



# OCEAN SHORES GROUP LIMITED

海岸集團有限公司\*

(Incorporated in Bermuda with limited liability)

## MAJOR TRANSACTION

**Granting of Hotel and Intranet Distribution Rights and  
Disposal of 100% interest in  
Ocean Shores Licensing Limited to Gainful Fortune**

## DISCLOSEABLE AND CONNECTED TRANSACTION

**Licensing of distribution rights for 116 Movies from China Star**

## CONNECTED TRANSACTION

**Grant of first right of refusal by China Star to acquire  
Territory Distribution Rights**



# CHINA STAR ENTERTAINMENT LIMITED

中國星集團有限公司\*

(Incorporated in Bermuda with limited liability)

### Granting of Hotel and Intranet Distribution Rights

On 5th February, 2002, OSP, a wholly-owned subsidiary of the Company, and Gainful Fortune, an Independent Third Party, entered into the Gainful Fortune Supply Agreement pursuant to which OSP has conditionally agreed, during the term of 3 years from completion of the Gainful Fortune Supply Agreement, to grant (or procure the relevant Group Companies to grant) to Gainful Fortune (or its subsidiaries) the Hotel and Intranet Distribution Rights in respect of an aggregate of up to 300 Pictures in the PRC each for a term of not less than 6 months from the commencement date of the respective license agreements, for a total consideration of HK\$80,000,000. The consideration will be satisfied by way of the issue of the Consideration Notes A in the aggregate principal amount of HK\$80,000,000 by Gainful Fortune to OSP (or such person(s) as OSP may direct) at completion.

### Disposal of 100% interest in Ocean Shores Licensing Limited to Gainful Fortune

On 5th February, 2002, Ocean Shores (BVI) Limited and Gainful Fortune entered into the Sale and Purchase Agreement pursuant to which Ocean Shores (BVI) Limited, a wholly-owned subsidiary of the Company, has conditionally agreed to sell and Gainful Fortune has conditionally agreed to purchase 100% of the entire issued share capital of Ocean Shores Licensing Limited for an aggregate consideration of HK\$80,000,000. The consideration will be satisfied by way of the issue of the Consideration Notes B in the aggregate principal amount of HK\$80,000,000 by Gainful Fortune to OSP (or such person(s) as Ocean Shores (BVI) Limited may direct) at completion.

Subject to the completion of the Gainful Fortune Supply Agreement and the Sale and Purchase Agreement, Ocean Shores (BVI) Limited will procure OSP (or such other person(s) as it may direct) to subscribe for such number of Gainful Fortune Shares as will represent 40% of its enlarged issued share capital.

### Licensing of distribution rights for 116 Movies from China Star

On 5th February, 2002, OSP and CSID, a wholly-owned subsidiary of China Star entered into the Licensing Agreement pursuant to which CSID conditionally agreed to grant to OSP the licensing rights in the Territory in respect of 116 Movies for a term of 10 years from the date of completion of the Licensing Agreement for a total consideration of HK\$33,800,000 which was determined based on the Valuation Report and which will be satisfied in full by way of the issue of the Ocean Shores Notes in the aggregate principal amount of HK\$33,800,000 by the Company to CSID (or such person(s) as CSID may direct) at completion.

### Grant of first right of refusal by China Star to acquire Territory Distribution Rights

On 5th February, 2002, OSP and CSID entered into the Territory Supply Agreement whereby CSID has conditionally agreed to, during the term of three (3) years from completion of the Territory Supply Agreement, grant in favour of OSP a first right of refusal to acquire the Territory Distribution Rights in respect of the Films, each for a term of 10 years from the completion of the relevant licensing agreements.

### General

The grant of the Hotel and Intranet Distribution Rights under the Gainful Fortune Supply Agreement, the sale of the entire issued share capital of Ocean Shores Licensing Limited under the Sale and Purchase Agreement and the taking up of the Gainful Fortune Notes by OSP under the Gainful Fortune Supply Agreement and the Sale and Purchase Agreement together constitute a major transaction of the Company under the Listing Rules and is subject to approval by Shareholders.

China Star, the sole shareholder of CSID, is beneficially interested in 38.63% of the Company and is therefore a connected person of the Company and accordingly, each of the Licensing Agreement and the Territory Supply Agreement constitutes a connected transaction for the Company under the Listing Rules and is subject to approval by Independent Shareholders.

The Territory Supply Agreement, together with each of the Territory Distribution Agreements to be entered into from time to time in future may also constitute connected transactions for the Company under the Listing Rules. The Company will seek from the Stock Exchange the Waiver.

A circular containing, amongst other things, further information on the Gainful Fortune Supply Agreement, the Sale and Purchase Agreement, the Licensing Agreement and the Territory Supply Agreement and a notice of the Special General Meeting to approve the transactions contemplated in the aforesaid agreements, will be despatched to the Shareholders as soon as practicable.

### Appointment of independent non-executive Director

The board of Directors of the Company is pleased to announce that Mr. Tang Chak Lam, Gilbert has been appointed as independent non-executive Director of the Company with effect from 6th February, 2002.

### Resumption of trading

At the respective requests of the Company and China Star, trading in the Shares and shares of China Star on the Stock Exchange were suspended at 10:00 a.m. on 6th February, 2002 pending the issue of this announcement. Applications have been made to the Stock Exchange for the resumption of trading in the Shares and shares of China Star from 10:00 a.m. on 11th February, 2002.

## (I) GAINFUL FORTUNE SUPPLY AGREEMENT AND SALE AND PURCHASE AGREEMENT

### Gainful Fortune Supply Agreement

#### Summary of the terms of the Gainful Fortune Supply Agreement

Date	:	5th February, 2002
Licensor	:	OSP, a wholly-owned subsidiary of the Company
Licensee	:	Gainful Fortune, an Independent Third Party

OSP shall during the term of three (3) years from completion of the Gainful Fortune Supply Agreement grant (or procure the relevant Group Companies to grant) to Gainful Fortune (or its designated subsidiaries) the Hotel and Intranet Distribution Rights in respect of an aggregate of up to 300 Pictures in the PRC. If Gainful Fortune elects to acquire any Picture in any list of Pictures provided by OSP, it shall within 30 business days of receiving the list, notify OSP and acquire the Hotel and Intranet Distribution Rights of such Picture (at no additional costs) by entering into a license agreement for a term of not less than six months and which shall expire on such date as specified in the relevant license agreements.

If during the 3-year term, upon OSP having fulfilled all its obligations of granting the Hotel and Intranet Distribution Rights in respect of 300 Pictures, Gainful Fortune wishes to acquire the Hotel and Intranet Distribution Rights in respect of any further Pictures, OSP may enter into a license agreement with Gainful Fortune for each further Picture, for a license fee equivalent to 25% of the gross income to be received by Gainful Fortune in respect of such additional Picture(s).

As the Hotel and Intranet Distribution Rights in respect of any further Pictures are normal commercial transactions in the ordinary course of business of the Company, appropriate announcements will be made when they fall into the classification of notifiable transactions under the Listing Rules.

### Consideration for the Gainful Fortune Supply Agreement

The consideration for the grant of the Hotel and Intranet Distribution Rights pursuant to the Gainful Fortune Supply Agreement is a sum of HK\$80,000,000 which was determined after arm's length negotiations between the parties and was not based on any comparable transaction as far as the Company was aware. In agreeing to the amount of the consideration, the Company had assessed the potential financial benefits which could be derived from the Hotel and Intranet Distribution Rights and formed the view that there was no absolute certainty that an income of HK\$80,000,000 could be generated over a period of three years if the Group were to attempt to exploit such right on its own. The consideration will be satisfied by way of the issue of the Consideration Notes A in the aggregate principal amount of HK\$80,000,000 by Gainful Fortune to OSP (or such person(s) as OSP may direct).

There will be no further consideration payable for license agreements to be entered into in respect of the first 300 Pictures in future as the HK\$80 million consideration for the Gainful Fortune Supply Agreement has taken into account such fee.

### Conditions of the Gainful Fortune Supply Agreement

The Gainful Fortune Supply Agreement is conditional upon:

- the passing of an ordinary resolution by the Shareholders at the Special General Meeting to approve, inter alia, the transactions contemplated in the Gainful Fortune Supply Agreement and the Sale and Purchase Agreement; and
- the completion of the Sale and Purchase Agreement.

In the event that any of the above conditions is not satisfied within six months from 5th February, 2002 (or such later date as the parties may agree), the Gainful Fortune Supply Agreement shall lapse.

Reason for the grant

The Directors consider that the grant of the Hotel and Intranet Distribution Rights to Gainful Fortune and the amount of the consideration payable under the Gainful Fortune Supply Agreement and the issue of the Consideration Notes A to OSP (or such person(s) as OSP may direct) in satisfaction of the consideration is in the best interests of the Group as it allows the Group to gain a good opportunity for future exploitation of the Hotel and Intranet Distribution Rights and that the terms of the Gainful Fortune Supply Agreement are fair and reasonable so far as the Company and the Shareholders are concerned. The Company’s principal business is the distribution of films in various mediums and formats, including video compact disc format and digital video disc format. It is not the Company’s principal business to grant hotel and intranet distribution rights to external parties. The Directors believe that the commercial exploitation of the Hotel and Intranet Distribution Rights by Gainful Fortune in the PRC will enable the Group to participate in the potentially vast PRC video entertainment and/or multi-media market through the implementation of the Gainful Fortune Supply Agreement. The Directors also believe that the Group’s co-operation and relationship with Gainful Fortune could generate other future opportunities for the Group in the PRC video entertainment and/or multi-media market through the distribution network developed by Gainful Fortune in various hotels and residential estates within the PRC.

Sale and Purchase Agreement

Summary of the terms of the Sale and Purchase Agreement

Date	:	5th February, 2002
Purchaser	:	Gainful Fortune, an Independent Third Party
		Subject to the completion of the Sale and Purchase Agreement, Ocean Shores (BVI) Limited, the holding company of OSP, will procure OSP (or such other person(s) as directed by Ocean Shores (BVI) Limited) to subscribe for such number (being not more than 1,000) of Gainful Fortune Shares at a par value of HK\$1.00 each as will represent 40% of its enlarged issued share capital. Consequently, Gainful Fortune will become an associated company of the Company. The Gainful Fortune Share Subscription is a completion arrangement and is not a condition of the Gainful Fortune Supply Agreement and the Sale and Purchase Agreement.
		The Gainful Fortune Supply Agreement and the Sale and Purchase Agreement are not conditional upon completion of the Gainful Fortune Share Subscription.
Vendor	:	Ocean Shores (BVI) Limited, a limited company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company.
Asset to be acquired	:	The entire issued share capital of Ocean Shores Licensing Limited, whose principal assets are the distribution rights in respect of about 195 films, mainly in the North America region. Based on its audited accounts, Ocean Shores Licensing Limited recorded profit after taxation of approximately HK\$27.1 million and HK\$26.5 million respectively for the two financial years ended 31st December, 1999 and 31st December, 2000 respectively. As at 31st December, 2000, its audited net asset value is approximately HK\$76.8 million.

Consideration for the Sale and Purchase Agreement

HK\$80,000,000. The consideration for the Sale and Purchase Agreement was determined after arm’s length negotiations between the parties and with reference to the net asset value of Ocean Shores Licensing Limited as at 31st December, 2000. The consideration will be satisfied by way of the issue of the Consideration Notes B in the aggregate principal amount of HK\$80,000,000 by Gainful Fortune to OSP (or such other person(s) as Ocean Shores (BVI) Limited may direct).

Conditions of the Sale and Purchase Agreement

The Sale and Purchase Agreement is conditional upon:

- (i) the passing of an ordinary resolution by the Shareholders at the Special General Meeting to approve, inter alia, the Sale and Purchase Agreement and the Gainful Fortune Supply Agreement; and
- (ii) the completion of the Gainful Fortune Supply Agreement.

In the event that any of the above conditions is not satisfied within six months from 5th February, 2002 (or such later date as the parties may agree), the Sale and Purchase Agreement shall lapse.

Reasons for the sale

The Directors believe that, leveraging on CN2U Group’s technical knowhow on multi-media content distribution, the Group’s co-operation and relationship with Gainful Fortune, through the sale of Ocean Shores Licensing Limited to Gainful Fortune and the Gainful Fortune Share Subscription, as a result of which the Group will hold a 40% shareholding interest in Gainful Fortune, could generate other future opportunities for the Group in the Northern American video entertainment and/or multi-media market.

Terms of the Gainful Fortune Notes

The Gainful Fortune Notes comprise the Consideration Notes A and the Consideration Notes B. Neither Gainful Fortune Shares nor the Gainful Fortune Notes is listed on the Stock Exchange or any other securities exchange, nor is there any present intention to seek any such listing.

The principal terms of the Gainful Fortune Notes were determined after arm’s length negotiations between the parties and are summarized below:

- Principal amount**  
HK\$160,000,000
- Interest**  
1% per annum of the principal amount of Ocean Shores Notes outstanding from time to time, payable yearly in arrears on 31st December in each year.
- Maturity**  
3 years from the date of the issue of the Gainful Fortune Notes. Unless previously redeemed or converted, the Gainful Fortune Notes will be redeemed by Gainful Fortune at its principal amount together with accrued interest thereon on maturity. Any proceeds from redemption of the Gainful Fortune Notes will be used as general working capital of the Group.
- Early redemption**  
Prior to maturity, Gainful Fortune shall have the right to redeem any Gainful Fortune Note in any integral multiple of HK\$5,000,000 by delivering a written redemption notice to any holder of the Gainful Fortune Note.
- Conversion**  
Unless previously redeemed or converted, the holder of a Gainful Fortune Note shall have the right at any time after the maturity to convert the whole of the outstanding principal amount of each Gainful Fortune Note together with all accrued interest due on the outstanding principal amount of the Gainful Fortune Note into Gainful Fortune Shares, which shall be issued at the par value of each Gainful Fortune Share. Prior to the maturity, the holders of Gainful Fortune Notes may convert the Gainful Fortune Notes only with the mutual consent of Gainful Fortune.  
  
If the whole of the Gainful Fortune Notes are converted, OSP’s shareholding in Gainful Fortune will increase from 40% to more than 99% upon conversion.

6. Voting

A Gainful Fortune Note does not entitle the holder to attend and vote at any general meetings of Gainful Fortune.

7. Restrictions on change in share capital

Gainful Fortune is not permitted to issue any Gainful Fortune Shares or other securities (including options, warrants and other convertible securities) without the prior written consent of all the holders of Gainful Fortune Notes. The holding company of Gainful Fortune, CN2U will give an undertaking to holders of Gainful Fortune Notes in the Instrument to procure Gainful Fortune’s compliance with this restriction.

Gainful Fortune Shareholders Agreement

Upon completion of the Gainful Fortune Share Subscription, Excellent Selection Limited (which will own the balance of 60% shareholding in Gainful Fortune) and OSP will enter into the Gainful Fortune Shareholders Agreement which sets out the terms and conditions in relation to the management and operation of Gainful Fortune.

Under the Gainful Fortune Shareholders Agreement, the principal business of Gainful Fortune will be restricted to the business of distribution and licensing of distribution rights of films, television series and video features. Excellent Selection Limited and OSP may appoint two directors and a director respectively to the board of Gainful Fortune and such board of directors shall be responsible for the management of Gainful Fortune subject to the consent required from both shareholders in relation to certain specified matters such as amendments of articles of association, terms of employment of directors, payment of dividends and the entering into of transactions other than in the ordinary course of business.

Information about Gainful Fortune

Gainful Fortune, together with its ultimate holding company, CN2U, are principally engaged in the research and development in the field of multi-media content production, processing and distribution. CN2U Group has formed alliances with major universities in the PRC and in Macau, developing and providing multi-media content deployment technology. The CN2U Group has developed a multi-media community technology which will be used in hotels and housing estates for multi-media content delivery. Gainful Fortune and CN2U have developed the multi-media content deployment technology to distribute contents. While this technology has not been applied commercially, upon implementation of the Gainful Fortune Supply Agreement, Gainful Fortune and CN2U will be able to distribute such Pictures in hotels and housing estates in the PRC using such technology. Leveraging on the contents of the Group and CN2U Group’s distribution platform, CN2U Group aims to tap the vast PRC video entertainment and/or multi-media market.

Major transactions under the Listing Rules

The grant of the Hotel and Intranet Distribution Rights under the Gainful Fortune Supply Agreement, the sale of the entire issued share capital of Ocean Shores Licensing Limited under the Sale and Purchase Agreement and the taking up of the Gainful Fortune Notes by OSP under the Gainful Fortune Supply Agreement and the Sale and Purchase Agreement together constitute a major transaction of the Company under the Listing Rules and is subject to approval by Shareholders.

(II) THE LICENSING AGREEMENT

Summary of the terms of the Licensing Agreement

Date	:	5th February, 2002
Licensors	:	CSID, a wholly-owned subsidiary of China Star
Licensee	:	OSP, a wholly-owned subsidiary of the Company
Rights	:	CSID has conditionally agreed to license to OSP distribution rights in the Territory (including but not limited to (a) the cable television rights; (b) the interactive broadcast rights; (c) the satellite television rights; (d) the standard television rights; (e) the non-theatrical rights; (f) the videogram rights (including the Cyber Cinema Rights); (g) the Hotel Rights; and (h) the Intranet TV Rights, but excluding the internet rights) in respect of 116 movies (the “Movies”) owned by it.
Term	:	A period of 10 years from the date on which the completion of the Licensing Agreement takes place.

The Movies

The Movies comprise 116 motion pictures. Upon completion of the Licensing Agreement, the Group will have the exclusive right to exploit the Movies by all means and in all media in the Territory, except through internet and theatrical distribution in the Territory and except that OSP is required to grant the Cyber Cinema Rights of any Movies licensed to it by CSID to such person as directed by CSID on such terms as agreed between OSP and the person directed by CSID.

Consideration

HK\$33,800,000. The consideration is based on valuation of the Movies of HK\$33.8 million as stated in the Valuation Report. The consideration has been agreed between the parties based on arm’s length negotiations and the Directors (including the independent non-executive Directors) consider the terms of the Licensing Agreement to be fair and reasonable so far as the Company and the Shareholders are concerned.

The consideration will be satisfied by way of the issue of the Ocean Shores Notes in the aggregate principal amount of HK\$33,800,000 by the Company to CSID (or such person(s) as CSID may direct).

Terms of the Ocean Shores Notes

The Ocean Shores Notes will not be listed on the Stock Exchange or any other securities exchange, nor is there any present intention to seek any such listing. The Conversion Shares to be issued pursuant to the conversion of the Ocean Shores Notes will be listed on the Stock Exchange and the Company will make an application to the Stock Exchange for the grant of the listing of, and permission to deal in, the Conversion Shares.

The principal terms of the Ocean Shores Notes were determined after arm’s length negotiations between the parties and are summarized below:

- Principal amount**  
HK\$33,800,000
- Interest**  
1% per annum of the principal amount of the Ocean Shores Notes outstanding from time to time, payable half yearly in arrears on the respective dates falling six and twelve calendar months from the date of issue of the Ocean Shores Notes.
- Maturity**  
Three (3) years from the date of the issue of the Ocean Shores Notes. Unless previously redeemed or converted, the Ocean Shores Notes will be redeemed by the Company at its principal amount together with accrued interest thereon on maturity.
- Early redemption**  
Prior to maturity, neither CSID nor the Company has the right to redeem or request for redemption of any Ocean Shores Note.

## 5. Conversion

Unless previously converted, the holder of a Ocean Shores Note shall have the right at any time between the issue date and maturity, convert the whole or any part of the outstanding principal amount of each Ocean Shores Note into Conversion Shares.

The number of Conversion Shares to be issued will be determined by dividing the outstanding principal amount of the Ocean Shores Note to be converted by the conversion price (as described below) in effect on the date of such conversion. The Conversion Shares shall rank pari passu with all other Shares then existing.

Assuming that no Shares will be issued or repurchased prior to the conversion of the Ocean Shores Notes and that there is no change in the shareholding interest of China Star in the Company, if the whole of the Ocean Shores Notes are converted based on the conversion price of HK\$4.00 per Share, CSID (or such person(s) as CSID may direct) will hold approximately 1.75% and China Star will together with CSID (or such person(s) as CSID may direct) hold approximately 39.71% shareholding interest in the Company upon conversion.

## 6. Conversion Price

HK\$4.00 per Share, subject to adjustments. The conversion price represents a premium of approximately 27.0% over the closing price of HK\$3.15 per Share quoted on the Stock Exchange on 5th February, 2002, being the last trading day prior to this announcement on which Shares were traded on the Stock Exchange before such trading was suspended prior to the issue of this announcement.

The conversion price of HK\$4.00 per Share also represents a premium of approximately 19.7% over the average of HK\$3.3425 per Share of the closing prices quoted on the Stock Exchange for the last 10 trading days up to (and including) 5th February, 2002.

## 7. Voting

A Ocean Shores Note does not entitle the holder to attend and vote at any general meetings of the Company.

### Conditions of the Licensing Agreement

The Licensing Agreement is conditional upon:

- (i) the passing of an ordinary resolution by the Independent Shareholders at the Special General Meeting to approve, inter alia, the Licensing Agreement and the issue of the Ocean Shores Notes and the Conversion Shares; and
- (ii) the Listing Committee of the Stock Exchange approving the issue of the Ocean Shores Notes and granting the listing of and permission to deal in the Conversion Shares.

In the event that any of the above conditions is not satisfied within six months from 5th February, 2002 (or such later date as the parties may agree), the Licensing Agreement shall lapse.

### Discloseable and connected transaction under the Listing Rules

The transactions contemplated under the Licensing Agreement constitute a discloseable transaction of the Company under the Listing Rules. China Star, the sole shareholder of CSID, is beneficially interested in 38.63% of the Company and is therefore a connected person of the Company and accordingly, the Licensing Agreement constitutes a connected transaction for the Company under the Listing Rules and is subject to approval by the Independent Shareholders.

### Reasons and benefits for entering into the Licensing Agreement

The Directors believe that the Licensing Agreement will enhance the Group's existing portfolio of film titles available for distribution in the PRC thereby improving its marketing position to media operators in the Territory, particularly the PRC. The Licensing Agreement will also streamline the geographical focus of China Star and the Group, minimising their competition in the PRC market. The Directors, including independent non-executive Directors, are of the view that the Licensing Agreement is in the interests of the Company and the Shareholders and the terms of the Licensing Agreement are fair and reasonable so far as the Company and the Shareholders are concerned.

## (III) THE TERRITORY SUPPLY AGREEMENT

### Summary of the terms of the Territory Supply Agreement and the Territory Distribution Agreements to be entered pursuant to the Territory Supply Agreement

Date	: 5th February, 2002
Licensor	: CSID, a wholly-owned subsidiary of China Star
Distributor	: OSP, a wholly-owned subsidiary of the Company
Rights	: CSID has conditionally agreed to grant in favour of OSP a first right of refusal to acquire the exclusive Territory Distribution Rights (including but not limited to (a) the cable television rights; (b) the interactive broadcast rights; (c) the satellite television rights; (d) the standard television rights; (e) the non-theatrical rights; (f) the videogram rights (including the Cyber Cinema Rights); (g) the Hotel Rights; and (h) the Intranet TV Rights, but excluding the internet rights) in respect of each Film. In addition, OSP may also exercise an option to acquire the theatrical rights in respect of such Film.

Term of the Territory Supply Agreement	: A period of three (3) years from the date on which the completion of the Territory Supply Agreement takes place.
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OSP shall pay an amount of HK\$5 million to CSID as a deposit for the grant of the first right of refusal to acquire the Territory Distribution Rights and as security for the license fees payable under the Territory Distribution Agreements to be entered into, which shall be refundable without interest upon the termination of the Territory Supply Agreement. The deposit amount was determined after arm's length negotiations between the parties, taking into account the license fee rates as described below.

In respect of each Film to be provided by CSID during the term of the Territory Supply Agreement, CSID will, within 14 business days after it has obtained the relevant rights in that Film, notify and invite OSP to acquire, within 90 days of receipt of such notice, the Territory Distribution Rights (including the option relating to theatrical rights) to that Film. If OSP elects to acquire the aforesaid Territory Distribution Rights, a Territory Distribution Agreement in respect of the Film will be entered into pursuant to which OSP (or its designated Group Company) shall pay a license 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 at least HK\$30 million). The Territory Distribution Rights in respect of a Film will be for a period of 10 years.

In relation to any Film for which OSP has exercised its granted option to also acquire the theatrical rights, the additional license fee payable for the theatrical rights for that Film shall be equal to the balance of the total income received by OSP (or its relevant Group Company) in respect of the exploitation of such theatrical rights before payment of any distribution expenses but after deducting therefrom a sum equal to 20% of the said total income which shall be retained by OSP (or the relevant Group Company). CSID (as licensor) shall bear all distribution expenses in respect of the relevant Film and reimburse OSP (or its relevant Group Company) (as licensee) for all such distribution expenses incurred by OSP (or its relevant Group Company).

OSP will have the exclusive right to exploit the Films by all means and in all media in the Territory, except through internet in the Territory and except that OSP is required to grant the Cyber Cinema Rights of any Films licensed to it by CSID to such person as directed by CSID on such terms as agreed between OSP and the person directed by CSID.

## Conditions of the Territory Supply Agreement

The Territory Supply Agreement is conditional upon:

- (i) the Waiver being granted by the Stock Exchange to the Company and on such terms and conditions as may be accepted by both CSID and OSP; and
- (ii) the passing of an ordinary resolution by the Independent Shareholders at the Special General Meeting to approve, inter alia, the transactions contemplated in the Territory Supply Agreement.

In the event that any of the above conditions is not satisfied within six months from 5th February, 2002 (or such later date as the parties may agree), the Territory Supply Agreement shall lapse and the Company will make an announcement accordingly.

### Connected transaction under the Listing Rules

China Star, the sole shareholder of CSID, is beneficially interested in 38.63% of the Company and is therefore a connected person of the Company and accordingly, the transactions contemplated in the Territory Supply Agreement constitutes a connected transaction for the Company under the Listing Rules and is subject to approval by the Independent Shareholders.

### Waiver from the Stock Exchange

In addition, the Territory Distribution Agreements to be entered into between CSID and OSP from time to time in future may also constitute connected transactions for the Company under the Listing Rules and may require disclosure by press notice and/or approval by Independent Shareholders at a general meeting of the Company on each occasion or following a number of occasions. As these transactions will be conducted on normal commercial terms and in the ordinary course of business and may occur on a regular basis, the Directors consider that it would be impractical for the Company to comply strictly with the relevant disclosure requirements and Independent Shareholders' approval requirements of the Listing Rules in respect of connected transactions. Therefore, the Company will seek from the Stock Exchange a waiver from strict compliance with such requirements on the basis that:

- (i) a general authority to the Directors to enter into the Territory Distribution Agreements is granted by Independent Shareholders at a special general meeting of the Company;
- (ii) the total license fee paid by OSP to CSID during a financial year ("Aggregate Fee") will not exceed 60% of the latest published audited consolidated net assets of the Company (the "Cap");
- (iii) the independent non-executive Directors will review the terms of each Territory Distribution Agreement and will confirm in the next published annual report of the Company that they are satisfied that the relevant transactions entered into pursuant to the Territory Distribution Agreements during the financial year covered by the relevant annual report were conducted in accordance with the terms of the relevant Territory Distribution Agreements, were on normal commercial terms and in the ordinary course of business of the Group and were fair and reasonable;
- (iv) details of the Territory Distribution Agreements will be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the published annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors and the auditors of the Company referred to in sub-paragraphs (iii) and (v);
- (v) the auditors of the Company will review the terms of the Territory Distribution Agreements annually and will provide a written confirmation to the Directors that the Territory Distribution Agreements have been approved by the Directors and have been conducted in accordance with their terms and that the Aggregate Fee did not exceed the Cap; and where, for whatever reason, the Company's auditors decline to accept the engagement or are unable to provide the above said letter, the Directors must contact the Listing Division of the Stock Exchange immediately;
- (vi) the Company shall undertake to the Stock Exchange that the auditors of the Company will be granted access to such of its records for the purpose of the auditors' review of the Territory Distribution Agreements; and
- (vii) in the event of any future amendments to the Listing Rules imposing more stringent requirements than as at the date of the transactions of the kind in which the Territory Distribution Agreements belong including, but not limited to, a requirement that such Territory Distribution Agreements be made conditional on approval by the Independent Shareholders, the Company shall take immediate steps to ensure compliance with such requirements within a reasonable time.

In the event that any of the above conditions is not satisfied in respect of any of the Territory Distribution Agreements or if the terms of the Territory Supply Agreement are altered, or if OSP enters into new arrangements with CSID in the future, the Company will comply with the provisions of Chapter 14 of the Listing Rules governing connected transactions, unless it applies for and obtains a separate waiver from the Stock Exchange.

In respect of the Territory Distribution Agreements under the Waiver, the Company has applied for the Aggregate Fee not exceeding the Cap in order to allow the OSP more flexibility, taking into account the variability of license fee payable under the theatrical rights, in obtaining Territory Distribution Rights from CSID as and when business opportunities arise in the Territory.

### Reasons for entering into the Territory Supply Agreement

The Directors believe that the transactions contemplated in the Territory Supply Agreement will enhance the future development of the Group as it will secure a stable supply of film titles and television drama series for distribution in the potentially huge PRC market. The Directors are of the view that the transactions contemplated in the Territory Supply Agreement is in the interests of the Company and its Shareholders and the terms of the Territory Supply Agreement are fair and reasonable so far as the Company and its Shareholders are concerned.

## GENERAL

### Information about the Group

The Company, together with 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 in the PRC. The transactions described above are in line with the Group's principal activities.

### Circular and the Special General Meeting

A circular of the Company containing, amongst other things details of the transactions under the Gainful Fortune Supply Agreement, the Sale and Purchase Agreement, the Licensing Agreement and the Territory Supply Agreement, together with a notice convening the Special General Meeting, a letter from an independent board committee of the Company and a letter from an independent financial adviser, which sets out their opinions as to whether the transactions under the Licensing Agreement and the Territory Supply Agreement are fair and reasonable so far as the Shareholders are concerned will be despatched to Shareholders as soon as practicable.

### Appointment of independent non-executive Director

The board of Directors of the Company is pleased to announce that Mr. Tang Chak Lam, Gilbert has been appointed as independent non-executive Director of the Company with effect from 6th February, 2002.

Resumption of trading in Shares and shares of China Star

At the respective requests of the Company and China Star, trading in the Shares and shares of China Star on the Stock Exchange were suspended at 10:00 a.m. on 6th February, 2002 pending the issue of this announcement. Applications have been made to the Stock Exchange for the resumption of trading in the Shares and shares of China Star from 10:00 a.m. on 11th February, 2002.

DEFINITIONS

“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 which is the controlling shareholder of the Company holding approximately 38.63% of the issued share capital of the Company
“CN2U”	CN2U Technology Company Limited, a limited company established under the laws of Hong Kong whose ultimate beneficial shareholder is Chan Chun Hung, Bobby, an Independent Third Party
“CN2U Group”	CN2U and its subsidiaries
“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
“Consideration Notes A”	Gainful Fortune Notes in the principal amount of HK\$80,000,000 to be issued to OSP (or such person(s) as it may direct) in satisfaction of the consideration payable by Gainful Fortune to OSP for the acquisition of the Hotel and Intranet Distribution Rights
“Consideration Notes B”	Gainful Fortune Notes in the principal amount of HK\$80,000,000 to be issued to OSP (or such other person(s) as Ocean Shores (BVI) Limited may direct) in satisfaction of the consideration payable by Gainful Fortune under the Sale and Purchase Agreement
“Conversion Share(s)”	the new Share(s) which may fall to be issued upon exercise of the conversion rights attaching to the Ocean Shores Notes
“CSID”	China Star International Distribution Limited, a limited company incorporated in the British Virgin Islands and a wholly-owned subsidiary of China Star
“Cyber Cinema Rights”	the rights to exhibit any of the Movies or Films by means of videograms where a charge for admission is made including but not limited to at public and private cinemas within the Territory
“Director(s)”	the director(s) of the Company
“Film(s)”	any films, television series and/or video features, in respect of which CSID or any of its holding company or ultimate holding company or any of the subsidiary of such company has (or will at the time of grant of the distribution rights pursuant to the Territory Supply Agreement have) the distribution rights within the Territory)
“Gainful Fortune”	Gainful Fortune Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by CN2U
“Gainful Fortune Notes”	the series of 1% convertible loan notes constituted by the Instrument in the aggregate principal amount of HK\$160,000,000 comprising the Consideration Notes A and the Consideration Notes B, with the benefit of and subject to the provisions of the conditions set out in the Instrument
“Gainful Fortune Share Subscription”	the subscription of such number of Gainful Fortune Shares which represent 40% of its enlarged issued share capital by Ocean Shores (BVI) Limited, upon the completion of the Sale and Purchase Agreement
“Gainful Fortune Shareholders Agreement”	the shareholders’ agreement relating to Gainful Fortune to be entered into between OSP and Excellent Selection Limited to set out the terms and conditions in relation to the management and operation of Gainful Fortune
“Gainful Fortune Shares”	ordinary shares of HK\$1.00 each comprised in the capital of Gainful Fortune as at the completion of the Sale and Purchase Agreement
“Gainful Fortune Supply Agreement”	the supply agreement dated 5th February, 2002 entered into between OSP and Gainful Fortune relating to the grant of the Hotel and Intranet Distribution Rights
“Group”	the Company and its subsidiaries
“Group Company”	OSP or any of its holding companies or any subsidiary of any such company
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hotel and Intranet Distribution Rights”	the exclusive Hotel Rights and Intranet TV Rights to be granted (or proposed to be granted) by OSP (or the relevant Group Companies) to Gainful Fortune (or its subsidiaries) pursuant to the Gainful Fortune Supply Agreement
“Hotel Rights”	the right to exhibit or deliver or broadcast a Picture by means of closed circuit television or other multi-media content delivery system (whether free of charge or pursuant to any pay-per-view, subscription, license and/or rental arrangements) in hotels and motels within the PRC
“Independent Shareholders”	Shareholders other than any connected persons (as defined in the Listing Rules) interested in the Licensing Agreement and/or the Territory Supply Agreement (being China Star and its associates (as defined in the Listing Rules))

\* for identification only

“Independent Third Party”	an independent third party which is not connected with any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules)
“Instrument”	the instrument to be executed by Gainful Fortune (as issuer) and CN2U constituting the Gainful Fortune Notes
“Intranet TV Rights”	the right to exhibit or deliver or broadcast a Picture by means of intranet television or other multi-media content delivery system (whether free of charge or pursuant to any pay-per-view, subscription, license and/or rental arrangements) for residents of an individual residential estate or an individual residential building within the PRC
“Licensing Agreement”	the licensing agreement dated 5th February, 2002 entered into between CSID, OSP and the Company in relation to the grant of distribution rights in the Territory for the Movies
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Movies”	the 116 films, television series and/or video features to be licensed by CSID to OSP in respect of their distribution rights in the Territory pursuant to the Licensing Agreement
“Ocean Shores Notes”	the 1% fixed rate convertible notes in the principal amount of HK\$33,800,000 to be issued by the Company to CSID, or such person(s) as it may direct, in satisfaction of the consideration to CSID pursuant to the Licensing Agreement
“OSP”	Ocean Shores Pictures Limited, a limited company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Pictures”	any films, television series and/or video features, in respect of which the relevant Group Company owns (or will at the time of the grant of the Hotel and Intranet Distribution Rights in respect thereof pursuant to the Gainful Fortune Supply Agreement own) Hotel Rights and Intranet TV Rights within the PRC
“PRC”	the People’s Republic of China (except Hong Kong, Macau, Taiwan)
“Sale and Purchase Agreement”	the agreement dated 5th February, 2002 for the sale and purchase of the entire issued share capital of Ocean Shores Licensing Limited entered into between Ocean Shores (BVI) Limited and Gainful Fortune
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholders”	shareholders of the Company
“Special General Meeting”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, inter alia, transactions contemplated under the Gainful Fortune Supply Agreement, the Sale and Purchase Agreement, the Licensing Agreement and the Territory Supply Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Territory Distribution Agreements”	the distribution agreements to be entered into between CSID and OSP in respect of individual Films in accordance with the Territory Supply Agreement
“Territory Distribution Rights”	the exclusive distribution rights in respect of the Films in the Territory to be acquired by OSP under the Territory Distribution Agreements pursuant to the Territory Supply Agreement
“Territory Supply Agreement”	the conditional supply agreement in respect of the grant of a first right of refusal in relation to the Territory Distribution Rights in respect of the Films dated 5th February, 2002 entered into between CSID and OSP
“Territory”	collectively, the PRC and Mongolia
“Valuation Report”	the valuation report prepared by Adonis Appraisal Limited, an Independent Third Party, dated 31st January, 2002 on the value of the distribution rights of the Movies in the PRC and Mongolia
“Waiver”	the waiver from the Stock Exchange from strict compliance with the relevant disclosure and Independent Shareholders’ approval requirements on an annual basis for future connected transactions under the Listing Rules in respect of transactions contemplated in the Territory Supply Agreement and the Territory Distribution Agreements
“%”	per cent.

By Order of the Board  
China Star Entertainment Limited  
Heung Wah Keung  
Chairman

By Order of the Board  
Ocean Shores Group Limited  
Lei Hong Wai  
Executive Director

Hong Kong, 8th February, 2002