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CHINA OCEAN INDUSTRY GROUP LIMITED

中海重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

**SUPPLEMENTARY ANNOUNCEMENT ON
THE ANNUAL REPORT FOR THE YEAR ENDED
31 DECEMBER 2016**

This announcement is made at the request of The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

Reference is made to the annual report of China Ocean Industry Group Limited (the “Company”, together with its subsidiaries, referred to as the “Group”) for the year ended 31 December 2016 (“Annual Report”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

As disclosed in the Annual Report, the Group recorded an impairment loss on goodwill of approximately HK\$64 million (2015: nil) in relation to Success Capture Limited and its subsidiaries (the “Success Capture Group”), i.e. the cash generating unit (“CGU”) of the Group’s intelligent car parking and automotive device business.

The board of directors (“Directors”) of the Company (“Board”) wishes to provide the Shareholders of the Company and potential investors with additional information of the Group for the year ended 31 December 2016 as follows:

DEVELOPMENT OF INTELLIGENT CAR PARKING AND AUTOMOTIVE DEVICE BUSINESS

The Group ventured into the intelligent car parking and automotive device business since end of year 2015. After its first year operation, this segment contributed external revenue of HK\$210.55 million (in 2015: HK\$11.01 million) and had become one of major revenue generation units of the Group. However, the loss-making shipbuilding business of the Group has put pressure on cash flow of the Group, hence the Group was not able to devote sufficient financial resources to support its car parking business. On the other hand, as the car parking business is still at the development stage and requires long-term investment, its financial performance has yet bear fruit in such a short time. Due to the above reasons, the actual sales performance of the intelligent car parking and automotive device business in 2016 did not meet the expectation as at the time of acquisition.

GOODWILL IMPAIRMENT OF SUCCESS CAPTURE GROUP

As at 31 December 2016, the carrying amount of the Success Capture Group was approximately HK\$489 million which included (i) goodwill of approximately HK\$188 million; (ii) intangible assets of approximately HK\$206 million; and (iii) net operating assets of approximately HK\$95 million.

As at 31 December 2016, the recoverable amount of the Success Capture Group was approximately HK\$425 million (equivalent to approximately RMB383 million, being the amount shown in the valuation report on the Success Capture Group as at 31 December 2016 prepared by the independent valuer).

In accordance with Hong Kong Accounting Standard (“HKAS”) 36, an impairment loss shall be recognised for the CGU if the recoverable amount of the CGU is less than the carrying amount of the CGU. The impairment loss on goodwill of the Success Capture Group of approximately HK\$64 million has been recognised for the year ended 31 December 2016.

KEY BASIS AND ASSUMPTIONS ADOPTED FOR PROJECTED CASH FLOW OF THE INTELLIGENT CAR PARKING AND AUTOMOTIVE DEVICE BUSINESS

The recoverable amount was determined based on the value in use (“VIU”) calculation by using the discounted cash flow valuation method. Its underlying inputs are future cash flows, associated discount rate and growth rate assumptions, which are all estimations based on the management’s expectation of future business performance and prospects of the Success Capture Group.

There were no material changes in the methodology and sources of market data applied in the valuation for 2016 and 2015. After reviewing the performance of Success Capture Group in 2016 and considering the tight cash flow position of the Group, the management of the Group revised downward the 5-year cash flow forecast of the intelligent car parking and automotive device business. As a result, the recoverable amount of the CGU of the intelligent car parking and automotive device business was adjusted downward significantly.

The Company has engaged BMI Appraisals Limited as the valuer to perform the valuation on the CGU of the intelligent car parking and automotive device business of the Group in 2016.

By order of the Board
China Ocean Industry Group Limited
LI Ming
Chairman

Hong Kong, 25 September 2017

As at the date of this announcement, the Board of the Company comprises four executive directors, namely, Mr. Li Ming, Mr. Zhang Shi Hong, Mr. Wang San Long and Mr. Liu Jin, one non-executive director, namely, Mr. Chau On Ta Yuen; and three independent non-executive directors, namely, Ms. Xiang Siying, Mr. Hu Bai He and Ms. Xiang Ying.