



# OCEAN SHORES GROUP LIMITED

(Incorporated in Bermuda with limited liability)

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2001

### RESULTS

The Directors of Ocean Shores Group Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2001, together with the comparative figures for the previous financial year, as follows:

	Notes	2001 HK\$'000	2000 HK\$'000
Turnover		28,007	144,565
Cost of sales		(21,579)	(99,158)
Gross profit		6,428	45,407
Other revenue		6,697	4,958
Administrative expenses		(31,671)	(18,206)
Selling expenses		(956)	(1,431)
Impairment loss recognised on film rights		(24,175)	—
Impairment loss recognised on other asset		(56,864)	—
(Loss) profit from operations	2	(100,541)	30,728
Finance costs	3	(190)	(363)
(Loss) profit before taxation		(100,731)	30,365
Taxation credit (charge)	4	2,234	(6,336)
(Loss) profit attributable to shareholders		(98,497)	24,029
Basic and diluted (loss) earnings per share	5	(26.56) cents	8.26 cents

Notes:

#### 1. BUSINESS AND GEOGRAPHICAL SEGMENTS

##### Business segments

For management purposes, the Group is currently organised into two operating divisions, namely distribution and sub-licensing. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Distribution	Distribution of video programmes
Sub-licensing	Sub-licensing of video programme rights

Segment information about these businesses for the years ended 31 December 2001 and 2000 is presented below.

##### Income statement for the year ended 31 December 2001

	Distribution HK\$'000	Sub-licensing HK\$'000	Other HK\$'000	Consolidated HK\$'000
Turnover	18,469	9,104	434	28,007
Segment (loss) profit	(35,093)	(65,882)	434	(100,541)
Finance costs				(190)
Loss before taxation				(100,731)
Taxation credit				2,234
Loss attributable to shareholders				(98,497)

##### Income statement for the year ended 31 December 2000

	Distribution HK\$'000	Sub-licensing HK\$'000	Other HK\$'000	Consolidated HK\$'000
Turnover	98,145	45,489	931	144,565
Segment profit	3,341	26,944	931	31,216
Unallocated corporate expenses				(488)
Profit from operations				30,728
Finance costs				(363)
Profit before taxation				30,365
Taxation				(6,336)
Profit attributable to shareholders				24,029

##### Geographical segments

The following table provides an analysis of the Group's sales by location of markets, irrespective of the origin of the goods/services:

	Turnover		Contribution to (loss) profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong and Macau	19,079	99,340	(104,527)	4,272
Asia (other than Hong Kong and Macau)	—	31,625	—	18,842
North America	8,928	3,000	3,986	1,787
Australia	—	10,600	—	6,315
	28,007	144,565	(100,541)	31,216
Unallocated corporate expenses			—	(488)
(Loss) profit from operations			(100,541)	30,728

#### 2. (LOSS) PROFIT FROM OPERATIONS

(Loss) profit from operations has been arrived at after charging (crediting):

	2001 HK\$'000	2000 HK\$'000
Amortisation of film rights (included in cost of sales)	5,516	25,402
Amortisation of other asset	793	—
Auditors' remuneration	400	820
Cost of inventories (included in cost of sales)	15,029	73,756
Depreciation:		
— owned assets	5,264	3,239
— leased assets	20	906
	5,284	4,145
Operating lease rental in respect of rented premises	815	746
Loss on disposal of property, plant and equipment	1,900	—
Allowance for bad and doubtful debts	4,847	—
Allowance for inventory obsolescence (included in cost of sales)	1,034	—
Staff costs including directors' emoluments		
Salaries, allowances and benefits in kind	12,638	7,234
Contributions to retirement benefits scheme	392	19
	13,030	7,253
Bad debts recovered	(533)	—

#### 3. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	188	330
Interest on finance leases	2	33
	190	363

#### 4. TAXATION CREDIT (CHARGE)

	2001 HK\$'000	2000 HK\$'000
Hong Kong Profits Tax		
— current year	—	(4,665)
— overprovision in prior year	—	33
Transfer from (to) deferred taxation credit (charge)	2,234	(1,704)
	2,234	(6,336)

No tax is payable for the year ended 31 December 2001 since the Group has no estimated assessable profits.

Hong Kong Profits Tax in year 2000 was calculated at 16% on the estimated assessable profits for that year.

#### 5. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	2001 HK\$'000	2000 HK\$'000 (restated)
(Loss) profit attributable to shareholders	(98,497)	24,029
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	370,828,219	290,778,688

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options for the year ended 31 December 2001 because the effect of exercising an option to subscribe for an additional share of the Company would result in a decrease of net loss per share.

The weighted average number of ordinary shares for the year ended 31 December 2000 for the purpose of basic earnings per share has been adjusted for the bonus issue of shares in November 2001.

### DIVIDEND

The directors do not recommend the payment of any dividend.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Results

The Group realised a total turnover of HK\$28,007,000 for the year, representing a drop of 81% from last year. Loss from operations amounted to HK\$100,541,000 (2000: profit of HK\$30,728,000) and a loss of HK\$98,497,000 attributable to shareholders was recorded (2000: profit of HK\$24,029,000). Because of assessment of the fair value of the Group's assets, an impairment loss of HK\$81,039,000 has been recognised for 2001 (2000: Nil).

#### The Operating Review

##### (a) Operating Results for the Year

The Group is principally engaged in two core businesses, namely, distribution of video programmes and sub-licensing of video programme rights. They account for 65.94% and 32.50% of the Group's total turnover for the year respectively.

As at 31 December 2001, the Group had over 71 customers, including video rental outlets, video products distributors and operators of television stations, pay TV, cable TV and video on demand in Hong Kong, Macau and North America. Of the various markets, Hong Kong and Macau remained the largest to the Group for the year, accounting for 68.12% of its total turnover.

##### Distribution of Video Programmes

Turnover from distribution of video programmes amounted to HK\$18,469,000 for the year, representing a decrease of 81.18% from the previous year. The decline is attributable to a fall in sales volume of VCDs which results is derived from the decline in releasing the video programmes from 101 to 8 titles and in acquiring the distribution rights to video programmes from 100 to 21 titles. Fierce price wars cut down both the sales and profit margin of video programme distribution.

##### Sub-licensing of Video Programme Rights

The turnover from sub-licensing of video programme rights also decreased by 79.99% to HK\$9,104,000 in 2001. The decrease is attributable to the drop in demand for TV and video programmes due to the downturn of economy in North America and Australia.

##### (b) Employees

As at 31 December 2001, the Group employed 31 full time marketing, management, administrative and production staff. The Group remunerates its employees based on their performance, experience and the general market situation in the respective region and businesses in which the Group operates. The remuneration policies of the Group are reviewed on an annual basis and the remuneration package includes the pension funds, bonuses and share options. Staff costs were HK\$13,030,000 in 2001 (2000: HK\$7,253,000).

#### The Financial Review

##### (a) Capital Structure and Treasury Policy

The Group maintains a strong and stable financial position. As at 31 December 2001, the Group had total assets of approximately HK\$272,852,000, comprising non-current assets of approximately HK\$199,513,000 and current assets of approximately HK\$73,339,000, which were financed by current liabilities, non-current liabilities and shareholders' funds of approximately HK\$23,861,000, HK\$2,728,000 and HK\$246,263,000 respectively.

##### (b) Borrowings and Banking facilities

The Group generally finances its operations with internally generated resources. As at 31 December 2001, the Group has no any banking facilities.

At 31 December 2000, the Group's banking facilities utilised of approximately HK\$2,402,000 were secured by certain of the Group's leasehold land and buildings located in Hong Kong with a total net book value of HK\$7,580,000. During the year ended 31 December 2001, the banking facilities were expired and the pledge was released.

The Group's consolidated net cash as at 31 December 2001, being cash and bank deposits less bank borrowings amounted to HK\$27,770,000 compared to consolidated net cash of HK\$10,580,000 as at the last corresponding period end.

The Group services its debts primarily through cash generated by operations. As at 31 December 2001, the Group had bank balances and cash of approximately HK\$27,770,000 and taking into consideration the Group's internally generated funds, the directors have ascertained that the Group has adequate financial resources to sustain its working capital requirement and future expansion.

##### (c) Use of Net Proceeds of the New Issue

The net proceeds we received from the new issue amounted to approximately HK\$33,000,000 of which approximately HK\$2,730,000 has been used for deposit paid in acquisition of additional distribution rights to video programmes and the remaining amount has been applied for general working capital of the Group as at 31 December 2001.

##### (d) Contingent Liabilities

There was no material contingent liability as at 31 December 2001.

##### (e) Foreign Exchange Exposure

Substantially all the revenues, expenses, assets and liabilities of the Group are denominated in Hong Kong or US dollars. Foreign exchange exposure of the Group is minimal as long as the Hong Kong government's policy to link the Hong Kong dollar to the US dollar remains in effect.

**PROSPECTS**

**Mission**

China is now the bigger economy in the world. People is enjoying an improvement in living standard and as a result, paying more attention to their physical condition. There is a growing demand for high quality entertainment products in the PRC. “To introduce the sound quality films to Chinese audiences” has always been the mission of Ocean Shores. Do the best we can. The Group will expand its video and film distribution businesses in the PRC.

The Group, supported by its resources in the PRC and its position in the international capital market, will establish various strategic partnership to identify business opportunities that are in line with the future development strategy of the Group.

We do believe that this strategic market penetration model is the most efficiency way to explore the PRC retail market and new revenue resources.

**Future Return**

The philosophy of the Group continues to be maximizing return to our shareholders. Through this year’s contribution, the Group has built with good relationship with China painters.

In 2001, we were success to exploit revenue resources in 35mm film and video products distribution channel in PRC. Apart from the above, we have planned to explore other new resources.

The value of the content owned by the Group has to be realised. Apart from distributing video products, we will start to distribute our content through other media channels such as cable channels in PRC in future.

Looking ahead, we will strengthen our position as a content provider of programmes and to explore new revenue resources across a wide spectrum of media. As difficult as it sounds but the first step we are setting foot in.

**POST BALANCE SHEET EVENTS**

On 11 February 2002, the Company announced the following transactions:

- (a) On 5 February 2002, the Group entered into an agreement with Gainful Fortune Limited (“Gainful Fortune”) under which the Group conditionally agreed to grant to Gainful Fortune the hotel and intranet distribution rights in respect of an aggregate of up to 300 pictures in the PRC for a term of not less than 6 months from the commencement date of the respective licence agreements for a total consideration of HK\$80,000,000. The consideration was satisfied by the issue of convertible notes by Gainful Fortune to the Group with principal amount of HK\$80,000,000.

The convertible notes bear interest at 1% per annum which will be payable yearly in arrears. The maturity of the convertible notes is three years from the date of the issue of the convertible notes. However, between the issue date and maturity, only Gainful Fortune has the right to redeem whole or any part of the convertible notes. The convertible notes carry the right to convert the whole of the outstanding principal amount of the convertible notes into Gainful Fortune’s shares at a conversion price of HK\$4 (subject to adjustment) per share on the maturity date. However, the holder of the convertible notes may convert the convertible notes with the consent of Gainful Fortune.

- (b) On 5 February 2002, the Group and Gainful Fortune entered into a sale and purchase agreement pursuant to which the Group conditionally agreed to sell to Gainful Fortune the entire issued capital of Ocean Shores Licensing Limited for an aggregate consideration of HK\$80,000,000. The consideration was satisfied by the issue of convertible notes by Gainful Fortune to the Group with principal amount of HK\$80,000,000. Upon completion of the sale and purchase agreement, the Group acquired a 40% interest in Gainful Fortune at the par value of HK\$1 each for such number of shares (being not more than 1,000) issued by Gainful Fortune to the Group.

The convertible note bears interest at 1% per annum which will be payable yearly in arrears. The maturity of the convertible notes is three years from the date of the issue of the convertible notes. However, between the issue date and maturity, only Gainful Fortune has the right to redeem whole or any part of the convertible notes. The convertible notes carry the right to convert the whole of the outstanding principal amount of the convertible notes into Gainful Fortune’s shares at a conversion price of HK\$4 (subject to adjustment) per share on the maturity date. However, the holder of the convertible notes may convert the convertible notes with the consent of Gainful Fortune.

- (c) On 5 February 2002, the Group and China Star International Distribution Limited (“CSID”) entered into a licensing agreement pursuant to which CSID conditionally agreed to grant to the Group the licensing rights in the PRC (except Hong Kong, Macau and Taiwan) and Mongolia in respect of 116 movies for a term of 10 years from the date of completion of the licensing agreement at a total consideration of HK\$33,800,000. The consideration was determined based on the valuation report prepared by Adonis Appraisal Limited, an independent firm of professional valuers, dated 31 January 2002. The consideration would be settled by the issue of convertible notes with principal amount of HK\$33,800,000 by the Company.

The convertible notes bear interest at 1% per annum which will be payable semi-annually in arrears. The convertible notes will mature on three years from the date of the issue of the convertible notes and are redeemable only on the maturity date. The convertible notes carry the right at any time between the issue date and maturity to convert the whole or any part of the outstanding principal amount of the convertible notes into the Company’s share at a conversion price of HK\$4 (subject to adjustment) per share.

- (d) On 5 February 2002, the Group and CSID entered into a territory supply agreement whereby CSID conditionally agreed to, during the term of three years from completion of the territory supply agreement, grant in favour of the Group a first right of refusal to acquire the exclusive distribution rights in respect of each films in the PRC (except Hong Kong, Macau and Taiwan) and Mongolia (“Distribution Rights”).

Pursuant to the territory supply agreement, the Group shall pay an amount of HK\$5,000,000 to CSID as a deposit for the grant of the first right of refusal to acquire the Distribution Rights and as security for the licence fees payable under the territory distribution agreements to be entered into. If the Group elects to acquire the Distribution Rights, a territory distribution agreement in respect of the film will be entered into pursuant to which the Group shall pay a licence fee in respect of each film calculated by reference to its grading, ranging between HK\$200,000 for a grade C film (cost of production not more than HK\$5,000,000) to HK\$1,000,000 for a grade A++ film (cost of production of at least HK\$30,000,000). The territory distribution rights in respect of a film will be for a period of 10 years.

The transactions (a) and (b) were approved by the shareholders and the transactions (c) and (d) were approved by the independent shareholders in a special general meeting held on 8 April 2002.

**PURCHASE, SALE AND REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

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

**PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company’s bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

**COMPLIANCE WITH CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied throughout the year ended 31 December 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

**AUDIT COMMITTEE**

The Company has set up an Audit Committee (the “Committee”) with written terms of reference for the purpose of reviewing and supervising the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors. The Group’s financial statements for the year ended 31 December 2001 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

**PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

Information that is required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities of the Stock Exchange 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*