

**OCEAN SHORES GROUP LTD :  
THERE ARE BETTER BUYS THAN THIS**

Competition is getting very hot in the 'game' of the distribution of video programming in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) and so it appears that some companies are joining forces – probably in order to survive the long pull.

The latest company, engaged, solely, in the business of distributing video programmes to stores, such as Blockbuster Video, etc, and wanting to be listed on The Stock Exchange of Hongkong Ltd (for very obvious reasons), is Ocean Shores Group Ltd, a company which is well known as well respected, having been around since about 1980.

But Ocean Shores must be finding the going very tough because, among other things, it entered into a deal with publicly listed China Star Entertainment Ltd whereby a China Star subsidiary, Classical Statue Ltd, agreed, before the public listing was, completely put together, to pick up 12 percent of the Enlarged Issued and Fully Paid-Up Share Capital of Ocean Shores.

The deal was done on October 8, 1999, the newly released Prospectus of Ocean Shores indicates at Page 77.

The cash consideration for the 12-percent stake was \$HK14 million, but this figure could be moved up by about another \$HK4 million, following the successful flotation, which, by the way, will water down the China Star's equity holdings in Ocean Shores to 9 percent -- if things go according to plan, of course.

The end result will be that the Founder of Ocean Shores, Mr Jackson Hung Leung Tak, will own about 42 percent of the Enlarged Issued and Fully Paid-Up Share Capital of his Company, China Star will own about 9 percent of the shares, and those who subscribe for the 37.50 million shares on offer, will own 25 percent.

Mr Jackson Hung is selling 22.50 million of his own shares in Ocean Shores in this cash-raising exercise and, presumably, he will be pocketing close to \$HK30 million, minus expenses.

All in all, one may say that this is a very satisfactory arrangement for Mr Jackson Hung and for Ocean Shores.

Totally, Ocean Shores, the Company, itself, is hoping to offload a total of 37.50 million, 10-cent shares at a Premium of \$HK1.23 per share over the Par Value to the investing public, raising about \$HK42 million, net of expenses.

The money, raised in this exercise, will be used as follows, Page 48 of the Prospectus states:

1. \$HK25 million to acquire addition distribution rights to video programmes;
2. \$HK3 million to establish overseas offices; and,
3. \$HK14 million to be tipped into the General Working Capital Account.

As for the \$HK17.95 million, obtained by the issuance of shares, prior to the production of the Prospectus, to China Star, that money will be used for Additional Working Capital and to acquire additional distribution rights to video programmes, Page 32 of the Prospectus states.

Still on the subject of money, this analyst notes that, as at August 31, 1999, the Company was, not exactly, flush with cash.

Just 38 days before China Star agreed to pump about \$HK14 million into the coffers of Ocean Land, the cash cupboard was full to the extent of exactly \$HK321,000.

This is clearly shown on Page 73 of the Prospectus, under Appendix 1.

Current Assets stood at about \$HK39.24 million while Current Liabilities stood at about \$HK36.70 million, as at August 31, 1999, lending itself to a Current Ratio (Current Asset Divided by Current Liabilities) of about 1.07 times.

However, in terms of the Quick Ratio (Current Assets Minus Inventories (including the current portion of film rights) Divided by Current Liabilities), that figure was about 0.31 times.

Any low figure, especially a figure, which is well below one for the calculation of the Quick Ratio, is a sure-shot indication of a potential, cash-flow problem, except under certain circumstances.

With a Quick Ratio as low as 0.31 times, it would appear to indicate, as should be only too apparent, that the Company was more than a bit short of the ready, as at August 31, 1999.

The seemingly poor cash situation becomes even more clear when one notes that, as at August 31, 1999, Long-Term Bank Loans stood at about \$HK6.19 million, but they had risen to \$HK11 million by November 30, 1999 – just 90 days later.

Finally, one notes that the group of companies that comprise Ocean Shores was/is in debt to the HKSAR Government to the extent of about \$HK18 million, that sum of money, being taxation payable.

Note (e) at Page 75 states: *‘Taxation represents liabilities of the companies comprising the Group in respect of the Hong Kong profit tax provided for the current period and prior years.’*

Considering the Trading Results of the Group, from 1996 to August 31, 1999, one might jump to the conclusion that the Inland Revenue Department ... [CLICK TO ORDER FULL ARTICLE](#)