



# Shanghai Zhenhua Heavy Industries Co., Ltd.

(Stock code: 600320 900947)

## Annual Report 2012



Mar. 27, 2013



## 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 of entrustee
director	Liu Wensheng	on business trip	Song Hailiang
director	Lu Jianzhong	on business trip abroad	Yan Yunfu
director	Liu Qizhong	on business trip abroad	Yan Yunfu

III. PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd. issued standard unqualified audit report for the Company.

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

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

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

No.

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

No.



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## 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 Construction 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

### I. 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

### II. Contact information

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

### III. Basic information of the Company

Registered address	3470, 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>

### (IV) Information disclosure and reference

Designated media for information disclosure	Shanghai Securities News, Hong Kong Wen Wei Po
Website designated by China Security Regulatory Commission for disclosure of annual report:	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Annual report available at	Securities and Law Affairs Office of the Company

### V. Stock Profiles of the Company

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

**VI. 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 (Municipal Bureau)
Registered code of tax	310115607206953
Organizational code	60720695-3

## (II) Major business operation changes since listing

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).

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

## 1. Promoter shareholders 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.

**VII. Miscellaneous:**

CPAs' employed by the Company (Domestic)	Title	PricewaterhouseCoopers Zhong Tian 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

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

#### (I) Major accounting data

Unit: RMB yuan

Major accounting data	2012	2011	Growth over same period prior year (%)	2010
Operating income	18,255,152,096	19,129,251,012	-4.57	17,116,177,415
Net profit attributable to shareholders of the listed company	-1,043,665,841	30,294,335	-3,545.09	-694,837,984
Net profit after deducting non-recurring gains/losses attributable to shareholders of the listed company	-1,259,289,200	-377,879,951	n.a.	-738,179,639
Net cash flow from operating activities	3,065,603,998	1,541,917,739	98.82	5,177,920,274
	End of 2012	End of 2011	Growth over same period end prior year (%)	End of 2010
Net asset attributable to shareholders of the listed company	14,210,952,596	15,241,378,606	-6.76	15,268,046,094
Total assets	46,779,696,343	44,059,465,622	6.18	45,287,126,334

#### (II) Major financial data

Major financial index	2012	2011	Growth over same period prior year (%)	2010
Basic EPS (yuan/share)	-0.24	0.01	-2,500.00	-0.16
Diluted EPS (yuan/share)	-0.24	0.01	-2,500.00	-0.16
Basic EPS after deducting non-recurring gains/losses (yuan/share)	-0.29	-0.09	n.a.	-0.17
Weighted average net assets earnings ratio (%)	-7.09	0.20	Less 7.29 percentage points	-4.48
Weighted average net assets earnings ratio after deducting non-recurring gains/losses (%)	-8.56	-2.48	Less 6.08 percentage points	-4.76

**II. Items and amount of non-recurring gains/losses**

Unit: RMB yuan

Items of non-recurring gains/losses	2012 Amount	2011 Amount	2010 Amount
Gains and losses from disposal of non-current assets	97,051,399	309,460,277	-16,852,834
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	28,730,126	64,641,129	65,779,633
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	143,917,526	101,066,137	42,967,863
Non-operating income/expense apart from above	-13,639,165	7,112,466	-32,470,015
Minor shareholders' equity impact	-622,804	-2,141,455	-4,186,052
Income tax impact	-39,813,723	-71,964,268	-11,896,940
Total	215,623,359	408,174,286	43,341,655

**III. Items calculated by fair value**

Unit: RMB yuan

Item name	Starting balance	Closing balance	Current movement	Impact on current profit
Forward foreign exchange contract-Fair value appraisal income	61,678,770	26,009,477	-35,669,293	-35,669,293
Forward foreign exchange contract-Fair value appraisal income loss	-2,289,600	0	2,289,600	2,289,600
Equity tool available for sale-Jiangxi Huawu	108,661,535	124,222,545	15,561,010	0
Total	168,050,705	150,232,022	-17,818,683	-33,379,693



## Chapter IV Report of the Board of Directors

### I. Discussion and analysis of business operation in report period by the management

In the year 2012 the Company continued to face critical internal and external situation, with domestic and international market demand still insufficient. The Board of Directors and the management team led the staff to overcome production difficulties, focusing on change of way of thinking, strived to develop external markets, adjust management structure, strengthen basic management, and the overall operations remained stable. In 2012, the Company realized an Operating income of 18.255 billion yuan, of which exports accounted for 69.2%, net profit attributable to the owners of the parent company amounting to -1.044 billion yuan, net operating cash inflows of 3.066 billion yuan for the year.

#### (I) Major business analysis

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

Unit: RMB yuan

Item	Report Year	Prior Year	Growth (%)
Operating income	18,255,152,096	19,129,251,012	-4.57
Operating cost	17,362,670,351	18,171,294,303	-4.45
Selling expenses	49,290,059	59,378,293	-16.99
General expenses	1,126,863,747	1,130,888,776	-0.36
Financial expenses	680,506,612	-151,425,776	-549.40
Net cash flow from operating activities	3,065,603,998	1,541,917,739	98.82
Net cash flow from investment activities	-390,855,294	-622,960,367	-37.26
Net cash flow from financing activities	-2,309,758,070	-132,974,986	1,636.99
R&D expenses, cost of expenses	598,968,230	565,212,544	5.97
Asset impairment losses	394,362,789	269,782,394	46.18
Changes in the fair value gain or loss-NET	-33,379,693	33,444,020	-199.81
Investment income	141,093,032	13,049,092	981.25
Non-operating income	132,357,962	385,977,803	-65.71
Non-operating expenses	20,215,602	4,763,931	324.35
Income tax expense	-72,132,581	18,109,717	-498.31
Minority interest gains/losses	-55,392,041	-639,339	8,563.95

Analysis:

1. Increase of financial expenses is mainly due to exchange gaining decrease and interest cost increase as a result of slowdown of RMB appreciation against US dollar in report year.



2. Net cash flow from operating activities saw big increase over same period prior year mainly because the Company strengthened account payment collection, made reasonable use of funds and decreased the level of inventory.
3. Net cash flow from investment activities changed mainly because investment in infrastructure decreased.
4. Net cash flow from financing activities changed mainly the Company strengthened account payment collection, made reasonable use of funds and decreased bank loans.
5. Asset impairment losses increased mainly due to increase in bad debt loss, inventory impairment loss and expected contract loss.
6. Fair value change gains/losses decreased mainly due to delivery and the reversal upon expiration of tradable financial assets and liabilities.
7. Investment income increased mainly because investment income from the financial assets available for sale the Company held increased in report period.
8. Non-operating income decreased mainly because of the decrease of remaining compensation income confirmed regarding to the completion of the levy of the Company's Industrial Park with Changxing Land Reserve Center.
9. Non-operating expenses increased mainly because fixed asset disposal loss and other non-operating expenses increased.
10. Income tax expense decreased mainly because deferred income tax confirmed due to loss in report of the Company.
11. Loss of minority interest gains/losses increased mainly because loss of the Company's subordinate share-participating companies increased.

## 2. Revenue

### (1) Analysis of the factors driving the business income changes

The global economic recovery has been slow and uneven; construction all major ports has



slowed down; overall demand has been low for international engineering and machinery products; in the area of port machinery, demand is shrinking significantly while competition is increasingly fierce; the contract unit prices fell in a larger scale; the Company's port machinery market faces more pressure; energy prices kept on fluctuating and still remain unstable; large risks lie in the fluctuations of demand for marine products.

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

Under the influence of external market environment featuring low demand, sales income is difficult to quickly improve; production remains insufficient; revenue from sales for 2012 is 18.255 billion yuan, down 4.57% year on year, while port machinery products see more and more competition; contract unit prices are still low; transformation products also need to be quickly developed; all the above factors and other factors have had an impact on the Company's product revenues.

(3) Order analysis

During the report period, "ZPMC" brand was further consolidated in traditional areas of port machinery and further recognized in the field of emerging markets; the Company achieved new contract value of \$3.781 billion for the year, including new contract amount of \$2.876 billion for traditional markets of port machinery, new contract in marine engineering and steel structure market values \$905 million. Port machinery products continued to maintain a global leadership position; on the increasingly competitive port machinery market, the Company's container bank bridge products kept a 70% per cent global market share; the Company's products have marched into over 83 countries and regions.

(4) Top buyer analysis

Operating income from top 5 clients is 2,021,921,089 yuan, taking up 11% of the Company's total operating income.

3. Cost

(1) Cost analysis statements

Unit: yuan

In product category						
Product	Cost composition	Report period amount	Report period rate in total cost (%)	Same period prior year Amount	Same period prior year rate in total cost (%)	Report period amount same period prior year



						movement ratio (%)
container cranes	raw material, labor production cost	9,802,797,463	57.49	9,801,783,004	54.52	0.01
Ocean heavy equipment	raw material, labor production cost	3,333,677,227	19.55	3,381,257,980	18.81	-1.41
bulk-cargo machinery parts	raw material, labor production cost	2,889,954,429	16.95	3,210,322,572	17.86	-9.98
steel structures	raw material, labor production cost	749,503,259	4.40	1,386,142,375	7.71	-45.93
vessel shipping and others	labor, fuel consumption, depreciation etc.	274,886,981	1.61	199,754,780	1.11	37.61
Total	\	17,050,819,359	100	17,979,260,711	100	-5.16

## (2) Key suppliers

Purchase from top 5 suppliers is 605,203,437 yuan, covering 10% of total purchase of the year.

## 4. R&amp;D expenses

## (1) R&amp;D expenses breakdown

Unit: yuan

R&D into cost expenses	598,968,230
R&D into capital expenses	63,102,559
R&D expenses total	662,070,789
Total R&D expenses ratio in net assets (%)	4.59
Total R&D expenses ratio in Operating income (%)	3.63

In the year 2012, based on the overall development strategy: the Company has made a number of key technologies and other achievements in science and technology with independent intellectual property rights in port machinery and other traditional major breakthroughs relating to the enterprise's survival and development in the field of business, and continued to remain a world leader, and strived to achieve optimization, upgrading of port machinery, formed "integrated development" advantage; In marine engineering and other new expansion business areas, focusing on the three aspects like Ocean heavy equipment with the high-tech content, and high added value, meaning various sea engineering vessels, marine drilling platforms and specialized marine



engineering supporting equipment, regarded as the Company's technology innovation development directions and important profit growth points, the Company tackled them one by one; while at the same time the Company sped up the development of general contracting capacity with "package" features of overall design, integrated system, sets production and supporting service; to reach as soon as the international advanced level, and occupy industry competition vantage point. In the area of steel structures, the main work target is on the "heavy, large and fine" projects, to master the high standard manufacturing processes, technology and quality, and gradually develop the general contracting capacity in "turn-key" projects, to maintain industry advanced level.

5. Cash flow

Net cash flow from operating activities increase over same period prior year mainly because the Company strengthened account payment collection, made reasonable use of funds and decreased the level of inventory.

6. Miscellaneous

(1) Detailed description of significant change in the Company's profit composition or source

The main causes of loss in 2012: under the influence of low demand in external market environment , sales income was difficult to quickly improve; accompanying market intensified competition, contract unit price drop saw big drop, content of value reduced, in order to seize the market opportunity and stabilize the staff, orders for some items are even below cost price; production capability was in excess; capital investments were too heavy; serious shortage of production incurred; fixed assets depreciation increased; historical problems existed regarding to a high inventory of high-price steel and the Spain \$2.2 billion order; high bank liabilities, heavy interest burden; because of development cycle and process of product transformation, a certain amount of upfront investment and cost-sharing also required; internal control weaknesses still existed.

(II) Analysis of operation by industry, product or region

1. Major business by industry and product

Unit: RMB yuan

Major business by industry						
By product	Operating income	Operating cost	Gross margin (%)	Operating income increase over prior year (%)	Operating cost increase over prior year (%)	Gross margin increase over prior year (%)
container cranes	10,665,511,120	9,802,797,463	8.09	2.83	0.01	Up 2.59 percentage



						points
Ocean heavy equipment	3,458,011,185	3,333,677,227	3.60	-6.65	-1.41	Less 5.12 percentage points
bulk-cargo machinery parts	2,907,233,682	2,889,954,429	0.59	-3.91	-9.98	Up 6.7 percentage points
steel structures	640,310,882	749,503,259	-17.05	-56.96	-45.93	Less 23.88 percentage points
vessel shipping and others	239,953,121	274,886,981	-14.56	-7.01	37.61	Less 37.15 percentage points
Total	17,911,019,990	17,050,819,359	4.80	-4.97	-5.16	Up 0.19 percentage points

2. Major business by region

Unit: RMB yuan

Region	Operating income	Operating income increase over prior year (%)
Main land, China	5,514,344,061	-26.14
Asia (Excluding Main Land, China)	3,808,763,314	-26.61
America	3,251,058,441	-3.65
Europe	2,751,062,479	138.43
Africa	949,993,166	39.01
Main land, China (export)	931,882,457	27.68
Oceania	703,916,072	180.95
Total	17,911,019,990	-4.97

Note: In this part, amounts listed in the Mainland China (export) for the years 2012 and 2011 items refer to the major operating income and cost the Company firstly exports to its subsidiary ZPMC Hong Kong Co., Ltd. or related party Chuwa Bussan Co., Ltd., who then sells to domestic customers.

(III) Assets and liabilities analysis

1. Assets/liabilities statements

Unit: yuan

Item	Report period end	Report period end over total assets (%)	Prior period end	Prior period end over total assets (%)	Report period end amount over prior period end amount change ratio (%)
Monetary capital	5,380,769,224	11.50	2,053,780,508	4.66	161.99
Tradable financial assets	26,009,477	0.06	61,678,770	0.14	-57.83
Notes receivable	115,069,863	0.25	80,556,568	0.18	42.84
Interest receivable	33,231,552	0.07	0	0.00	100
Accounts receivable	3,710,721,111	7.93	4,788,249,121	10.87	-22.50





Other receivables	413,305,303	0.88	809,660,285	1.84	-48.95
Inventory	7,581,683,025	16.21	6,186,736,599	14.04	22.55
Work completed payment not cleared	6,620,155,339	14.15	7,385,580,108	16.76	-10.36
Other current assets	1,000,000,000	2.14	0	0.00	100
Long-term equity investment	203,719,472	0.44	152,874,005	0.35	33.26
Real estate as investment	402,411,440	0.86	0	0.00	100
Fixed assets	14,075,197,757	30.09	14,254,180,211	32.35	-1.26
Construction in progress	3,692,553,744	7.89	4,552,618,260	10.33	-18.89
Short-term loans	11,936,687,998	25.52	8,036,435,881	18.24	48.53
tradable financial liabilities	0	0.00	2,289,600	0.01	-100.00
Notes payable	980,906,529	2.10	577,862,463	1.31	69.75
Accounts payable	2,603,418,685	5.57	2,255,724,884	5.12	15.41
Prepayment received	1,035,763,588	2.21	115,627,343	0.26	795.78
Work not completed, payment cleared	2,389,804,893	5.11	1,946,769,101	4.42	22.76
Taxes and charges payable	-46,966,814	-0.10	-461,588,744	-1.05	-89.82
Dividends payable	33,825,412	0.07	53,453,390	0.12	-36.72
Other payables	292,150,492	0.62	869,378,012	1.97	-66.40
Non-current liabilities due within one year	3,667,922,000	7.84	3,571,294,900	8.11	2.71
Long-term loans	873,684,500	1.87	3,083,527,600	7.00	-71.67
Bonds payable	7,984,665,674	17.07	7,978,615,674	18.11	0.08
Projected liabilities	193,307,685	0.41	133,639,971	0.30	44.65

## Analysis:

1. Monetary capital increased mainly because in report period the Company strengthened collection of accounts receivable and increased fixed-term deposit.
2. Tradable financial assets decreased mainly because forward foreign exchange contract was delivered upon due.
3. Notes receivable increased mainly because the Company increased notes receivable endorsed to clear purchase payment.
4. Interest receivable increased mainly because in report period the Company accrued undue interest of new fixed-term loans.
5. Accounts receivable decreased mainly because in report year sales income decreased and in the



mean time strengthened collection of accounts receivable.

6. Other receivables: Other receivables decreased mainly because in report period the Company received levy compensation on land and real estate from Changxing Land Reserve Center.

7. Inventory increased mainly because in report period the Company increased raw material purchase as a result of heavy marine project development.

8. Work completed payment not cleared decreased mainly because in report year business volume declined and thus start-ups of projects dropped.

9. Other current assets increased mainly because in report period the Company purchased short-term bank financing products.

10. Long-term equity investment increased mainly because in report period the Company had more external investment in corporate and gains from associates and joint ventures adjusted on equity basis.

11. Real estate as investment increased mainly because in report period the Company converted part of the office buildings, production base and related land use right for leasing.

12. Fixed assets decreased mainly because in report year regular depreciation of fixed assets, disposal of part of production equipment, converted part of the office buildings, production base and related land use right for leasing, carried forward to real estate as investment.

13. Construction in progress decreased mainly because in report year the Company carried forward Dongfang Road office building, Nantong production base infrastructure construction and the base's large equipment to fixed assets.

14. Short-term deposits increased mainly because the Company borrowed new loans from banks.

15. Tradable financial liabilities decreased mainly because forward foreign exchange contract delivered upon maturity.

16. Notes payable increased mainly because in report period the Company issued notes to pay for materials.

17. Accounts payable increased mainly because in report period the Company increased payables for purchase of materials and product manufacturing as a result of further efforts on development of heavy marine projects.

18. Prepayment received increased mainly because the Company received advances for certain new contracts from clients in report year.

19. Work not completed, payment cleared increased mainly because in report period the Company settled new projects.

20. Taxes and charges payable increased mainly because in report period the Company issued more invoices for domestic projects and meanwhile timely filed tax return for to-be-cleared VAT.

21. Dividends payable decreased mainly because paid income tax on behalf of shareholders.



22. Other payables decreased mainly because the Company timely filed tax return for to-be-cleared VAT.
23. Non-current liabilities due within one year increased mainly because part of the long-term loans that would be due within one year are reclassified into non-current liabilities due within one year.
24. Long-term loans decreased mainly because part of the long-term loans that would be due within one year are reclassified into non-current liabilities due within one year.
25. Bonds payable increased mainly because of amortization of cost of issuance in report year.
26. Projected liabilities increased mainly because of increase of post-sale service cost accrued as a result of increase of delivery of completed machinery projects.

#### (IV) Core competitiveness analysis

Since the company was founded 21 years ago, pioneering and continuously hard work has developed into a series of core competence:

(1) Market advantages: container port machinery products remain the global market leader, at 70% market share, customers spotted in 83 countries and regions; market share and customer base is the survival roots of the enterprise; it required strengthening to self marketing-driven practice, enhance integrated marketing, multi-tier marketing, high-end marketing, effective marketing.

(2) Talents advantages: in the field of design of port machinery the Company owns a design and R&D team of more than 2000 people with independence, all-round professions and clear task-division; in marine areas the Company is also nurturing and gradually forming a design team with some capacity; In the area of international business, the company has an excellent language, business experienced operating personnel; in the ongoing implementation of major projects at home and abroad, it has been training a group of strong dedication, skilled professional personnel; in terms of manufacturing, it has been training a large number of specialized technicians, technologists and superintendents. In a word, the Company has built up a good environment and platform to attract qualified talents.

(3) The advantages of technological innovation: the Company holds a large number of innovations, patents and a number of the world's first, such as the "Development and Application of Key Technologies of New Generation Port Container Cranes" first prize of national scientific and technological progress and can quickly translate them into higher value added products and services; innovation drives development; innovation system is complete; innovation speed, basis and outcome quality leads the industry.



(4) Platform advantages: after 20 years of development, the Company has the combined strengths consisting of listed-company platform, internationalization platform and national flag manufacturing platform, which provides a big platform and opportunity to attract talents, expand business, invest and finance.

(5) Brand and reputation advantages: ZPMC has created a number of world's firsts, undertaken a large number of mega-engineering projects and flagship projects at home and abroad; it is the container's flagship and port machinery manufacturing leader, the bridge to spread Chinese civilization, culture and friendship; it has widely spread international market, posing great international influence; meanwhile ZPMC is simultaneously the representative of "New Technologies, High Standard, High Credibility". The intangible value of brand and the value space is huge.

(6) Financing and capital advantages: the Company possesses ample, steady cash flow, financing ability, which is conducive to developing new target markets.

(7) Outstanding industry chain comprehensive strength advantage: the Company has an industry chain combining complete design, manufacturing, marketing, research and development facilities, 5 km deepwater coastline, large fleets of transport, installation and after-sales service of machinery etc.; its production capacity is huge and its comprehensive strength is big.

(V) Investment analysis

1. External equity investment overall analysis

Unit: yuan

Investment amount as of period end	203,719,472
Investment amount movement	50,845,467
investment amount same period prior year	152,874,005
investment amount movement ratio (%)	33%



## Invested companies

Name of invested company	Operational activities	equity ratio in invested company
CCCC Highway Long and Large Bridge Construction State Project Research Centre Co., Ltd. (i)	Mainly engaged in construction project management.	10%
CCCC Dredging Technology & Equipment State Project Research Centre Co., Ltd.	Mainly engaged in dredging and filling works.	8%
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.	25%

## (2) 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	19,400,000	12.99	124,222,545	0	15,561,010	financial assets available for sale	funding
Total		19,400,000	/	124,222,545	0	15,561,010	/	/

## 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	Long-term equity investment	subscription
Total	200,000	161,942	/	200,000	0	0	/	/



2. Non-financial companies entrusted investment financing and derivatives

(1) Entrusted financing

Entrusted financial products breakdown

Unit: RMB yuan

Partner	Pro. type	Amount	Starting day	Ending day	reward	expected proceeds	Principal actually covered	Income actually gained	via legal procedure	related trade or not	suit involved or not
BANK A	Bank Financial Product	500,000,000	2012-3-28	2012-7-3	interest upon maturity	6,068,807	500,000,000	6,068,807	Yes	No	No
BANK A	Bank Financial Product	489,000,000	2012-3-29	2012-7-3	interest upon maturity	6,148,870	489,000,000	6,148,870	Yes	No	No
BANK A	Bank Financial Product	450,000,000	2012-3-30	2012-7-3	interest upon maturity	5,658,469	450,000,000	5,658,469	Yes	No	No
BANK A	Bank Financial Product	500,000,000	2012-4-27	2012-8-2	interest upon maturity	5,817,123	500,000,000	5,817,123	Yes	No	No
BANK A	Bank Financial Product	250,000,000	2012-6-27	2012-10-10	interest upon maturity	3,174,065	250,000,000	3,174,065	Yes	No	No
BANK A	Bank Financial Product	250,000,000	2012-6-28	2012-10-10	interest upon maturity	3,113,606	250,000,000	3,113,606	Yes	No	No
BANK A	Bank Financial Product	500,000,000	2012-8-31	2012-10-10	interest upon maturity	2,237,313	500,000,000	2,237,313	Yes	No	No
BANK B	Bank Financial Product	500,000,000	2012-4-13	2012-8-13	interest upon maturity	9,855,616	500,000,000	9,855,616	Yes	No	No
BANK B	Bank Financial Product	500,000,000	2012-4-13	2012-8-17	interest upon maturity	9,542,740	500,000,000	9,542,740	Yes	No	No
BANK B	Bank Financial Product	400,000,000	2012-6-19	2012-12-19	interest upon maturity	13,837,808	400,000,000	13,837,808	Yes	No	No
BANK C	Bank Financial Product	850,000,000	2012-4-10	2012-10-12	interest upon maturity	21,797,260	850,000,000	21,797,260	Yes	No	No
BANK C	Bank Financial Product	435,000,000	2012-5-15	2012-11-22	interest upon maturity	11,811,740	435,000,000	11,811,740	Yes	No	No
BANK C	Bank Financial Product	880,000,000	2012-7-9	2012-12-28	interest upon maturity	20,083,288	880,000,000	20,083,288	Yes	No	No
BANK C	Bank Financial Product	1,000,000,000	2012-12-18	2013-12-3	interest upon maturity	4,600,000	0	0	Yes	No	No
Total	/	7,504,000,000	/	/	/	123,746,705	6,504,000,000	119,146,705	/	/	/
Cumulative amount of principal or proceeds unrecovered upon maturity (yuan)							0				



(2) Entrusted loans

There exists no such status in report period.

(3) Other investment financing and derivative product investment

There exists no such status in report period.

3. Use of raised funds

In report period, the Company has no raised funds or utilized fund raised in previous period.

4. Non-raised funds

During report period the Company's major non-raised fund investment projects include Nantong, Changxing, Nanhui base infrastructure construction, Dongfang Road Office and R&D Building etc. As of Dec. 31, 2012, project investment, progress, proceeds are as follows:

Nantong base infrastructure construction, 143.14 million yuan invested in report year, progress 94%;

Changxing base infrastructure construction, 48.04 million yuan invested in report year, progress 77%;

Base large machinery and engineering equipment construction under progress, 31.79 million invested in report year, progress 94%;

Nanhui base infrastructure construction, 7.4 million invested in report year, progress 84%;

Office and R&D building on Dongfang Road, 116.54 million yuan invested report year, progress 100%;

Most of above projects started prior year, having increased the production capacity of the Company. Other projects are rather small in amount, belonging to technical reformation and minor filing items.



5. Key subsidiaries and share-participating companies

Unit: RMB yuan

Company	Major product or service	Registered capital	Asset scale	Net profit
Shanghai Zhenhua Port Machinery Heavy Industries Co., Ltd	large container cranes and the gear box gear processing and marketing; ship manufacturing, processing, marketing	5,500,000	329,392,928	401,818
Shanghai Zhenhua Heavy Industries Machinery Co., Ltd.	Production of precision foundry, metal cutting and cooling process.	5,000,000	192,271,003	283,476
Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd.	Design, manufacturing and sales of port machinery, engineering vessel, steel structure and other parts	50,000,000HKD	3,049,802,492	1,669,658
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	1,593,781,230	-113,035,508
Nantong Zhenhua 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	1,012,397,772	19,289,873
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 the gearbox; large slewing bearings, transmission, dynamic positioning, large anchor cutter, offshore oil platform lifting device and components, accessories related weaving	300,000,000	1,915,133,274	-1,132,142
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	100,101,501	101,501
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 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 sales, maintenance, and self-owned equipment rental (except financial leases), engaged in the import and export of goods and technology business	7,000,000	7,000,369	0





Shanghai Zhenhua Heavy Industries Co., Ltd. Annual Report 2012

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 very parts, accessories,; special heavy-duty Steel, bridge structure, the weaving 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	457,559,576	-48,636,794
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	51,851,900	38,238
Nantong Zhenhua Heavy Industries Steel Structure Processing Co. Ltd.	machinery manufacturing and installing, steel structure processing, hardware processing, de-rusting and painting, machinery engineering contracting etc.	100,000USD	78,862,753	108,066
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	100,000USD	3,345,872	28,019
Shanghai Zhenhua Heavy Industries Steel Structure Co. Ltd.	Manufacturing and sales of steel structures and port machinery parts; installation of electric & port machinery equipment; providing related technology & service	150,000USD	5,361,494	151,436
ZPMC Netherlands B.V.	Port equipment technical service, sales, spare parts, offshore installation and steel structure	18,000Euro	1,204,024	0
ZPMC GmbH Hamburg	Sales, transport, maintenance of port equipment, ship steel structure parts and other parts	25,000Euro	86,696,585	3,060,433
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	2,087,587,964	-49,816,557
Shanghai Jiangtian Industrial Co., Ltd.	Organizing construction of composite buildings; business info consulting; sale and service of mechanic & electric equipment & product, building material, decorating material, hardware, goods, metal; toll park; affiliating branches	157,000,000	110,039,766	-5,960,554
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	18,120,000USD	868,552,336	-18,343,107



		own products and provides related installation and maintenance service and technical advice.			
Shanghai Heavy Industries (Group) Assembly Co., Ltd.	Zhenhua Industries Zhangjiagang	Making, processing, repair and rebuilding of port crane, bulk & container machinery	15,000,000	472,736,031	1,338,919
Jiangsu Longyuan Engineering Co., Ltd.	Zhenhua Marine	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	368,333,908	40,957,340
CCCC Engineering Technology Centre Co., Ltd.	Marine Vessel Research	Mainly engaged in steel ships and relevant equipment design, development, marketing and supply of technology transfer, technology consultation and technology services.	60,000,000	60,000,000	0
Shanghai Heavy Industries (Group) Paint Co., Ltd.	Zhenhua Industries Changzhou	Epoxy, polyurethane resin coating manufacturing and processing.	49,800,000	177,847,511	6,433,342

## II. Board of Director's discussion and analysis of the Company's future development

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

The year 2013 is the crucial linking year for the Company's "Twelfth-Five-Year-Plan" development; the year to achieve the "Twelfth-Five-Year-Plan" strategic objectives, and more than anything else the key year to lay the basis for sustained and healthy development of the Company. In 2013, the company is still facing the general situation combining challenges and opportunities, with opportunities outweighing challenges.

The world economy is still in a slow recovery phase. United States and major European countries lack economic recovery. Economic restructuring encounters difficulties in emerging countries; Domestic economy faces considerable downward pressure. Macroeconomic uncertainties have enhanced. Domestic inflation endures pressures. Labor cost tends to rise considerably. International exchange rates change and RMB faces pressure for appreciation. These factors make market competition more brutal. Machinery market has fully marched into the meager profit era. Low-cost competition became inevitable.

(1) Traditional manufacturing powerhouses have returned, and new layout and post promotion pose as an important way of resolving our financial difficulties, and thus greater challenges are facing the Company's operation in the international market.

- (2) Global economy is weak; international shipping market sees surplus of capacity; container transport and energy companies tend to be cautious; market volume as compared to a historical high still suffers major gaps.
- (3) Total port throughput will increase over a given period, but the growth slows down; ships are becoming larger and larger; modern logistics port features enhanced; ports are focusing more on content, quality, and transformation; therefore rapid growth and explosive demand is difficult to emerge in the short term.
- (4) Duplicability and transparency of products, technologies and services are increasing and homogenization of competition increased. The practice of "One Trick Dominates" monopoly profit and opportunity profit is difficult to maintain.

## (II) The Company's development strategy

The Board systematically and scientifically studied the basic situation, opportunities and challenges (combined with four elements including internal and external environment, resources, and capacity and value), analyzed internal self-owned disadvantage, developed the 2013-2015 overall development thought and expected planning target, called out the management layer and all employees together to face challenges, strengthen confidence, guide with strategy, seek scientific development, endeavor for full construction of an internationally excellent brand.

### 2013-2015 overall development thought and expected planning objectives

#### 1. The Company's strategic positioning: to build up ZPMC around the "4, 3, 2, 1" pattern

- (1) 4—types: stick to the shaping of ZPMC with "learning-type, innovation-type, high efficiency type and core values-type";
- (2) 3-Xtions: adhere to the "vertical integration, restricted horizontal diversification and internationalization" approach of business and industrial layout;
- (3) 2—Megs: stick to the "Mega machinery, mega civil engineering" development road;
- (4) 1—excellent: adhere to the goal of building an international excellent company enjoying sustainable and healthy development, including becoming the world's leading supplier of equipment, leading systems integrator, engineering general contractor and investor.

## 2. Guiding ideology

Maintain steady improvement; move fast while keeping healthy; keep strong while seeking being big; keep quality while maintaining change. Correctly handle the relationship between reform, development and stability; correctly handle relationships between inheritance, learning and innovation; rightly deal with relationship between size, quality and benefits; correctly handle relationship between policy-making, implementation and monitoring; seek full realization of balanced and harmonious development of five elements like benefits, size, quality, sustainability and improved employee happiness index.

## 3. General philosophy

Guided by the conception of scientific development point of view, seek world-class standard, integrated with international mainstream, emancipation way of thinking; reform and innovation; Follow-up to CCCC's overall deployment and implement the Company's development strategy; stick to improving development efficiency and quality as the main line, with "solid foundations, constant innovation, adjusting structure, changing ways of working, reorganizing resources, stronger management, fostering culture, maintaining quality" as the general policy; pushing forward the three management priorities of strategy and details, optimization and upgrading, standardization and digitization; in 2013, the Company will focus on the full implementation of the Year of "Turn around from loss to profitability, reform and tackle crucial difficulties"; at a higher level, with higher standards, promote international excellence on the Company's construction, in order to achieve sustainable and healthy development of the Company.

## 4. Key planning objectives

Business structure and objectives: focusing on "1, 5, 2, 1" business development and distribution, to achieve 1 "strong", 5 leaps, 2 breakthroughs, and 1 promotion.

(1) 1 "strong" means clinging to and doing fine and strong the core port machinery market, particularly the container machinery market, leading the development of container machinery in the world.

(2) 5 major "leaps" and market fostering



Offshore markets; Large, heavy, special steel structure market; Electrical products, software development and integration; Transport and installation market; Energy and environmental protection markets.

(3) 2 key new markets

System integration, engineering general contracting and project management market; Investment projects market.

(4) 1 market for full promotion

Integration, specialization and a global network of paid value-added services and key accessory parts market.

Main measures for achieving the development goals of the Company

1. Place priority on strategic management, put strategy management into full play in positioning, propulsion, navigation and binding effect.
2. Promote the "adjusting structure, changing way of working and improving quality"; to deepen the reform as a means of going the way of quality and efficiency development.
3. Seek to be strong via management, and increase enterprise's core competitiveness.
4. Focus on fostering talents, and take the road of enterprise thriving with talents.
5. Promoting scientific and technological progress and technical innovation, build an innovation-oriented enterprise, taking the road of strengthening the enterprise with technology and capacity.
6. Focus on building the advanced culture gene, to provide strong impetus to the development of the Company.

(III) Business planning

In the year 2013 the Company intends to achieve steady growth in operating income, stick to the road of development with quality and efficiency, focusing around the vertical integration, horizontal diversification strategy, based on creating an adaptable organization, depending on seizing the market, restructuring, transformation and upgrading as the main line, to fulfill all the tasks of the year 2013. The Company will rely on overall transforming, vertical integration



expansion to increase revenue; At the same time, it will strengthen the internal control, improve the gross margin level, to reach the annual target of turning loss into profitability, to lay a solid foundation for sustained and healthy development of the Company.

(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

**(1) Market risk: mainly seen as slow international economic recovery, international market management pressure increasing, main domestic ports construction slowing down sharply, the market situation still grim: total number of orders shrinking, order value shrinking, business structure too simple, business layout and development space narrow, relying too much on port machinery, profit pattern and growth mode timely adjustment and innovation not enough, poor ability to resist risks and weak ability of sustainable development.**

Countermeasures: in the face of the severe business situation, through the "restructuring, transferring business mode, improving quality", take the road of deepening reform, the development way of quality and benefit. Around the "1.5.2.1" model, optimize and adjust the market and business structure, thus to maintain a leading position for ZPMC port machinery in the global market while improving the marine engineering, steel structure, general contract, investment, customer service and independent supporting business, advancing structural adjustment and resource integration, to promote the sustainable development of the enterprise.

**(2) Business risks: mainly featuring a larger gap between the management and production operation mechanism and the international first-class company benchmarking, heavy asset management, profit model mainly depending on size, product gross margin too low.**

Countermeasures: broaden revenue channels, to increase comprehensive income; set up comprehensive budget management system, to dig up for more income potentials; optimize asset structure, to improve the quality of assets; strengthen process management, to make more efficiency out of management. Establish a group management mode and system centering

the product business unit, service unit as the main body of market competition and profit center; focusing on the company system, business unit system, shareholding system, project system, build a comprehensive, integrated clear industry chain and value chain and cost control chain, to meet the market demand, with clear responsibility, right, and benefits; deepen reform and adjustment of organization structure and management mode, improve the overall control capacity and efficiency. Guided by the idea of "market as the leading of the dragon, technology as the dragon backbone, production as the dragon ribs, quality and safety as the dragon muscle, customer service as the dragon tail", enhance the overall brand value of ZPMC, strive to become the high-end, fully grasping the company value chain creation. Through the main business, grasp the high-end, stabilize the intermediate end, optimize the low-end, in the pursuit of a high starting point, high-quality, high efficiency; transform to integrated operation, system solutions, enhance the added value, promote new profit model; move from stressing production operation to stressing both capital operation and production management; promote the Company's low cost expansion through the trading strategy; change the mode of operation, and enhance the ability to resist risks to promote the sustainable development of the Company.

**(3) Financial risk: mainly featuring exchange rate risk and credit risk, international exchange rate changes and the pressure of RMB appreciation, the credit crunch, the cost of capital soaring**

Countermeasures: make rational planning of forward exchange rate lock, control the exchange rate risk; the Company has always attached great importance to the study of foreign exchange risk management policy and strategy, paid close attention to changes in the exchange rate, prepared regular exchange rate movement trends, conducted strict implementation of the examination and approval procedures related to financial derivatives transactions; make good exchange rate statistics concerning the currency of products, to further strengthen foreign exchange management, reduce the risk of exchange rate. Through the arrangement of a favorable settlement clause in the contract (such as signing contract pegged to RMB exchange rate, payment proportion increase and early settlement etc.), or within the scope of permission by the state's financial foreign exchange policy, use appropriate financial tool or means such as foreign exchange hedging and factoring to control and lock the exchange rate risk. For credit risk, through the reduction of the reserves of raw materials, the Company compresses infrastructure spending, through a variety of ways (such as the medium-term notes, bills discounting, non-public directional debt financing instruments), adjusts the Company's debt structure, strengthens the accounts receivable collection, to gradually reduce bank debt and business risk.



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

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

√ n.a.

(II) Specification by the Board of Directors on the causes and effects of changes in accounting policies, accounting estimates and accounting method

√ n.a.

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

√ n.a.

### 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 dividends sharing standard and proportion are clearer, related decision-making program and mechanism complete, with full maintenance of small shareholders’ legitimate rights and interests, giving them full excess to expressing their views and demands.

Because the year 2012 is negative in profit and interest bearing bank liabilities amount fairly large, plus accounting for a higher proportion of the total liabilities, in order to lower liquidity and operational risks, the Company’s profit distribution program for the year 2012 is: not to distribute profit, not to convert reserve into capital stock.

(II) In case it is profitable in report period and retained profit of parent company is positive but no cash dividend distribution pre-plan is proposed, the company should disclose in detail reasons and the purpose and use plans of undistributed profit

√ n.a.





(III) 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: RMB yuan

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
2012	0	0	0	0	-1,043,665,841
2011	0	0	0	0	30,294,335
2010	0	0	0	0	-694,837,984

## V. Active fulfillment of social responsibilities

### (I) Social responsibility work

The Company has been actively fulfilling its social responsibilities. In the respective of safe production and civilized environment, the Company made full implementation of "safety first, prevention top priority and comprehensive governance" approaches; through such activities as safe production and civilized production, great efforts have been made to create a civilized and safe production, working and living environment.

The Company also actively participates in social welfare, promotes harmonious social development, commitments to corporate social responsibility. In the hot season, cooling stuff against high temperature is delivered to the front-line workers; it provides high-temperature lounges and other convenience to show their concern about workers' health. It helps migrant workers solve difficulties such as sudden serious illness.

## Chapter V Substantial Events

### **I. Substantial lawsuits, arbitrations and media generally questioned events:**

In report period, there are no lawsuits, arbitrations or events questioned by the media.

### **II. Reporting period funds occupancy and debts clearing progress**

√ n.a.

### **III. Restructuring on bankruptcy**

The Company has no such events like reorganization upon bankruptcy in report period.

### **IV. Assets trading and business combination events**

√ n.a.

### **V. Company's equity incentive in report period**

√ n.a.

### **VI. Magnificent related transactions**

(I) Related transactions in connection with routine operations



Events not disclosed in provisional announcement

Unit: RMB yuan

Related party transaction	Incidence relation	Types of related transaction	Content of related transaction	Pricing principle of related transaction	Price of related transaction	Related transaction amount
CCCC First Harbor Engineering Co., Ltd.	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	409,262,264	2.28
Friede & Goldman, Llc.	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	346,400,234	1.93
China Harbour Engineering Co., Ltd.	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	290,815,565	1.62
CCCC Shanghai Dredging Co., Ltd.	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	128,409,573	0.72
CCCC Tianjin Dredging Co., Ltd.	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	100,787,687	0.56
Jiangsu Longyuan Zhenhua Marine Engineering Co., Ltd.	Joint venture	Sell goods	Purchase port machinery from the Company	Based on market price	88,536,202	0.49
CCCC Third Harbor Engineering Co., Ltd.	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	36,392,562	0.20
CCCC Shanghai Equipment Engineering Co., Ltd.	Parent Company's controlled subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	5,458,020	0.03
CCCC	Parent Company	Sell goods	Purchase port machinery from the Company	Based on market price	2,964,862	0.02
CCCC No. 2 Harbor Engineering Bureau Co., Ltd.	Parent company's wholly-owned subsidiary	Sell goods	Purchase port machinery from the Company	Based on market price	2,371,795	0.01
Tianjin CCCC Bomesc Marine Industry Co., Ltd.	Parent Company's controlled subsidiary	Receiving services	Entrusted processing for the Company	Based on market price	78,539,419	0.46
CCCC	Parent Company	Receiving services	Entrusted processing for the Company	Based on market price	45,299,902	0.27
Shanghai Zhenhua Heavy Industries (Group) Changzhou Paint Co., Ltd.	Affiliated company	Purchases	Supply material for the Company	Based on market price	78,436,778	0.86
CCCC Shanghai Equipment Engineering Co., Ltd.	Parent Company's controlled subsidiary	Purchases	Supply material for the Company	Based on market price	61,510,825	0.68
CCCC Shanghai Dredging Equipment Industry Co., Ltd.	Parent company's wholly-owned subsidiary	Receiving services	Build base and workshop for the Group	Based on market price	2,882,000	0.83
CCCC Third Harbor Engineering Co., Ltd.	Parent company's wholly-owned subsidiary	Receiving services	Build base and workshop for the Group	Based on market price	160,500	0.05

Note: June 28, 2010, the Company 2009 Annual General Meeting approved "Motion on the Company Signing Framework Agreement with CHINA COMMUNICATIONS



CONSTRUCTION CO., LTD. on Routine Related Transactions." From 2010 to 2012, 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 3 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 7th meeting of the 5th session of Board of Directors reviewed and approved on Mar. 22, 2012 Bill for Holding Shares in CCCC Engineering Ship Technology Research Centre Co., Ltd., Bill for Holding Shares in CCCC Dredging Technology & Equipment State Project Research Centre Co., Ltd., Bill for Shareholding in CCCC Highway Long and Large Bridge Construction State Project Research Centre Co., Ltd.	Shanghai Stock Exchange website: www.sse.com.cn and Shanghai Securities News and Hong Kong Wen Wei Po on Mar. 24, 2012

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

1. Events not disclosed in the provisional announcement.

Unit: RMB yuan

Related party	Incidence relation	The Company providing fund to related party			Related party providing fund to the Company		
		Beginning balances	Current amount	Ending balance	Beginning balances	Current amount	Ending balance
China Communications Construction Co., Ltd.	Parent Company	0	0	0	75,536,745	0	75,536,745
Hong Kong Zhenhua Engineering Co. Ltd.	Parent company's wholly-owned subsidiary	0	0	0	19,606,950	-19,260,945	346,005
Macau Zhenhua Harbor Engineering Co., Ltd.	Parent company's wholly-owned subsidiary	0	0	0	373,626	-367,033	6,593
the current amount of funding during the reporting period the Company provided to its controlling shareholder and its subsidiaries (yuan)				0			
the ending amount of funding during the reporting period the Company to its controlling shareholder and its subsidiaries (yuan)				0			
Reasons for the related credits and liabilities				Dividends payable by the Company to related parties			

**VII. Major contracts and their implementation**

(I) Entrusting, contracting and leasing.

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(II) Guaranty

<b>External guaranty (excluding those for held subsidiaries)</b>	
Total guaranties for subsidiaries incurred in report period	0
Total guarantee balance at the end of report period (A) (excluding those for held subsidiaries)	0
<b>Guaranties for subsidiaries</b>	
Total guaranties for subsidiaries incurred in report period	1,970,504,250
Total guaranties for subsidiary balance in report period (B)	2,404,203,750
<b>Total guaranties of the Company (including those for subsidiaries)</b>	
Total guarantee amount (A+B)	2,404,203,750
Proportion of net assets of the Company (%)	16.68
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 ratio over 70% (D)	2,404,203,750
Amount of guaranties exceeding 50% of net assets (E)	0
Total of the above 3 kinds of guarantee (C+D+E)	2,404,203,750

Note: The 2008 first interval general meeting held on Sep. 22, 2008 reviewed and passed "Proposal on the Company Providing Financial Guaranties to Subsidiary Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd.", agreeing to provide support on financing to Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd., providing guaranties for bank loans, maximum \$500 million. All guaranties the Company provided in report period are those to Shanghai Zhenhua Port Machinery (Hong Kong) Co., Ltd.

(III) Other substantial contracts

The company has no other substantial contracts in report period.

**VIII. Commitments**

(I) Commitment with shareholders holding over 5% shares in report period or lasting to report period.

Type of Commitments	The Commitments	Fulfillment
Other commitments	On Oct. 18, 2012 the Company's controlling shareholder China Communications Construction Co., Ltd. (hereafter "CCCC") via Shanghai Stock Exchange trading platform purchase increased its holding of the Company's A-shares by 4,999,902 shares, covering 0.114% of the total capital stock issued publicly. CCCC plans to continue increasing its holding of the Company's shares in the future 12 months (starting from Oct. 18, 2012) in its own name via the trading platform of Shanghai Stock Exchange. Cumulative holding ratio shall not exceed 2% (including the mentioned increased holding) of the Company's total issuance of capital shares. CCCC promises it will not decrease its holding of the Company's shares during the period of increasing shareholding and in lawful period. Such promises were posted on Shanghai Securities News, Hong Kong Wen Wei Po on Oct. 20, 2012 and Shanghai Stock Exchange website (www.sse.com.cn).	Commitment time and term is 12 months starting from Oct. 18, 2012; Up to now, China Communications Corporation has strictly followed their commitments.

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

Unit: RMB 10,000 yuan

Whether to hire other accounting firms	No
	Current appointment
Domestic accounting firm	PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd.
Domestic accounting firm payment	315
Domestic accounting firm audit period	19

	Name	Payment
Internal control audit accounting firm	PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd.	120

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

During the reporting period, neither the company nor its directors, supervisors, the senior management personnel, shareholders holding over 5% of the shares, the actual controller, acquirer, have experienced inspection, administrative penalty, notice of criticism by China Securities Regulatory Commission, or public condemnation by the Stock Exchange.

**XI. Other significant events**

The Company has no other significant events during report period.

## Chapter VI Equity Movement and Shareholder's Profile

### I. Particulars about equity movement:

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

##### 1. Particulars about capital stock change

Unit: share

	Prior to the movement		Increase/Decrease(+,-)				After the movement		
	Qty	Proportion (%)	New Issues	Bonus	Transferred from surplus reserve	Others	Subtotal	Qty	Proportion (%)
I. Shares subject to conditional sales	984,696,284	22.43				-984,696,284	-984,696,284	0	0
1.State-owned Shares									
2 .Shares owned by state-owned legal person	220,733,084	5.03				-220,733,084	-220,733,084	0	0
3. Shares owned by other domestic parties									
Including: shares owned by domestic non-state-owned legal person									
Shares owned by domestic natural person									
4. Shares with foreign investment	763,963,200	17.40				-763,963,200	-763,963,200	0	0
Including: Shares owned by overseas legal persons	763,963,200	17.40				-763,963,200	-763,963,200	0	0
Shares owned by overseas natural persons									
II. Total of shares not subject to conditional sales	3,405,598,300	77.57				984,696,284	984,696,284	4,390,294,584	100
1. A share	2,547,598,300	58.03				220,733,084	220,733,084	2,768,331,384	63.06
2. B share	858,000,000	19.54				763,963,200	763,963,200	1,621,963,200	36.94
3. Shares issued in overseas market									
4. Others									
III. Total shares	4,390,294,584	100				0	0	4,390,294,584	100

Explanation on the changes of shares:

Note:

1. On September 22, 2008, the Company's first interim shareholders general meeting of 2008



considered and adopted related motions concerning the Company buying 100% equity of Shanghai Port Machinery and 60% equity of Jiangtian Industrial from China Communications Construction Co., Ltd. through non-public offering, directional add-issuance of 220,733,084 shares with sales restriction conditions for listing, trading day being Mar. 20, 2012. Announcement of the said listing of restricted shares was posted on Shanghai Securities News and Hong Kong Wen Wei Po on Mar. 16, 2012.

2. According to China Securities Regulatory Commission ("CSRC") "Notification on Issue Concerning Non—B Shares Circulation of Company with Domestically Listed Foreign Investment Shares (B-shares), a total of 763,963,200 shares of the foreign legal person shares held by the Company's foreign investment legal person shareholder Hong Kong Zhenhua Engineering Co. Ltd. and Macao Zhenhua Harbour Engineering Co., Ltd. Started to circulate on Shanghai Stock Exchange B share market on December 25, 2012. Announcement on the circulation of restricted shares was posted on Shanghai Securities News and Hong Kong Wen Wei Po on Dec. 20, 2012.

(II) Table of movement of shares with sales limitations

Unit: share

Shareholder's name	Beginning amount of restricted shares	Current amount of relieving restricted shares	Ending amount of restricted shares	Restricted reason	Date of relieving restricted
China Communications Construction Co., Ltd.	220,733,084	220,733,084	0	Private Placement of shares	2012-03-20
ZHEN HUA ENGINEERING COMPANY LIMITED	749,677,500	749,677,500	0	Foreign legal person shares	2012-12-25
ZHEN HWA HARBOUR CONSTRUCTION COMPANY LIMITED	14,285,700	14,285,700	0	Foreign legal person shares	2012-12-25
Total	984,696,284	984,696,284	0	\	\

**II. Particulars about securities issuance and listing of the Company**

(I) Stock issuance activities in the Company in the three years before the report period

In the three years before the report period, there were no stock issuance activities in the Company.

(II) Changes of total number of stock and shareholder composition and changes of asset and liability composition

In report period there incurred no change in the Company's total shares or stock structure as





caused by bonus shares or allocated shares.

(III) Existing internal staff shares

By end of report period, there exist no internal employee shares.

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

(I) Number of shareholders and their shareholding profile:

Unit: share

Number of shareholders at period end	360,825			Total shareholders end of 5 <sup>th</sup> trading day prior to release day of current annual report	357,327	
Shareholding profile of top 10 shareholders						
Shareholder's Name	Shareholder's Nature	Ratio (%)	Total shares held	Movement During the Year	shares held subject to conditional sales	Shares pledged or frozen
China Communications Construction Co., Ltd.	State legal person shareholder	28.83	1,265,637,849	4,999,902	0	None
ZHEN HUA ENGINEERING COMPANY LIMITED	Overseas institution	17.08	749,677,500	0	0	None
TOYO SECURITIES ASIA LTD. A/C CLIENT	Unknown	0.50	22,112,478	-3,600,486		Unknown
SCBHK A/C GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION - A/C "C"	Unknown	0.41	18,046,654	-5,430,095		Unknown
NAITO SECURITIES CO., LTD.	Unknown	0.34	15,093,553	-1,497,680		Unknown
ZHEN HWA HARBOUR CONSTRUCTION COMPANY LIMITED	Overseas institution	0.33	14,285,700	0	0	None
Minsheng Life Insurance Co., Ltd. — traditional insurance products	Unknown	0.30	13,265,084	7,320,869		Unknown
Shaoxing Far East Thermal Power Co., Ltd.	Unknown	0.20	8,777,800	265,266		Unknown
AIZAWA SECURITIES CO.,LTD.	Unknown	0.16	7,172,094	-998,432		Unknown
Sanya Cheng Da Investment Co., Ltd.	Unknown	0.14	6,176,801	-1,165,176		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		
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
TOYO SECURITIES ASIA LTD. A/C CLIENT	22,112,478	Shares with foreign investment listed on domestic market
SCBHK A/C GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION - A/C "C"	18,046,654	Shares with foreign investment listed on domestic market
NAITO SECURITIES CO., LTD.	15,093,553	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
Minsheng Life Insurance Co., Ltd. — traditional insurance products	13,265,084	RMB common shares
Shaoxing Far East Thermal Power Co., Ltd.	8,777,800	RMB common shares
AIZAWA SECURITIES CO.,LTD.	7,172,094	Shares with foreign investment listed on domestic market
Sanya Chengda Investment Co., Ltd.	6,176,801	RMB common shares
Explanation on the above related relationship or consistent action	Among above top 10 shareholders, CHINA COMMUNICATIONS CONSTRUCTION CO., LTD. constitutes related party relationship with ZHEN HUA ENGINEERING COMPANY LIMITED, ZHEN HWA HARBOUR CONSTRUCTION COMPANY LIMITED, with ultimate controller being China Communications Group Corporation. The Company is not aware of whether they have associated relationship among them or belong to the consistent actionists as defined in Administrative Rules on Disclosure of Information on Stock Change of Listed Company's Shareholders.	

#### IV. Controlling shareholders and actual controllers

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

###### 1. Legal person

Unit: RMB yuan

Name	China Communications Construction Co., Ltd.
The person in charge of the unit /legal representative	Zhou Jichang
Date of incorporation	2006-10-8
Organizational Code	71093436-9
Registered capital	14,825,000,000
Principal business activities	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.



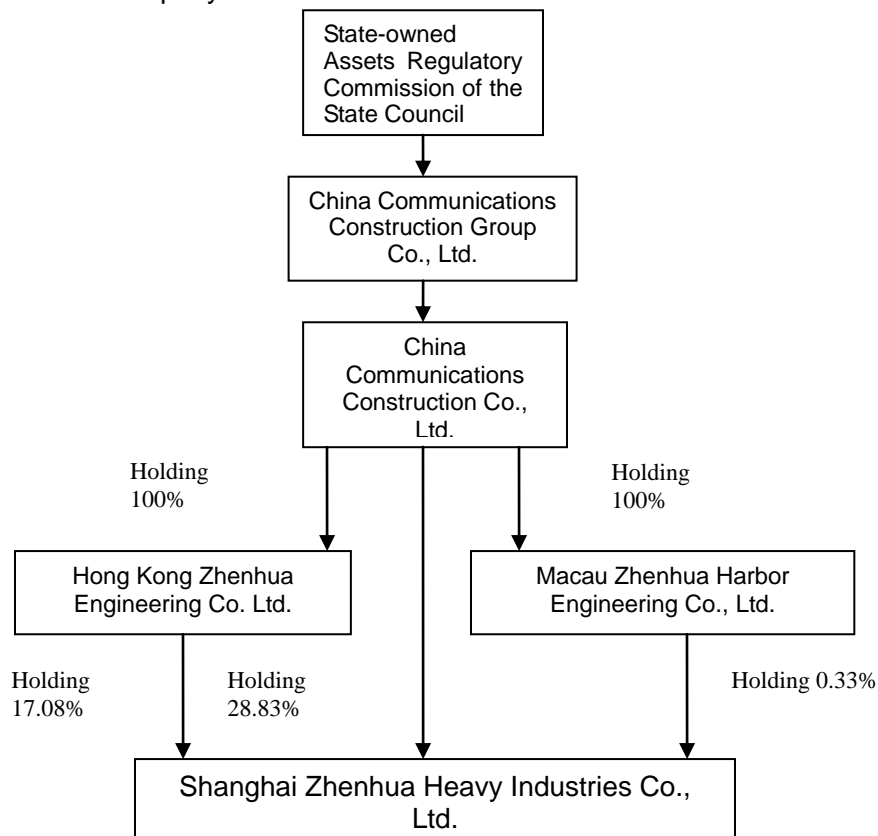
(II) Particulars about the actual corporate controller

1. Legal person

Unit: RMB yuan

Name	China Communications Construction Group
The person in charge of the unit /legal representative	Zhou Jichang
Date of incorporation	2005-12-08
Registered capital	4,754,016,800
Principal business activities	International tender for contracting overseas projects and domestic projects; a variety of professional ship general contracting construction, leasing and maintenance of specialized ships, construction machinery; marine towing, marine engineering-related professional services; technical advisory services for ships and port equipment; commitment to domestic and foreign ports, waterway, highway and bridge construction item, the general contractor (including the technical and economic consulting, feasibility studies, survey, design, construction, supervision and related equipment, materials procurement and supply, equipment installation); commitment to the industrial and civil buildings, railway metallurgy, petrochemical, tunnels, power, mining, water conservancy, municipal construction project contracting; import and export business; real estate development and property management; transport, hotel industry, tourism, investment and management.

2. Block Diagram Showing Property and Controlling Relationship between the Actual Controller and the Company



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

As of end of report period, there existed no such shareholders.



## Chapter VII Directors, Supervisors and Senior Executives

### I. Chang 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	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)
Zhou Jichang	Chairman of the board	M	63	2011-05-20	2012-09-18	0	0	0		0	105.7
Song Hailiang	Chairman of the board, secretary of the party committee	M	50	2012-09-18	2014-05-20	0	0	0		0	-
Liu Wensheng	Director	M	53	2011-05-20	2014-05-20	0	0	0		0	88.7
Chen Qi	Director	F	51	2011-05-20	2014-05-20	0	0	0		0	53.2
Kang Xuezheng	Executive director, President	M	55	2011-05-20	2012-08-21	0	0	0		55.84	-
Lu Jianzhong	President, vice Party Secretary	M	50	2011-10-20	2014-05-20	0	0	0		59.92	-
Yan Yunfu	Executive director, Vice president	M	54	2011-05-20	2014-05-20	0	0	0		70.37	-
Liu Qizhong	Executive director, Vice president	M	49	2011-05-20	2014-05-20	0	0	0		73.16	-
Dai Wenkai	Executive director, Vice president	M	46	2011-05-20	2014-05-20	0	0	0		72.32	-
Bao Qifan	Independent director	M	62	2011-05-20	2014-05-20	0	0	0		12	-
Li Liguang	Independent director	M	51	2011-05-20	2014-05-20	0	0	0		12	-
Mi Weijian	Independent director	M	57	2011-05-20	2014-05-20	0	0	0		12	-
Liu Ningyuan	Independent director	M	55	2011-05-20	2014-05-20	0	0	0		12	-
Tang Fuxin	Independent director	F	57	2011-05-20	2014-05-20	0	0	0		12	-
Zhang Minghai	Chairman of board of supervisors	M	51	2011-05-20	2014-05-20	20,259	20,259	0		60.09	-
Chen Bin	Supervisor	M	39	2011-05-20	2014-05-20	89,440	89,440	0		52.32	-
Zhao Guangjing	Supervisor	M	52	2011-05-20	2014-05-20	0	0	0		35.57	-
Cao Weizhong	Vice president	M	57	2011-05-20	2014-05-20	0	0	0		58.24	-
Huang Hongyu	Vice president	M	59	2011-05-20	2014-05-20	0	0	0		59.93	-
Sun Li	Vice president	M	41	2011-05-20	2014-05-20	0	0	0		60.62	-
Huang Qingfeng	Vice president	M	38	2011-05-20	2014-05-20	0	0	0		60.85	-
Zhou Qi	Vice president	M	41	2011-05-20	2014-05-20	0	0	0		63.42	-
Fei Guo	Vice president	M	51	2011-05-20	2014-05-20	0	0	0		66.14	-
Chen Gang	Vice president	M	46	2011-05-20	2014-05-20	0	0	0		70.2	-
Liu Jianbo	Vice president	M	50	2011-05-20	2014-05-20	0	0	0		63.45	-
Wang Jue	CFO, Secretary of the Board of Directors,	M	49	2011-05-20	2014-05-20	0	0	0		59.56	-
Total	/	/	/	/	/	109,699	109,699	0	/	1,102	247.6



1. Zhou Jichang, born in 1950, male, master, senior engineer; was Vice President with No. 1 Highway Survey & Design Institute of Ministry of Communications, deputy general manager and vice chairman of board of directors with China Highway & Bridge Construction Co. Ltd., chairman of board of directors, president and Party Secretary with China Highway and Bridge Construction Co. Ltd.; is now chairman of the board of directors, general manager and vice chairman of Party committee with China Communications Construction Group Co. Ltd., Chairman and chairman of Party committee with China Communications Construction Co. Ltd., was chairman of board of directors of the Company since 2006. On Sep. 18, 2012, resigned from the post of board chairman.

2. Song Hailiang, born in 1963, male, professor-level senior engineer, 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 Assistant to the President of China Communications Construction Co., Ltd. and simultaneously Chairman of the Board and Party Secretary of Zhenhua Heavy Industries.

3. 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., has been director of the Company since 2006.

4. 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 and director of the Company.

5. Kang Xuezheng, born in 1958, male, master, senior economist, senior engineer, was CCCC First Navigation Engineering Bureau Co., Ltd. First Company vice secretary of Youth League, deputy general manager, general manager, CCCC First Navigation Engineering Bureau Co., Ltd. vice



bureau director, member of Party committee, Director, general manager, vice chairman of Party committee, director of the Company, president; resigned from the posts of director and president of the Company on Aug. 21, 2012.

6. Lu Jianzhong, born in 1963, males, MBA, management science and engineering doctor, senior accountant, senior economist; started to work in July 1983, successively CCCC First Highway Engineering Co., Ltd. Beijing-Tianjin-Tanggu Expressway Tianjin viaduct project general manager, director of the Bureau's Corporate Management Division, Bureau deputy chief economist, the ring road of the capital of Ethiopia project general manager, overseas subsidiary General Manager and Secretary of the Party Committee, the Bureau's chief economist, deputy managing director, local Party committee member; is now director, president and vice chairman of Party committee of the Company.

7. Yan Yunfu, born in 1959, male, master of engineering management, 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 and simultaneously president of Land Heavy Industry Design and Research Institute; is director of the Company since 2004.

8. Liu Qizhong, born in 1964, male, MBA, senior economist, doctor; was Vice Manager, Manager of Operating Department and VP of the Company; is now the Company's standing VP; is director of the Company since 1997.

9. Dai Wenkai: born in 1967, male, master of physics, MBA, EMBA, senior engineer. Started to work in 1993, was Manger of Operating Department, Vice Chief Economist, Chief Economist, VP of the Company; is now the standing VP and director of the Company.

10. 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 director of the company since 2011.



11. Li Liguang, born in 1962, male, doctor, professor, instructor of doctorate students; associate professor and doctorate instructor with Jilin Industrial University's Auto School Diesel Engine Department; professor with School of Machinery and Diesel Engine of Shanghai Jiaotong University; vice president with Graduate School of Tongji University; is now president with Mechanical School of Tongji University; independent director of the Company since 2007.

12. Mi Weijian, born in 1956, male, doctor, professor, instructor of doctorate students; was assistant professor at Shanghai Shipping Institute, lecturer, associate professor; is now president of Logistics and Engineering School of Shanghai Marine University; independent director of the Company since 2007.

13. 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 director of the Company since 2011.

14. Tang Fuxin, born in 1956, female, MBA, senior accountant; served as accountant of Finance Department and vice director of Inspection Division of the Ministry of Posts, former Guoxin Paging Co., Ltd. finance manager, China Unicom Group financial department deputy general manager and general manager of the department of Finance; China Unicom Co., Ltd. financial department general manager; currently China Unicom Group General Manager of Audit Department, also as China Unicom Co., Ltd. supervisor; independent director of the Company since 2011.

15. Zhang Minghai, born in 1962, male, master, 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.

16. 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; supervisor of the Company since 2008.

17. Zhao Guangjing, born in 1961, male, college diploma, served with the second training team of East China Sea Fleet; Shanghai Port Machinery Plant discipline inspection and supervision audit office director, 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 supervisor of the Company.

18. Cao Weizhong, 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.

19. Huang Hongyu, born in 1954, male, master's degree in engineering administration, senior engineer; worked as Vice General Engineer of the Company. He has been Vice President of the Company since 1997.

20. 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 Director and Vice President of the Company since 2001.

21. 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.

22. Zhou Qi, born in 1972, male, master's degree in engineering administration, senior engineer; was manager and deputy general engineer, general manager of the Electric Appliance Office of the Company; is now VP of the Company and simultaneously VP of Land Heavy Industry Design and Research Institute.





23. Fei Guo, born in 1962, male, master's degree in engineering administration, 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 chairman of the board of Shanghai Zhenhua Heavy Electric Co. Ltd.

24. Chen Gang, born in 1967, male, doctor, senior engineer; was deputy manager of Technological Office of the Company; Mechanical Design manager, Mechanical Office director, vice chief engineer, chief engineer, is now VP of the Company and simultaneously VP of Land Heavy Industry Design and Research Institute.

25. 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.

26. 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.

Note:

1. As of the end of the reporting period, serving directors, supervisors and senior executives' remuneration disclosure is that of a period of 12 months; remuneration disclosure period of resigned directors, supervisors and senior executives is the period from present report period start till the term termination.

2. In report period, the remuneration disclosure of chairman of the board Zhou Jichang, director Liu Wensheng, director Chen Qi paid by shareholders companys is that of a period of 12 months.

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

(I) Particulars about office-holding with shareholding companies:

Name	Name of shareholding companies	Title	Starting date of service term
Zhou Jichang	China Communications Construction Co., Ltd.	Chairman of the board	2009-12-29
Song Hailiang	China Communications Construction Co., Ltd.	Assistant President	2012-08-14
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
Kang Xuezheng	CCCC Tianjin Dredging Co., Ltd.	Chairman of the board, Deputy Secretary of the Party committee	2013-01-18

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

Name	Name of companies	Title
Bao Qifan	Shanghai Municipal Government, Chinese Mechanical Engineering Society, China Water Transportation Association, Shanghai Association for Science & Technology	Counselor, Vice Director-General, Vice Chairman
Li Liguang	School of Mechanical Engineering Tongji University	President
Mi Weijian	Logistics Engineering College of Shanghai Maritime University	President
Liu Ningyuan	International Law Faculty of the East China University of Politics and Law, China Association of Private International Law, China Academy of Arbitration Law, International Law Research Association of Shanghai Law Society, Shanghai Arbitration Commission, Shanghai Trust Justice Law Office	Dean and Secretary of the Party committee, Standing Director, Vice-chairman, arbiter, Lawyer
Tang Fuxin	China United Network Communications Group Co., Ltd, China United Network Communications Ltd.	General Manager of Audit Department, Supervisor

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

Decision-making procedures for remuneration of Directors, Supervisors and senior executives	In accordance with the Articles of Association, the remuneration of Directors and Supervisors are subject to the approval of 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	Basic salary plus performance bonus, combined with assessment utilizing quantizing index of production and operation.



and senior executives	
Total pay received by all directors, supervisors and senior executives	Chairman Zhou Jichang, Director Chen Qi, Director Liu Wensheng 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	11,020,000 yuan

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

Name	Former position	The Change	Reason
Zhou Jichang	Chairman	Leaving post	Resignation
Song Hailiang	Chairman	appointment	New appointment
Kang Xuezheng	Director, president	Leaving post	Job changes

#### V. Core technician team or key technicians

No changes of core technician team or key technicians during report period.

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

##### (I) Particulars about employees

Number of employees of Parent Company in service	2,883
Number of employees of key subsidiaries in service	2,681
Total headcount in employment	5,564
Particulars about staff condition of the Company	0
In specialties	
Classification	Number
Production staff	1,835
Selling staff	137
Technical staff	2,858
Financial staff	84
Administrative staff	650
In educational level	
Educational Level	Number
Technical secondary school	860
Junior College	2,087
Undergraduate	2,367
Master	231
Doctor	19
Total	5,564

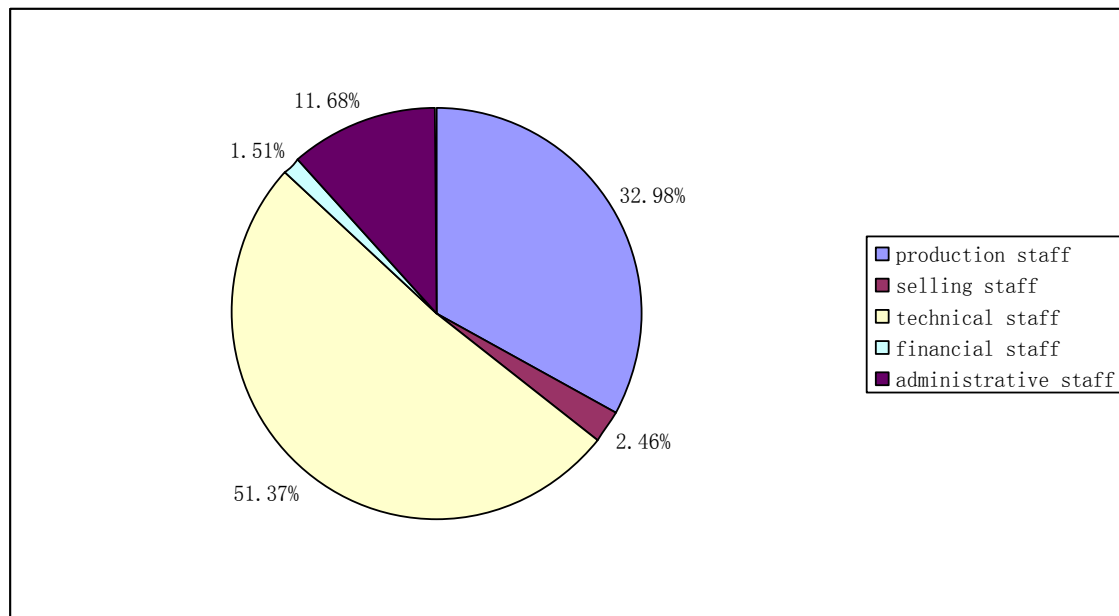
(II) Remuneration policies

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 and post value; establish a distribution mode integrating with the market.

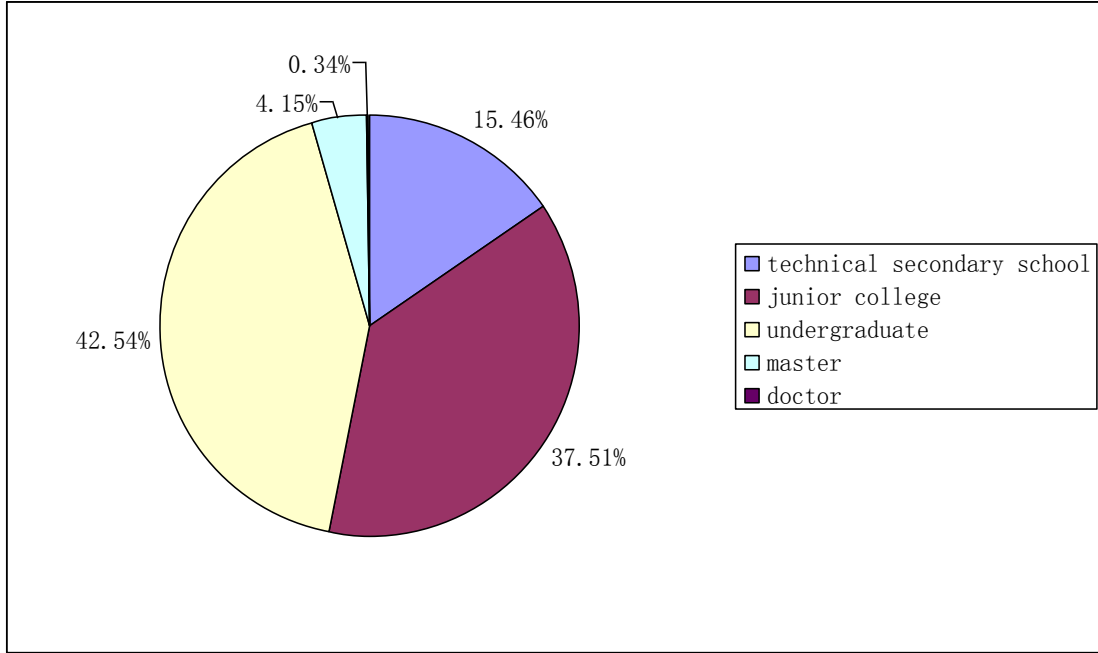
(III) Training programs

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

(IV) Specialty composition chart:



(V) Educational level statistics chart:



(VI) Labor outsourcing

The total number of man-hours of labor outsourcing	13,102,848 hours
The total remuneration payment of labor outsourcing	376,470,000 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 the establishment and development of the legal representative management system according to the Company Law, Securities Law, Rules for Listed Securities, Article of Associations and other regulations promulgated by CSRC. The actual management status primarily complies with Regulation Codes of Listing Company as follows:

① Shareholders and the Shareholder' Meeting: The Company treats all shareholders equally, protects the legal benefit for the shareholders, and ensures the sufficient enforcement of their rights. The company established standing orders of shareholders' meeting. The company convenes the shareholders' meeting strictly according to the standing orders of shareholders' meeting. The number of shareholders attended and shares represented conform to the regulation of Company Law and Article of Association.

② Ultimate shareholders and listing: Ultimate shareholder acts in a normal way and strictly respects all rights of the Board of Directors and Shareholder's General Meeting .It doesn't perform any illegal or executive function which goes beyond the authorizations granted by the Board of Directors and Shareholder's General Meeting or intervenes with the significant decision made by the Company and its lawful operations. The Board of Directors, the Supervisory Board and internal institutions can operate independently. In this reporting period, the Company established Related Party Transaction Regulation to ensure the validity of the decision procedure of related party transactions.

③ The Directors and the Board of Directors: The Board of Directors acts independently. The Company has established Standing Orders of the Board of Directors and Regulations on Performance of Independent Director. Every director is able to present the meetings of the Board of Directors and Shareholders' General Meeting in a critical and responsible manner, and performs obligations and responsibilities as a director. Independent directors fully and independently perform their duties and concern the legal welfare of minority shareholders.

④ Supervisors and the Supervisory Board: The number of the supervisors and member comply with laws and regulations; the Supervisors are able to perform their duties according to Standing Orders of the Supervisory Board. Being responsible to shareholders, the supervisors are able to perform their responsibility with due diligence and supervise the finance, performance of the Directors, managers and other senior executives to ensure the compliance with the laws.

⑤ Performance and incentive system: The Company is positively working on the institution of a fair and open incentive system for the evaluation and motivation of directors, supervisors and managers. Employment of management staff is fair and open according to laws and regulations.

⑥ Other stakeholders: The Company fully respects and protects the rights and interests of banks, creditors, employees, customers and other relative beneficial parties, positively cooperates and effectively communicates with these parties to promote continual and healthy development of the Company.

⑦ Information disclosure and openness: The Company is able to duly perform its obligation on information disclosure according to related regulations. During the report period, the Company attached much importance to the management of investor relationship and established a system which helps investors to keep abreast of the Company, and periodically invites investors to visit and



investigate the production bases of the Company. As a result, the Company has built up a smooth communication channel between investors and the Company to improve the management, corporate governance structure of the Company and its core competitiveness.

During the report period, the Company completed the replacement of board chairman and the president, having achieved a smooth transition of leadership, and the corporate governance is more perfect. The Company started from strengthening basic management work and carried out a series of institutional reform, further improved the internal control system and system construction, improved the internal control management, continuously improved the level of corporate governance. On March 22, 2012, the 7<sup>th</sup> meeting of the Fifth Board of Directors of the Company examined and adopted the "Motion for Company Internal Control Standards Implementation Work Program, which specified the work content of the internal control system construction and related work key points, with specific implementation, timing and responsibility of each unit; through the preparation stage, start-up stage and continuous promoting stage and other multiple stages of development, through the development of risk identification and assessment, diagnosis of current situation of internal control, test of internal control of the Company, constantly improved the internal control system of the Company and to strengthen the internal control system with the implementation of self-examination, so that the Company's internal control system has been executed and implemented effectively, ensured the Company's standardized operation.

To regulate the Company's inside information management, strengthen the work of company insider information confidentiality maintenance, ensure the information disclosure follow the principles of openness, fairness, impartiality, the 30th meeting of the fourth session of the Board reviewed and approved the Shanghai Zhenhua Heavy Industries Co., Ltd. Insider Information Informant Management System. Before the Company discloses its annual report, written reminders for inside informants are issued; as a result of self-examination, inside information informants have not been found to have traded the Company's shares taking the advantage of insider information before sensitive information's disclosure.

Corporate governance is a long-lasting activity. The Company will continuously follow requirements of Company Law, Securities Law and other laws and regulations to further raise the level of standard operation, strengthen governance work and ensure the healthy and stable development of the Company.

**II. 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
2011 Annual Shareholder's General Meeting	2012-05-08	I. 2011 Board of Directors' Work Report; II. 2011 Work Report of the Supervisory Board; III. 2011 Independent Directors' Work Report; IV. 2011 Work Report of the President; V. 2011 Annual Report and Abstract; VI. 2011 Financial Accounts Report; VII. 2011 Profit Distribution Pre-plan; VIII. Motion on Applying for 2012 Bank Comprehensive Line of Credit Quota; IX. Motion on Continuing to Employ Domestic CPAs in 2012; X. Motion on Co-opting Directors to the Fifth Session of the Board of Directors. XI. Motion on Amendment to Articles of Association	All motions passed through consideration	SSE web: <a href="http://www.sse.com.cn">www.sse.com.cn</a>  Input the stock code and then retrieve	2012-05-09
2012 First Interim Shareholder's General Meeting	2012-09-18	I. Motion on Change of the Company's Directors—co-opted Mr. Song Hailiang as the director of the Company's Fifth Session of the Board of Directors; II. Motion on Amendment to Articles of Association	All motions passed through consideration	Based on market price	2012-09-19





III. Duty fulfillment of directors

(I) Attendance of directors at meetings of the Board of Directors:

Name	Independent Director 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
Zhou Jichang	No	5	3	2	0	0	No	2
Song Hailiang	No	2	1	1	0	0	No	1
Liu Wensheng	No	7	2	4	1	0	No	0
Chen Qi	No	7	3	4	0	0	No	2
Kang Xuezheng	No	3	1	2	0	0	No	1
Lu Jianzhong	No	5	2	3	0	0	No	2
Yan Yunfu	No	7	3	4	0	0	No	2
Liu Qizhong	No	7	3	4	0	0	No	2
Dai Wenkai	No	5	2	3	0	0	No	1
Bao Qifan	Yes	7	3	4	0	0	No	1
Li Liguang	Yes	7	2	4	1	0	No	1
Mi Weijian	Yes	7	3	4	0	0	No	2
Liu Ningyuan	Yes	7	2	4	1	0	No	2
Tang Fuxin	Yes	7	2	4	1	0	No	1

Number of board meetings in report year	7
Including: number of field meeting	3
Number of meeting by correspondence	4
Number of meeting field & by correspondence	0



(II) Dissent expressed by Independent Directors on related issues of the Company

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

#### **IV. Description of the Supervisory Board of the found risks with the Company**

In report period, the Supervisory Board holds no objections to supervisory matters.

#### **V. 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 executives 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 CSRC requirements on the listed company's internal control standard, combined with the actual situation of the company, the company developed the company's internal control standard implementation of the work program, and the established the internal control regulations leading group and project work group which are in charge of the Company's internal control system construction and the daily operation under the leadership of the Board of Directors of the Company.

The company has made a self-assessment about the effectiveness of the design and operation of internal control the Company has done until December 31 2012 based on the requirements of the basic specification, evaluation guidelines and other relevant laws and regulations.

During the reporting period, the company has set up the internal control about the business and item included in the scope of the evaluation, and the controls has been effective implemented. The Company has achieved the goals of the company's internal control, and there are no major defects.

From the baseline day of the internal control evaluation report to the evaluation report delivery day, no significant changes of internal control having serious impact on the evaluation findings have ever been found. For the Internal Control Self Assessment Report, see the attachment.

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

The employed PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd. Has conducted audit on the effectiveness of internal control in the financial report as of Dec. 31, 2012 and produced unqualified standard auditor's report (see attachment).

### 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, 2012, 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.



## **Chapter X Financial Report**

**( See attachment )**



## **Chapter XI Reference Available**

**I. Financial statements sealed and signed by the legal representative, CFO and person in charge of accounting organ.**

**II. Originals of Audit Report with seal and signatures of CPAs' and CPA's Firm**

**III. The originals of all the company's documents and public bulletins released in the newspapers defined by China Securities Regulation Committee within the report period.**

Chairman: Song Hailiang

Shanghai Zhenhua Heavy Industries Co., Ltd.

Mar. 27, 2013