	904,606,487	8,911,898,722
Office equipment	Mechanical equipment	2,492,448,533	269,409,036	38,657,969	-	(502,996,153)	(4,768,894)	269,501,789	2,562,252,280
Transportation facilities	Office and electrical equipment	27,968,080	28,434,329	7,590,497	20,350,507	(17,520,316)	(30,548)	6,084,355	72,876,904
Other equipment	Transportation tool (except for vessel)	3,663,689,502	(3,577,734,645)	1,947,533	9,070,311	(15,903,372)	(6,425)	308,452	81,371,356
Total net book value	-	275,583,584	(275,583,584)	-	-	-	-	-	-
	Vessel	-	3,555,474,864	54,472,845	-	(256,543,464)	-	-	3,353,404,245



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(15) Fixed Assets (continued)

As of Dec. 31, 2014, the reclassification of fixed assets in the Group is caused by change of group accounting estimate (Note II(29)(c)).

On Dec. 31, 2014, facilities with a purchase value of 2,138,858,322 Yuan (Dec. 31, 2013: 1,608,661,011 Yuan) have been fully depreciated but still in service.

In 2014, depreciation booked into operating costs, selling expenses and general expenses is respectively 1,021,867,606 Yuan, 822,731 Yuan (Note IV [42]) and 90,573,903 Yuan (Note IV(43)) (2013: 1,063,426,861 Yuan, 4,396,487 Yuan and 89,667,665 Yuan).

As of Dec. 31, 2014, real estate property right for houses and buildings with net book value around 3,963,077,361Yuan (purchase value 4,578,015,382Yuan) (Dec. 31, 2013 net book value 3,831,712,492 Yuan, purchase value 4,338,030,054Yuan) are in the process of approval and therefore certificates are not granted; the management of the Company believes that the house and building with unattained certificate shall not impose great impact on the major operation of the Group.

On Dec. 31, 2014, the book value of the fixed asset is 259,731,664 Yuan (original price 314,742,493) and the house and building (Dec. 31, 2013: N/A) as the guarantee of 130,000,000 Yuan long-term loan(Dec. 31, 2013: N/A)(Note IV(31)).

(16) Construction in progress

Dec. 31, 2014			Dec. 31, 2013		
book value balance	impairmen t provision	book value	book value balance	impairment provision	book value

Shanghai Zhenhua Heavy Industries Co., Ltd.

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Nantong base infrastructure construction	22,012,970	-	22,012,970	740,502,262	-	740,502,262
Changxing base infrastructure construction	361,078,310	-	361,078,310	392,860,040	-	392,860,040
Base heavy machinery and engineering equipment in construction	2,418,886,547	-	2,418,886,547	341,561,284	-	341,561,284
Office buildings and ancillary facilities	355,140	-	355,140	-	-	-
Nanhui base infrastructure construction	<u>3,157,532</u>	<u>-</u>	<u>3,157,532</u>	<u>3,082,850</u>	<u>-</u>	<u>3,082,850</u>
	<u>2,805,490,499</u>	<u>-</u>	<u>2,805,490,499</u>	<u>1,478,006,436</u>	<u>-</u>	<u>1,478,006,436</u>

Shanghai Zhenhua Heavy Industries Co., Ltd.

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(16) Construction in progress (continued)

(a) Movement of significant projects in progress

Project Name	budget	Dec. 31, 2013	Addition report period	Other addition report period (note 1)	Transfer into fixed assets report year	Dec. 31, 2014	Investment ratio against budget	Progress (Note 2)	Cumulative amount of loan capitalization	Including: amount of loan capitalization report year	Loan capitalization rate report year	Capital origin
Nantong base infrastructure construction	6,465,698,000	740,502,262	54,146,487	-	(772,635,779)	22,012,970	99%	99%	-	40,838,784	5.76%	Self funding and bank loans
Changxing base infrastructure construction	8,645,540,000	392,860,040	-	-	(31,781,730)	361,078,310	80%	80%	23,531,836	-	-	funding and bank loans
Base heavy machinery and engineering equipment in construction	2,441,825,053	341,561,284	411,170,975	1,745,748,965	(79,594,677)	2,418,886,547	95%	95%	101,148,165	-	-	funding and bank loans
Office buildings and ancillary facilities	5,000,000	-	4,812,404	-	(4,457,264)	355,140	100%	100%	-	-	-	funding and bank loans
Nanhui base infrastructure construction	504,500,000	3,082,850	74,682	-	-	3,157,532	90%	90%	-	-	-	funding and bank loans
		<u>1,478,006,436</u>	<u>470,204,548</u>	<u>1,745,748,965</u>	<u>(888,469,450)</u>	<u>2,805,490,499</u>			<u>124,680,001</u>	<u>40,838,784</u>		

Note 1: other addition this year is that a large floating crane vessel for sales is changed as internal usage according to the resolution of the management of the Company.

Note 2: The progress of the project is estimated by budget and accumulated inputs.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(17) Intangible Assets

	Land use rights	Software using cost	Patented Technologies	Total
Total purchase value				
Dec. 31, 2013	3,381,216,290	34,809,781	65,201,810	3,481,227,881
Addition report period				
Purchase	-	639,509	-	639,509
Purchase of increasing Subsidiaries	337,850,037	2,727,455	-	340,577,492
	<u>3,719,066,327</u>	<u>38,176,745</u>	<u>65,201,810</u>	<u>3,822,444,882</u>
Dec. 31, 2014				
Accumulated amortization				
Dec. 31, 2013	(269,009,919)	(28,361,183)	(24,578,803)	(321,949,905)
Addition report period				
Provision	(75,501,609)	(2,866,305)	(6,520,181)	(84,888,095)
Purchase of increasing Subsidiaries	(32,272,224)	(570,962)	-	(32,843,186)
	<u>(376,783,752)</u>	<u>(31,798,450)</u>	<u>(31,098,984)</u>	<u>(439,681,186)</u>
Dec. 31, 2014				
Book value				
Dec. 31, 2014	<u>3,342,282,575</u>	<u>6,378,295</u>	<u>34,102,826</u>	<u>3,382,763,696</u>
Dec. 31, 2013	<u>3,112,206,371</u>	<u>6,448,598</u>	<u>40,623,007</u>	<u>3,159,277,976</u>

In 2014, the Group totally expended 759,691,386 Yuan on R&D (2013: 696,452,611 Yuan). The expenses are not capitalized. Above mentioned intangible assets do not include any expenditure on R&D.

On Dec. 31, 2014, the book value of intangible assets is 278,828,506 Yuan (original price: 313,628,134 Yuan) land use rights (Dec. 31, 2013: N/A) as the guarantee of long-term loan of 130,000,000 Yuan (Dec. 31, 2013: N/A)(Note IV(31))

As of year 2013 and Dec. 31, 2014, the Group has obtained land use right certificates for all of its land rights.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(18) Goodwill

	Dec. 31,2013	Addition report period	Deduction report year	Dec. 31, 2014
Goodwill - Qidong Marine Company	<u>-</u>	<u>149,212,956</u>	<u>-</u>	<u>149,212,956</u>

The goodwill added in report period is caused by purchase shares of Qidong Marine Company (Note V (1))

As of Dec 31, 2014, the Group did not accrue the goodwill impairment preparation. In impairment testing, the book value of the goodwill is allocated to asset group benefited from synergistic effect of expected enterprise consolidation.

The collectable amount in assets group is measured based on five-year period approved by management and in cash flow forecast method. Cash flow over 5-year period is calculated based on estimated growth rate.

Key hypotheses of future cash flow discount method:

Growth rate	3%-12.8%
Gross profit rate	11.6%-12%
Discount rate	10%

The weighted average growth rate adopted by management is in accordance with the forecast data in industrial report and does not exceeding the industrial long-term average growth rate. The management determines gross rate according to forecast to historical experience and market development and adopts pre tax rate which can reflect related assets group with specific risks as discount rate. Above hypothesis is used to analyze collectable amount of assets group.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(19) Deferred corporate tax assets and liabilities

(a) Deferred corporate tax assets before offset

	Dec. 31, 2014		Dec. 31, 2013	
	Compensable provisional difference and compensated loss	Deferred corporate tax assets	Compensable provisional difference and compensated loss	Deferred corporate tax assets
Assets impairment provision	1,573,979,904	236,096,986	1,317,085,504	197,562,826
Expected liabilities	191,656,260	28,748,439	175,426,592	26,313,989
Salaries and wages unpaid	272,277,266	40,841,590	229,281,742	34,392,261
Unpaid interest	578,367,210	86,755,082	412,168,548	61,825,282
Financial debt fair value change measure at fair value with its change accounted in current profit and loss	28,752,000	4,312,800	644,404	96,661
Movement of fair value of financial liabilities	35,267,767	5,819,181	-	-
Compensable loss	454,729,347	68,209,402	918,872,524	137,830,875
	3,135,029,754	470,783,480	3,053,479,314	458,021,894
In which:				
Amount returned within 1 year( including 1 year)	2,804,480,498	420,672,075	2,837,336,348	433,675,160
Amount returned after 1 year	330,549,256	50,111,405	216,142,966	24,346,734
	3,135,029,754	470,783,480	3,053,479,314	458,021,894

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(19) Deferred corporate tax assets and liabilities (continued)

(b) Deferred corporate tax liabilities before offset

	Dec. 31, 2014		Dec. 31, 2013	
	Tax payable provisional difference	Deferred corporate tax liabilities	Tax payable provisional difference	Deferred corporate tax liabilities
Fixed assets depreciation	244,695,939	40,374,830	137,651,126	22,712,436
Financial assets fair value change measure at fair value with its change accounted in current profit and loss	25,735,001	3,860,250	121,169,489	18,381,989
Financial assets fair value change available for sale	413,047,808	61,957,171	292,811,089	43,921,663
Asset evaluation increase generated by the enterprise consolidation under different control	188,275,408	28,241,309	-	-
	<u>871,754,156</u>	<u>134,433,560</u>	<u>551,631,704</u>	<u>85,016,088</u>
In which:				
Amount returned within 1 year( including 1 year)	442,090,589	66,313,588	151,416,240	22,712,436
Amount returned after 1 year	429,663,567	68,119,972	400,215,464	62,303,652
	<u>871,754,156</u>	<u>134,433,560</u>	<u>551,631,704</u>	<u>85,016,088</u>

(c) Compensable loss of deferred corporate tax assets the Group not confirmed:

	Dec. 31, 2014	Dec. 31, 2013
Compensable loss	<u>1,050,720,191</u>	<u>846,984,449</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(19) Deferred corporate tax assets and liabilities (continued)

(d) Compensable loss of deferred corporate tax assets the Group not confirmed will be due in the following year:

	Dec. 31, 2014	Dec. 31, 2013
2014	-	215,390,423
2015	27,980,847	376,491,070
2016	136,625,528	26,809,700
2017	279,163,521	170,984,177
2018	263,474,446	57,309,079
2019	343,475,849	-
	<u>1,050,720,191</u>	<u>846,984,449</u>

(e) Mutual offset amount of deferred corporate tax assets and deferred corporate tax liabilities:

	Dec. 31, 2014	Dec. 31, 2013
Deferred corporate tax assets	71,636,602	60,031,430
Deferred corporate tax liabilities	<u>71,636,602</u>	<u>60,031,430</u>

Net value of deferred corporate tax assets and deferred corporate tax liabilities after offset:

		<u>Dec. 31, 2014</u>		<u>Dec. 31, 2013</u>	
		Deferred corporate tax assets or liabilities net value	Temporary difference of compensable amount after offset or taxes payable	Deferred corporate tax assets or liabilities net value	Temporary difference of compensable amount after offset or taxes payable
Deferred corporate tax assets	tax	399,146,878	2,660,979,187	397,990,464	2,653,269,781
Deferred corporate tax liabilities	tax	<u>62,796,958</u>	<u>397,703,580</u>	<u>24,984,658</u>	<u>151,422,170</u>



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

**IV Notes to major items in the consolidated financial statements (continued)**

**(20) Assets impairment provision**

	Dec. 31, 2013	Addition report period		Deduction report year		Dec. 31, 2014
		Disposal of subsidiaries transferred out	Accrued	Reverse	transferred sales	
Bad debt provision	748,767,635	3,990,540	300,911,235	(168,392,869)	-	885,276,541
Including: Accounts receivable	729,115,293	1,764,800	292,899,738	(165,651,554)	-	858,128,277
Other receivable	19,652,342	2,225,740	8,011,497	(2,741,315)	-	27,148,264
Expected contract loss	116,353,154	161,780,111	324,779,866	-	(289,895,186)	313,017,945
Inventories impairment provision	503,689,965	4,910,035	106,252,919	(15,109,309)	(84,439,493)	515,304,117
Financial assets impairment provision available for sale	30,000,000	-	-	-	-	30,000,000
	<u>1,398,810,754</u>	<u>170,680,686</u>	<u>731,944,020</u>	<u>(183,502,178)</u>	<u>(374,334,679)</u>	<u>1,743,598,603</u>

**(21) Short term loans**

	Dec. 31, 2014	Dec. 31, 2013
<b>Pledge loans</b>		
- RMB loans (a)	4,370,000,000	3,980,000,000
<b>Guaranteed loans</b>		
- USD loans (b)	2,227,316,000	1,975,395,600
- RMB loans (c)	500,000,000	500,000,000
<b>Credit loans</b>		
- USD loans	8,303,525,245	7,608,469,404
-RMB loans (a)	5,214,500,000	600,000,000
- Euro loans	43,498,520	-
	<u>20,658,839,765</u>	<u>14,663,865,004</u>

- (a) As of Dec. 31, 2014, bank pledge loans 3,870,000,000 Yuan (Dec. 31, 2013: 3,980,000,000 Yuan) is pledged by the 3,861,040,000 Yuan bank short term financial products (Dec. 31, 2013: 3,974,237,236 Yuan) (Note IV (10)). The bank pledge loan 500,000,000 Yuan (Dec. 31, 2013: N/A) is the pledge of all long-term receivable of Nanjing Highway “construction-transfer” project.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(21) Short term loans (continued)

- (b) As of Dec. 31, 2014, bank guarantee loan USD 214,000,000 in RMB 1,309,466,000 Yuan (Dec. 31, 2013: USD 224,000,000, in RMB 1,365,705,600 Yuan), is the bank loan by the Company's subsidiary guaranteed with the letters of guarantee issued, within the credit lines awarded to the Company.

As of Dec. 31, 2014, bank guarantee loan USD 150,000,000, in RMB 917,850,000 Yuan (Dec. 31, 2013: USD 100,000,000, in RMB 609,690,000 Yuan), is the bank loan of the Company's subsidiary, guaranteed by the Company.

- (c) As of Dec. 31, 2014, bank guarantee loan 200,000,000 Yuan (Dec. 31, 2013: 500,000,000), is the bank loan of the Company's subsidiary, guaranteed by Nanjing Metro Group Co., Ltd.

The guaranteed loan of bank guarantee loan is 300,000.000 Yuan (Dec 31, 2013: N/A) is the bank loan of the subsidiary of the Company and the Company provides the guarantee.

Weighted average annual interest rate of loans for the Group is between 1.56% to 6.72% in 2014 (2013: 1.45% to 6.30%).

(22) Notes payable

	Dec. 31. 2014	Dec. 31, 2013
Bank acceptance draft	<u>1,934,231,179</u>	<u>1,218,223,112</u>

Above drafts will be due within one year.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(23) Accounts payable

	Dec. 31, 2014	Dec. 31, 2013
Material purchase and product		
Manufacturing payables	4,481,504,559	3,307,926,338
Equipment purchase payables	96,135,990	120,018,143
Infrastructure building payables	75,226,100	154,235,508
Retention payables	13,161,568	3,309,948
Port use payables	4,318,444	6,620,899
	<u>4,670,346,661</u>	<u>3,592,110,836</u>

(a) Accounts payable analyzed by age:

	<u>Dec. 31, 2014</u>		<u>Dec. 31, 2013</u>	
	Amount	Proportion in total	Amount	Proportion in total
Within one year	4,060,341,815	87%	3,360,700,176	94%
Above one year	610,004,846	13%	231,410,660	6%
	<u>4,670,346,661</u>	100%	<u>3,592,110,836</u>	100%

By Dec. 31, 2014, accounts payable aging above 1 year mainly being payables of imported parts.

(24) Prepayment received

	Dec. 31, 2014	Dec. 31, 2013
Goods sale prepayment received	<u>273,533,666</u>	<u>232,328,686</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(24) Prepayment received (continued)

	Dec. 31, 2014		Dec. 31, 2013	
	Amount	Proportion in total	Amount	Proportion in total
Within one year	242,547,552	89%	197,553,233	85%
Above one year	30,986,114	11%	34,775,453	15%
	<u>273,533,666</u>	<u>100%</u>	<u>232,328,686</u>	<u>100%</u>

By Dec. 31, 2014 and 2013, accounts payable aging above 1 year mainly being payables of imported parts.

(25) Employee remuneration payable

	Dec. 31, 2014	Dec. 31, 2013
Short-term remuneration payable (a)	243,725,463	200,123,222
Set drawing plan payable(b)	1,837,472	6,118,076
	<u>245,562,935</u>	<u>206,241,298</u>

As of Dec. 31, 2014, there are no payable arrears in the payable employee

	Dec. 31, 2013	Purchase of increasing subsidiaries	Increase this year	Deduction this year	Dec 31, 2014
Salary, bonus, allowance and subsidy	168,000,000	4,254,348	1,041,009,552	(1,002,288,730)	210,975,170
Staff welfare	-	-	23,043,151	(23,043,151)	-
Social security	1,138,853	181,590	101,111,487	(101,503,836)	928,094
Including: medical insurance	956,898	92,710	85,344,898	(85,636,743)	757,763
Labor injury fund	110,407	55,646	8,151,596	(8,205,665)	111,984
Birth insurance	71,548	33,234	7,614,993	(7,661,428)	58,347
Housing fund	174,320	249,886	71,044,660	(70,956,081)	512,785
Trade union fund and employee education fund	30,540,124	5,667	14,082,743	(13,507,345)	31,121,189
Other	269,925	-	5,697,711	(5,779,411)	188,225
	<u>200,123,222</u>	<u>4,691,491</u>	<u>1,255,989,304</u>	<u>(1,217,078,554)</u>	<u>243,725,463</u>

remuneration. The balance at the end of 2015 will be all released or used up.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(25) Employee remuneration payable (continued)

(b) Set drawing plan

	Dec. 31, 2013	Disposal of subsidiaries transferred out	Addition report period	Deduction report year	Dec. 31, 2014
Pension	2,043,618	317,469	172,662,534	(173,303,696)	1,719,925
Auxiliary pension	3,934,164	-	65,681,573	(69,615,737)	-
Unemployment fund	140,294	55,708	12,204,606	(12,283,061)	117,547
	<u>6,118,076</u>	<u>373,177</u>	<u>250,548,713</u>	<u>(255,202,494)</u>	<u>1,837,472</u>

(26) Taxes and charges payable

(a) Taxes and charges payable are summarized as follows:

	Dec. 31, 2013	Disposal of subsidiaries transferred out	Current year amount payable	Current year amount payable	Dec. 31, 2014
Operation tax payable	53,692,129	-	84,601,316	(33,466,947)	104,826,498
VAT payable	(95,587,959)	(77,509,684)	102,106,679	(155,024,117)	(226,015,081)
Corporate Tax	16,862,085	-	19,693,519	(2,830,320)	33,725,284
Urban Construction Education Addition	4,581,426	1,858,784	13,684,465	(10,411,335)	9,713,340
Individual Income Tax	3,476,589	1,858,784	12,397,730	(10,111,748)	7,621,355
Other	5,843,696	503,585	64,546,108	(66,913,068)	3,980,321
	<u>4,612,122</u>	<u>3,586,896</u>	<u>50,371,004</u>	<u>(45,758,397)</u>	<u>12,811,625</u>
	<u>(6,519,912)</u>	<u>(69,701,635)</u>	<u>347,400,821</u>	<u>(324,515,932)</u>	<u>(53,336,658)</u>
VAT to be deducted reclassified to other current assets (Note IV(10))	<u>110,357,163</u>				<u>274,503,870</u>
	<u>103,837,251</u>				<u>221,167,212</u>

(27) Interest payable

	Dec. 31, 2014	Dec. 31, 2013
Interest on loan payable	407,214,129	140,459,248
Bond interest payable	188,337,500	277,931,366
	<u>595,551,629</u>	<u>418,390,614</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(28) Dividends payable

	Dec. 31, 2014	Dec. 31, 2013
CCCC	502,283	33,472,814
Hong Kong Zhenhua Engineering Co., Ltd.	346,005	346,005
Macau Zhenhua Bay Engineering Co., Ltd.	6,593	6,593
	<u>854,881</u>	<u>33,825,412</u>

(29)

Other payables

	Dec. 31, 2014	Dec. 31, 2013
Construction deposit	137,534,163	123,091,450
Related parties loans	100,000,000	17,107,673
Related parties payables	52,997,700	17,586,085
CCCC investment payment		
(i)	25,971,833	25,971,033
Insurance claims	-	10,134,482
Other	55,102,608	53,984,514
	<u>371,606,304</u>	<u>247,875,237</u>

(i) The Group during the year 2011 completed the cancellation of a subsidiary. Payable by the Group attributable to shareholders of the subsidiary of another CCCC liquidation of the investment.

(a) Other payables analyzed in age:

	<u>Dec. 31, 2014</u>		<u>Dec. 31, 2013</u>	
	Amount	Proportion in total	Amount	Proporti on in total
Within one year	233,682,690	63%	100,914,161	41%
Above one year	137,923,614	37%	146,961,076	59%
	<u>371,606,304</u>	100%	<u>247,875,237</u>	100%

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

As of Dec. 31, 2014, other payables aged over one year mainly payables to related parties, deposits to outsourced construction team and quality guarantee deposit received.



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(30) Non-current liabilities due within one year

	Dec. 31, 2014	Dec. 31, 2013
Long-term loans due within one year (a)	2,606,660,000	176,810,100
Bonds payable due within one year (Notes IV (32))	-	4,193,487,763
	<u>2,606,660,000</u>	<u>4,370,297,863</u>
(a) Long-term loans due within one year	Dec. 31, 2014	Dec. 31, 2013
Guarantee loan		
- USD loans	367,140,000	-
Credit loans		
- USD loans	489,520,000	176,810,100
- RMB loans	650,000,000	-
Pledge loans		
- RMB loans	1,050,000,000	-
Mortgage loans		
- RMB loans	50,000,000	-
	<u>2,606,660,000</u>	<u>176,810,100</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(31) Long term loans

	Dec. 31, 2014	Dec. 31, 2013
Guarantee loan		
- USD loans (i)	367,140,000	365,814,000
Credit loans		
- USD loans	1,162,610,000	1,274,252,100
- RMB loans	1,750,000,000	650,000,000
Pledge loan		
- RMB loans (ii)	1,687,000,000	-
Mortgage loan		
- RMB loans (iii)	130,000,000	-
	<u>5,096,750,000</u>	<u>2,290,066,100</u>
Less: Long-term loans due within one year (Notes IV (30))	<u>(2,606,660,000)</u>	<u>(176,810,100)</u>
	<u>2,490,090,000</u>	<u>2,113,256,000</u>

- (i) As of Dec. 31, 2014, bank guarantee loan USD 40,000,000 (in 244,760,000 Yuan) and USD 20,000,000 (in 122,380,000 Yuan) (Dec. 31, 2013 : 40,000,000 USD(243,876,000 Yuan) and 20,000,000 USD (121,938,000 Yuan)) refer to the bank loans of the Company's subsidiary, guaranteed by the letter of guarantee issued by the bank within the credit lines awarded to the Company. Interest is paid every quarter. Principals are due by June 19, 2015 and by June 25, 2015 respectively.
- (ii) As of Dec. 31, 2014, multiple pledge loans of the bank is 1,687,000,000 Yuan (Dec. 31, 2013: N/A) in total as pledge of Nanjing Highway "construction-transfer" project long-term receivable in whole amount (Note IV(12)). The interests are paid quarterly and the principal shall be paid back from Dec 21, 2015 to Jun 21, 2017.
- (iii) As of Dec. 31, 2014, the bank mortgage loan of 130,000,000 Yuan (Dec. 31, 2013: N/A) is the guaranty of the fixed assets with book value of 259,731,664 Yuan (original price 314,742,493 Yuan)(Note IV(15)) and intangible assets with the book value of 278,828,506 Yuan (original price 313,628,134 Yuan )(Note IV(17)) of the subsidiary. The interests are paid quarterly and the principal shall be paid back from Jan 19, 2015 and Jan 18, 2016.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(31) Long term loans (continued)

(a) Due day of long term loans:

	Dec. 31, 2014	Dec. 31, 2013
one to two years	2,333,090,000	1,503,566,000
two to five years	157,000,000	609,690,000
	<u>2,490,090,000</u>	<u>2,113,256,000</u>

(b) Lending rate range:

The long-term lending rate range of the Group is 2.56% to 6.91% in 2014 (2013:2.55% to 4.32%)。

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

**IV Notes to major items in the consolidated financial statements (continued)**

**(32) Bonds payable**

	Total face value	Issuance cost		Addition issues	Issuance cost	Returned this year	
			Dec. 31, 2013	current period	amortization report year		Dec. 31, 2014
Issued in 2011							
First							
Intermediate-term bills (a)	1,800,000,000	(27,000,000)	1,798,946,331	-	1,053,669	(1,800,000,000)	-
Second							
Intermediate-term bills (a)	400,000,000	(6,000,000)	399,691,432	-	308,568	(400,000,000)	-
Issued in 2009							
First							
Intermediate term bills (a)	3,800,000,000	(45,050,000)	3,797,777,911	(11,400,000)	13,237,490	-	3,799,615,401
Closed							
Redirect debt financing tools (c)	2,000,000,000	(12,000,000)	1,994,850,000	-	5,150,000	(2,000,000,000)	-
			<u>7,991,265,674</u>	<u>(11,400,000)</u>	<u>19,749,727</u>	<u>(4,200,000,000)</u>	<u>3,799,615,401</u>

- (a) As approved by the Zhong Shi Xie Zhu (2009) MTN16 Notification of Registration Filing from Association of Traders Among Bank of China, the Company publicly issued its 2009 intermediate-term bills on Mar. 12, 2009 and Apr. 9, 2009, total amount 1,800,000,000 Yuan, 400,000,000 Yuan, term 5 years, fixed annual interest rate 4.10%, 4.00%, interest to be paid once a year.
- (b) As approved by the Zhong Shi Xie Zhu (2011) MTN25 Notification of Registration Filing from Association of Traders Among Bank of China, the Company publicly issued non-public directive liability financing instruments on Feb. 4, 2011, total amount 3,800,000,000 Yuan, term 5 years, on simple annual interest basis, fixed annual interest rate 5.85%, interest to be paid once a year. Cost of the issuance of the bonds is paid annually.
- (c) As approved by the Zhong Shi Xie Zhu (2011) PPN16 Notification of Registration Filing from Association of Traders Among Bank of China, the Company publicly issued non-public directive liability financing instruments on Nov. 8, 2011, total amount 2,000,000,000 Yuan, term 3 years, on simple annual interest basis, fixed annual interest rate 6.46%, interest to be paid once a year. Cost of the issuance of the bonds is paid annually.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(33) Expected liabilities

	Dec. 31, 2013	Addition report period	Increase of purchased subsidiarie s	Deduction report year	Dec. 31, 2014
Estimated after-sales service cost	186,334,750	165,707,797	-	(151,478,614)	200,563,933
Product quality cash deposit	-	2,466,240	-	-	2,466,240
Pending litigation compensation	-	-	9,026,468	(3,300,578)	5,725,890
Other	-	870,103	18,553,584	(15,935,334)	3,488,353
	<u>186,334,750</u>	<u>169,044,140</u>	<u>27,580,052</u>	<u>(170,714,526)</u>	<u>212,244,416</u>

(34) Deferred income

	Dec. 31, 2013	Addition report period	Deduction report year	Dec. 31, 2014
Government subsidy (a)	155,255,304	107,479,024	(11,874,864)	250,859,464
Land compensation payment (b)	42,916,667	-	(1,000,000)	41,916,667
	<u>198,171,971</u>	<u>107,479,024</u>	<u>(12,874,864)</u>	<u>292,776,131</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

(a) Government subsidy

	Dec. 31, 2013	Addition report period	Deduction report year	Dec. 31, 2014
Marine industry equipment welding R&D project	1,000,000	-	(1,000,000)	-
Lifting cable layout vessel R&D project	51,100,000	50,000,000	(1,100,000)	100,000,000
Offshore wind turbine installation vessel R&D project	1,600,000		(1,600,000)	-
Export project funding support	-	4,865,410	(4,865,410)	-
Submarine pipeline laying R&D project	14,000,000	13,000,000	-	27,000,000
Drilling platform development project	20,550,000	-	(1,000,000)	19,550,000
Marine engineering positioning system R&D project	10,250,000	-	-	10,250,000
Floating crane R&D project	19,510,000	-	-	19,510,000
Transportation positioning system R&D project	8,000,000	-	-	8,000,000
Automated dock R&D project	900,000	21,000,000	-	21,900,000
Drilling package R&D project	-	8,000,000	-	8,000,000
Other R&D projects	28,345,304	10,613,614	(2,309,454)	36,649,464
	<u>155,255,304</u>	<u>107,479,024</u>	<u>(11,874,864)</u>	<u>250,859,464</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(34) Deferred income(continued)

- (b) The land compensation income is obtained from the movement construction base from Shanghai Expo Land Reservation obtained by the subsidiary of the Group in 2007. Such compensation is amortized in 50 years of the land use right on average.

(35) Capital stock

	Dec. 31, 2013	Report year movement	Dec. 31, 2014
Shares without sales limitation			
RMB common share	2,768,331,384	-	2,768,331,384
Foreign investment Shares listed on domestic market	1,621,963,200	-	1,621,963,200
	<u>4,390,294,584</u>	<u>-</u>	<u>4,390,294,584</u>

	Dec. 31, 2012	Report year movement	Dec. 31, 2013
Shares with sales limitation - State corporate shares	2,768,331,384	-	2,768,331,384
Foreign investment shares	1,621,963,200	-	1,621,963,200
	<u>4,390,294,584</u>	<u>-</u>	<u>4,390,294,584</u>

(36) Capital reserve

	Dec. 31, 2013	Report year movement	Dec. 31, 2014
Capital stock premium	5,415,828,267	-	5,415,828,267
Other Capital reserve			
-Purchase subsidiary Minority interest	(711,345)	-	(711,345)
-Transfer from capital reserve based on former norms	128,059,561	-	128,059,561
	<u>5,543,176,483</u>	<u>-</u>	<u>5,543,176,483</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

	Dec. 31, 2012	Report year movement	Dec. 31, 2013
Capital stock premium	5,415,828,267	-	5,415,828,267
Other Capital reserve			
-Purchase subsidiary Minority interest	(711,345)	-	(711,345)
-Transfer from capital reserve based on former norms	128,059,561	-	128,059,561
	<u>5,543,176,483</u>	<u>-</u>	<u>5,543,176,483</u>



Shanghai Zhenhua Heavy Industries Co., Ltd.

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

IV Notes to major items in the consolidated financial statements (continued)

(37) Other integrated profits

	Other integrated profit in assets liabilities			Other integrated profits in 2014 income statement				
	Dec. 31, 2013	Tax attributable to the parent company	Dec. 31, 2014	Pre-tax amount in report period	Less: other integrated income transferred-in profit or loss listed in prior period	Less: income tax expenses	Tax attributable to the parent company	Tax attributable to the minority shareholde rs
Other integrated profits after reclassification in the profit and loss								
- Fair value change profit or loss of financial assets available for sale (Note IV(11), IV(47))	248,889,422	72,752,627	321,642,049	438,891,023	300,833,759	65,304,637	72,752,627	-
- Conversion difference of foreign currency statements	38,627	(2,140,634)	(2,102,007)	(2,150,514)	-	-	(2,140,634)	(9,880)
	<u>248,928,049</u>	<u>70,611,993</u>	<u>319,540,042</u>	<u>436,740,509</u>	<u>300,833,759</u>	<u>65,304,637</u>	<u>70,611,993</u>	<u>(9,880)</u>
	Other integrated profits in assets liabilities			Other integrated profits in 2013 income statement				
	Dec. 31, 2012	Tax attributable to the parent company	Dec. 31, 2013	Pre-tax amount in report period	Less: other integrated income transferred-in profit or loss listed in prior period	Less: income tax expenses	Tax attributable to the parent company	Tax attributable to the minority shareholde rs

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

Unless otherwise specified, the amount units is RMB.

Other integrated profits after reclassification in the profit and loss

- air value change profit or loss of financial assets available for sale (Note IV(11), IV(47))  
 - Conversion difference of foreign currency statements

	89,099,161	159,790,261	248,889,422	338,177,127	127,660,297	50,726,569	159,790,261	-
	12,973	25,654	38,627	(60,810)	-	-	25,654	(86,464)
	<u>89,112,134</u>	<u>159,815,915</u>	<u>248,928,049</u>	<u>338,116,317</u>	<u>127,660,297</u>	<u>50,726,569</u>	<u>159,815,915</u>	<u>(86,464)</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

IV Notes to major items in the consolidated financial statements (continued)

(38) Surplus reserve

	Dec. 31, 2013	Report year movement	Dec. 31, 2014
Statutory surplus reserve	1,227,769,193	34,458,164	1,262,227,357
Discretionary surplus reserve	292,378,668	-	292,378,668
	<u>1,520,147,861</u>	<u>34,458,164</u>	<u>1,554,606,025</u>

	Dec. 31, 2012	Report year movement	Dec. 31, 2013
Statutory surplus reserve	1,227,769,193	-	1,227,769,193
Discretionary surplus reserve	292,378,668	-	292,378,668
	<u>1,520,147,861</u>	<u>-</u>	<u>1,520,147,861</u>

According to P. R. China Company Law, the Company's Article of Association and board meeting decisions, the Company accrues 10% of its net profit as statutory surplus reserve. When statutory surplus reserve accumulated reached 50% of the Capital stock, the Company can stop accruing. Statutory surplus reserve can be used to compensate loss upon approval, or to increase Capital stock. The Company's statutory surplus reserve is 34,458,164 Yuan in 2014 (2013: no).

(39) Undistributed profit

	<u>2014</u> Amount	<u>2013</u> Amount
Starting undistributed profit	2,808,057,854	2,668,221,534
Add: net loss / profit attributable to parent company report year	199,386,986	139,836,320
Less: statutory surplus reserve	<u>(34,458,164)</u>	<u>-</u>
Closing undistributed profit	<u>2,972,986,676</u>	<u>2,808,057,854</u>

As of Dec. 31, 2014, undistributed profit includes 85,304,802 Yuan balance of surplus reserve attributable to parent company's subsidiaries (Dec. 31, 2013: 76,398,671 Yuan).

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

IV Notes to major items in the consolidated financial statements (continued)

(40) Operating revenue and operating cost

	2014	2013
Major operating income	24,882,003,493	22,922,228,961
Other operating income	187,417,994	279,326,839
	<u>25,069,421,487</u>	<u>23,201,555,800</u>

	2014	2013
Major operating income	21,537,094,034	21,109,707,588
Other operating income	163,586,891	327,309,539
	<u>21,700,680,925</u>	<u>21,437,017,127</u>

(a) Major operating income and major operating cost

In products:

	2014		2013	
	Major operating income	Major operating cost	Major operating income	Major operating cost
Container cranes	12,295,041,201	10,271,871,264	12,264,473,442	10,797,268,174
Marine heavy equipment	4,984,474,241	4,387,726,757	4,234,165,039	4,111,296,503
Bulk machinery	3,597,166,505	3,415,989,051	3,063,018,182	2,952,903,243
Nanjing High Speed "Construction – transfer" Item	2,885,494,223	2,441,043,673	2,191,444,746	2,117,812,203
Steel structures and related income	852,128,970	834,669,679	872,320,624	846,489,536
Vessel shipping and others	267,698,353	185,793,610	296,806,928	283,937,929
	<u>24,882,003,493</u>	<u>21,537,094,034</u>	<u>22,922,228,961</u>	<u>21,109,707,588</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

(b) Other operating income and other operating cost

	2014		2013	
	Other operating income	Other operating cost	Other operating income	Other operating cost
Equipment leasing and others	118,963,365	26,592,670	132,344,002	52,135,975
Sales of materials	<u>68,454,629</u>	<u>136,994,221</u>	<u>146,982,837</u>	<u>275,173,564</u>
	<u>187,417,994</u>	<u>163,586,891</u>	<u>279,326,839</u>	<u>327,309,539</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

IV Notes to major items in the consolidated financial statements (continued)

(40) Operating revenue and operating cost (continued)

(c) Operating income of the Group from top 10 clients:

Operating income from top 10 construction contract clients is 7,147,657,326 Yuan (for 2013: 7,194,567,015 Yuan), taking 29% (as of 2013: 30%) of total sales income of the Group. Details are as follows:

	Operating revenue	Proportion in total operating income of the Group (%)
COMPANY A	2,885,494,223	12%
COMPANY B	1,003,936,074	4%
COMPANY C	806,276,711	3%
COMPANY D	499,415,002	2%
COMPANY E	387,385,197	2%
COMPANY F	332,593,391	1%
COMPANY G	324,649,573	1%
COMPANY H	320,590,724	1%
COMPANY I	294,110,248	1%
COMPANY J	293,206,183	1%
	<u>7,147,657,326</u>	<u>28%</u>

(41) Business tax and charges

	2014	2013
Business tax	96,747,655	71,503,162
Urban maintenance and construction tax	15,918,268	11,267,108
Education charges	13,116,005	8,565,077
Others	2,246,849	3,961,137
	<u>128,028,777</u>	<u>95,296,484</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

IV Notes to major items in the consolidated financial statements (continued)

(42) Selling expenses

	2014	2013
Employee remuneration	34,219,144	32,390,264
Travel expenses	18,784,805	21,289,067
Tender expenses	3,203,208	2,327,153
Advert expenses	1,535,805	1,693,853
Exhibition expenses	1,474,690	1,508,423
Office expenses	1,285,563	1,838,344
Fixed assets depreciation (Notes IV (15))	822,731	4,396,487
Other	3,419,411	3,204,113
	<u>64,745,357</u>	<u>68,647,704</u>

(43) General expenses

	2014	2013
R&D expenses	759,691,386	696,452,611
Employee remuneration	304,421,660	302,860,382
Fixed assets depreciation (Notes IV (15))	90,573,903	89,667,665
Intangible assets amortization (Notes IV (17))	84,888,095	56,420,566
Taxes	62,684,412	44,100,706
Office expenses	35,215,936	38,561,429
PR expenses	13,845,938	18,774,654
Expenses on employing intermediary	9,293,455	9,835,000
Travel expenses	8,978,957	6,503,661
Informatization expenses	5,648,972	2,213,297
Maintenance expense	4,695,575	6,060,915
Consultation expenses	3,356,139	3,230,257
Insurance expenses	2,364,411	2,391,206
Conference expenses	1,003,676	2,244,944
Other	73,482,617	73,608,246
	<u>1,460,145,132</u>	<u>1,352,925,539</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

IV Notes to major items in the consolidated financial statements (continued)

(44) Financial expenses/(income)-- Net

	2014	2013
Interests expenses	1,511,276,971	943,481,809
Less: interest income	(340,273,463)	(107,046,637)
Foreign exchange loss	170,177,194	109,069,248
Less: foreign exchange income	(135,398,670)	(370,863,489)
Amortization of issue cost of intermediate-term bills (Note IV (32))	19,749,727	24,000,000
Other	76,154,695	28,543,524
	<u>1,301,686,454</u>	<u>627,184,455</u>

(45) Expenses classified by nature

Operating costs, sales expenses and management expenses in profit statements are classified by nature as follows:

	2014	2013
Expendable raw material and low value consumables	13,917,581,207	13,875,216,768
External coordination costs	3,340,064,976	3,243,757,916
Employee remuneration (Note IV(25))	1,506,538,017	1,445,221,775
Depreciation and amortization expenses (Note IV(14), IV(15), IV(17))	1,212,262,732	1,227,330,753
Technical R & D expenses	759,691,386	696,452,611
Transportation expenses	712,312,715	592,810,034
On-site installation expenses	312,726,864	218,978,133
Energy expenses	238,674,830	210,611,836
Rental fee	191,169,869	140,607,331
After-sales costs	83,611,224	219,333,270
Taxes	62,684,412	44,100,706
Office expenses	40,439,919	44,579,413
Travel expenses	27,763,762	27,792,728
Business entertainment expenses	13,845,938	18,774,654
Expenses on employing intermediary	9,293,455	9,835,000
informatization expense	5,648,972	2,213,297
Bidding fee	3,203,208	2,327,153
Other expenses	788,057,928	838,646,992
	<u>23,225,571,414</u>	<u>22,858,590,370</u>



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

IV Notes to major items in the consolidated financial statements (continued)

(46) Financial expenses/(income)-- Net

	2014	2013
Financial assets measured at fair value with its change accounted in current profit and loss -		
Fair value change loss (Note IV(2))	(95,434,488)	95,160,012
Financial debt measured at fair value with its change accounted in current profit and loss-		
Fair value change loss (Note IV(2))	<u>(28,107,596)</u>	<u>(644,404)</u>
	<u>(123,542,084)</u>	<u>94,515,608</u>

(47) Investment gains

	2014	2013
On cost basis accounting basis other long term equity investment income	1,103,460	17,057
On equity basis accounting basis Long term equity investment gains/ loss (NotesIV (13)(a)(b))	14,737,413	(3,111,958)
Investment gains from disposal financial assets available-for-sale--equity tool period	1,160,044	1,000,000
Investment gains from disposal financial assets available-for-sale--bank financial products (NotesIV (35))	278,843,280	150,188,587
Investment gains from disposal of subsidiaries	-	749,942,782
Profit obtained from disposal of the financial assets available for sale	<u>75,078,789</u>	<u>-</u>
	<u>370,922,986</u>	<u>898,036,468</u>

(48) Assets impairment loss

	2014	2013
Inventory price reduction loss (Note IV(20))	91,143,610	305,615,043
Receivable bad debt provision loss (Note IV(20))	132,518,366	304,575,957
Predicted contract loss (Note IV(20))	<u>324,779,866</u>	<u>175,482,951</u>
	<u>548,441,842</u>	<u>785,673,951</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

IV Notes to major items in the consolidated financial statements (continued)

(49) Non-operating income

	2014	2013	Amount booked into 2014 non- recurring gains/losses
Non Current assets disposal income	14,241,356	260,792,838	14,241,356
Including: land and building levy compensation income	14,241,356	260,792,838	14,241,356
Government subsidy (a)	20,316,889	47,458,876	20,316,889
Subsidies provided by organizations rather than government	4,865,410	420,000	4,865,410
Other	12,995,059	6,218,237	12,995,059
	<u>52,418,714</u>	<u>314,889,951</u>	<u>52,418,714</u>

(a) Government subsidy specifications:

	2014	2013	Related to assets/ Related to gains
Financial allocation	6,388,724	32,358,876	Related to gains
Science and technology subsidy	12,928,165	14,100,000	Related to gains
Land compensation (Note IV (34))	1,000,000	1,000,000	Related to assets
	<u>20,316,889</u>	<u>47,458,876</u>	

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

IV Notes to major items in the consolidated financial statements (continued)

(50) Non-operating expense

	2014	2013	Amount booked into 2014 non-recurring gains/losses
Non Current assets disposal loss	293,220	19,598,889	293,220
Including: Losses from disposal of fixed assets	293,220	19,598,889	293,220
Other	2,696,435	2,224,583	2,696,435
	<u>2,989,655</u>	<u>21,823,472</u>	<u>2,989,655</u>

(51) Corporate income tax expenses

	2014	2013
Current period corporate tax	19,693,519	24,853,675
Deferred corporate tax	(5,238,959)	(38,501,202)
	<u>14,454,560</u>	<u>(13,647,527)</u>
	2014	2013
Total profit	<u>162,502,961</u>	<u>120,429,095</u>
Corporate tax expenses calculated by the rate of 15%	24,375,444	18,064,364
Impact of tax rate differences on corporate tax expenses	(7,823,004)	17,990,567
Addition and deduction of technological development expenses	(21,630,183)	(21,461,206)
Non-taxable income	(505,260)	(17,527,692)
Non-deductible cost, expenses and loss	5,329,228	17,710,271
Compensable loss of deferred corporate tax assets unconfirmed current period	67,271,399	14,327,270
Temporary differences of unconfirmed deferred income tax	(52,915,856)	(42,984,705)
Adjustment of final settlement prior year	352,792	233,604
Corporate income tax expenses	<u>14,454,560</u>	<u>(13,647,527)</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

Unless otherwise specified, the amount units is RMB.

IV Notes to major items in the consolidated financial statements (continued)

(52) Earnings per share

(a) Basic Earnings per share

Basic / earnings per share is calculated by dividing consolidated net / earnings belonging to common share holders of parent company by the weighted average number of common shares publicly issued by parent company:

	2014	2013
Consolidated net gains belonging to common share holders of parent company	199,386,986	139,836,320
weighted average number of common shares publicly issued by parent company	<u>4,390,294,584</u>	<u>4,390,294,584</u>
Basic Earnings per share	<u>0.05</u>	<u>0.03</u>

(b) Diluted earnings per share

Diluted earnings per share is calculated by the consolidated net earnings attributable to parent company common shareholders after adjustment upon diluting potential common shares divided by the average number of common shares. In 2012 and 2013 the Company had no diluting potential common shares. Thus, diluted earnings per share equal basic earnings per share.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(53) Cash flow statements notes

(a) Cash receipt related with other operational activities

	2014	2013
	165,257,305	18,507,190
Cash receipt of government allowance and bonus	115,921,049	154,300,454
Collected house deposit	6,944,000	-
Cash receipt from income from fines	6,310,578	2,767,165
Customs deposits received	-	64,227,064
Others	6,736,891	3,751,072
	<u>301,169,823</u>	<u>243,552,945</u>

(b) Cash payment related with other operational activities

	2014	2013
Selling and general expenses	211,139,582	195,284,562
Financial expenses formality cost	76,154,695	28,543,524
Customs guarantee deposit	59,279,883	-
Others	4,675,491	7,844,198
	<u>351,249,651</u>	<u>231,672,284</u>

(c) Cash receipt related with other investment activities

	2014	2013
Interest income	<u>63,650,660</u>	<u>135,189,201</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(53) Cash flow statements notes (continued)

(d) Receipt of other cash related to financing activities

	2014	2013
Capital invested by minority shareholders	2,363,230	2,563,812
Related parties loan received	100,000,000	-
Recovery of restricted bank deposits	3,690,587,843	6,157,492,641
	<u>3,792,951,073</u>	<u>6,160,056,453</u>

(e) Payment of other cash related to financing activities

	2014	2013
Intermediate term notes issuance cost expenses	11,400,000	17,400,000
Withdrawal share expenditure of original shareholder of subsidiaries	35,056,927	-
Restricted bank deposits made	4,669,080,148	3,479,049,525
	<u>4,715,537,075</u>	<u>3,496,449,525</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial  
IV statements (continued)

(54) Supplementary information of cash flow statements

(a) The net profit adjusted to cash flow from operating activities

	2014	2013
Net profit	148,048,401	134,076,622
Add/(less): assets impairment provision	548,441,842	785,673,951
Fixed assets and Investment property depreciation	1,127,374,637	1,165,585,522
Intangible assets amortization	84,888,095	61,745,231
Disposal of fixed assets and intangible assets net profit	(13,948,136)	(241,193,949)
Fair value change loss/(income)	123,542,084	(94,515,608)
Financial expenses	1,218,289,282	485,873,502
Investment gains	(370,922,986)	(898,036,468)
Deferred corporate tax assets increase	(1,109,861)	(14,540,533)
Deferred corporate tax liabilities increase	(4,129,098)	(23,960,669)
Inventories decrease	151,571,257	1,260,208,737
Building contract amount (increase) / decrease	(1,608,507,946)	631,829,824
Operating receivables increase	(3,266,723,128)	(2,894,147,723)
Operating payables increase	989,802,505	606,885,310
Net cash flow from operation activities	<u>(873,383,052)</u>	<u>965,483,749</u>

Significant investment and capital raising not involved cash revenue and expenditure

	2014	2013
Inventory—semi-product transferred to project in process	1,507,237,257	-
Inventory—pick the raw material to	95,952,993	-

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

project in process		
Deferred income tax debt caused by asset estimate increase	<u>29,725,076</u>	<u>-</u>



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(54) Supplementary information of cash flow statements (continued)

(b) Net cash movement

	2014	2013
Closing cash balance	1,867,454,807	3,152,471,807
Less: starting cash balance	<u>(3,152,471,807)</u>	<u>(2,357,608,044)</u>
Net cash (decrease) /increase	<u>(1,285,017,000)</u>	<u>794,863,763</u>

(c) Subsidiaries acquisition or disposal

(i) Subsidiaries acquisition

	2014
Payable cash and cash equivalents caused in enterprise merger in this year	-
Add: purchase cash and cash equivalents held by subsidiaries	<u>57,873,562</u>
Net cash received by subsidiaries acquisition	<u>57,873,562</u>

On Feb. 24, 2014, company added investment of 203,000,000 Yuan to Qidong Marine Company in bank deposits and gained 67% equity and listed in merger scale.

Price of subsidiaries acquisition in 2014	<u>203,000,000</u>
---	--------------------

Fair value of subsidiaries acquisition net assets

	2014
Current assets	692,593,586
Non-current assets	1,488,281,942
Current liabilities	(1,884,315,325)
Non-current liabilities	<u>(216,281,033)</u>
	<u>80,279,170</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IV Notes to major items in the consolidated financial statements (continued)

(54) Supplementary information of cash flow statements (continued)

(d) Cash

	Dec. 31, 2014	Dec. 31, 2013
Including: cash in hand	593,298	495,019
Bank deposits disposable	1,831,618,392	3,002,350,930
Other monetary fund disposable	35,243,117	149,625,858
Closing cash balance	<u>1,867,454,807</u>	<u>3,152,471,807</u>

(55) Foreign currency monetary items

	Dec. 31, 2014		
	Foreign curren cy balan ce	Rate	RMB balance
Monetary fund -			
USD	275,169,806	6.1190	1,683,764,043
Euro	18,665,754	7.4556	139,164,396
Singapore dollar	2,383,980	4.6396	11,060,714
Sri Lankan rupee	208,578,798	0.0473	9,865,777
Oman riyal	606,963	16.1109	9,778,720
South Korean won	615,294,624	0.0057	3,507,179
Hong Kong dollar	4,427,905	0.7889	3,493,174
Australian dollar	569,333	5.0174	2,856,571
India rupee	25,874,547	0.0980	2,535,706
Ringgit	465,236	1.7625	819,978
Dirham	351,619	1.6719	587,872
Rand	1,012,113	0.5328	539,254
Canadian dollar	15,464	5.2755	81,580
Pound	2,546	9.5437	24,298
New Zealand Dollar	625	4.8034	3,002
			<u>1,868,082,264</u>

IV

IV Notes to major items in the consolidated financial statements (continued)

(55) Foreign currency monetary items (continued)

	Dec. 31, 2014		
	Foreign	Conversi	RMB balance

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

	currency balance	on rat es	
Accounts receivable -			
USD	239,618,069	6.1190	1,466,222,964
Euro	52,619,085	7.4556	392,306,850
Pound	24,963,067	9.5437	238,240,023
Singapore dollar	20,961,957	4.6396	97,255,096
Canadian dollar	5,267,000	5.2755	27,786,059
Saydu riyal	9,138,151	1.6543	15,117,243
Sri Lankan rupee	34,916,358	0.0473	1,651,544
India rupee	2,751,653	0.0980	269,662
Australian dollar	116,905	5.0174	586,559
Rand	5,342,888	0.5328	2,846,691
Hong Kong dollar	206,033	0.7889	162,539
South Korea won	7,986,326	0.0057	45,522
			<u>2,242,490,75</u>
			<u>2</u>
Other accounts receivable -			
USD	10,362,400	6.1190	63,407,526
Euro	1,895,539	7.4556	14,132,381
Singapore dollar	1,465,134	4.6396	6,797,636
Australian dollar	403,912	5.0174	2,026,588
Canadian dollar	214,564	5.2755	1,131,932
South Korea won	85,944,425	0.0057	489,883
Oman riyal	4,828	16.1109	77,783
			<u>88,063,729</u>
Accounts payable			
USD	74,435,077	6.1190	455,468,236
Euro	24,675,335	7.4556	183,969,428
Australian dollar	22,236	9.5437	212,214
Hong Kong dollar	20,935	4.6396	97,130
Pound	78,850	0.7889	62,205
Singapore dollar	1,740	5.0174	8,730
			<u>639,817,943</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IVIV Notes to major items in the consolidated financial statements (continued)

(55) Foreign currency monetary items (continued)

		Dec. 31, 2014	
	Foreign currency balance	Conversion rates	RMB balance
Other payables -			
USD	498,771	6.1190	3,051,980
Euro	598,154	7.4556	<u>4,459,597</u>
			<u>7,511,577</u>
Short-term loan			
USD			10,530,841,245
	1,721,006,904	6.1190	
Euro	5,834,342	7.4556	<u>43,498,520</u>
			<u>10,574,339,765</u>
Long-term loan due within one year			
USD	140,000,000	6.1190	<u>856,660,000</u>
Long-term loan-			
USD	110,000,000	6.1190	<u>673,090,000</u>

(56) Assets with restricted ownership

	Dec. 31, 2013	Addition report period	Deduction report year	Dec. 31, 2014
Other monetary capital restricted	<u>363,172,156</u>	<u>5,771,266,789</u>	<u>(4,788,030,294)</u>	<u>1,346,408,651</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

V Consolidation scope change

(1) Enterprise consolidation not under the same group

(a) Enterprise consolidation not under the same group this year

Acquiree	Acquisition time	Acquisition cost	Acquisition equity proportion	Acquisition mode	Purchase day	Determination foundation	Acquiree's income from purchase day to year end	Acquiree's net loss from purchase day to year end	Operating cash flow from purchase day to year end	Acquiree's cash flow from net assets from purchase day to year end
Qidong Marine Company	Feb.28, 2014	203,000,000	67%	Capital adding acquisition	Feb.28, 2014	Complete industrial and commercial registration	501,546,678	(190,402,381)	440,200,681	11,909,000

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

V Consolidation scope change (continued)

(1) Enterprise consolidation not under the same group (continued)

(b) Consolidation costs and goodwill confirmation as follows:

Shanghai Zhenhua Heavy  
Qidong Marine Engineering  
Limited Company

Consolidation costs -

Cash	203,000,000
Consolidation costs	203,000,000
Less: gained identifiable net assets fair value share	(53,787,044)
Goodwill	149,212,956

(c) Acquiree's assets and liabilities on purchase day as follows:

(i) Qidong Marine Company

	Purchase day	Purchase day	Dec. 31, 2013
	Fair value	Book value	Book value
Monetary capital	80,378,362	80,378,362	83,848,500
Receivable	35,439,669	35,439,669	22,748,020
Prepayments	131,129,429	131,129,429	107,915,266
Other receivables	111,973,549	111,973,549	269,221,327
Inventory	122,604,132	122,604,132	131,510,097
Account closed construction not completed	133,558,761	133,558,761	81,097,213
Other current assets	77,509,684	77,509,684	74,861,159
Fixed assets	1,180,501,083	1,004,888,803	1,013,899,279
Intangible assets	307,734,306	285,179,430	286,281,957
Deferred income tax assets	46,553	46,553	46,553
Less: short term loans	(769,800,000)	(769,800,000)	(639,810,000)
Notes payable	(10,001,000)	(10,001,000)	(60,278,350)
Payable	(272,237,266)	(272,237,266)	(256,598,552)
Payment in advance	(337,274,010)	(337,274,010)	(266,194,426)
Account closed construction not completed	(134,455,706)	(134,455,706)	(112,471,062)
Employee remuneration payable	(4,342,290)	(4,342,290)	(7,130,004)
Tax payable	(7,808,563)	(7,808,563)	(6,705,067)
Other payable	(254,084,117)	(254,084,117)	(493,636,020)
Non-current liabilities due within one year	(85,000,000)	(85,000,000)	(35,000,000)
Interest payable	(9,312,373)	(9,312,373)	(2,192,112)
Long term loans	(105,000,000)	(105,000,000)	(165,000,000)
Long term payable	(64,917,816)	(64,917,816)	(65,814,592)
Estimated liabilities	(12,825,140)	(12,825,140)	(19,196,012)
Deferred income tax liabilities	(29,725,077)	-	-
Deferred income	(3,813,000)	(3,813,000)	(2,743,000)
Net assets	80,279,170	(88,162,909)	(61,339,826)
Less: minority interest	(26,492,126)	29,093,760	-
Gain net assets	53,787,044	(59,069,149)	(61,339,826)

V Consolidation scope change(continued)

(1) Enterprise consolidation not under the same group (continued)

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

- (d) Estimation technique adopted by Group is used to determine the fair values of assets liabilities of Qidong Marine Company on purchase day. Main assets evaluation method and key hypothesis:

- (i) Qidong Marine Company

Asset evaluation method is asset basic method, key hypothesis in using is published market hypothesis, continuous use hypothesis and continuous operating hypothesis.

Cash flow of Qidong Marine Company from purchase day to Dec.31, 2014

	2014
Cash flow net amount caused in operation	440,200,681
Cash flow net amount caused in investment	(2,991,277)
Cash net amount caused in financing	(425,300,000)
Cash net increased amount	11,909,404
Add: Starting cash balance	57,873,562
Closing cash balance	<u>69,782,966</u>

- (2) Consolidation scope change for other reasons

On May, 30, 2014, the Company spent 400,000 USD to establish wholly-owned subsidiary ZPMC North America Inc.

On Oct.15, 2014, Company spent 490,000,000 won to establish subsidiary company ZPMC Korea CO., LTD with South Korea YONGMOON Company in joint contribution.

On Jan.8, 2014, Company spent 500,000 USD to establish wholly-owned subsidiary ZPMC Engineering Africa (PTY) LTD.

On Sep. 16, 2014, Company spent 480,000 USD to establish wholly-owned subsidiary ZPMC Engineering (India) Private Limited.

On Mar. 7, 2014, Company spent 630,000 USD to establish wholly-owned subsidiary ZPMC Southeast Asia Holding PTE. LTD.

On Mar.24, 2014, Company spent 500,000 Australian dollars to establish wholly-owned subsidiary ZPMC Australia Company PTY LIMITED.

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### VI Interests in Other Entities

##### (1) Interests in subsidiary

##### (a) Enterprise group composition

Name	Main operating address	Registered in	Business nature	Shareholding ratio		Gain mode
				Direct	Indirect	
Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd.	Shanghai Chongming County	Shanghai Chongming County	Machinery manufacturing	90%	-	Investment to set up
Shanghai Zhenhua Heavy Industries Machinery Co., Ltd.	Shanghai Chongming County	Shanghai Chongming County	Machinery manufacturing	100%	-	Investment to set up
Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd.	Hong Kong	Hong Kong	Trade sales	99.99%	-	Investment to set up
Shanghai Zhenhua Shipping Co. Ltd.	Shanghai Pudong New Area	Shanghai Pudong New Area	Ship transportation	55%	-	Investment to set up
Nantong Zhenhua Heavy Equipment Manufacturing Co., Ltd.	Nantong	Nantong	Machinery manufacturing	100%	-	Investment to set up
Shanghai Zhenhua Heavy Industries Group (Nantong) Transmission Machinery Co., Ltd.	Nantong	Nantong	Machinery manufacturing	100%	-	Investment to set up
Shanghai Zhenhua Heavy Industries Group (Nantong) Co., Ltd.	Nantong	Nantong	Machinery manufacturing	100%	-	Investment to set up
Shanghai Zhenhua Heavy Industries Electric Co., Ltd.	Shanghai Pudong New Area	Shanghai Pudong New Area	Electrical equipment R&D	100%	-	Investment to set up
Nantong ZPMC Steel Structure Processing Co., Ltd.	Nantong	Nantong	Machinery manufacturing	75%	25%	Investment to set up
Jiangyin ZPMC Steel Structure Manufacturing Co., Ltd.	Jiangyin	Jiangyin	Machinery manufacturing	75%	25%	Investment to set up



## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Shanghai Zhenhua Heavy Industries Steel Structure Co., Ltd.(Note 1)	Shanghai Pudong New Area	Shanghai Pudong New Area	Machinery manufacturing	-	49%	Investment to set up
Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd	Shanghai Yangshan Bonded Port Area	Shanghai Yangshan Bonded Port Area	Ship transportation	100%	-	Investment to set up
Shanghai Zhenhua Testing Technology Consulting Co., Ltd.	Shanghai Pudong New Area	Shanghai Pudong New Area	Technical consultation	100%	-	Investment to set up

Note 1: Based on constitution of Shanghai Zhenhua Heavy Industries Steel Structure Co., Ltd, Company has right to appoint and dismiss most members in board of directors. In fact, Company obtains control right, so Company is included in Group financial statements consolidation scale.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

VI Interests in Other Entities (continued)

(1) Enterprise Group composition (continued)

(a) Enterprise Group composition (continued)

Name	Main operating address	Registered in	Business nature	Shareholding ratio		Gain mode
				Direct	Indirect	
ZPMC Netherlands B.V.	Holland Rotterdam	Holland Rotterdam	Trade sales	100%	-	Investment to set up
Hotel de Herberg B.V.	Holland Rotterdam	Holland Rotterdam	Trade sales	-	100%	Investment to set up
ZPMC España S.L.	Spanish Los Barrios	Spanish Los Barrios	Trade sales	-	100%	Investment to set up
ZPMC GmbH Hamburg	Germany Hamburg	Germany Hamburg	Trade sales	100%	-	Investment to set up
ZPMC Lanka Company (Private) Limited	Sri Lanka	Sri Lanka	Trade sales	70%	-	Investment to set up
ZPMC North America Inc	USA Delaware	USA Delaware	Trade sales	100%	-	Investment to set up
ZPMC Korea Co., LTD.	South Korea Busan	South Korea Busan	Trade sales	70%	-	Investment to set up
ZPMC Engineering Africa (PTY) LTD.	Kwazulu-Natal Province, Republic of South Africa	Kwazulu-Natal Province, Republic of South Africa	Trade sales	100%	-	Investment to set up
ZPMC Engineering (India) Private Limited	India Maharashtra	India Maharashtra	Trade sales	100%	-	Investment to set up
ZPMC Southeast Asia Holding PTE. LTD.	Singapore	Singapore	Trade sales	100%	-	Investment to set up

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

ZPMC Engineering (Malaysia) Sdn.Bhd.	Malaysia	Malaysia	Trade sales	-	70%	Investment to set up
ZPMC Australia Company (PTY) LTD.	New South Wales, Australia	New South Wales, Australia	Trade sales	100%	-	Investment to set up
Nanjing Ninggao New Channel Construction Co., Ltd.	Jiangsu Nanjing	Jiangsu Nanjing	Trade sales	100%	-	Investment to set up
Shanghai Zhenhua Port Machinery General Equipment Co., Ltd	Shanghai Pudong New Area	Shanghai Pudong New Area	Machinery manufacturing	100%	-	Enterprise consolidation under the same control

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

VI Interests in Other Entities (continued)

(1) Interests in subsidiary (continued)

(a) Enterprise Group composition (continued)

Name	Main operating address	Registered in	Business nature	Shareholding ratio		Gain mode
				Direct	Indirect	
Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd	Shanghai Pudong New Area	Shanghai Pudong New Area	Machinery manufacturing	-	74.02%	Enterprise consolidation under the same control
Shanghai Zhenhua Heavy Industry (Group) Zhangjiang Port Machinery Co., Ltd	Zhangjiagang jingang county	Zhangjiagang Jingang county	Machinery manufacturing	90%	-	Enterprise consolidation under the same control
Qidong Marine Company	Jiangsu Nantong	Jiangsu Nantong	Machinery manufacturing	67%	-	Enterprise consolidation under the different control
Jiangsu Daoda Marine Equipment Technology Co., Ltd	Jiangsu Nantong	Jiangsu Nantong	Ship design	-	100%	Enterprise consolidation under the different control
Daoda (Holland) Marine Technology Co., Ltd	Holland	Holland	Ship design	-	100%	Enterprise consolidation under the different control

(b) Subsidiary exists key minority shareholders' interests

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Name	Shareholding ratio of minority shareholders	2014 gains and losses attributable to the minority shareholders	2014 dividend to the minority shareholders	Dec. 31, 2014 Interests of minority shareholders
Qidong Marine Company	33%	(62,832,786)	-	36,350,659

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

VI Interests in Other Entities (continued)

(1) Interests in subsidiary (continued)

(b) Subsidiary exists key minority shareholders' interests (continued)

Main financial information of above important non wholly owned subsidiary:

	Dec. 31,2014					
	Current assets	Non-current assets	Assets total	Current liabilities	Non-current liabilities	Liabilities total
Qidong Marine Company	757,533,820	1,427,761,956	2,185,295,776	2,169,266,958	126,182,330	2,295,449,288
	2014					
	Operating income	Net profit	Integrated income amount		Operating cash flow	
Qidong Marine Company	501,546,678	(190,402,381)	(190,402,381)		440,200,681	

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### VI Interests in Other Entities (continued)

##### (2) Interests in associates and joint ventures

##### (a) Basic information of joint venture and associates

	Main operating address	Registered in	Operating nature	Whether it is strategic to Group operating	Shareholding ratio	
					Direct	Indirect
– Joint venture						
Jiangsu Longyuan Zhenhua Marine Engineering Co., Ltd.	Jingsu Nantong	Jingsu Nantong	Marine engineering construction	No	50%	-
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	Turkey Istanbul	Turkey Istanbul	Port equipment technology service	No	50%	-
Zhenhua Marine Energy (Hong Kong) Co., Ltd (Note IV (13)(a))	Hong Kong	Hong Kong	Ship transportation	No	51%	-
– Associates						
CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd	Shanghai Pudong	Shanghai Pudong	Vessel technology development consultation	No	25%	-
CCCC estate Yixing Co., Ltd.	Jiangsu Wuxi	Jiangsu Wuxi	Real estate development	No	20%	-
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	Jiangsu Changzhou	Jiangsu Changzhou	Paint manufacturing	No	20%	-
CCCC Financial Rental Co., Ltd.	Shanghai Pudong	Shanghai Pudong	Leasing	No	30%	-

The Group adopts equity accounting method to equity investments above

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

VI Interests in Other Entities (continued)

(2) Interests in associates and joint ventures (continued)

(b) Main financial information of important joint ventures

Jiangsu Longyuan Zhenhua Marine Engineering Co., Ltd.	Dec.31, 2014	Dec.31, 2013
Current assets	211,625,542	182,238,190
Among: cash and cash equivalents	39,958,157	73,205,956
Non-current assets	366,512,542	277,965,764
Assets total	578,138,084	460,203,954
Current liabilities	151,900,718	53,080,172
Non-current liabilities	100,392,085	116,717,012
Liabilities total	252,292,803	169,797,184
Interests of minority shareholders	-	-
Parent company shareholder's interests	325,845,281	290,406,770
Net assets share accounting base on shareholding ratio (i)	162,922,641	145,203,385
Adjusting items		
- Other	-	-
Book value invested to joint venture	162,922,641	145,203,385

(i) Based on joint venture consolidation financial statements parent Company's amount, the Group accounts assets share according to shareholding ratio. Amount in joint venture enterprise consolidation financial statements considers the impact to joint venture identifiable assets, liabilities fair value and uniform accounting policies at investment gaining time.

Jiangsu Longyuan Zhenhua Marine Engineering Co., Ltd.	2014	2013
Operating income	281,732,165	83,915,402
Financial expenses	7,035,737	2,150,023
Income tax expense	5,213,649	-
Net profit /(loss)	35,438,514	(3,706,067)
Other integrated income	-	-
Integrated income/ (loss) total	35,438,514	(3,706,067)
Receivable associates Company's equity of the Group in report period	-	-



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

VI Interests in Other Entities (continued)

(2) Interests in associates and joint ventures (continued)

(c) Main financial information of important associates

	Dec. 31. 2014		Dec.31, 2013	
	CCCC Estate Yixing Co., Ltd.	CCCC Financial Rental Co., Ltd.	CCCC Estate Yixing Co., Ltd.	CCCC Financial Rental Co., Ltd.
Current assets	1,013,691,641	1,597,793,808	890,180,782	-
Non-current assets	6,094,038	1,393,369,897	4,103,850	-
Assets total	1,019,785,679	2,991,163,705	894,284,632	-
Current liabilities	86,351,627	363,662,187	4,887,803	-
Non-current liabilities	60,000,000	789,666,600	-	-
Liabilities total	146,351,627	1,153,328,787	4,887,803	-
Interests of minority shareholders	-	-	-	-
Parent company shareholder's interests	873,434,052	1,837,834,918	889,396,829	-
Net assets share accounting base on shareholding ratio (i)	174,686,809	551,350,475	177,879,366	-
Adjusting items				
- Other	-	-	-	-
Book value invested to associates equity	174,686,809	551,350,475	177,879,366	-

(i) Based on associates consolidation financial statements parent Company's amount, the Group accounts assets share according to shareholding ratio. Amount in joint venture enterprise consolidation financial statements considers the impact to associates identifiable assets, liabilities fair value and uniform accounting policies when the investment is gained.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

VI Interests in Other Entities (continued)

(2) Interests in associates and joint ventures (continued)

(c) Main financial information of important associates (continued)

	2014			2013
	CCCC Estate Yixing Co., Ltd.	CCCC Financial Rental Co., Ltd.	CCCC Estate Yixing Co., Ltd.	CCCC Financial Rental Co., Ltd.
Operating income	-	87,247,087	-	-
Net (loss)/ profit	(16,310,097)	37,841,701	(10,603,170)	-
Other integrated income	-	-	-	-
Integrated (loss)/income total	(16,310,097)	37,841,701	(10,603,170)	-
Receivable associates Company's equity of the Group in report period	-	-	-	-

(d) Summary information of not important joint ventures and associates

	2014	2013
Joint ventures		
Investment book value total	6,961,307	83,200
Total of the following items accounted according to shareholding proportion		
Net (loss)/profit (i)	(12,178,967)	11,784
Other integrated income	-	-
Integrated income total	(12,178,967)	11,784

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

VI Interests in Other Entities (continued)

(2) Interests in associates and joint ventures (continued)

(d) Summary information of not important joint ventures and associates(continued)

	2014	2013
Associated enterprise		
Investment book value total	29,428,850	29,872,979
Total of the following items accounted according to shareholding proportion	-	-
Net profit (i)	1,039,205	849,926
Other integrated income	-	-
Integrated income total	1,039,205	849,926

(i) Net profit and other integrated income have considered the adjusting impaction to associates identifiable assets, liabilities fair value and uniform accounting policies at investment gaining time.

VII **Related parties and related transaction**

(1) Profiles of parent company

(a) Profiles of parent company

	Registered place	Business nature
China Communications Corporation	No. 88, C Andingmen Wai Street, Dongcheng District, Beijing	Port project contracting and related businesses

China Communications Construction Group Corporation is the ultimate controller of the Company.

(b) Parent company's registered capital and the movement

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Name	2013 Dec. 31	Addition report period	2014 Dec. 31
China Communicat ions Corporation	<u>16,174,735,425</u>	<u>-</u>	<u>16,174,735,425</u>

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

## VII Related parties and related transaction (continued)

### (1) Profiles of parent company (continued)

### (c) Parent company's holding proportion and voting proportion in the Company:

Name	2014 Dec. 31		2013 Dec. 31	
	Holding Proportion	Voting Proportion	Holding Proportion	Voting Proportion
China Communications Corporation	28.828%	28.828%	28.828%	28.828%

As of Dec. 31, 2014, China Communications Corporation and its controlled Hong Kong Zhenhua Engineering Co., Ltd. (holding 17.076% stake of the Company) and Macau Zhenhua Bay Engineering Co., Ltd. (holding 0.325% stake of the Company) together hold 46.229% of the Company's stake (Dec. 31, 2013: 46.229%).

### (2) Subsidiary profiles

For information of subsidiaries, refer to Note IV.

### (3) Joint ventures and associates

For information of Joint ventures and associates, refer to Note VI

### (4) Other related parties

Name	Relation with the Group
Hong Kong Zhenhua Engineering Co., Ltd	Controlled by the same parent company
Macau Zhenhua Bay Engineering Co., Ltd	Controlled by the same parent company
CCCC First Harbor Engineering Co., Ltd.	Controlled by the same parent company
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	Controlled by the same parent company
No.2 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	Controlled by the same parent company
No.5 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	Controlled by the same parent company
Installation Engineering Co., Ltd.of CCCC First Harbor Engineering Co., Ltd.	Controlled by the same parent company
CCCC Second Harbor Engineering Co.,	Controlled by the same parent company

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

Ltd.

No.2 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	Controlled by the same parent company
No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	Controlled by the same parent company
CCCC Second Harbor Engineering Survey and Design Institute Co., Ltd.	Controlled by the same parent company
CCCC Third Harbor Engineering Co., Ltd.	Controlled by the same parent company
CCCC Third Harbor Engineering Survey and Design Institute Co., Ltd.	Controlled by the same parent company
CCCC Third Harbor Engineering Xing'an Construction Engineering Co., Ltd.	Controlled by the same parent company
CCCC Fourth Harbor Engineering Co., Ltd.	Controlled by the same parent company
Hainan CCCC Fourth Construction Co., Ltd	Controlled by the same parent company

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### VII Related parties and related transaction (continued)

##### (4) Other related parties (continued)

Name	Relation with the Group
No.2 Engineering Co., Ltd. of CCCC Fourth Harbour Engineering Co., Ltd.	Controlled by the same parent company
No.1 Engineering Co., Ltd. of CCCC First Highway Engineering Bureau Co., Ltd.	Controlled by the same parent company
No.6 Engineering Co., Ltd. of CCCC First Highway Engineering Bureau Co., Ltd.	Controlled by the same parent company
CCCC Second Highway Engineering Bureau Co., Ltd	Controlled by the same parent company
CCCC Shanghai Equipment Engineering Co., Ltd.	Controlled by the same parent company
CCCC USA Company	Controlled by the same parent company
CCCC Tianhe Machinery Manufacturing Co., Ltd.	Controlled by the same parent company
Yueyang Chenglingji Xingang Co., Ltd.	Controlled by the same parent company
China Harbor Engineering Co., Ltd.	Controlled by the same parent company
China Communications Water Transportation Design & Research Co.,Ltd.	Controlled by the same parent company
CCCC Highway Consultants Co., Ltd.	Controlled by the same parent company
CCCC Tunnel Engineering Co., Ltd.	Controlled by the same parent company
Friede & Goldman, Llc.	Controlled by the same parent company
China Communications Materials & Equipment Co., Ltd.	Controlled by the same parent company
Shanghai Jiangtian Industrial Co., Ltd.	Controlled by the same parent company
Tianjin Dredging Company—Binhai Environmental protection Engineering Co., Ltd	Controlled by the same parent company

##### (5) Related transactions

###### (a) Related transactions pricing and decision-making procedures

The Group and the related party, the transaction price is based on mutual agreement and with reference to market price as the pricing basis.

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### VII Related parties and related transaction (continued)

##### (5) Related transactions (continued)

##### (b) Selling goods to Related party

Related party	Related transactions details	2014	2013
Friede&Goldman,Llc.	Selling goods	336,411,736	205,152,024
CCCC Harbor Engineering Co., Ltd.	Selling goods	246,448,541	48,007,343
CCCC Third Harbor Engineering Co., Ltd.	Selling goods	69,723,632	82,764,097
China Communications Water Transportation Design & Research Co.,Ltd.	Selling goods	59,823,097	-
CCCC Fourth Harbor Engineering Co., Ltd.	Selling goods	59,751,329	6,676,126
China Communications Corporation	Selling goods	40,062,236	-
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	Selling goods	34,362,246	80,146,121
Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd.	Selling goods	20,528,920	8,362,205
CCCC Tunnel Engineering Co., Ltd.	Selling goods	19,658,120	-
CCCC Third Harbor Engineering Survey and Design Institute Co., Ltd.	Selling goods	17,676,832	47,061,169
Hainan CCCC Fourth Construction Co., Ltd	Selling goods	16,347,733	-
No.2 Engineering Co., Ltd. of CCCC Fourth Harbor Engineering Co., Ltd.	Selling goods	12,868,943	71,007,524
No.2 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	Selling goods	5,383,422	41,143,743
CCCC Marine Engineering Vessel Technical Research Centre Co., Ltd	Selling goods	4,880,342	-
Tianjin Dredging Company— Binhai Environmental protection Engineering Co., Ltd	Selling goods	2,649,573	-
CCCC Second Harbor Engineering Survey and Design Institute Co., Ltd.	Selling goods	1,775,726	-
Installation Engineering Co., Ltd.of CCCC First Harbor	Selling goods	1,745,283	-
No.2 Engineering Co., Ltd. of CCCC First Harbor Engineering	Selling goods	-	8,821,784



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

Co., Ltd.			
CCCC First Harbor Engineering Co., Ltd.	Selling goods	-	114,440,145
		<u>950,097,711</u>	<u>713,582,281</u>

(c) Related party provided labor service for the Group

Related party	Related transactions details	2014	2013
CCCC Second Highway Engineering Bureau Co., Ltd.	providing labor	1,212,974,461	799,509,310
No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	providing labor	885,245,579	752,787,495
CCCC Third Harbor Engineering Co., Ltd.	providing labor	190,385,882	99,935,530
CCCC Tunnel Engineering Co., Ltd.	providing labor	79,835,548	166,222,974
China Communications Corporation	providing labor	62,727,622	68,366,760
CCCC Third Harbor Engineering Xing'an Construction Engineering Co., Ltd.	providing labor	4,892,308	854,701
Installation Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	providing labor	-	9,029,456
		<u>2,436,061,400</u>	<u>1,896,706,226</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

**VII Related parties and related transaction (continued)**

(5) Related transactions (continued)

(d) Purchasing goods from related party

Related party	Related transactions details	2014	2013
CCCC Shanghai Equipment Engineering Co., Ltd.	purchasing goods	94,917,511	125,955,250
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	purchasing goods	94,210,385	74,818,457
China Communications Materials & Equipment Co., Ltd.	purchasing goods	33,858,763	168,908,244
China Communications Water Transportation Design & Research Co., Ltd.	purchasing goods	-	136,752
		<u>222,986,659</u>	<u>369,818,703</u>

(e) Selling assets or equity to related parties

Related party	Related transactions details	2014	2013
China Communications Corporation	equity transfer	-	840,241,472
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	asset transfer	-	440,000,000
		<u>-</u>	<u>1,280,241,472</u>

(f) Dividend paid to related parties

Related parties	Related transactions details	2014	2013
CCCC Shareholding	Dividend paid	<u>32,970,531</u>	<u>-</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

**VII Related parties and related transaction (continued)**

(5) Related transactions (continued)

(g) Loan from related parties

Related parties	Related transactions details	2014	2013
CCCC Financial Rental Co., Ltd	Inter-bank borrowing	100,000,000	-

(h) Pay interest to related parties

Related parties	Related transactions details	2014	2013
CCCC Financial Rental Co., Ltd	Pay interest	2,950,000	-

(i) Provide guarantee to related parties

Related parties	Related transaction	Guarantee amount	Guarantee start date	Guarantee due date	Whether the Guarantee is implemented
Zhenhua Marine Energy (Hong Kong) Co., Ltd	Provide guarantee	122,380,000	May 26, 2014	May 26, 2015	No

(j) Key executives' salaries

	2014	2013
Key executives' salaries	11,346,400	11,687,500

Number of key executives of the Group in 2014 is 24 (2013: 26).

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

**VII Related parties and related transaction (continued)**

(6) Balances of receivables and payables from or to related parties

(a) Receivables from related parties:

		Dec 31, 2014		Dec 31, 2013	
		book value balance	bad debt provisi on	book value balance	bad debt provision
Accounts					
receivabl	CCCC First Harbor	108,136,38		172,550,7	
e	Engineering Co., Ltd	8	-	80	-
	China Harbor Engineering	91,815,59		55,542,75	
	Co., Ltd.	5	-	9	-
	CCCC Third Harbor			64,649,98	
	Engineering Co., Ltd.	71,896,273	-	4	-
	China Communications	58,739,75		42,121,68	
	Corporation	3	-	0	-
	No.1 Engineering Co., Ltd.				
	of CCCC First Harbor			69,000,00	
	Engineering Co., Ltd.	44,000,000	-	0	-
	China Communications				
	Water Transportation Design	28,237,00			
	& Research Co.,Ltd.	0	-	3,890,000	-
	CCCC Fourth Harbor	19,047,08			
	Engineering Co., Ltd.	6	-	6,376,091	-
	No.6 Engineering Co., Ltd.				
	of CCCC First Harbor	16,160,00		16,160,00	
	Engineering Co., Ltd.	0	-	0	-
				90,118,27	
	Friede & Goldman, Llc.	14,297,643	-	9	-
	Hainan CCCC Fourth	11,954,28			
	Construction Co., Ltd	0	-	-	-
	CCCC Third Harbor				
	Engineering Survey and			29,000,00	
	Design Institute Co., Ltd.	9,270,000	-	0	-
	CCCC Second Harbor			14,861,01	
	Engineering Co., Ltd.	8,694,975	-	0	-
	No.2 Engineering Co., Ltd.				
	of CCCC Fourth Harbor				
	Engineering Co., Ltd.	8,689,705	-	-	-
	No.2 Engineering Co., Ltd.				
	of CCCC Second Harbor				
	Engineering Co., Ltd.	8,180,099	-	5,000,000	-
	CCCC Marine Engineering				
	Vessel Technology				
	Research Centre Co., Ltd	6,810,000	-	1,100,000	-
	No.1 Engineering Co., Ltd.				
	of CCCC First Harbor	6,760,000	-	8,760,000	-

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

Engineering Co., Ltd. CCCC Second Harbor Engineering Survey and Design Institute Co., Ltd.	6,278,000	-	-	-
Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd. No.2 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	4,158,337	-	41,242,615	-
Tianjin Dredging Company—Binhai Environmental protection Engineering Co., Ltd.	4,034,049	-	7,949,765	-
CCCC Second Highway Engineering Bureau Co., Ltd.	2,170,000	-	-	-
CCCC Highway Consultants Co., Ltd.	550,000	-	550,000	-
No.5 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	422,750	-	-	-
Yueyang Chenglingji Xingang Co., Ltd.	52,862	-	52,861	-
CCCC Tianhe Machinery Manufacturing Co., Ltd.	42,000	-	42,000	-
CCCC Shanghai Equipment Engineering Co., Ltd. Installation Engineering Co., Ltd.of CCCC First Harbor Engineering Co., Ltd.	26,800	-	-	-
	48,425	-	-	-
	160,797	-	-	-
	<u>530,632,817</u>	<u>-</u>	<u>628,967,824</u>	<u>-</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

**VII Related parties and related transaction (continued)**

(6) Balances of receivables and payables from or to related parties (continued)

(a) Receivables from related parties (continued):

		2014 Dec. 31		2013 Dec. 31	
		Book value	bad debt	book value	bad debt
		balance	provisio	balance	provisio
			n		n
Accounts receivable	Chin Communications Corporate No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	-	-	672,193,178	-
		10,000,000	-	10,000,000	-
		<u>10,000,000</u>	<u>-</u>	<u>682,193,178</u>	<u>-</u>
Advanced payment	Chin Communications Corporate CCCC Third Harbor Engineering Xing'an Construction Engineering Co., Ltd.	33,675,829	-	18,097,954	-
		2,200,000	-	2,200,000	-
		<u>35,875,829</u>	<u>-</u>	<u>20,297,954</u>	<u>-</u>

(b) Payables to related parties

		2014 Dec. 31	2013 Dec. 31
Accounts payable	No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	436,381,667	414,405,206
	CCCC Second Highway Engineering Bureau Co., Ltd.	542,740,653	307,151,472
	CCCC Third Harbor Engineering Co., Ltd.	146,654,846	53,290,609
	CCCC Tunnel Engineering Co., Ltd.	54,054,936	58,454,836
	Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	16,507,869	17,837,158
	CCCC Shanghai Equipment Engineering Co., Ltd.	15,374,859	14,337,357

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

	CCCC Third Harbor Engineering Xing'an Construction Engineering Co., Ltd.	10,051,352	7,189,906
	China Communications Water Transportation Design & Research Co.,Ltd.	160,000	160,000
	China Communications Materials & Equipment Co., Ltd.	-	38,616,112
	Installation Engineering Co., Ltd.of CCCC First Harbor Engineering Co., Ltd.	-	1,633,418
		<u>1,221,926,182</u>	<u>913,076,074</u>
Advances	No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	1,194,097	1,194,097
	CCCC Third Harbor Engineering Xing'an Construction Engineering Co., Ltd.	200,000	200,000
		<u>1,394,097</u>	<u>1,394,097</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

**VII Related parties and related transaction (continued)**

(6) Balances of receivables and payables from or to related parties (continued)

(b) Payables to related parties (continued)

		2014 Dec. 31	2013 Dec. 31
Dividends payable	China Communications Corporation	502,283	33,472,814
	Hong Kong Zhenhua Engineering Co., Ltd.	346,005	346,005
	Macau Zhenhua Bay Engineering Co., Ltd	6,593	6,593
		<u>854,881</u>	<u>33,825,412</u>
Interest payable	CCCC Financing Rental Co., Ltd	<u>171,111</u>	<u>-</u>
Other payables	CCCC Financing Rental Co., Ltd	100,000,000	-
	China Communications Corporation	31,097,080	25,971,033
	Shanghai Jiangtian Industrial Co., Ltd.	17,586,085	17,586,085
	CCCC Second Highway Engineering Bureau Co., Ltd.	14,796,932	7,971,852
	No.3 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	9,052,063	6,981,332
	CCCC Third Harbor Engineering Co., Ltd.	4,437,460	1,419,932
	CCCC Tunnel Engineering Co., Ltd.	1,999,913	734,557
		<u>178,969,533</u>	<u>60,664,791</u>

(7) Promises with related parties

The following are promises contracted but not necessarily shown on B/S with related parties as of B/S day:

Related party provided labor service for the Group	2014 Dec. 31	2013 Dec. 31
CCCC Second Harbor Engineering Co., Ltd	40,226,953	925,472,532
CCCC Third Harbor Engineering Co., Ltd	37,439,931	227,825,813
China Communications Corporation	29,333,629	52,667,257
CCCC Third Harbor Engineering Xing'an Construction Engineering Co., Ltd.	37,076,943	37,076,943
Installation Engineering Co., Ltd. of CCCC First Harbor Engineering Co.,	29,435,537	29,435,537



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

Ltd.		
CCCC Tunnel Engineering Co., Ltd	4,543,079	84,378,627
CCCC First Harbor Engineering Co., Ltd.	1,000,000	1,000,000
CCCC Second Highway Engineering Bureau	-	957,934,902
	<u>179,056,072</u>	<u>2,315,791,611</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

**VII Related parties and related transaction (continued)**

**(7) Promises with related parties(continued)**

Related party built docks and workshops for the Group	Dec 31, 2014	Dec 31, 2013
CCCC Third Harbor Engineering Co., Ltd.	13,750,000	13,750,000
Selling goods or assets to related party	Dec. 31, 2014	Dec. 31, 2013
Friede & Goldman, Llc.	238,167,735	280,587,160
Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd.	54,635,214	897,809
No.2 Engineering Co., Ltd. of CCCC Fourth Harbor Engineering Co., Ltd	41,312,416	54,181,359
CCCC Third Harbor Engineering Co., Ltd.	37,938,701	20,633,487
Hainan CCCC Fourth Construction Co., Ltd	17,710,044	-
CCCC Tunnel Engineering Co., Ltd.	9,119,658	-
No.2 Engineering Co., Ltd. of CCCC Second Harbor Engineering Co., Ltd.	9,004,698	6,652,271
China Communications Corporation China Communications Water Transportation Design & Research Co.,Ltd.	8,405,826	-
China Bay Engineering Co., Ltd	6,672,629	66,495,726
No.1 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	5,988,053	5,203,094
CCCC Third Harbor Engineering Survey and Design Institute Co., Ltd.	5,966,005	40,328,251
No.2 Engineering Co., Ltd. of CCCC First Harbor Engineering Co., Ltd.	4,515,993	4,220,882
CCCC Fourth Harbor Engineering Co., Ltd.	1,617,636	580,096
CCCC First Harbor Engineering Co., Ltd.	333,806	60,085,135
CCCC First Harbor Engineering Co., Ltd.	-	130,177
	<u>441,388,414</u>	<u>539,995,447</u>
Invested to the related parties	Dec. 31, 2014	Dec. 31, 2013
	Dec. 31, 2014	Dec. 31, 2013
CCCC USA Company	<u>73,428,000</u>	<u>-</u>

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### VIII Contingencies

As of Dec 31, 2014, the significant contingencies of the Group are as follows:

- (1) Suzhong Construction Group Co., Ltd. (Hereinafter referred to as "Suzhong Construction") contracted the project construction of the Industrial R&D Building in 2008, but the two sides entered into dispute at settlement upon completion. In September 2013 the Company filed a request to Shanghai Arbitration Commission for Suzhong Construction to pay an overdue fine of 7.444 million Yuan due to delays of construction and so on, while in February 2014 Suzhong Construction filed a counterclaim to Shanghai Arbitration Commission requesting the Company to pay about 162 million Yuan for the project settlement and related interest costs; the arbitration case will be initially heard shortly. The Company believes the said case shall not impose significant impact on the 2014 financial statements of the Company.

- (2) In 2008 the Company and Fluor Limited (hereinafter referred to as "Fluor") British wind power project signed an agreement of sales and installation for wind power steel pipe pile products for the British Wind Power Project. In the project construction process, the Company and Fluor, by way of friendly consultations and in the spirit of good cooperation, maintain dispute handling normal communication mechanism. In June 2010, for the implementation of the contract, after review by the board of directors of the Company, the Company and Fluor signed a mutual exemption letter, and in 2011 settled the remaining payment. Afterwards, Fluor produced claim to the Company for quality compensation, and requested the Company to cash the pay-on-claim quality guarantee bond, while the Company rejected the claim. On March 20, 2014 Fluor cashed the amount of 23,409,750 euro bond. The Company has consulted professional lawyers, and is planning to claim under the guarantee bond a compensation for principal and interest loss through corresponding legal procedures

In September 2014, Fluor initiated proceedings for the breach caused by the problems related to the product quality to High Court of Justice, Queen's Bench Division, The Technology and Construction Court (hereinafter referred to as "TCC Court of Britain Queen's Bench") and asked the Company for the compensation of 250 million Pounds for additional test and repair cost, project period delay and related loss. (including the cashed bond amount of 23,409,750 Euro). The Company didn't acknowledge the claim for the compensation from Fluor

The Company attached great importance to this case, established special team and hired senior legal team both at home and abroad to actively advocate the Company's rights and protect the Company's rights from damaged. At present, this case is still in the judgment. Therefore, the Company is unable to reliably estimate the possible result of the case, possible loss and profit possibility and amount arising from that. The Company will timely disclose the related impact based on the progress.

- (3) As of Dec. 31, 2014, the Group provided financial guarantee of amount of 19,184,000 Yuan to customer Jiangsu Yanweigang Port Co., Ltd which will be due on Nov 11, 2017. The amount above reflects the max loss caused to the Group once it breaches the agreement. The Jiangsu Yanweigang Port Co., Ltd has health finance with no predicted significant debt breach risk. The Group didn't confirm the debt related to the financial guarantee.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

IX Promises

(1) Capital expense promises

List in the following is the capital expenses promises not yet to be confirmed in the financial statements but the contracts have been signed on the reporting day.

	2014 Dec. 31	2013 Dec. 31
House, building and equipment	<u>82,860,285</u>	<u>92,345,336</u>

(2) Operating leasing Promises

According to non-revocable operating leasing contracts signed, the minimum rent to be paid is listed as follows:

	2014 Dec. 31	2013 Dec. 31
within one year	14,492,026	14,854,526
one to two years	14,849,826	14,492,026
two to three years	15,229,026	14,849,826
above three years	<u>103,934,727</u>	<u>119,163,753</u>
	<u>148,505,605</u>	<u>163,360,131</u>

(3) L/C Promises

The company entrusted bank to issue several L/C's to purchase imported components or parts. As of Dec. 31, 2014 payable under the L/C's amounted to 2,062,335,305 Yuan (Dec. 31, 2013: 1,796,062,094 Yuan).

(4) Investment promise

Based on the agreement signed by the Company and Portunus Liman Hizmetleri ve Yedek Parca Servis Tic. A.S on Nov 28, 2014, the Company promised to increased capital of 200000 USD to the joint venture ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi. As of Dec. 31, 2014, the company has increased to 51,150 USD.

Based on the agreement signed by the Company and CCCC holding on Dec 19, 2014, the Company promised to increase the capital of 12 million USD to CCCC USA Company. As of Dec. 31, 2014, the Company didn't make investment.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

X Enterprise combination

See Note V (1)(2)

XI Financial risks

Operation of the Group faces various financial risks: market risks (mainly foreign exchange risks and interest rate risks), credit risks and liquidity risks. The overall risk control planning of the Group aims at the unpredictability of financial market, in an attempt to minimize the potential impact on the financial result of the Group

(1) Market risks

(a) Foreign risks

Major production of the Group is located within the boarder of China, but major businesses are settled in USD and Euro. Therefore there exist risks with already-confirmed foreign currency assets and liabilities and future foreign currency transaction (foreign currency assets and liabilities and foreign currency transaction are mainly priced by USD and Euro). The Group's financial department is responsible for the controlling of the Group's foreign currency transaction and the size of foreign currency assets and liabilities, to minimize foreign risks. Considering above, the Group controls its foreign risks via establishing time foreign contracts. As of Dec. 31, 2014 and Dec. 31, 2013 status of time foreign contracts not due are shown in Note IV (2).

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XI Financial risks (continued)

(1) Market risks (continued)

(a) Foreign risks (continued)

As of Dec. 31, 2014 and Dec. 31, 2013, RMB amount of the Group's foreign currency financial assets and financial Liabilities are listed as follows:

	Dec. 31, 2014 (RMB Equivalents)			Total
	USD	Euro	Other Foreign monetary	
Foreign monetary Financial assets				
Monetary capital	1,683,764,043	139,164,396	45,153,825	1,868,082,264
Receivables	1,529,630,490	406,439,231	394,484,760	2,330,554,481
			439,638,58	
	<u>3,213,394,533</u>	<u>545,603,627</u>	<u>5</u>	<u>4,198,636,745</u>
Foreign monetary financial liabilities -				
short-term loans	10,530,841,24			
Payables	5	43,498,520	-	10,574,339,765
Non-current liabilities due within one year	458,520,216	188,429,025	380,279	647,329,520
Long term loans	856,660,000	-	-	856,660,000
	673,090,000	-	-	673,090,000
	<u>12,519,111,46</u>			
	<u>1</u>	<u>231,927,545</u>	<u>380,279</u>	<u>12,751,419,285</u>
	Dec. 31, 2013 (RMB Equivalents)			
	USD	Euro	Other Foreign monetary	Total
Foreign monetary Financial assets				
Monetary capital	1,054,621,917	322,790,729	148,402,668	1,525,815,314
Receivables	2,140,090,105	413,722,164	86,917,165	2,640,729,434
	<u>3,194,712,022</u>	<u>736,512,893</u>	<u>235,319,833</u>	<u>4,166,544,748</u>
Foreign monetary financial liabilities -				
short-term loans	9,583,865,004	-	-	9,583,865,004
Payables	286,193,028	235,478,511	2,138,091	523,809,630
Non-current liabilities due within one year	176,810,100	-	-	176,810,100
Long term loans	1,463,256,000	-	-	1,463,256,000
	<u>11,510,124,13</u>			
	<u>2</u>	<u>235,478,511</u>	<u>2,138,091</u>	<u>11,747,740,734</u>

## **Shanghai Zhenhua Heavy Industries Co., Ltd.**

### **2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

As of December 31, 2014, regarding all kinds of financial assets and financial liabilities in USD of the Group, if the Yuan sees an appreciation or depreciation by 1% against the dollar, while other factors remain unchanged, the Group will increase or decrease the total profit by approximately 93,057,169 Yuan (December 31, 2013: to reduce or increase the losses totaling approximately 83,154,121 Yuan).

As of December 31, 2014, regarding the Group's all kinds of financial assets in Euro and the financial liabilities in Euro, if the RMB sees appreciation or depreciation against Euro by 1%, while other factors remain unchanged, the Group will reduce or increase the total profit by approximately 3,136,761 Yuan (December 31, 2013: to increase or reduce the total amount of losses by 5,010,344 Yuan).

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### XI Financial risks (continued)

##### (1) Market risks (continued)

##### (b) Interest rate risks

Interest rate risks of the Group mainly originate from long-term liabilities with interest including long term bank loans and bonds payable. 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, 2014, the Group's long-term liabilities with interests include only contracts with flexible rates priced in USD, and contracts with fixed rates priced in RMB and USD. Amount of contracts with flexible rates priced in USD is 1,284,990,000 Yuan (Dec. 31, 2013: 1,280,349,000 Yuan); and the amount of contracts with fixed rates priced in RMB is 3,567,000,000 Yuan (Dec. 31, 2013: 4,447,777,911 Yuan). and the amount of contracts with fixed rates priced in USD is 244,760,000 Yuan (Dec. 31,2013: 182,907,000 Yuan).

The financial division of the Group keeps close watch over the interest rates level of the Group. Since the rise of interest rates will increase the cost of newly added liabilities with interests, interest expenses on unpaid liabilities with interests priced in flexible rates, and will significantly impact the financial results of the Group, the management will lower the rate risks via swap contracts based on current market status. In 2014, the Group had no such swap arrangements.

As of Dec. 31, 2014 when the rate of long-term liabilities with flexible rates increases or decreases by 100 basis points while other factors remain unchanged, the Group will decrease or increase a total interest expenditure of about 12,849,900 Yuan (2013: total increased or decreased interest expenditure amount being 12,803,490 Yuan).

##### (2) Credit risks

The Group manages credit risks by portfolio classification. Credit risks mainly originate from bank loans, accounts receivable, other receivables, notes receivable and other current assets-bank financial products etc.

Bank deposits of the Group and other current assets-bank financial products are mainly put in state-owned banks and other large or medium-sized listed banks. Therefore, the Group believes they suffer no significant credit risks or cause any significant losses as a result of contract breach of the counterparts.

In addition, speaking of accounts receivable, other receivables, and notes receivable, the Group established related policies to control credit risks. The Group evaluates clients' credit qualification and sets corresponding credit terms on the basis of clients' financial status, possibility of obtaining guaranty from a third-party, credit record and other factors including current market status rating. The Group monitors clients' credit record on regular basis. When client is found with bad credit record, the Group will sent out written calls, shorten credit terms or cancel credit terms, in an attempt to ensure that the Group's overall credit



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

risks are within control.

XI Financial risks (continued)

(3) Liquidity risks

Subsidiaries within the Group are responsible for their own prediction of cash flow. The financial section of the head office continues to monitor the capital demand for short-term and long-term capital at the group level after collecting all predictions of subsidiaries, to ensure sufficient cash reserve and cashable securities. Meanwhile, the financial section of the head office continues to monitor the financial and non-financial factors prescribed in credit agreements and loan agreements, to ensure the Group should get sufficient line of credit from key financial institutions to satisfy capital demand both in short term and long term.

On Dec. 31, 2014, as of B/S day, various financial assets and liabilities of the Group are listed as follows by due dates in undiscounted contracted cash flow (principal and interest included):

	Dec. 31, 2014			Total
	within one year	one to two years	two to five years	
Financial liabilities short-term				
loans	20,957,384,835	-	-	20,957,384,835
Payables	5,041,952,965	-	-	5,041,952,965
Notes payable	1,934,231,179	-	-	1,934,231,179
Interest payable	595,551,629	-	-	595,551,629
Dividends payable	854,881	-	-	854,881
Non-current liabilities due within one year	2,714,290,393	-	-	2,714,290,393
Long term loans	117,470,593	2,396,259,890	162,154,624	2,675,885,107
Bonds payable	225,387,500	3,834,580,000	-	4,059,967,500
	<u>31,587,123,975</u>	<u>6,230,839,890</u>	<u>162,154,624</u>	<u>37,980,118,489</u>

On Dec. 31, 2013, as of B/S day, various financial assets and liabilities of the Group are listed as follows by due dates in undiscounted contracted cash flow (principal and interest included):

	Dec. 31, 2013			Total
	within one year	one to two years	two to five years	

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

Financial liabilities - short-term				
loans	14,862,020,976	-	-	14,862,020,976
Payables	3,995,241,377	-	-	3,995,241,377
Notes payable	1,218,223,112	-	-	1,218,223,112
Interest payable	418,390,614	-	-	418,390,614
Dividends payable	33,825,412	-	-	33,825,412
Non-current liabilities due within one year	4,510,392,379	-	-	4,510,392,379
Long term loans	74,025,188	1,559,320,876	617,505,619	2,250,851,683
Bonds payable	225,387,500	225,387,500	3,834,580,000	4,285,355,000
		1,784,708,376	4,452,085,619	
	<u>25,337,506,558</u>	<u>6</u>	<u>9</u>	<u>31,574,300,553</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XII Fair value estimates

The tier attributed to the fair value measurement results is determined by the minimum of the input value with significant meaning to the fair value measurement.

Tier One: quotation of the same kind of assets or liabilities on active market.

Tier Two: input value of assets or liabilities observable directly or indirectly except for market quotation at Tier One.

Tier Three: unobservable input value of related assets and liabilities

(1) Assets continuously measured at fair value

On Dec. 31, 2014, financial assets measured by fair value are listed as follows based on above 3 tiers:

	tier one	tier two	tier three	Total
Financial assets				
Financial assets measured at fair value with the change accounted in current profit and loss				
- Forward foreign exchange contracts	-	25,735,001	-	25,735,001
Available-for-sale financial assets				
short-term financial products	-	5,686,257,756	-	5,686,257,756
Available-for-sale equity instruments	433,180,453	-	-	433,180,453
Total assets	<u>433,180,453</u>	<u>5,711,992,756</u>	<u>-</u>	<u>6,145,173,210</u>

On Dec. 31, 2014, financial liabilities measured by fair value are listed as follows based on above 3 tiers:

	tier one	tier two	tier three	Total
Financial assets				
Financial debt measured at fair value with the change accounted in current profit and loss				
Forward foreign exchange contracts	-	28,752,000	-	28,752,000
	<u>-</u>	<u>28,752,000</u>	<u>-</u>	<u>28,752,000</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XII Fair value estimates (continued)

(1) Financial assets measured by fair value

On Dec. 31, 2013, financial assets measured by fair value are listed as follows based on above 3 tiers:

	tier one	tier two	tier three	Total
Financial liabilities				
Financial assets measured at fair value with the change accounted in current profit and loss				
Forward foreign exchange contracts	-	121,169,489	-	121,169,489
Available-for-sale financial assets	-	-	-	-
- short-term financial products	-	4,202,678,325	-	4,202,678,325
- Available-for-sale equity instruments	172,770,000	0	-	172,770,000
Total assets	<u>172,770,000</u>	<u>4,323,847,814</u>	<u>-</u>	<u>4,496,617,814</u>

On Dec. 31, 2013, financial liabilities measured by fair value are listed as follows based on above 3 tiers:

	tier one	tier two	tier three	total
Financial debt				
Financial liabilities				
Financial debt measured at fair value with the change accounted in current profit and loss				
- Forward foreign exchange contracts	-	644,404	-	644,404
	<u>-</u>	<u>644,404</u>	<u>-</u>	<u>644,404</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XII Fair value estimate (continued)

(1) Continuous assets 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 tire 1 and 2 this year.

As for the financial instrument traded on active market, the Group will confirm the fair value with the quotation in the active market; as for the financial instrument not traded on active market, the Group confirms the fair value using the value estimation technology. Cash flow discount model is used as value estimation model. The input values of the value estimate technology includes the riskless interest rate and long exchange rate.

Related information of fair value measurement at tire 2:

	Dec. 31, 2014 fair value	Value estimate technolog y	Observable input values	
			Name	Scope
Financial assets measured at fair value with the change accounted in current profit and loss —				
USD long exchange contract	25,735,001	Cash flow discount model	USD: RMB long rate	6.1380- 6.3756
Financial assets available for sale—				
Bank short-term financing product	5,686,257,756	Cash flow discount model	Contract agr eed profit rat e	4.25%- 6.74%
Financial debt measured at fair value with the change accounted in current profit and loss—				
USD long exchange contract	(28,752,000)	Cash flow discount model	USD: RMB l ong rate	6.1380- 6.3756

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XII Fair value estimate (continued)

(2) Assets and debt not measured at fair value but disclosing the fair value

Financial assets and financial debt measured with amortized cost include: receivables, long-term receivables, short-term loan, payables, long-term loan and payable bond.

The long-term receivables are the receivables with floating rate. The difference between the book value and fair value is small. Besides the financial assets and financial debt below, the difference between the book value and fair value of the financial assets and financial debt not measured at the fair value is small.

	Dec. 31, 2014		Dec. 31, 2013	
	book value	fair value	book value	fair value
Financial debt				
Long-term				
loan	2,490,090,000	2,404,939,576	1,930,349,000	2,017,004,376
Bonds payable	<u>3,799,615,401</u>	<u>3,597,598,000</u>	<u>3,797,777,911</u>	<u>3,776,441,036</u>
	<u>6,289,705,401</u>	<u>6,002,537,576</u>	<u>5,728,126,911</u>	<u>5,793,445,412</u>

The fair value is confirmed by the quotation in the active market when holding the payable bond with due investment and active market, which belongs to tire 1. As for the long-term loan, long-term payables and payables without active market, the fair value is confirmed by the future cash flow specified in the contract according to the comparable credit level and the same cash flow rate provided in the same conditions, which belongs to tire 3.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIII Capital management

The capital management policy aims to ensure that the Group could continuously operate, thus to provide return to the shareholders and profit to other stakeholders, and maintain the optimal capital structure to reduce the capital cost.

In order to maintain or adjust the capital structure, the Group may adjust the dividend amount to the shareholders, return the capital to the shareholder, release new stock or sell the asset to reduce the debt.

The total capital of the Group is the shareholder rights listed in the consolidation balance sheet. The Group is not limited by the external forced capital requirement and utilizes the debt ratio to monitor the capital. This ratio is calculated by the debt net amount divided by the total capital. The debt net amount is the total loan (including the short-term loan, other non-current debt due within one year and long-term loan and the payable bond listed in consolidation balance sheet) deducting the cash and cash equivalent. The total capital is the total shareholders' rights adding the debt net amount.

As of Dec. 31, 2014 and Dec. 31, 2013, the Group debt ratio is shown as below:

	Dec 31, 2014	Dec 31, 2013
Debt ratio	<u>65%</u>	<u>60%</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements

(1) Accounts receivable

	Dec. 31, 2014	Dec. 31, 2013
Accounts receivable	6,838,349,694	5,821,700,760
Less: bad debt provision	<u>(832,754,361)</u>	<u>(702,957,451)</u>
	<u>6,005,595,333</u>	<u>5,118,743,309</u>

(a) Accounts receivable debt age as follows:

	Dec. 31, 2014
One to six months	4,996,010,253
Seven to twelve months	310,875,441
one to two years	740,928,018
two to three years	180,939,289
three to four years	134,202,122
four to five years	69,767,558
above five years	<u>405,627,013</u>
	<u>6,838,349,694</u>
	Dec. 31, 2013
within one year	4,924,292,178
one to two years	365,816,488
two to three years	209,602,610
above three years	<u>321,989,484</u>
	<u>5,821,700,760</u>



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(1) Accounts receivable (continued)

(b) Accounts receivable listed in type as follows

	Dec. 31, 2014				Dec. 31, 2013			
	book value balance		bad debt provision		book value balance		bad debt provision	
	amount	Proportion in total	amount	Provision ratio	amount	Proportion in total	amount	Provision ratio
Big single amount, provided for bad debt separately	107,819,500	2%	(107,819,500)	100%	158,184,500	3%	(158,184,500)	100%
Total bad debt provision accrued in groups								
Credit risk portfolio								
- Related party	3,054,340,373	44%	-	-	2,305,650,780	40%	-	-
- third party	3,525,476,370	52%	(576,612,618)	16%	3,320,989,427	57%	(510,279,469)	15%
Single amount, though not significant, separate provision for bad debt made	150,713,451	2%	(148,322,243)	98%	36,876,053	-	(34,493,482)	94%
	<u>6,838,349,694</u>	<u>100%</u>	<u>(832,754,361)</u>	<u>12%</u>	<u>5,821,700,760</u>	<u>100%</u>	<u>(702,957,451)</u>	<u>12%</u>

(c) As of Dec. 31, 2014, the accounts receivable with big single amount, provided for bad debt separately analysis is as following:

	book value balance	bad debt provision	Provision ratio	Reason
Accounts receivable 1	<u>107,819,500</u>	<u>(107,819,500)</u>	<u>100%</u>	(i)

(i) As of Dec. 31, 2014, because the counter-party seriously lacks funds, the Company concludes the accounts receivable concerned are hard to recover, therefore full amount is provided for bad debts.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(1) Accounts receivable (continued)

(d) Among account receivable from total bad debt provision made in groups, portfolio analysis by ages

	Dec. 31, 2014			
	book value balance		bad debt provision	
	amount	ratio	amount	Provision ratio
One to six months	2,228,163,806	63%	-	-
Seven to twelve months	266,148,297	8%	(2,582,733)	1%
one to two years	367,863,879	10%	(51,134,670)	14%
two to three years	124,339,852	4%	(37,301,956)	30%
three to four years	72,290,207	2%	(35,605,104)	49%
four to five years	61,043,316	2%	(44,361,142)	73%
above five years	405,627,013	11%	(405,627,013)	100%
	<u>3,525,476,370</u>	<u>100%</u>	<u>(576,612,618)</u>	<u>16%</u>
	Dec. 31, 2013			
	book value balance		bad debt provision	
	amount	ratio	amount	Provision ratio
within one year	2,472,945,980	75%	(14,901,997)	1%
one to two years	347,427,051	10%	(100,425,131)	29%
two to three years	188,240,912	6%	(82,576,857)	44%
above three years	312,375,484	9%	(312,375,484)	100%
	<u>3,320,989,427</u>	<u>100%</u>	<u>(510,279,469)</u>	<u>15%</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(1) Accounts receivable (continued)

(e) As of Dec. 31, 2014, accounts receivable with bad debt provision, with not big single amount but being tested separately for impairment as follows:

	book value balance	bad debt provision	proportion	Reason
Accounts receivable 1	50,365,000	(50,365,000)	100%	(i)
Accounts receivable 2	24,476,061	(24,476,061)	100%	(ii)
Accounts receivable 3	19,346,075	(19,346,075)	100%	(iii)
Accounts receivable 4	18,200,475	(18,200,475)	100%	(iii)
Accounts receivable 5	17,183,761	(14,792,553)	86%	(iv)
Accounts receivable 6	10,279,920	(10,279,920)	100%	(iii)
Accounts receivable 7	6,841,945	(6,841,945)	100%	(iii)
Accounts receivable 8	4,020,214	(4,020,214)	100%	(iii)
	<u>150,713,451</u>	<u>(148,322,243)</u>	<u>98%</u>	

(i) As of Dec. 31, 2014, because the counter-party seriously lacks funds, the Company concludes the accounts receivable concerned are hard to recover, therefore full amount is provided for bad debts.

(ii) As of Dec. 31, 2014, due to delayed delivery, the Company made bad debt provision of 24,476,061 Yuan based on the highest fine in the contract.

(iii) As of Dec. 31, 2014, due to contract dispute, the Company concludes that the accounts receivable would be difficult to recover, therefore full amount is provided for bad debts.

(iv). As of Dec. 31, 2014, due to delayed delivery, the Company made bad debt provision of 14,792,553 Yuan based on the highest fine in the contract.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(1) Accounts receivable (continued)

- (f) The bad debt provision is 287,489,946 Yuan this year, and the accounting policy change return is 125,585,743 Yuan (Note II (29)). The returned or collected bad debt provision is 28,467,537 Yuan. The key return or collection amount is shown as below:

	Reason for return or collection	Former bad debts basis and rationality	Return or collection amount	Return mode
Accounts receivable 1	Vigorous recovery	Anticipated not possible to recover	10,005,000	monetary capital
Accounts receivable 2	Vigorous recovery	Anticipated not possible to recover	9,050,000	monetary capital
Accounts receivable 3	Vigorous recovery	Anticipated not possible to recover	3,626,115	monetary capital
Accounts receivable 4	Vigorous recovery	Anticipated not possible to recover	2,771,682	monetary capital
Accounts receivable 5	Vigorous recovery	Anticipated not possible to recover	1,012,576	monetary capital
			26,465,373	

- (g) As of Dec. 31, 2014, the account receivable summary analysis of top 5 arrear is shown as following:

	Balance	Bad debt provision amount	Proportion in total accounts receivable
Total amount of top 5 account receivables	2,357,204,331	-	34%

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(2) Other receivables

	Dec. 31, 2014	Dec. 31, 2013
Subsidiary current accounts	8,107,242,962	7,403,332,620
Tax for unsettled payment receivable	181,016,553	74,555,897
Export tax rebate	150,221,658	4,604,376
Customs guarantee deposit	69,159,590	9,879,707
Receivables employees mutual aid funds	54,992,148	94,735,938
Temporary loan product on-site service	49,154,799	72,392,144
Bid bond payments	35,531,409	20,684,428
Leasing payment receivable	32,965,403	31,700,229
Unit borrower receivable	20,544,798	19,520,000
Asset disposal payment receivable from related party	10,000,000	10,000,000
Receivables from parent company equity for transfer	-	403,315,906
Others	27,373,689	34,069,638
	<u>8,738,203,009</u>	<u>8,178,790,883</u>
Less: bad debt provision	(16,776,791)	(12,049,965)
	<u>8,721,426,218</u>	<u>8,166,740,918</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(2) Other receivables (continued)

(a) Other receivables debt age analysis as follows:

	Dec. 31, 2014
within one year	8,662,980,841
one to two years	20,087,289
two to three years	5,770,684
three to four years	2,648,467
four to five year	33,797,497
above five years	12,918,231
	<u>8,738,203,009</u>
	Dec. 31, 2013
within one year	8,036,295,908
one to two years	39,176,687
two to three years	2,328,414
above three years	100,989,874
	<u>8,178,790,883</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(2) Other receivables (continued)

(b) Other receivables classified in category as follows:

	Dec. 31, 2014			
	book value balance		bad debt provision	
	amount	Proportion in total	amount	Provision ratio
Big single amount, provided for bad debt separately	-	-	-	-
Total bad debt provision accrued in groups				
Credit risk portfolio				
- Cash deposit	104,691,000	1%	-	-
- Employee's loan and reserve fund	104,146,946	1%	-	-
- Others	8,517,315,098	98%	(4,726,826)	-
Single amount, though not significant, separate provision for bad debt made	12,049,965	-	(12,049,965)	100%
	<u>8,738,203,009</u>	<u>100%</u>	<u>(16,776,791)</u>	<u>-</u>

	Dec. 31, 2013			
	book value balance		bad debt provision	
	amount	Proportion in total	amount	Provision ratio
Big single amount, provided for bad debt separately	8,099,912,442	99%	-	-
Single amount, though not significant, separate provision for bad debt made	78,878,441	1%	(12,049,965)	15%
	<u>8,178,790,883</u>	<u>100%</u>	<u>(12,049,965)</u>	<u>-</u>

(c) As of Dec. 31, 2014, the Company did not accrue bad debt provision for other receivables with big single amount, and provided for bad debt separately

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(2) Other receivables (continued)

(d) In the total bad debt provision accrued in groups, the portfolio with debt age analysis method is as follows:

	Dec. 31, 2014			
	book value balance		bad debt provision	
	amount	Proportion in total	amount	Provision ratio
One to six months	8,401,338,976	99%	-	-
Seven to twelve months	107,742,262	1%	(1,077,423)	1%
one to two years	4,218,676	-	(632,801)	15%
two to three years	180,855	-	(54,256)	30%
three to four years	521,922	-	(260,961)	50%
four to five years	2,444,088	-	(1,833,066)	75%
above five years	868,319	-	(868,319)	100%
	<u>8,517,315,098</u>	<u>100%</u>	<u>(4,726,826)</u>	<u>-</u>

(e) As of Dec. 31, 2014, other receivables analysis for the single amount, though not significant, separate provision for bad debt is as follows:

	book value balance	bad debt provision	Provision ratio	Reason
Other receivables 1	5,540,286	(5,540,286)	100%	(i)
Other receivables 2	3,037,042	(3,037,042)	100%	(i)
Other receivables 3	1,779,872	(1,779,872)	100%	(i)
Other receivables 4	1,692,765	(1,692,765)	100%	(i)
	<u>12,049,965</u>	<u>(12,049,965)</u>	<u>100%</u>	

(i) As of Dec. 31, 2014, the other receivables concerned are hard to recover, as believed by the Company, due to cancellation of contract. Therefore, it is fully provided for bad debts.



**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(2) Other receivables (continued)

(f) As of Dec. 31, 2014, top 5 accounts receivable balance that are collected by arrears as follows:

	Nature	Amount	Age	Proportion in total accounts receivable	bad debt provision
Company A	Temporary debit of subsidiary	2,267,621,681	Within one year	26%	-
Company B	Temporary debit of subsidiary	1,322,213,513	Within one year	15%	-
Company C	Temporary debit of subsidiary	1,250,749,851	Within one year	14%	-
Company D	Temporary debit of subsidiary	886,813,767	Within one year	10%	-
Company E	Temporary debit of subsidiary	732,667,351	Within one year	8%	-
		<u>6,460,066,163</u>		<u>73%</u>	<u>-</u>

(g) As of Dec. 31, 2014, the company has no government subsidies confirmed as receivables. (Dec. 31, 2013: N/A).

(3) Long term equity investment

	Dec. 31, 2014	Dec. 31, 2013
Subsidiary (a)	5,285,834,533	4,475,486,245
Joint ventures (b)	163,250,280	145,286,585
Associates((c)	756,146,822	208,433,032
	<u>6,205,231,635</u>	<u>4,829,205,862</u>

The Company has no limit of long-term investment to cash-in.

## Shanghai Zhenhua Heavy Industries Co., Ltd.

### 2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

#### XIV. Notes to major items in the Company's statements (continued)

##### (3) Long term equity investment (continued)

##### (a) Subsidiaries

	Dec. 31, 2013	Addition or deduction o f this year <u>Addition or deduction of investment</u>	Dec. 31, 2014
Shanghai Zhenhua Port Machinery Heavy Industry Co., Ltd.	4,950,000	-	4,950,000
Shanghai Zhenhua Heavy Industries Machinery Co., Ltd.	5,014,200	-	5,014,200
Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd.	-	-	-
Shanghai Zhenhua Shipping Co., Ltd.	140,260,673	-	140,260,673
Shanghai Zhenhua Heavy Industries (Group) Zhangjiagang Port Machinery Co., Ltd.	4,518,000	-	4,518,000
Nantong Zhenhua Heavy Industry Equipment Manufacturing Co., Ltd.	854,936,900	-	854,936,900
Nantong Zhenhua Heavy Industry Steel Structure Processing Co., Ltd.	598,110	-	598,110
Jiangyin Zhenhua Port Machinery Steel Structure Manufacturing Co., Ltd.	579,983	-	579,983
CCCC Shanghai Port Machinery Plant Co., Ltd.	2,201,086,744	-	2,201,086,744
Shanghai Zhenhua Heavy Industries Group (Nantong) Transmission Machinery Co., Ltd.	300,000,000	-	300,000,000
Shanghai Zhenhua Heavy Industries Group (Nantong) Co., Ltd.	300,000,000	-	300,000,000
Shanghai Zhenhua Heavy Industries Electric Co., Ltd.	50,000,000	-	50,000,000
ZPMC GmbH Hamburg	207,940	-	207,940
ZPMC Netherlands B.V.	149,717	-	149,717
Shanghai Zhenhua Heavy Industries Vessel Transport Co., Ltd.	100,000,000	-	100,000,000
Shanghai Zhenhua Testing Technology Consulting Co., Ltd.	7,000,000	-	7,000,000
ZPMC LANKA COMPANY (PRIVATE) LIMITED	6,183,978	-	6,183,978
Nanjing Ninggao New Channel Construction Co., Ltd.	500,000,000	590,000,000	1,090,000,000
Qidong Marine Co., Ltd (Note 6(1))	-	203,000,000	203,000,000
ZPMC ENGINEERING AFRICA(PTY) LTD.(Note 6 (1))	-	3,084,000	3,084,000
ZPMC KOREA CO., LTD.( Note 6 (1))	-	2,876,209	2,876,209
ZPMC Engineering (India) Private Limited (Note 6 (1))	-	2,953,200	2,953,200
ZPMC AUSTRALIA COMPANY PTY LIMITED (Note 6 (1))	-	2,708,500	2,708,500
ZPMC North America Inc (Note 6 (1))	-	1,850,430	1,850,430
ZPMC SOUTHEAST ASIA HOLDING PTE. LTD.( Note 6 (1))	-	3,875,949	3,875,949
	<u>4,475,486,245</u>	<u>810,348,288</u>	<u>5,285,834,533</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(3) Long term equity investment (continued)

(b) Joint ventures

	Dec. 31, 2013	Addition or deduction of this year		Dec. 31, 2014	Impairment provision
		Addition or deduction of investment	Net gains after adjusting on equity		
Jiangsu LongYuan Zhenhua Marine Engineering Co., Ltd	145,203,385	-	17,719,256	162,922,641	-
ZPMC Mediterranean Liman Makinalari Ticaret Anonim Sirketi	83,200	313,902	(69,463)	327,639	-
	<u>145,286,585</u>	<u>313,902</u>	<u>17,649,793</u>	<u>163,250,280</u>	<u>-</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(3) Long term equity investment (continued)

(c) Associates

	Addition or deduction of this year					Dec. 31, 2014	Impairment provision
	Dec. 31, 2013	Addition or deduction of investment	Net gains after adjusting on equity	Declaring to release cash dividend or profit			
CCCC Marine Engineering Vessel Technology Research Centre Co., Ltd.	15,000,000	-	79,243		15,079,243	-	
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	15,553,666	-	959,962	(1,483,334)	15,030,294	-	
CCCC Real Estate Yixing Co., Ltd.	177,879,366	-	(3,192,556)	-	174,686,810	-	
CCCC Financing & Rental Co., Ltd (i)	-	540,000,000	11,350,475	-	551,350,475	-	
	208,433,032	540,000,000	9,197,124	(1,483,334)	756,146,822	-	

(i) As of May, 8, 2014, the Company invested to establish CCCC Financing & Rental Co., Ltd in the form of equity participation. The registration capital is 1,800,000,000 Yuan. The Company invested 540,000,000 holding 30% of the share. The main business of the company is financing and rental.

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(4) Operating revenue and operating cost

	2014	2013
Major operating income	21,787,540,224	20,072,846,485
Other operating income	1,008,007,863	1,180,152,835
	<u>22,795,548,087</u>	<u>21,252,999,320</u>

	2014	2013
Major operating cost	18,862,864,786	18,565,818,406
Other operating cost	982,442,205	1,215,852,568
	<u>19,845,306,991</u>	<u>19,781,670,974</u>

(a) Operating revenue and operating cost

	2014		2013	
	Major operating income	Major operating cost	Major operating income	Major operating cost
Container cranes	12,209,323,000	10,374,686,526	12,048,100,723	10,707,367,110
Marine heavy equipment	4,746,257,265	4,149,358,322	4,158,835,128	4,062,662,794
Bulk machinery	3,572,087,888	3,477,985,297	3,008,979,696	2,957,615,427
Steel structures and related income	1,259,872,071	860,834,641	856,930,938	838,173,075
	<u>21,787,540,224</u>	<u>18,862,864,786</u>	<u>20,072,846,485</u>	<u>18,565,818,406</u>

(b) Other operating income and other operating costs

	2014		2013	
	Other operating income	Other operating cost	Other operating income	Other operating cost
Sales of materials	719,948,839	780,758,903	960,242,197	1,068,189,845
Equipment leasing and others	288,059,024	201,683,302	219,910,638	147,662,723
	<u>1,008,007,863</u>	<u>982,442,205</u>	<u>1,180,152,835</u>	<u>1,215,852,568</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(4) Operating revenue and operating cost (continued)

(c) Operating income from top 5 clients

Income from top 5 clients is 3,029,606,375 Yuan (2013: 3,597,119,036 Yuan), taking 13% of total sales income of the Company. (2013: 17%), Details as follows:

	Operating revenue	Proportion in total operating revenue of the Company (%)
COMPANY A	1,003,936,074	4%
COMPANY B	806,276,711	4%
COMPANY C	499,415,002	2%
COMPANY D	387,385,197	2%
COMPANY E	332,593,391	1%
	<u>3,029,606,375</u>	<u>13%</u>

(5) Investment gains

	2014	2013
Investment gains during holding available-for-sale financial assets	280,003,324	151,188,587
Gains from disposal of financial assets available for sales	75,078,789	-
Long term equity investment (loss)/gains on equity basis (Note XIV (3))	26,846,917	(3,111,958)
Financial assets profits available for sale calculated by cost method	1,103,460	-
Cash dividends distributed by the subsidiaries	68,774	-
Investment gains from disposal of subsidiaries	-	433,778,126
	<u>383,101,264</u>	<u>581,854,755</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

2014 Financial Statements Note

(Unless otherwise specified, the amount units is RMB.)

XIV. Notes to major items in the Company's statements (continued)

(6) Supplementary information of cash flow statements

(a) Adjust net (loss) / profit to cash flow in operating activities

	2014	2013
Net profit/(loss)	344,581,636	(109,688,035)
Add/(less): assets impairment provision	548,851,542	793,738,223
Fixed assets and real estate as investment depreciation	588,945,530	662,949,380
Intangible assets and real estate as investment amortization	43,948,438	43,496,658
Disposal of fixed assets, intangible assets and other long term assets income	(5,825,281)	(242,889,793)
Fair value change loss/(income)	109,771,041	(87,557,341)
Financial expense	1,197,636,958	499,251,967
Investment gains	(383,101,264)	(581,854,755)
Deferred corporate tax assets increase	(1,109,861)	(14,540,533)
Deferred corporate tax assets decrease	(18,035,508)	-
Inventories decrease	87,836,790	1,097,122,613
Building contract amount (increase)/ decrease	(2,148,611,836)	1,152,584,073
Operating receivables increase	(2,129,970,927)	(1,845,335,915)
Operating payables increase/ (decrease)	2,482,068,725	(3,646,357)
Net cash flow from operation activities	<u>716,985,983</u>	<u>1,363,630,185</u>

(b) Net cash movement

	2014	2013
Closing cash balance	1,272,228,765	2,736,478,139
Less: starting cash balance	<u>(2,736,478,139)</u>	<u>(2,137,291,866)</u>
Net cash (decrease)/ increase	<u>(1,464,249,374)</u>	<u>599,186,273</u>

**Shanghai Zhenhua Heavy Industries Co., Ltd.**

**2014 Financial Statements Note**

(Unless otherwise specified, the amount units is RMB.)

**I Non-recurring profit and loss statements**

	2014	2013
Non-current assets disposal net profit	13,948,136	241,193,949
Government subsidy accounted in current profit and loss	20,316,889	47,878,876
Fair value change profit and loss generated by holding transaction financial assets and transaction financial debt; investment profit and loss obtained from disposal of transaction financial assets and transaction financial debt and financial assets available for sales	286,253,779	326,109,601
Investment profit from disposal of subsidiaries	-	749,942,782
Other operating revenue and expense net amounts except for items above	15,164,034	3,993,654
	<u>335,682,838</u>	<u>1,369,118,862</u>
Income tax influence amount	(52,493,363)	(219,993,088)
Minority shareholder rights influence amount (post tax)	(4,221,354)	(70,237)
	<u>278,968,121</u>	<u>1,149,055,537</u>

**Non-recurring profit and loss statements preparation basis**

It is in accordance with the regulations specified in Information Disclosure Explanatory Public Notice of Company Issuing Securities No. 1—Non-recurring Profit and Loss [2008], the non-recurring profit and loss refers to the transaction and profit & loss without direct relationship to the normal operation of the Company, or related to the normal operation but it will influence the correct judgment of the operation performance and profitability made by the users of the statements.

**II Net assets profit ratio and gain (loss) per share**

	Weighted average net asset gain ratio(%)		Gain/(loss) per share			
			Basic gain/(loss) per share		Diluted gain/(loss) per share	
	2014	2013	2014	2013	2014	2013
Net profit attributed to common shareholders	1.36%	0.97%	0.05	0.03	0.05	0.03
Net loss deducted the non-recurring profit and loss attributed to common shareholders	(0.54%)	(7.03%)	(0.02)	(0.23)	(0.02)	(0.23)

**III Supplementary information of accounting policies change**

The Group has changed the related accounting policies and traced back the 2013 financial statements according to Enterprise Accounting Standard No. 2—Long Stock Investment and other 9 standards (refer to Note II(28)) and listed the consolidation and balance sheet on Jan 1, 2013.