



Ocean Shores Group Limited

(Incorporated in Bermuda with limited liability)

2001

INTERIM REPORT

CORPORATE INFORMATION

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business

Units 609-610
6th Floor
Miramar Tower
132 Nathan Road
Tsimshatsui
Kowloon
Hong Kong

Domicile and legal form of company

Exempted company with limited liabilities

Country of incorporation

Bermuda

Company secretary

Ms. Choy Hok Man, Constance

Members of the audit committee

Mr. Wong Yuen
Mr. Lai Hok Lim

Authorised representatives

Mr. Heung Wah Keung
Ms. Chen Ming Yin, Tiffany

Bermuda resident representative

Mr. John Charles Koss Collis

Bermuda deputy resident representative

Mr. Anthony Devon Whaley

Principal share register and transfer office

The Bank of Bermuda Limited

Hong Kong branch share register and transfer office

Standard Registrars Limited

Auditors

PricewaterhouseCoopers

Legal advisers

Richards Butler

Principal banker

Standard Chartered Bank

Web site

<http://www.ocean-shores.com>

E-mail address

enquiry@ocean-shores.com

Stock code

764

The Directors of Ocean Shores Group Limited (the "Company") are pleased to present the unaudited interim report and condensed accounts for the six months ended 30th June 2001. The consolidated results and consolidated cash flow statement of the Group for the six months ended 30th June 2001, and the consolidated balance sheet of the Group as at 30th June 2001 are unaudited and condensed.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30TH JUNE 2001

		Unaudited	
		Six months ended	
		30th June	
	<i>Note</i>	2001	2000
		HK\$'000	HK\$'000
Turnover	2	25,869	34,768
Cost of sales		(18,361)	(20,302)
Gross profit		7,508	14,466
Other revenues		4,026	3,282
Administrative expenses		(13,641)	(6,210)
Selling expenses		(829)	(291)
Operating (loss)/profit	3	(2,936)	11,247
Finance costs		(83)	(328)
(Loss)/profit before taxation		(3,019)	10,919
Taxation	4	—	(1,617)
(Loss)/profit attributable to shareholders		(3,019)	9,302
Basic (loss)/earnings per share	5	(1.93)cents	6.61 cents
Fully diluted (loss)/earnings per share ⁵		N/A	N/A

The (loss)/profit for the period is the only component of the statement of recognised gains and losses for the period. Therefore, no separate statement of recognised gains or losses has been presented.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2001

	Notes	Unaudited 30th June 2001 HK'000	Audited 31st December 2000 HK'000
Fixed assets	6	42,850	44,171
Film rights	7	114,141	80,569
Club debentures, at cost		472	472
Current assets			
Inventories		5,430	5,065
Current portion of film rights	7	2,506	32,527
Film rights deposits		10,613	9,190
Trade receivables	8	6,185	4,469
Other receivables, prepayments and deposits		9,143	7,254
Bank balances and cash		5,747	12,982
		39,624	71,487
Current liabilities			
Trade payables	9	1,540	470
Other payables and accrued charges		1,646	2,734
Obligations under a finance lease	10	23	23
Taxation payable		19,799	21,487
Receipts in advance		3,479	10,746
Bank overdrafts - secured		7,092	2,402
		33,579	37,862
Net current assets		6,045	33,625
Total assets less current liabilities		163,508	158,837

		Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
Financed by:			
Share capital	11	16,500	15,000
Reserves		142,035	138,852
Shareholders' funds		158,535	153,852
Non- current liabilities			
Obligations under a finance lease	10	66	78
Deferred taxation		4,907	4,907
		163,508	158,837

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2001

	Unaudited Six months ended 30th June 2001 HK\$'000
Net cash outflow from operating activities	<u>(16,646)</u>
Net cash inflow from returns on investments and servicing of finance	<u>120</u>
Taxation paid	<u>(1,688)</u>
Net cash outflow from investing activities	<u>(1,401)</u>
Net cash inflow from financing	<u>7,690</u>
Decrease in cash and cash equivalents	(11,925)
Cash and cash equivalents at 1st January	<u>10,580</u>
Cash and cash equivalents at 30th June	<u><u>(1,345)</u></u>
Analysis of balances of cash and cash equivalents:	
Bank balances and cash	5,747
Bank overdrafts — secured	<u>(7,092)</u>
	<u><u>(1,345)</u></u>

NOTES TO CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants except that, in this first year of implementation of the new SSAP, as permitted by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), no comparative amounts have been presented for the condensed consolidated cash flow statement.

These condensed interim accounts should be read in conjunction with the audited consolidated accounts for the year ended 31st December 2000.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the audited consolidated accounts for the year ended 31st December 2000 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAP's) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 14 (revised): Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26: Segment Reporting

Where necessary, comparatives figures have been adjusted to conform with changes in presentation in the current period.

2 Turnover, revenues and segment information

The Group is principally engaged in distribution of video programmes, sub-licensing of video programme rights, film exhibition and provision of video conversion services. Revenues recognised during the period are as follows:

	Unaudited Six months ended 30th June	
	2001 HK\$'000	2000 HK\$'000
Turnover		
Distribution of video programmes	16,331	20,032
Sub-licensing of video programme rights	9,104	14,365
Film exhibition income	128	—
Video conversion fees	306	371
	25,869	34,768
Other revenues		
Rental income in respect of plant and machinery	3,038	2,169
Rental income in respect of studio and lighting equipment	785	—
Interest income	203	1,113
	4,026	3,282
Total revenues	29,895	38,050

An analysis of the Group's turnover and contribution to (loss)/profit before taxation by business segment and geographical segment is as follows:

	Turnover Unaudited Six months ended 30th June		Contribution to (loss)/ profit before taxation Unaudited Six months ended 30th June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segments:				
Distribution of video programmes	16,331	20,032	(5,630)	239
Sub-licensing of video programme rights	9,104	14,365	4,129	7,792
Film exhibition income	128	—	128	—
Video conversion fees	306	371	306	370
Other revenues and expenses	—	—	(1,869)	2,846
	<u>25,869</u>	<u>34,768</u>	<u>(2,936)</u>	<u>11,247</u>
Less: finance costs			<u>(83)</u>	<u>(328)</u>
(Loss)/profit before taxation			<u>(3,019)</u>	<u>10,919</u>
Geographical segments:				
Hong Kong and Macau	16,949	20,598	(11,091)	47
Asia (other than Hong Kong and Macau)	—	9,920	—	5,457
North America	8,920	1,750	4,129	962
Australia	—	2,500	—	1,375
Other revenues and expenses	—	—	4,026	3,406
	<u>25,869</u>	<u>34,768</u>	<u>(2,936)</u>	<u>11,247</u>
Less: finance costs			<u>(83)</u>	<u>(328)</u>
(Loss)/profit before taxation			<u>(3,019)</u>	<u>10,919</u>

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging the following:

	Unaudited Six months ended 30th June	
	2001	2000
	HK\$'000	HK\$'000
Cost of inventories	13,344	12,245
Depreciation:		
Owned fixed assets	2,710	1,151
Leased fixed assets	12	449
Amortisation of film rights	5,017	8,057
Auditors' remuneration	661	218
Staff costs including directors' emoluments	6,522	1,972

4 Taxation

No Hong Kong profits tax has been provided as the Group had no estimated assessable profit for the six months ended 30th June 2001.

Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profit for the six months ended 30th June 2000.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Unaudited Six months ended 30th June	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax	—	1,437
Deferred taxation	—	180
	—	1,617

5 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's unaudited loss attributable to shareholders of HK\$3,019,000 (2000: profit of HK\$9,302,000) and the weighted average of 156,793,000 (2000: 140,728,000) ordinary shares of the Company.

Fully diluted (loss)/earnings per share for each of the six months ended 30th June 2001 and 30th June 2000 respectively was the same as basic (loss)/earnings per share because there were no dilutive potential ordinary shares.

6 Fixed assets

Unaudited
HK\$'000

Six months ended 30th June 2001

At 1st January 2001	44,171
Additions	1,401
Depreciation	<u>(2,722)</u>
At 30th June 2001	<u><u>42,850</u></u>

7 Film rights

Unaudited
HK\$'000

Six months ended 30th June 2001

At 1st January 2001	113,096
Additions	8,568
Amortisation	<u>(5,017)</u>
At 30th June 2001	116,647
Current portion of film rights	<u>(2,506)</u>
	<u><u>114,141</u></u>

Unaudited
30th June
2001
HK\$'000

Audited
31st December
2000
HK\$'000

Cost	173,381	174,715
Accumulated amortisation	<u>(56,734)</u>	<u>(61,619)</u>
Net book amount	<u><u>116,647</u></u>	<u><u>113,096</u></u>

8 Trade receivables

The distribution of video programmes, film exhibition income and video conversion fee income are on open account terms with credit terms of 30 days to 60 days. The sub-licensing of video programme rights are covered by customers' deposits placed with the Group.

At 30th June 2001, the ageing analysis of the trade receivables was as follows:

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
0-30 days	3,429	178
31-60 days	513	1,450
61-90 days	283	1,968
Over 90 days	1,960	873
	6,185	4,469

9 Trade payables

At 30th June 2001, the ageing analysis of trade payables was as follows:

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
0-30 days	41	329
31-60 days	1,452	141
61-90 days	47	—
	1,540	470

10 Obligations under a finance lease

At 30th June 2001, the Group's obligations under a finance lease were repayable as follows:

	Obligations under a finance lease	
	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
Within one year	23	23
In the second year	23	23
In the third to fifth year	43	55
	89	101

11 Share capital

	Unaudited 30th June 2001		Audited 31st December 2000	
	Number of shares ('000)	HK\$'000	Number of shares ('000)	HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each				
Brought forward	1,000,000	100,000	1,000	100
Increase (note a)	—	—	999,000	99,900
Carried forward	1,000,000	100,000	1,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK\$0.10 each				
Brought forward	150,000	15,000	1,000	—
Shares issued (note a)	—	—	—	100
New issue of shares (notes a-c)	—	—	149,000	14,900
Exercise of share options (note d)	15,000	1,500	—	—
Carried forward	165,000	16,500	150,000	15,000

Notes:

- (a) Pursuant to written resolutions of sole shareholder of the Company passed on 19th January 2000, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 shares of HK\$0.10 each. On the same date, 1,000,000 shares of HK\$0.10 each of the Company were issued at par and credited as fully paid. The 1,000,000 shares previously issued nil paid on 5th November 1999 were also credited as fully paid at par.

The then shareholders of Ocean Shores (BVI) Limited exchanged their shares in Ocean Shores (BVI) Limited for these 2,000,000 shares of the Company. As a result, the proportion of their shareholding interests in the Company after the share exchange was the same as that of their shareholding interests in Ocean Shores (BVI) Limited before the share exchange.

- (b) On 15th February 2000, 37,500,000 ordinary shares of HK\$0.10 each were issued for cash to the public at HK\$1.33 per share (the "new issue"). The excess of the new issue proceeds over the par value of the shares issued was credited to the share premium account of the Company.
- (c) Also on 15th February 2000, 110,500,000 ordinary shares of HK\$0.10 each were issued and allotted as fully paid at par to the shareholders whose names appeared on the register of members of the Company as at the close of business on 19th January 2000 in proportion to their then respective shareholdings in the Company by way of capitalisation of a sum of HK\$11,050,000 standing to the credit of the share premium account of the Company after the new issue.
- (d) Details of share options granted by the Company pursuant to the share option scheme of the Company and the share options outstanding at 30th June 2001 are as follows:

Date of grant	Subscription price	Number of	Number of	Number of	Number of
		share options	share options	share options	share options
		outstanding as at	granted	exercised	outstanding as at
		1st January 2001	during the period	during the period	30th June 2001
7th February 2001	HK\$0.3610	–	10,000,000	10,000,000	–
17th April 2001	HK\$0.5488	–	1,500,000	1,500,000	–
20th April 2001	HK\$0.6240	–	500,000	500,000	–
29th May 2001	HK\$0.9776	–	1,500,000	1,500,000	–
1st June 2001	HK\$0.9936	–	1,500,000	1,500,000	–

12 Commitments

- (a) Commitments under operating leases

At 30th June 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30th June 2001 HK\$'000	Restated 31st December 2000 HK\$'000
Within one year	611	815
In the second to fifth year inclusive	<u>—</u>	<u>204</u>
	<u>611</u>	<u>1,019</u>

- (b) Other commitments

At 30th June 2001, the group had commitments contracted but not provided for in respect of purchase of film rights amounting to HK\$10,159,000 (At 31st December 2000: HK\$10,276,000).

13 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

		Unaudited Six months ended 30th June 2001 HK\$'000	30th June 2000 HK\$'000
Rental income	(a)	240	—
Receipts in advance for future sub-licensing of video programme rights	(b)	<u>3,000</u>	<u>—</u>

Notes:

- (a) Rental income was received and receivable by the Group for the use of certain studio and lighting equipment from China Star Entertainment Limited, a shareholder of the Company.
- (b) The Group received in advance future sub-licensing proceeds for video programme rights from China Star Pictures Limited, a subsidiary of China Star Entertainment Limited.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30th June 2001, the Group's turnover was HK\$25,869,000, representing a decrease of 26% compared with the same period in 2000. The decline in turnover contributed to that the Group recorded a loss attributable to shareholders of approximately HK\$3,019,000. The main reasons for the decrease in turnover were lower income generated from distribution of video programmes and sub-licensing of video programme rights. The keen competition in the market also resulted in a decline in prices of video products which affected the Group's profit margins. The Group recorded an operating loss during the period.

The Group's two core businesses, namely, distribution of video programmes and sub-licensing of video programme rights, accounted for 63% and 35% of the Group's total turnover respectively.

Distribution of Video Programmes

For the six months ended 30th June 2001, turnover of distribution of video programmes amounted to HK\$16,331,000, representing a decrease of 18% compared with the same period last year. Notwithstanding the Hong Kong Government's effort, film piracy continues to exist and has negatively impacted the Group's distribution business. Moreover, keen competition in the market led to decrease in sales of VCD by 21% to HK\$15,102,000. The slowdown in the video programme distribution business and the declining prices of video products affected both the sales and profit margins of the Group's video programme distribution activities.

Sub-licensing of Video Programme Rights

For the six months ended 30th June 2001, turnover of sub-licensing of video programme rights amounted to HK\$9,104,000, representing a decrease of 37% compared with the same period last year. The decrease was mainly attributable to the decline in demand for TV and video programmes in Asia and Australia.

Employees

As at 30th June 2001, the Group employed 60 full time marketing, management, administrative and production staff. The employees are remunerated based on their work performance, professional experience and prevailing industry practice. The remuneration policy will be periodically reviewed by the management.

Financial Review

The capital structure of the Group remained unchanged during the period.

As at 30th June 2001, the Group had total assets of approximately HK\$197.1 million, comprising non-current assets of approximately HK\$157.5 million and current assets of approximately HK\$39.6 million, which were financed by current liabilities, non-current liabilities and shareholders' funds of approximately HK\$33.6 million, HK\$5.0 million and HK\$158.5 million respectively.

The Group generally finances its operations with internally generated resources and banking and credit facilities provided by banks in Hong Kong. Borrowing methods used by the Group mainly include term loan and overdrafts facilities. The interest rates of most of these borrowings are fixed by reference to the Hong Kong Prime Rate. Both bank deposits and borrowings are mainly in Hong Kong dollars.

As at 30th June 2001, the Group had aggregate banking and credit facilities of approximately HK\$10.0 million which were secured by certain of the Group's tangible fixed assets with net book value of HK\$7.5 million. Subsequently, the Group was granted additional banking and credit facilities of approximately HK\$5.5 million which were secured by the Group's fixed deposits of HK\$5.6 million.

As at 30th June 2001, the Group had utilised approximately HK\$7.1 million bank overdrafts of the aforesaid banking and credit facilities. The Group's consolidated net debt as at 30th June 2001, being bank overdrafts less cash and bank deposits, amounted to HK\$1.3 million compared to consolidated net cash of HK\$10.6 million as at 31st December 2000.

The Group services its debts primarily through cash generated by operations. As at 30th June 2001, the Group had bank balances and cash of approximately HK\$5.7 million. Taking into consideration the Group's internally generated funds, banking and credit facilities available and proceeds from the subscription of Shares as described below, the Directors have ascertained that the Group has adequate financial resources to sustain its working capital requirement and future expansion, and meet its foreseeable debt repayment requirements.

PROSPECTS

A new management team was appointed to the Board of the Company with effect from 2nd August 2001. In order to improve the operational efficiency of the Group, the new management team is currently conducting a business review and may conduct certain reorganisation of the Group, if necessary. The Directors believe that the new management team, with their extensive experience, expertise and in-depth knowledge of the home entertainment industry, will enhance the Group's competitiveness. The new management team is also expected to inject new elements into the Group's business. Therefore, the Directors are confident with the Group's prospects and expect its performance to improve under the new leadership.

INTERIM DIVIDEND AND BONUS ISSUE OF SHARES

The Directors do not recommend any interim dividend for the six months ended 30th June 2001.

The Directors propose a distribution by the Company by way of bonus issue of new shares on the basis of one bonus share of HK\$0.10 (credited as fully paid) for every ordinary share of HK\$0.10 each in the share capital of the Company held by shareholders whose names appear on the register of members of the Company on 31st October 2001 (the "Bonus Issue"). Details and conditions of the Bonus Issue will be set out in a separate circular to be sent to shareholders of the Company shortly.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 26th October 2001 to Wednesday, 31st October 2001, both days inclusive, to determine the entitlements to the Bonus Issue.

Shareholders are reminded that in order to qualify for the Bonus Issue, they must ensure that all transfers accompanied by the relevant share certificates are lodged with the Company's Registrar in Hong Kong, Standard Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 24th October 2001.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

DIRECTORS' INTEREST IN EQUITY OR DEBT SECURITIES

As at 30th June 2001, the interests of the Directors and chief executives in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

- (i) Interests in the Company

Name of Director	Nature of interest	Number of shares held
Mr. Hung Leung Tak, Jackson	Corporate	63,000,000

The shares of Mr. Hung Leung Tak, Jackson are held by Remarkable Co., Ltd., a company in which Mr. Hung Leung Tak, Jackson has a controlling interest.

DIRECTORS' INTEREST IN EQUITY OR DEBT SECURITIES (Cont'd)

(ii) Interests in an associated corporation - Ocean Shores Video Limited

Name of Director	Nature of interest	Number of shares held
Mr. Hung Leung Tak, Jackson	Personal	5,000 non-voting deferred shares
Mr. Hung Sun Yuen, Edmond	Personal	3,500 non-voting deferred shares

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2001, save for the interest of Mr. Hung Leung Tak, Jackson as disclosed above, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital.

CHANGE OF MAJOR SHAREHOLDER

In July 2001, Remarkable Co., Ltd., a company wholly-owned by Mr. Hung Leung Tak, Jackson, disposed of a total of 63,000,000 shares in the Company (approximately 38.18% of the entire issued share capital of the Company) at a consideration of HK\$1.00 per share (a total of HK\$63 million) to Classical Statue Limited ("CSL"). CSL, a wholly-owned subsidiary of China Star Entertainment Limited ("CSEL"), together with it has already owned 13,500,000 shares of the Company, has aggregate interest in 76,500,000 shares of the Company, representing approximately 46.36% of the entire issued share capital of the Company. The Directors consider CSEL to be the Company's ultimate controlling shareholder.

PROPOSED PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

The Board announces that on 28th September 2001, a substantial shareholder of the Company, CSL entered into a conditional placing agreement to place a total of 17,700,000 existing shares owned by CSL to an independent third party at a price of HK\$1.00 per share (the "Placing"). Concurrently, CSL also entered into a conditional subscription agreement with the Company to subscribe for 33,000,000 new shares at the same price of HK\$1.00 per new share (the "Subscription"). Details and conditions of the Placing and the Subscription are set out in a separate press announcement by the Company dated 28th September 2001.

APPOINTMENT OF DIRECTOR

The Board is pleased to announce that Mr. Lei Hong Wai has been appointed as Executive Director and Chief Executive Officer of the Company with effect from 28th September 2001.

AUDIT COMMITTEE

The principal duties of the Audit Committee of the Company, which has been established comprising two Non-executive Directors, include the review and supervision of the Group's financial reporting process and internal controls, and to make recommendations to the Board of Directors. An Audit Committee meeting was convened to review the unaudited interim results of the Company for the six months ended 30th June 2001.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period covered by the interim results, except that the Non-executive Directors were not appointed for a specific term since they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's bye-laws.

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong SAR, 28th September 2001