



OCEAN SHORES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

PLACING OF 17,700,000 EXISTING SHARES AND SUBSCRIPTION OF 33,000,000 NEW SHARES

BONUS ISSUE OF SHARES ON THE BASIS OF ONE BONUS SHARE FOR EVERY SHARE HELD

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

The Subscriber has conditionally agreed to place 17,700,000 Placing Shares to the Placee at HK\$1.00 per Share and has conditionally agreed to subscribe for 33,000,000 Subscription Shares at the same price of HK\$1.00 per Share. The price of HK\$1.00 per Share represents a discount of approximately 16.67% to the closing price of HK\$1.20 per Share quoted on the Stock Exchange at the close of the morning trading session on 28th September 2001 before trading in the Shares on the Stock Exchange was suspended pending the issue of this announcement.

The Subscriber will place the Placing Shares to a single Placee and the completion of the Placing and the Subscription are subject to the satisfaction of certain conditions (including a waiver from the SFC and the listing approval for the Subscription Shares) as described below. If these conditions are not fulfilled, the Placing and the Subscription will not proceed. Application will be made to the SFC for the necessary waiver and to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

The Placing Shares represent approximately 10.73% of the existing issued share capital of the Company of 165,000,000 Shares and approximately 8.94% of the Company's issued share capital as enlarged by the issue of the 33,000,000 Subscription Shares pursuant to the Subscription. The net proceeds from the Subscription of approximately HK\$32.5 million will be used for repayment of bank borrowings and account payables, renewal and purchase of licensing rights and as the Company's general working capital.

The Subscriber currently has an approximately 46.36% shareholding interest in the Company. The Subscriber's shareholding in the Company will be reduced to approximately 35.63% upon completion of the Placing and will be increased to approximately 46.36% upon completion of the Subscription.

BONUS ISSUE OF SHARES

The Board has proposed a Bonus Issue of Shares on the basis of one Bonus Share for every existing Share held by Shareholders whose names appear on the register of members of the Company on the Record Date of 31st October 2001. **For the purpose of establishing entitlements to the Bonus Issue, the register of members of the Company will be closed from Friday, 26th October 2001 to Wednesday, 31st October 2001, both days inclusive.**

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Bonus Shares.

A circular containing, inter alia, details of the Bonus Issue for approval by the Shareholders at the Special General Meeting of the Company to be held on 31st October 2001 will be sent to Shareholders as soon as possible.

Trading in the Shares on the Stock Exchange was suspended from 2:30 p.m. on Friday, 28th September 2001 at the request of the Company pending the release of this announcement. Application has been made for resumption of trading in the Shares from 10:00 a.m. on Friday, 5th October 2001.

(I) PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

(A) Placing of the Placing Shares

The terms of the Placing Agreement dated 28th September 2001 entered into between the Subscriber and the Placee are summarised below:

Parties

- | | |
|--------|--|
| Vendor | : The Subscriber, which is a wholly-owned subsidiary of China Star and controlling shareholder of the Company and which, together with parties acting in concert with it, holds Shares representing approximately 46.36% of the existing issued share capital of the Company. |
| Placee | : Lucky Stars Consultants Limited, which is wholly and beneficially owned by Mr. Lau Tung Hoi. The Placee is an independent third party not connected with the Subscriber or with the Company or any of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (except for (a) an interest held by First Sign International Holdings Limited (through its wholly owned subsidiaries), a company listed on the Stock Exchange and controlled by the family trust of the ultimate beneficial shareholder of the Placee in (i) convertible loan notes in the amount of HK\$20 million issued by China Star which are convertible upon full exercise into shares of China Star representing approximately 5.37% of the issued share capital of China Star as enlarged by the issue of such shares; and (ii) a small shareholding of approximately 0.29% of the existing issued share capital of China Star; and (b) 200,000 shares, representing approximately 0.01% shareholding interest in China Star held directly by the ultimate beneficial shareholder of the Placee). |
- The Placee and its ultimate beneficial shareholder are not acting in concert (as defined in the Takeovers Code) with any Shareholders.

Placing price

HK\$1.00 per Placing Share, The Placing Price was agreed after arm's length negotiations and represents (i) a discount of approximately 16.67% to the closing price of HK\$1.20 per Share quoted on the Stock Exchange at the close of the morning trading session on 28th September, 2001 before trading in the Shares on the Stock Exchange was suspended pending the issue of this announcement; and (ii) a premium of approximately 1.63% to the average closing price of HK\$0.984 per Share as quoted on the Stock Exchange for the last 10 full trading days up to and including 27th September 2001.

Ranking for the Placing Shares

The Placing Shares rank equally with all other existing Shares (including as to entitlement to the Bonus Issue).

Number of Placing Shares

17,700,000 Shares, representing approximately 10.73% of the existing issued share capital of the Company of 165,000,000 Shares (and approximately 8.94% of the Company's issued share capital as enlarged by the issue of the 33,000,000 Subscription Shares pursuant to the Subscription as described below).

Conditions and completion of the Placing

The Placing is conditional on the same conditions as set out in the Subscription Agreement (save for the condition as to the completion of the Placing) which are summarised below.

Completion of the Placing will take place on the day following the satisfaction of such conditions. If the Subscription Agreement lapses because any of such conditions is not fulfilled by 11th October, 2001, the Placing Agreement will also lapse and the Placing will not proceed.

(B) Subscription of the Subscription Shares

Parties

- | | |
|------------|------------------|
| Issuer | : The Company |
| Subscriber | : The Subscriber |

Number of Shares to be issued

33,000,000 new Shares. The Subscription Shares represent 20.0% of the Company's total issued share capital as at the date of this announcement and approximately 16.67% of the issued share capital as enlarged by the issue of the Subscription Shares pursuant to the Subscription.

Subscription price

HK\$1.00 per Subscription Share which is the same as the Placing Price. The Company will bear the costs and expenses in connection with the Placing and the Subscription to be incurred by the Subscriber (save in respect of those costs and expenses to be incurred by the Subscriber in relation to those Subscription Shares which exceed the Placing Shares). The estimated expenses of the Placing and the Subscription are approximately HK\$0.5 million.

Ranking of the Subscription Shares

The Subscription Shares, when allotted and issued, will rank pari passu in all respects with the existing Shares in issue, including the rights to receive Bonus Shares under the Bonus Issue, and all dividends and distributions which may be declared, made or paid after the date of completion of the Subscription.

Use of proceeds

The net proceeds from the Subscription will be approximately HK\$32.5 million and will be used as follows:

- (a) approximately HK\$7 million to repay bank borrowings and account payables;
- (b) approximately HK\$10 million for the renewal of existing licensing rights and to purchase new licensing rights; and
- (c) the balance of approximately HK\$15.5 million as general working capital of the Company.

Conditions of the Subscription

Completion of the Subscription is subject to the following conditions being fulfilled:

- (a) completion of the Placing;
- (b) the Subscriber obtaining a waiver from the Executive in respect of the obligation of the Subscriber to make a general offer for the Shares pursuant to the Takeovers Code as a result of the Subscription; and
- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares.

Completion of the Subscription

Completion of the Subscription will take place on the day following the satisfaction of the conditions set out in (b) and (c) above immediately after the completion of the Placing.

If any of such conditions is not fulfilled by 11th October, 2001, the Subscription Agreement will lapse and the Subscription will not proceed.

Application for listing and waiver

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares. Application will also be made to the Executive for a waiver in respect of the obligation of the Subscriber to make a general offer for Shares under the Takeovers Code as referred to above.

Effects on shareholdings

The shareholding of the Subscriber, the Placee and other public Shareholders before completion of the Placing and the Subscription, immediately after completion of the Placing but before completion of the Subscription, and immediately after completion of both the Placing and the Subscription is summarised below.

	Shareholding before Placing and Subscription		Shareholding after Placing but before Subscription		Shareholding after Placing and Subscription	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Subscriber	76,500,000	46.36	58,800,000	35.63	91,800,000	46.36
Placee	—	—	17,700,000	10.73	17,700,000	8.94
Other public						
Shareholders	88,500,000	53.64	88,500,000	53.64	88,500,000	44.70
	<u>165,000,000</u>	<u>100.00</u>	<u>165,000,000</u>	<u>100.00</u>	<u>198,000,000</u>	<u>100.00</u>

General mandate to issue the Subscription Shares

The Subscription Shares will be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 28 May 2001. Such general mandate has not been exercised to date and no changes have been made to the Company’s issued share capital since that date.

At the Special General Meeting to be convened to approve the Bonus Issue (as referred to below), the Directors will propose a resolution to renew the general mandates granted to directors of the Company to allot, issue and deal with Shares and to repurchase Shares.

Reasons for the Placing and the Subscription

The Company and its subsidiaries are principally engaged in (a) the distribution of video programmes in video cassette, laser vision disc, video compact disc and digital versatile disc formats for home entertainment; (b) sub-licensing of video programme rights; (c) provision of duplication, editing and sub-titling services for motion pictures; and (d) film exhibition.

After the appointment of Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany as Directors, the new management conducted an operational review of the Company, including the review of its film library, production facilities and financial arrangements.

It was noted from the review that the licensing agreements for more than 100 films in the Company’s film library were due for renewal or would become due for renewal in the next three months. The Directors estimate that the renewal of the aforesaid licensing agreements will require payments totalling between HK\$5 million and HK\$7 million, which will be financed by proceeds from the Subscription as further described in the use of proceeds section above. The renewal of such licensing agreements will enable the Company to continue generating income from the distribution and sub-licensing of such films.

In the course of the review, a principal banker also indicated the need to renegotiate and review the credit facilities previously granted to the Company due to its change in management. Based on these findings, the Board is of the view that the Placing and the Subscription will provide the Company with the necessary working capital for its future operations.

The terms of the Placing and the Subscription (including the Placing Price and the Subscription Price, which are the same) were determined following arm’s length negotiations between the Placee, the Subscriber and the Company. The Directors (including the independent non-executive Directors of the Company) consider the terms of the Placing and the Subscription to be fair and reasonable so far as the Company is concerned and that the Placing and the Subscription are in the best interest of the Company and the Shareholders as a whole (notwithstanding the dilution effect which the Subscription will have on the percentage represented by the holdings of Shares of all Shareholders other than the Subscriber out of the issued share capital of the Company as enlarged by the Subscription). The Placing and the Subscription will increase the capital base of the Company and enhance its financial position.

(II) BONUS ISSUE OF SHARES

The Board proposes to arrange for new Shares to be issued to Shareholders, credited as fully paid, by way of the Bonus Issue. The terms of the Bonus Issue are as follows:

Basis of Bonus Issue

The Bonus Issue will be made on the basis of one Bonus Share for every existing Share held on the Record Date of 31st October 2001. The Bonus Shares will be issued and credited as fully paid at par by the capitalisation of a sum equal to the aggregate par value of the Bonus Shares out of the share premium account of the Company. On the basis of 165,000,000 Shares in issue as at the date of this announcement and taking into account the proposed Subscription of 33,000,000 Subscription Shares which (assuming fulfilment of the relevant conditions) will have been completed before the Record Date, 198,000,000 Bonus Shares will be issued under the Bonus Issue.

Record Date

The Bonus Shares will be issued to Shareholders whose names appear on the register of members of the Company on the Record Date.

Reasons for the Bonus Issue

The Directors believe that the Bonus Issue will enhance the liquidity of the Shares in the market and will provide Shareholders with an opportunity of further equity participation in the Company. The Bonus Issue will also enlarge the Company’s capital base.

Status of Bonus Shares

The Bonus Shares will upon issue and allotment rank pari passu with the then existing Shares in all respects.

Board lot

The board lot for trading in the Bonus Shares on the Stock Exchange is 2,000 Shares.

Conditions of Bonus Issue

The Bonus Issue is conditional upon (i) the approval of the Bonus Issue by Shareholders at the Special General Meeting to be held on 31st October 2001; and (ii) the Stock Exchange granting

the listing of, and permission to deal in, the Bonus Shares. Application will be made to the Listing Committee of the Stock Exchange in respect of such listing.

Certificates for Bonus Shares

It is expected that certificates for the Bonus Shares will be posted on Wednesday, 7th November 2001 at the risk of the Shareholders entitled thereto, to their respective addresses shown on the register of members of the Company. Dealings in the Bonus Shares are expected to commence on Friday, 9th November 2001 on the Stock Exchange.

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.

General

A circular containing, inter alia, notice of the Special General Meeting and details of the Bonus Issue will be sent to Shareholders as soon as possible.

(III) TRADING IN SHARES

Trading in the Shares on the Stock Exchange was suspended from 2:30 p.m. on Friday, 28th September 2001 at the request of the Company pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares from 10:00 a.m. on Friday, 5th October 2001.

DEFINITIONS

“associates”	as defined in the Listing Rules
“Board”	the board of directors of the Company
“Bonus Issue”	the proposed issue by the Company of the Bonus Shares on the basis of one Bonus Share for every Share held by Shareholders on the Record Date
“Bonus Share(s)”	the new Share(s) proposed to be issued by way of bonus by the Company to Shareholders
“China Star”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Company”	Ocean Shores Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Placee”	Lucky Stars Consultants Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. Lau Tung Hoi, who is also the chairman and (through a family trust) the controlling shareholder of First Sign International Holdings Limited, a company listed on the main board of the Stock Exchange
“Placing”	the placing of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the placing agreement between the Subscriber and the Placee dated 28th September 2001
“Placing Price”	HK\$1.00 per Placing Share
“Placing Shares”	the 17,700,000 existing Shares to be placed to the Placee pursuant to the Placing Agreement
“Record Date”	4:00 p.m. (Hong Kong time) on 31st October 2001, being the time for determination of entitlements to the Bonus Issue
“SFC”	the Securities and Futures Commission
“Share(s)”	ordinary share(s) of HK\$0.10 (each) in the capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Special General Meeting”	a special general meeting of the Company to be held at Units 609-610 Miramar Tower, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 31st October 2001 at 11:00 a.m., or any adjournment thereof
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Classical Statue Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of China Star
“Subscription”	the subscription of the Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement between the Subscriber and the Company dated 28th September 2001
“Subscription Price”	HK\$1.00 per Subscription Share
“Subscription Shares”	the 33,000,000 Shares to be subscribed for by the Subscriber pursuant to the Subscription Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK\$” and “cents”	Hong Kong dollars and cents respectively

For and on behalf of
Ocean Shores Group Limited
Heung Wah Keung
Chairman

Hong Kong, 4th October 2001

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statement in this announcement misleading.