



OCEAN SHORES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2001

INTERIM RESULTS

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	
	Note	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

Notes:

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 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	2000
	HK\$'000	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		Contribution to (loss)/	
	Unaudited		profit before taxation	
	Unaudited		Unaudited	
	Six months ended 30th June		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
	25,869	34,768	(2,936)	11,247
Less: finance costs			(83)	(328)
(Loss)/profit before taxation			(3,019)	10,919

	Turnover		Contribution to (loss)/	
	Unaudited		profit before taxation	
	Unaudited		Unaudited	
	Six months ended 30th June		Six months ended 30th June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
	25,869	34,768	(2,936)	11,247
Less: finance costs			(83)	(328)
(Loss)/profit before taxation			(3,019)	10,919

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 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.

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.

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.

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.

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 Group 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.

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 (credited as fully paid) for every share 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 press announcement by the Company.

PROPOSED PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

The Board announces that on 28th September 2001, 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 will be set out in a separate press announcement by the Company.

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.

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.

PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement of the Group for the six months ended 30th June 2001 containing all the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course (www.hkex.com.hk).

By Order of the Board
Heung Wah Keung
Chairman