

ANNUAL REPORT 2001

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)



Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This annual report, for which the Directors of Rojam Entertainment Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Rojam Entertainment Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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BOARD OF DIRECTORS

Executive Directors

Tetsuya Komuro (*Chairman*)
Kebo Wu (*Vice-Chairman*)
Tomohiko Domen (*Vice-Chairman*)
Arihito Yamada (*Chief Executive Officer*
and Chief Financial Officer)
Wong Ho Yan, Daniel

Independent Non-executive Directors

Seiichi Nakaoda
Yeung Mui Kwan, David

COMPLIANCE OFFICER

Wong Ho Yan, Daniel

COMPANY SECRETARY

Chan Ying Chun, *ACIS, ACS*

QUALIFIED ACCOUNTANT

Cheng Kit Sum, *ACCA, AHKSA*

AUDIT COMMITTEE

Seiichi Nakaoda
Yeung Mui Kwan, David

AUTHORISED REPRESENTATIVES

Arihito Yamada
Wong Ho Yan, Daniel

REGISTERED OFFICE

Zephyr House, Mary Street
P.O. Box 2681
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1502, 15th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

WEBSITE

<http://www.rojam.com>

STOCK CODE

8075

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International
(Cayman) Limited
Butterfield House
Fort Street
P. O. Box 705
George Town
Grand Cayman
Cayman Islands

Corporate Information *(Continued)*

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited
Rooms 1901-5, 19/F
Hopewell Centre
183 Queen's Road East
Hong Kong

SPONSOR

Core Pacific - Yamaichi Capital Limited
1902-3, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law:

Deacons
Alexandra House
3rd to 7th and 18th Floors
Central
Hong Kong

As to Cayman Islands Law:

Conyers Dill & Pearman, Cayman
Zephyr House, Mary Street
George Town
Grand Cayman
Cayman Islands

As to Japanese Law:

Naito & Shimizu
Aoyama East & West
1st Floor
5-46-2, Jingumae
Shibuya-ku
Tokyo 150-0001
Japan

Anderson Mori
AIG Bldg., 1-3
Maranouchi 1-chome
Chiyoda-ku
Tokyo 100-0005
Japan

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

Credit Suisse First Boston
Hong Kong Branch
23rd Floor, Three Exchange Square
8 Connaught Place Central
Hong Kong

Financial Summary

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Result			
Turnover	<u>134,925</u>	<u>1,506</u>	<u>4,662</u>
Profit/(loss) attributable to shareholders	<u>19,723</u>	<u>(916)</u>	<u>(1,302)</u>
Assets and liabilities			
Total assets	234,022	23,005	21,608
Total liabilities	<u>(23,235)</u>	<u>(25,123)</u>	<u>(22,811)</u>
Net assets/(liabilities)	<u>210,787</u>	<u>(2,118)</u>	<u>(1,203)</u>

The Reorganisation referred to in note 1 to the accounts has been reflected in the financial summary by regarding the Company as having been the holding company of the Group from the earliest period presented.

Chairman's Statement

Rojam Entertainment Holdings Limited ("Rojam" or the "Company") and its subsidiaries (together, the "Group") have been undergoing exciting development and expansion since the turn of the millennium, blooming from a start-up operation to one of the premier integrated music production houses in Asia. Whilst focusing on music production, Rojam, at the same time, provides other music production related services, including music publishing, record distribution, trademark licensing, artiste and event management, and music entertainment portal – all together constituting a comprehensive range of music related services generating multiple revenue streams for the Group.

The Company's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 31st May, 2001 by way of placing of 70 million new shares and 20 million existing shares, at an issue price of HK\$1.00 per share. The placing was well received by the investors – the 90 million placing shares were around 9 times subscribed.

The net proceeds from the placing, amounting to around HK\$53 million, will be applied towards the implementation of the Group's various business objectives and strategies which are set out in detail in the prospectus of the Company dated 24th May, 2001.

FINANCIAL HIGHLIGHTS

The efforts invested by the Group in the past in building its foundation in music production and related businesses have started to bear fruits in the year ended 31st March, 2001. The Group recorded a total turnover of around HK\$134.9 million for the year ended 31st March, 2001, representing almost 90 times of the total turnover of around HK\$1.5 million for the year ended 31st March, 2000. Other revenue, comprising interest income, amounted to around HK\$3.8 million for the year ended 31st March, 2001.

As the Group expanded its scale of operation, its revenue increased, and so did its costs of operation and expenses. The cost of music production and record sales, and selling and distribution expenses rose from around HK\$0.1 million and HK\$0.4 million respectively for the year ended 31st March, 2000, to around HK\$28.7 million and HK\$13.6 million respectively for the year ended 31st March, 2001. In the year ended 31st March 2001, in preparation for its upcoming corporate and business development, the Group moved to a more sizeable office in Hong Kong and increased the number of employees from 4 to over 40; and to enhance the quality of its music production services, the Group acquired musical equipment and instruments, the net value of which amounted to around HK\$20.2 million as at 31st March, 2001, to set up its own music studio in Tokyo, Japan towards the end of December 2000. As a result of such

expansionary moves, other operating expenses, comprising rentals of premises, staff costs, depreciation and other expenses, increased significantly from around HK\$1.7 million for the year ended 31st March, 2000 to around HK\$65.4 million for the year ended 31st March, 2001.

Profit attributable to shareholders for the year ended 31st March, 2001 amounted to around HK\$19.7 million, compared to a loss of around HK\$0.9 million for the year ended 31st March, 2000.

As at 31st March, 2001, the Group had a net cash position of around HK\$132.4 million. The placing of new shares in May 2001 generated net proceeds of around HK\$53 million for the Group.

OUTLOOK

Building on the philosophy underlying the establishment of Rojam of "Music Is Our Origin", the Group will continue to pursue its mission of being one of the premier integrated music production houses and a business partner of choice for various entertainment companies in Asia. In particular, the Group will focus on a range of key strategic initiatives to enable it to expand its presence in Asia, strengthen its music production capacity, enhance its service offering and consolidate the foundations required for the Group's business to succeed in the future.

Finally, I would like to take this opportunity to thank my fellow directors, our management and employees, our team of music talents, and especially our strategic partners, for their support and dedicated works throughout the year. Having such solid structure and network in place, I am confident that our musical works will continue to excel and infiltrate into every corner of Asia, and I look forward to celebrating another year of achievements with the Rojam team in the forthcoming financial year.

Tetsuya Komuro
Chairman

22nd June, 2001

Management Discussion and Analysis

FINANCIAL REVIEW

The Group recorded total turnover and other revenue of approximately HK\$134.9 million and approximately HK\$3.8 million respectively for the year ended 31st March, 2001. Profit attributable to shareholders for the year ended 31st March, 2001 amounted to approximately HK\$19.7 million.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31st March, 2001, the Group's shareholders' funds amounted to approximately HK\$210.8 million. Current assets amounted to approximately HK\$183.4 million, of which approximately HK\$132.4 million were cash and bank balances. Approximately HK\$3.1 million of such cash and bank balances were placed in a term deposit account with a bank in Hong Kong to secure a corporate card facility granted by the bank. As at 31st March, 2001, the Group had current liabilities of approximately HK\$23.1 million, of which approximately HK\$0.1 million were obligations under finance lease and hire purchase.

Subsequent to 31st March, 2001, the Group obtained net proceeds of approximately HK\$53 million from the placing of 70 million new shares in the Company on the listing of the Company's shares on GEM. The Group currently intends to apply such net proceeds as follows:

- approximately HK\$10 million for the acquisition of hardware and software for its Tokyo studio to enhance the production of master tapes so as to enable the Group to capitalise on its strength in music production to expand its customer base and enhance its core business operations;
- approximately HK\$16 million for the recruitment of producers mainly to strengthen its music production capacity;
- approximately HK\$18 million for engaging in sponsorship and artiste promotional activities in different countries in Asia mainly to achieve the Group's geographic expansion plan and increase its brand recognition and publicity;
- approximately HK\$2 million for training and development of artistes in different Asian countries to achieve geographic expansion;
- approximately HK\$2 million for establishing an online and offline music learning centre mainly to strengthen the Group's music production capacity and to exploit the Internet media for the Group's business; and
- approximately HK\$5 million for general working capital purposes.

OPERATION REVIEW

The Group attained significant development and achievements in the year ended 31st March, 2001.

Music production

The Group entered into producer service contracts with two leading record companies in Japan, namely Avex Inc. and Pony Canyon Inc., in November 2000 and March 2001 respectively, and received signing bonuses for entering into such producer service contracts. During the year under review, the Group produced a total of three albums and five singles under such producer service contracts, and undertook other music production related businesses. The Group generated an aggregate turnover of approximately HK\$107.1 million from its music production business for the year ended 31st March, 2001.

The Group's music production team, led by Mr. Tetsuya Komuro, currently comprises nine experienced and reputable producers:

Chief Executive Producer: Mr. Tetsuya Komuro

Producers: Mr. Daisuke Asakura

Mr. Takeshi Hayama

Mr. Naoto Kine

Mr. Koji Kubo
(professional name known as Cozy Kubo)

Mr. Takashi Utsunomiya

Mr. Tatsushi Hashimoto
(professional name known as DJ Dragon)

Mr. Ryuichi Sakai
(professional name known as Marc Panther)

Mr. Tetsuya Katsuragi

OPERATION REVIEW *(Continued)*

Music production *(Continued)*

The profiles of the Group's music producers are set out in detail in the Company's prospectus dated 24th May, 2001.

The Group's music studio in Tokyo, Japan is currently undergoing a structural extension, and hardware and software enhancement project to strengthen its music production capacity. Such project is expected to be completed in the third calendar quarter of 2001. The music studio currently employs four technical engineers specialising in music production.

Record distribution

During the year under review, the Group distributed a total of twelve titles of music records of various artistes in Japan and Hong Kong, and generated a total turnover of approximately HK\$15.1 million.

Trademark licensing

Royalty income from licensing the Group's trademarks and logo to a discotheque in Shanghai amounted to approximately HK\$1.7 million for the year under review.

Artiste and event management

The Group arranged its artistes to perform in concerts, advertisement and other promotional activities, and generated approximately HK\$0.6 million in turnover from artiste and event management for the year under review.

Merchandise sales

Turnover from the sales of merchandise relating to the Group's artistes amounted to approximately HK\$7.7 million for the year under review.

Music entertainment portal

The Group's music entertainment portal at the website - www.rojam.com was officially launched in April 2000. The portal features music and music video downloads, news on the Group's artistes, producers, fan clubs and various forms of entertainment. For the year under review, the Group generated approximately HK\$2.7 million in turnover from banner advertisement sales on its portal.

PROSPECT

Taking advantage of its strength in music production, the Group has expanded its business operations into different market segments and developed multiple revenue sources from a diversified business portfolio.

The Directors believe that the Group will be able to further expand its existing business operations and capture the growing business opportunities arising from the extensive usage of the Internet and technology advancement so as to realise the Group's business objectives:

- expand its customer base and enhance its core business operations of music production by building up its business alliance with major players in the entertainment industry;
- strengthen its music production capacity by sourcing new talents;
- geographical expansion in Asia;
- increase its current level of recognition and publicity by investing in business development and marketing;
- exploitation of the Internet media.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Tetsuya Komuro, aged 42, is the Chairman of the Board and the Chief Executive Producer of the Group's music production team. Mr. Komuro founded the Group with Mr. Kebo Wu in January 1998 and is responsible for formulating the overall business strategies and development of the Group. He is also the mentor of the Group's production team providing vision and guidance in music production. Mr. Komuro is an international renowned music composer, arranger and producer and a member of several pop groups namely globe, Kiss Destination and TM Network. Mr. Komuro has produced for a number of well-known artistes in Japan, such as Namie Amuro, Ami Suzuki and TRF and has made his name in the international arena on a number of occasions. In 1997, Mr. Komuro held a series of concerts in Beijing, Shanghai and Hong Kong as part of the celebrations for the 25th Anniversary of the Normalisation of China-Japan Relations. In April 1998, Mr. Komuro co-produced the official album for the 1998 World Cup Soccer in France. In early 2000, he was appointed by the former Prime Minister of Japan, Mr. Keizo Obuchi, to be the producer of the theme music for the G8 Kyushu-Okinawa Summit Meeting 2000.

Mr. Kebo Wu, aged 37, founded the Group with Mr. Tetsuya Komuro in January 1998 and is the Vice-Chairman of the Board. With extensive business experience and strong connections with various corporate entities in Japan, Hong Kong and the PRC, he is responsible for the overall strategic planning of the Group. Since graduating from Soka University, Japan with a Bachelor Degree in Business Administration, Mr. Wu has held key positions in a number of companies in Japan and the PRC.

Mr. Tomohiko Domen, aged 46, joined the Group in April 2000 is the Vice-Chairman of the Board. He is responsible for the Group's overall music production and entertainment operations and business development. Mr. Domen joined Yamaha Co. Ltd in Tokyo, Japan in 1977 after he graduated from Sophia University, Japan with a Bachelor of Arts degree. He has over 20 years' experience in music production and has extensive connections in the music industry in the United States, Japan and other parts of Asia. Since joining the Group in April 2000, Mr. Domen has successfully expanded the Group's music production operations and other ancillary businesses.

EXECUTIVE DIRECTORS *(Continued)*

Mr. Arihito Yamada, aged 38, is the Chief Executive Officer and Chief Financial Officer of the Group. He is responsible for the overall management of the Group in the areas of finance, legal, administration and corporate development. Mr. Yamada was educated in Japan and has a Bachelor of Economics degree from Keio University, Japan and a Master of Laws degree from Tsukuba University, Japan. He is a member of the Institute of Certified Public Accountants in Japan and has over 15 years' experience in accounting and tax planning in PricewaterhouseCoopers including 3 years in Los Angeles office, specializing in the area of mergers and acquisitions, finance and tax planning of the entertainment industry. Prior to joining the Group in July 2000, Mr. Yamada was a partner of PricewaterhouseCoopers Tokyo office and the Chief Executive Officer of PricewaterhouseCoopers Entertainment Ltd.

Mr. Wong Ho Yan, Daniel, aged 32, is responsible for the Group's overall public relations and marketing, the music production and entertainment operations and business development of the Group in the Greater China region. He graduated from University of Southern California, US, with a Bachelor of Science Degree in Business Administration, and has over 6 years' experience in sales and marketing and business development, in particular, in the PRC and Hong Kong. Mr. Wong joined the Group in May 2000, and has made substantial contribution to the establishment of the Group's entertainment business, setting-up of the Group's headquarters in Hong Kong and development of the Group's various businesses in the Greater China region.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Seiichi Nakaoda, aged 36, was appointed as an independent non-executive Director in February 2001. He is a member of The Japanese Institute of Certified Public Accountants and has over 12 years' experience in finance and accounting practice. Mr. Nakaoda is a managing director of an accounting consultancy firm in Hong Kong.

Mr. Yeung Mui Kwan, David, aged 45, was appointed as an independent non-executive Director in April 2001. He is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants and has over 20 years' experience in finance and accounting practice. Mr. Yeung is now practising in his own accounting consultancy firm.

SENIOR MANAGEMENT

Ms. Hung Shi Wei, Halina, aged 29, Deputy Chief Financial Officer, has joined the Group since November 2000. She is responsible for assisting the Board/Chief Financial Officer in the areas of finance and corporate development. Ms. Hung graduated from Monash University, Australia with a Bachelor of Economics Degree and a Bachelor of Laws Degree. She holds a Graduate Diploma in Applied Finance and Investments, and has over 5 years of experience in finance, legal compliance and corporate development. Ms. Hung is a barrister and solicitor admitted to practise in Victoria, Australia, and is an Associate of the Securities Institute of Australia.

Ms. Etsuko Hoshiyama, aged 39, General Manager of Administration, has joined the Group since March 2000. She holds a Bachelor Degree of Law in Japan and a Master Degree of Laws in Taxation from University of Denver, USA. She is an associate member of the American Institution of Certified Public Accountants and the Hong Kong Society of Accountants. Before joining the Group, Ms. Hoshiyama was a tax manager of PricewaterhouseCoopers in Hong Kong. She has over 10 years of experiences in tax, business consulting, and business development.

Ms. Cheng Kit Sum, aged 29, Financial Controller, has joined the Group since May 2000. She is responsible for managing the Group's finance and accounting processes, maintaining finance control and performing statutory financial reporting. Ms. Cheng holds a Bachelor of Arts Degree in Accountancy from the Hong Kong Polytechnic University. She is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group, Ms. Cheng worked for PricewaterhouseCoopers in Hong Kong and has over 6 years' experience in auditing and accounting.

Ms. Chu Wai Kit, aged 34, General Manager of Entertainment Division, has joined the Group since June 2000. She is responsible for overseeing the operations of the entertainment division of the Group, all aspects of the engagement and promotion activities, and providing guidance to certain artistes on their personal and career developments. Ms. Chu has over 10 years' experience in entertainment and public relations industries. Her occupational background and career development are remarkable: Production Manager of Brainnew Advertising and Production Ltd., Marketing Director of Vertex Productions Co., Ltd., Marketing Manager of Asia Vigour Productions Ltd., and Operation Manager of Pico Hong Kong Ltd. She has had successfully applied her skills and knowledge in hosting and coordination of various media functions, exhibitions, road shows and both indoor and outdoor events.

SENIOR MANAGEMENT (Continued)

Ms. Yoshimi Oishi, aged 36, General Manager of Administration Division in Japan, has joined the Group since September 2000. She is responsible for overseeing the daily operations of the Group in Japan. Before joining the Group, Ms. Oishi was an accounting manager of TK State America Museum Inc. Prior to that she was employed by BMW Japan as the marketing executive.

Ms. Yuri Shimomura, aged 36, General Manager of Rojam Technology Japan Limited, joined the Group in September 2000. She is responsible for overseeing the music production and distribution of the Group's products in Japan. She obtained a Bachelor of Psychology Degree from Nippon University. In 1996, Ms. Shimomura joined Tetsuya Komuro Rise K.K. and had been the manager of Koji Kubo, one of the famous Japanese producers. After it was merged into TK State America Museum Inc., she has been the Production Manager for Mr. Tetsuya Komuro. Before that, she was the Vice-President of the management company of concert halls activities. Ms. Shimomura has over 5 years of experience in the area of music production and artiste management.

Mr. Keiichi Uezumi, aged 31, General Manager of Business Planning, has joined the Group since July 2000. He was qualified as a Japanese Certified Public Accountant (CPA) in 1996, and passed the US CPA Examination in 2000. He holds a Bachelor Degree of Economics from Seikei University. Mr. Uezumi has over 8 years, of experience in accounting and tax planning, in PricewaterhouseCoopers including 5 years in Tokyo office and 3 years in Los Angeles office. He is a specialist in finance and international tax planning in the entertainment industry and Internet business. Prior to joining the Group, Mr. Uezumi was a manager of PricewaterhouseCoopers' Tokyo office.

Mr. Kazuto Sasaki, aged 38, Senior Business Affairs Manager, has joined the Group since October 2000. He is responsible for overseeing the music production, distribution and licensing businesses of the Group. Mr. Sasaki was educated in Japan and has a Bachelor of Commerce degree from Okayama Shoka University, Japan. Immediately after his graduation in 1992, Mr. Sasaki joined the legal affairs department of Pony Canyon, Inc. in Tokyo, Japan, a member of the Fujisankei Communication Group, which is a major media company in Japan. He has over 8 years of experience in the music industry in the areas of music production, distribution, licensing, publishing, and artiste management.

SENIOR MANAGEMENT *(Continued)*

Mr. Hiroyuki Yui, aged 40, General Manager of Promotion Division of the Group in Japan, has joined the Group since August 2000. He is responsible for the marketing operations of the Group in Japan. Mr. Yui has extensive experiences in the entertainment industry in the area of editing, writing articles magazines, production, promotion and planning of various products, events and projects.

Mr. Shen De Min, aged 40, is the Group's General Manager of China Marketing. He joined the Group in March 2001 and is responsible for overseeing the sales and marketing operations, and business development of the Group in the PRC. Mr. Shen was educated in Shanghai, the PRC and has a Bachelor of Mathematics degree from East China Normal University. Prior to joining the Group, Mr. Shen was the Department Manager of Kanematsu (Hong Kong) Limited, the holding company of which, Kanematsu Corporation, is one of the top nine general trading firms in Japan. He has over 12 years of experience in sales and marketing and business development, in particular, in the PRC and Japan.

COMPANY SECRETARY

Ms. Chan Ying Chun, aged 34, is the company secretary of the Group overseeing the company secretarial and legal matters of the Group. She has been with the Group since August 2000. Ms. Chan is an Associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. She obtained her Bachelor of Laws degree from the University of London in 1998. Ms. Chan has over 10 years' company secretarial and legal experience in multinational and listed companies.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st March, 2001.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 29th February, 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") in preparing for the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange", and collectively as "GEM"), the Company became the ultimate holding company of the Group. Details of the Reorganisation are set out in the prospectus dated 24th May, 2001 issued by the Company (the "Prospectus").

The shares of the Company have been listed on the GEM since 31st May, 2001.

The Reorganisation has been reflected in the accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these accounts is set out in note 1 to the accounts.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is set out below:

	Turnover		Profit/(loss) before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal activities:				
Music production	107,133	–	85,373	(54)
Music publishing	42	535	42	513
Record distribution	15,087	151	4	100
Others	12,663	820	11,217	679
	<u>134,925</u>	<u>1,506</u>	<u>96,636</u>	<u>1,238</u>
Unallocated cost			<u>(76,914)</u>	<u>(2,154)</u>
			<u>19,722</u>	<u>(916)</u>

Report of the Directors *(Continued)*

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS *(Continued)*

	Turnover		Profit/(loss) before taxation	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Principal markets:				
Hong Kong	2,087	686	1,734	582
Japan	130,706	–	81,417	–
Other countries	2,132	820	1,162	656
	<u>134,925</u>	<u>1,506</u>	<u>84,313</u>	<u>1,238</u>
Unallocated cost			<u>(64,591)</u>	<u>(2,154)</u>
			<u>19,722</u>	<u>(916)</u>

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 32.

On 28th March, 2001, the Company declared an interim dividend of HK\$0.01 per share totalling approximately HK\$10,347,000 for the year ended 31st March, 2001 to its then shareholders registered as such on 31st December, 2000.

The directors do not recommend the payment of a final dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 18 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 17 to the accounts.

SHARE OPTIONS SCHEMES

On 21st May, 2001, the Company granted share options to music producers of the Group (the "Pre-IPO Grant of Options"). In addition, a share option scheme was conditionally adopted on 21st May, 2001 (the "Share Option Scheme"), under which full-time employees (including executive directors) of the Company and its subsidiaries may be granted options to subscribe for the ordinary shares of HK\$0.10 each in the Company.

Details of the Pre-IPO Grant of Options and the Share Option Scheme are set out in the Prospectus.

DISTRIBUTABLE RESERVES

The Company had distributable reserves of approximately HK\$101.5 million as at 31st March, 2001.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years is set out on page 5.

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 year ended 31st March, 2001, since the shares of the Company only commenced trading on 31st May, 2001.

Report of the Directors *(Continued)*

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors

Mr. Tetsuya Komuro	(appointed on 7th April, 2000)
Mr. Kebo Wu	(appointed on 2nd May, 2000)
Mr. Tomohiko Domen	(appointed on 7th April, 2000)
Mr. Akihito Yamada	(appointed on 1st July, 2000)
Mr. Wong Ho Yan, Daniel	(appointed on 2nd May, 2000)
Mr. Hiroshi Ozawa	(appointed on 1st July, 2000 and resigned on 20th December, 2000)
Mr. Leung Kui Shun, Michael	(appointed on 2nd May, 2000 and resigned on 6th November, 2000)

Independent non-executive directors

Mr. Seiichi Nakaoda	(appointed on 6th February, 2001)
Mr. Yeung Mui Kwan, David	(appointed on 1st April, 2001)
Mr. Lai Sau Cheong, Simon	(appointed on 6th February, 2001 and resigned on 1st April, 2001)

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Mr. Tomohiko Domen and Mr. Wong Ho Yan, Daniel retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive and independent non-executive directors has entered into a service agreement with the Company.

Each service agreement with Mr. Kebo Wu, Mr. Tomohiko Domen, Mr. Arihito Yamada, Mr. Wong Ho Yan, Daniel, Mr. Seiichi Nakaoda and Mr. Yeung Mui Kwan, David is of two years' duration. In the case of Mr. Tomohiko Domen, his service agreement commenced on 7th April, 2000; in the case of Mr. Kebo Wu and Mr. Wong Ho Yan, Daniel, their service agreements commenced on 2nd May, 2000; and in the case of Mr. Arihito Yamada, his service agreement commenced on 1st July, 2000. In the case of Mr. Seiichi Nakaoda, his service agreement commenced on 6th February, 2001, and in the case of Mr. Yeung Mui Kwan, David, his service agreement commenced on 1st April, 2001. It is provided in each of these agreements that their terms of service shall continue after their respective commencement dates until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after their respective initial terms of service.

The service agreement with Mr. Tetsuya Komuro is of three years' duration commencing on 21st May, 2001 and shall continue for successive three year periods until terminated by either party giving to the other not less than six months' prior written notice, such notice to expire upon or after the initial term of three years.

In addition to providing the services as an executive Director, Mr. Tetsuya Komuro has also been engaged by the Company to provide services to Rojam International Limited, a wholly-owned subsidiary of the Company, in the capacity of a chief executive producer and will be further remunerated with the grant of options in respect of the shares of the Company pursuant to the Pre-IPO Grant of Options (as more particularly described in the section headed "Directors' interests in equity or debt securities" of this report) and a discretionary bonus to be paid at the absolute discretion of the board of directors of the Company.

Save as disclosed, none of the directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 12 to 16.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group had entered into transactions with certain directors or companies related to them. Details of the material related party transactions and the directors' interests therein are set out in note 22 to the accounts. Certain of the transactions disclosed in note 22 also constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The information required to be disclosed in respect of these connected transactions, in accordance with Chapter 20 of the GEM Listing Rules, is set out below.

(a) Video production agreement

Rojam Entertainment Limited ("REL") has, during the year under review, engaged Rojam Pictures, Inc., a company wholly and beneficially owned by Mr. Tetsuya Komuro to provide video production services on an order by order basis. The fees payable to Rojam Pictures, Inc. are computed as the actual production cost to Rojam Pictures, Inc. of producing the videos and an additional 15% of the actual production cost charged as administrative fee. The amount paid to Rojam Pictures, Inc. for the year ended 31st March, 2001 was approximately HK\$1,410,000.

(b) Licence agreement

- 1 Pursuant to a licence agreement dated 5th July, 2000 (as amended by a supplementary agreement dated 17th May, 2001) entered into by REL and Shanghai Chikou Entertainment Co., Ltd. ("SCE"), which is 90% owned subsidiary of Chikou Co., Ltd., a company wholly and beneficially owned by Mr. Kebo Wu, an executive director and which the remaining 10% is owned by Shanghai Huanyu I/E Co., a company incorporated in the People's Republic of China ("PRC") and is independent of the Group, REL agreed to grant a non-exclusive sub-licence to SCE to use the trademark of Rojam International Limited, "Rojam.com" in a discotheque in the premises situate at 4th Floor, HK Plaza, 283 Huai Hai Zhong Road, Shanghai, 20021, PRC (the "Services"). The term of the licence agreement is for an initial four year period from 1st April, 2000 to 31st March, 2004 and thereafter renewable at the option of REL for consecutive three year periods until 31st March, 2010. The licence fee payable to REL is in the form of royalty computed as 5% of gross revenue attributable to SCE in the provision of the Services.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

(b) Licence agreement (Continued)

- 2 Pursuant to a licence agreement dated 5th July, 2000 (as amended by a supplementary agreement dated 17th May, 2001) entered into by REL and SCE, REL agreed to grant a non-exclusive sub-licence to SCE to use the logo "" of Rojam International Limited, in providing the Services. The term of the licence agreement is for an initial four year period from 1st April, 2000 to 31st March, 2004 and thereafter renewable at the option of REL for consecutive three year periods until 31st March, 2010. The licence fee payable to REL is in the form of royalty computed as 5% of gross revenue attributable to SCE in the provision of the Services.

The amount paid to REL under the above two licence agreements for the year ended 31st March, 2001 was approximately HK\$1,658,000.

(c) Studio Rental

- 1 Pursuant to an agreement dated 19th May, 2001 made between SK Planning KK ("SK Planning") and REL, REL has since 1st April, 2000 rented from SK Planning the music studio situate at 377 Keahole St. D-03, Honolulu, Hawaii 96825, USA for the use by the Group to be confirmed on an order by order basis. The term of the agreement is from 1st April, 2000 to 31st March, 2004. SK Planning is a wholly-owned subsidiary of Richtone Holding Limited. Richtone Holding Limited is a 50% owned subsidiary of Guo Ye Enterprises Limited, a company in which Mr. Kebo Wu, an executive director, holds 25% of its issued share capital. The remaining 50% of the issued share capital of Richtone Holding Limited is held by Mr. Tetsuya Komuro. The fees payable for the use of the said studio are computed as studio charges and an additional 15% of the studio charges as administration fee.
- 2 Pursuant to an agreement dated 19th May, 2001 made between PT. TK Disc Bali and REL, REL has since 1st April, 2000 rented from PT. TK Disc Bali, a company beneficially owned by Mr. Tetsuya Komuro, the music studio situate at Jalan Raya Seminyak, Gang Plawa No. 566, Kuta-Bali 80361, Indonesia to be confirmed on an order by order basis. The term of the agreement is from 1st April, 2000 to 31st March, 2004. The fees payable for the use of the said studio are computed as studio charges and an additional 15% of the studio charges as administration fee.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS *(Continued)*

(c) Studio Rental *(Continued)*

The aggregate amount paid for the rental of the studios as described above for the year ended 31st March, 2001 was approximately HK\$2,449,000.

Save as aforesaid and disclosed in the section headed "Directors' service contracts" in this report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st March, 2001, the shares of the Company were not listed. As at 31st May, 2001, the date on which dealings in the Company's shares on GEM commenced, the interests of the directors and chief executives in the shares and options of the Company, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

(a) Ordinary shares of HK\$0.10 each in the Company

Name of directors	Personal interests	Family interests	Corporate interests
Mr. Tetsuya Komuro <i>(Note 1)</i>	456,822,667	1,100,000	–
Mr. Kebo Wu <i>(Note 2)</i>	–	–	73,453,333
Mr. Tomohiko Domen	27,022,000	–	–
Mr. Arihito Yamada	8,913,600	–	–
Mr. Wong Ho Yan, Daniel <i>(Note 3)</i>	–	5,306,000	–

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (Continued)

(a) Ordinary shares of HK\$0.10 each in the Company (Continued)

Notes:

1. As at 31st May, 2001, Mr. Tetsuya Komuro personally held 456,822,667 shares (being 467,892,667 shares less 11,070,000 shares, the latter being shares borrowed by Core Pacific-Yamaichi International (H.K.) Limited pursuant to the stock borrowing agreement entered into between Core Pacific-Yamaichi International (H.K.) Limited and Mr. Tetsuya Komuro dated 23rd May, 2001 (the "TK Stock Borrowing Agreement"). The terms and conditions of the TK Stock Borrowing Agreement are briefly summarised in the paragraph headed "Waiver on share disposal restrictions" in the section headed "Waivers from compliance of the GEM Listing Rules and the Companies Ordinance" in the Prospectus.

Ms. Asami Yoshida, the spouse of Mr. Tetsuya Komuro, personally held 1,100,000 shares as at 31st May, 2001. Mr. Tetsuya Komuro was accordingly taken to be interested in 457,922,667 shares as at 31st May, 2001.

2. As at 31st May, 2001, Billion Moment Limited ("Billion Moment") held 73,453,333 shares (being 75,883,333 shares less 2,430,000 shares, the latter being shares borrowed by Core Pacific-Yamaichi International (H.K.) Limited pursuant to the stock borrowing agreement entered into between Core Pacific-Yamaichi International (H.K.) Limited and Billion Moment dated 23rd May, 2001 (the "Billion Moment Stock Borrowing Agreement"). The terms and conditions of the Billion Moment Stock Borrowing Agreement are briefly summarised in the paragraph headed "Waiver on share disposal restrictions" in the section headed "Waivers from compliance of the GEM Listing Rules and the Companies Ordinance" in the Prospectus.

Billion Moment is held as to 90% and 10% by Mr. Kebo Wu and Ms. Cheng Wing Ki, Aouda, respectively. Mr. Kebo Wu was accordingly taken to be interested in 73,453,333 shares as at 31st May, 2001.

3. As at 31st May, 2001, Ms. Cheng Wing Ki, Aouda, the spouse of Mr. Wong Ho Yan, Daniel, personally held 5,306,000 shares. Mr. Wong Ho Yan, Daniel was accordingly taken to be interested in 5,306,000 shares as at 31st May, 2001.

(b) Share options of the Company

Mr. Tetsuya Komuro has been granted an option entitling him to subscribe for up to a maximum of 41,387,376 shares at an exercise price of HK\$0.10 pursuant to a service agreement dated 21st May, 2001 as consideration given by the Company to engage Mr. Tetsuya Komuro for the provision of music producer services to Rojam International Limited. Details in relation to the grant and exercise of such option together with the period of exercise are briefly summarised in the section headed "Pre-IPO Grant of Options" in the Prospectus.

Report of the Directors *(Continued)*

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(Continued)*

Save as disclosed above, as at 31st May, 2001, none of the directors or their associates (as defined in the GEM Listing Rules) had any personal, family, corporate or other interests in the securities of the Company and its associated corporations (as defined in the SDI Ordinance) as recorded in the register required to be maintained under Section 29 of the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the year ended 31st March, 2001 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2001, the Company's shares were not listed. As at 31st May, 2001, the date on which dealings in the Company's shares commenced, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares
Mr. Tetsuya Komuro	457,922,667

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

	2001	2000
Purchases		
– the largest supplier	21%	19%
– five largest suppliers combined	66%	43%
Sales		
– the largest customer	70%	55%
– five largest customers combined	88%	91%

Mr. Tetsuya Komuro, an executive director and the controlling shareholder of the Company, had an interest of approximately 24% in the third largest customer of the Group for the year ended 31st March, 2001. Such customer was also the third largest supplier of the Group for the year ended 31st March, 2001. Both the largest and the fourth largest suppliers of the Group for the year ended 31st March, 2001 were indirectly beneficially owned as to 50% by Mr. Tetsuya Komuro and 12.5% by Mr. Kebo Wu, an executive director. The said largest supplier of the Group for the year ended 31st March, 2001 had an interest of not more than 1% in the largest customer of the Group for the year ended 31st March, 2001. The fifth largest supplier of the Group for the year ended 31st March, 2001 was wholly owned by Mr. Tetsuya Komuro.

Save as disclosed above, none of the directors, their respective associates and shareholders who own more than 5% of the issued share capital of the Company had a beneficial interest in the five largest customers and five largest suppliers of the Group for the year ended 31st March, 2001.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 31st May, 2001.

AUDIT COMMITTEE

The Company established an audit committee on 21st May, 2001 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee has two members comprising the two independent non-executive directors of the Company, namely Mr. Seiichi Nakaoda and Mr. Yeung Mui Kwan, David. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has not met during the year under review, which was before the listing of the shares of the Company on GEM.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31st May, 2001, Mr. Tetsuya Komuro, an executive Director and the controlling shareholder of the Company, is interested in approximately 24% of M-Tres Ltd. ("M-Tres") which is the management company of Mr. Takashi Utsunomiya, a producer of the Group. Under the management of M-Tres, Mr. Takashi Utsunomiya (together with M-Tres) and Rojam Entertainment Limited ("REL"), a wholly-owned subsidiary of the Company, have entered into an exclusive recording artiste agreement in July 2000 whereby REL became the record company for Mr. Takashi Utsunomiya. The principal business of M-Tres is event production and management business. Mr. Tetsuya Komuro has confirmed that he has not taken any management role in M-Tres and he is solely a passive investor. He has also confirmed that he has verbally undertaken to the other shareholders of M-Tres that he will not dispose of his interests in M-Tres and there may be adverse impact on the business of M-Tres if he does so. Given the scope and nature of business of M-Tres and the passive nature of Mr. Tetsuya Komuro's involvement in it and further that event production and management is not the core business of the Group, the Directors consider that Mr. Tetsuya Komuro's retention of his interests in M-Tres will not have any significant adverse impact on the business of the Group.

DIRECTORS' INTEREST IN COMPETING BUSINESS (Continued)

Mr. Tetsuya Komuro has unconditionally and irrevocably undertaken to the Company that (i) he will not, and will procure that none of his associates (as defined in the GEM Listing Rules) will directly, or indirectly, carry on or engage or be engaged in any business which shall compete, or may compete, with the provision of producer services, music publishing, trademark licensing, artiste and event management, record distribution, and music learning centre, (the "Restricted Business") whether directly or indirectly with effect from six months after the commencement date of dealings in the shares of the Company on GEM; and (ii) he will not, and will procure that none of his associates (as defined in the GEM Listing Rules) will, directly or indirectly, own more than 5% of the equity interest or share interest in any company whose business includes the Restricted Business, save for the 24% equity interest in M-Tres as described above. The above undertaking will cease to have effect on the earliest of the date on which (i) Mr. Tetsuya Komuro and/or his associates (as defined in the GEM Listing Rules) cease to be shareholder(s) who is/are together entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of the Company; (ii) the shares of the Company cease to be listed and traded on GEM; or (iii) the principal business of the Group ceases to be the Restricted Business.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would obligate the Company to offer new shares on pro-rata basis to existing shareholders.

SUBSEQUENT EVENTS

Details of significant events which have taken place subsequent to the balance sheet date are set out in note 23 to the accounts.

Report of the Directors *(Continued)*

SPONSOR'S INTERESTS

As notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY"), as at 31st May, 2001, the date on which the listing of the Company's shares commenced on GEM, neither CPY nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company.

Pursuant to the sponsor agreement dated 31st May, 2001 made between CPY as sponsor and the Company, CPY received, and will receive, fees for acting as the Company's retained sponsor for the period from 31st May, 2001 to 31st March, 2004.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Tetsuya Komuro
Chairman

Hong Kong, 22nd June, 2001



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF ROJAM ENTERTAINMENT HOLDINGS LIMITED (incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 32 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22nd June, 2001

Consolidated Profit and Loss Account

For the year ended 31st March, 2001

	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
Turnover	3	134,925	1,506
Other revenue	3	3,762	23
Total revenues		138,687	1,529
Less: overseas withholding taxation	5	(11,213)	(164)
		127,474	1,365
Cost of music production and record sales		(28,747)	(127)
Selling and distribution expenses		(13,568)	(431)
Other operating expenses		(65,437)	(1,723)
Profit/(loss) before taxation	4	19,722	(916)
Taxation	5	-	-
Profit/(loss) after taxation		19,722	(916)
Minority interests		1	-
Profit/(loss) for the year attributable to shareholders		19,723	(916)
Basic earnings/(loss) per share	8	2.4 cents	(91.6 cents)

Consolidated Balance Sheet

As at 31st March, 2001

	Note	2001 HK\$'000	2000 HK\$'000
Fixed assets	11	50,580	83
Current assets			
Inventories	13	2,351	–
Amounts due from related companies	14	485	22,072
Trade receivables, prepayments and other receivables		48,194	754
Cash and bank balances	16	132,412	96
		<u>183,442</u>	<u>22,922</u>
Current liabilities			
Amount due to a director		–	108
Amounts due to related companies	14	270	791
Trade and other payables		12,517	193
Dividends payable	7	10,347	–
Bank overdrafts, unsecured		–	123
		<u>23,134</u>	<u>1,215</u>
Net current assets		<u>160,308</u>	<u>21,707</u>
Total assets less current liabilities		<u>210,888</u>	<u>21,790</u>
Financed by:			
Share capital	17	103,468	100
Reserves	18(a)	107,319	(2,218)
Shareholders' funds		210,787	(2,118)
Minority interests		101	–
Amount due to shareholders		–	23,908
		<u>210,888</u>	<u>21,790</u>

On behalf of the Board

Arihito Yamada
Director

Wong Ho Yan, Daniel
Director

Balance Sheet

As at 31st March, 2001

	<i>Note</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
Investments in subsidiaries	12	<u>32,083</u>	<u>–</u>
Current assets			
Amounts due from subsidiaries	15	113,678	–
Trade receivables, prepayments and other receivables		15,566	–
Cash and bank balances		<u>99,682</u>	<u>–</u>
		<u>228,926</u>	<u>–</u>
Current liabilities			
Amounts due to subsidiaries	15	41,946	–
Accruals and other payables		3,736	–
Dividends payable		<u>10,347</u>	<u>–</u>
		<u>56,029</u>	<u>–</u>
Net current assets		<u>172,897</u>	<u>–</u>
Total assets less current liabilities		<u>204,980</u>	<u>–</u>
Financed by:			
Share capital	17	103,468	–
Reserves	18(b)	<u>101,512</u>	<u>–</u>
Shareholders' funds		<u>204,980</u>	<u>–</u>

On behalf of the Board

Arihito Yamada
Director

Wong Ho Yan, Daniel
Director

Consolidated Cash Flow Statement

For the year ended 31st March, 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash outflow from operating activities	19(a)	(16,341)	(3,683)
Returns on investments on servicing of finance			
Interest received		3,762	23
Net cash inflow from returns on investments and servicing of finance		3,762	23
Taxation			
Hong Kong profits tax paid		-	-
Overseas taxation paid		-	-
Total taxation paid		-	-
Investing activities			
Purchase of fixed assets		(57,791)	(14)
Net cash outflow from investing activities		(57,791)	(14)
Net cash outflow before financing		(70,370)	(3,674)
Financing	19(b)		
Net proceeds from issue of shares (Decrease)/increase in amount due to shareholders		206,647	-
		(2,657)	2,060
Net cash inflow from financing		203,990	2,060
Increase/(decrease) in cash and cash equivalents		133,620	(1,614)
Exchange difference		(1,181)	-
Cash and cash equivalents at the beginning of the year		(27)	1,587
Cash and cash equivalents at the end of the year		132,412	(27)
Analysis of balances of cash and cash equivalents			
Cash and bank balances		132,412	96
Bank overdrafts, unsecured		-	(123)
		132,412	(27)

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st March, 2001

	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
Exchange differences arising on translation of subsidiaries	18(a)	<u>(3,118)</u>	<u>–</u>
Net losses not recognised in the profit and loss account		(3,118)	–
Profit/(loss) for the year		<u>19,723</u>	<u>(916)</u>
Total recognised gains/(losses)		<u>16,605</u>	<u>(916)</u>

1 Group reorganisation and basis of preparation

- (a) The Company was incorporated in the Cayman Islands on 29th February, 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands.
- (b) Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 19th September, 2000, to rationalise the structure of the Company and its subsidiaries (the "Group") in the preparation for the listing of the Company's shares on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"), the Company became the holding company of the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 24th May, 2001 (the "Prospectus").
- (c) The Company's shares were listed on GEM on 31st May, 2001.
- (d) The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice 2.127 "Accounting for group restructuring". The consolidated accounts of the Group for the year ended 31st March, 2001, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below.

(a) Basis of consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

2 Principal accounting policies *(Continued)*

(a) Basis of consolidation *(Continued)*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Apart from the Reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet, the investments in subsidiaries that include loan capital are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Revenue recognition

- (i) Revenue from record distribution and merchandise sales are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.
- (ii) Signing bonus, which represents fee receivable by the Group as an inducement for entering into an agreement, is non-refundable and non-recoupable and is recognised when the agreement is signed.
- (iii) Royalty income and trademark licensing income are recognised on an accrual basis.
- (iv) Revenue from production services is recognised when the production is completed.

2 Principal accounting policies (Continued)

(b) Revenue recognition (Continued)

- (v) Revenue from event management is recognised when the events are completed.
- (vi) Revenue from artiste management is recognised when the services are rendered.
- (vii) Advertising revenues from banner advertisements are recognised over the period in which the advertisements are displayed, provided that no significant obligations remain and collection of the receivable is reasonably assured.
- (viii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation.

Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Computer equipment	30%
Studio equipment	10% – 20%
Leasehold improvements	20% – 25%
Office equipment, furniture and fixtures	20%
Motor vehicles	30%

Depreciation is not charged until the assets are put into use by the Group.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

2 Principal accounting policies *(Continued)*

(c) Fixed assets *(Continued)*

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) Inventories

Inventories represent finished goods of audio-visual products, merchandise and production-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis comprises purchase cost, direct production costs and a portion of the overhead. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(e) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(f) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(g) Translation of foreign currencies

Transactions in foreign currency are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are incorporated into the accounts by translating foreign currencies into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

2 Principal accounting policies (Continued)

(g) Translation of foreign currencies (Continued)

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(h) Related companies

Related companies are those companies in which the Company's directors or shareholders have significant direct or indirect interests.

(i) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease periods.

(j) Retirement benefit costs

The Group's contributions to the defined contribution retirement schemes are expensed as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

Notes to the Accounts *(Continued)*

3 Turnover and revenue

The Group is principally engaged in music production, music publishing, record distribution, artiste management, event management, trademark licensing, merchandise sales and banner advertising. The amounts of each significant category of revenue recognised during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Music production income		
– Production service fees	14,356	–
– Royalty income	8,610	–
– Signing bonus	84,167	–
Music publishing fee		
– Royalty income	42	535
Record distribution income	15,087	151
Artiste management fees	516	–
Event management income	83	–
Trademark licensing income	1,658	820
Merchandise sales	7,723	–
Banner advertising income	2,683	–
	134,925	1,506
Other revenue		
Interest income	3,762	23
Total revenues	138,687	1,529

4 Profit/(loss) before taxation

Profit/(loss) before taxation is stated after charging the following:

	2001	2000
	HK\$'000	HK\$'000
Staff costs	11,634	272
Exchange losses	13,733	315
Auditors' remuneration	400	111
Operating leases rental on land and buildings	9,117	238
Depreciation of owned fixed assets	4,201	27
Provision for inventories	595	–
Cost of inventories sold	26,524	51

5 Taxation and overseas withholding taxation

No provisions for Hong Kong profits tax and Japanese corporate income tax have been made as the companies comprising the Group have no assessable profits for the years ended 31st March, 2001 and 2000.

Overseas withholding taxation represents Japan and the People's Republic of China (the "PRC") withholding taxes on the income subject to withholding taxes and calculated at the rates applicable thereto.

No provision has been made in the accounts for deferred taxation. The unprovided deferred taxation assets/(liabilities) as at 31st March, 2001 are analysed below:

	2001	2000
	HK\$'000	HK\$'000
Potential tax losses	3,028	194
Accumulated depreciation allowance	(387)	(12)
	2,641	182

Notes to the Accounts *(Continued)*

6 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$8,580,000 (2000: Nil).

7 Dividends

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interim declared of 1 cent (2000: Nil) per ordinary share	<u>10,347</u>	<u>–</u>

8 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$19,723,000 (2000: loss of HK\$916,000) and the weighted average number of ordinary shares for the year of 834,940,467 (2000: 1,000,077 shares deemed to be in issue).

In the calculation of the weighted average number of ordinary shares, 1,000,077 ordinary shares are deemed to have been in issue throughout the accounting periods presented (notes 1 and 17(j)).

No diluted earnings/(loss) per share for the years ended 31st March, 2001 and 2000 is presented as there are no dilutive instruments at 31st March, 2001 and 2000.

9 Directors' and senior management's emoluments

- (a) The Company was not incorporated until 29th February, 2000 and no emoluments were paid and payable to the directors for the year ended 31st March, 2000. Emoluments paid and payable to the directors for the year ended 31st March, 2001 are as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Fees	30	–
Basic salaries, allowances and benefit in kind	8,239	–
Pension contribution	4	–
Compensation for loss of office	567	–
Bonuses	–	–
	8,840	–

Directors' fees disclosed above include approximately HK\$30,000 (2000: Nil) paid to an independent non-executive director.

Each of the five executive directors of the Company who had received emoluments for the year ended 31st March, 2001 received emoluments of approximately HK\$2,689,000, HK\$2,016,000, HK\$1,941,000, HK\$1,387,000 and HK\$777,000 respectively.

9 Directors' and senior management's emoluments *(Continued)*

- (b) The five individuals whose emoluments were the highest in the Group for the year ended 31st March, 2001 include five directors whose emoluments are reflected in the analysis presented above. The emolument payable to all employees for the year ended 31st March, 2000 is as follows:

	2000 HK\$'000
Basic salaries and allowances	272
Discretionary bonuses	—
	<hr/>
	272
	<hr/> <hr/>

The number of employees whose emoluments fell within the following bands is as follows:

	2000
Nil to HK\$1,000,000	4
	<hr/> <hr/>

- (c) Save as disclosed in (a) above, no emoluments have been paid by the Group to the directors of the Company and the highest paid employees mentioned above as an inducement to join or upon joining the Group or as compensation for loss of office.

10 Retirement benefit costs

From 1st December, 2000, the subsidiaries operating in Hong Kong are required to participate in defined contribution retirement scheme of the Group set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance. Prior to that date, the subsidiaries operating in Hong Kong did not have a provident fund scheme for its directors and employees. Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity. The subsidiaries operating in Japan are required to participate in defined contribution retirement schemes organised by the relevant local government authorities since incorporation. They are required to make contributions to the retirement schemes at a rate of 8.675% of the basic salary of their employees up to a maximum of Yen 605,000 (approximately HK\$41,000) per employee.

Retirement benefit costs for the year are as follows:

	2001	2000
	HK\$'000	HK\$'000
Contributions paid and payable to defined contribution retirement schemes in respect of:		
Hong Kong	124	–
Japan	157	–
	<hr/> 281 <hr/>	<hr/> – <hr/>

Notes to the Accounts *(Continued)*

11 Fixed assets

	Group					Total HK\$'000
	Leasehold improvements HK\$'000	Studio equipment HK\$'000	Office equipment, and furniture fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	
Cost						
At 1st April, 2000	-	-	41	93	-	134
Additions	27,000	23,087	5,953	1,327	424	57,791
Exchange difference	(755)	(2,218)	(89)	(35)	-	(3,097)
At 31st March, 2001	26,245	20,869	5,905	1,385	424	54,828
Accumulated depreciation						
At 1st April, 2000	-	-	16	35	-	51
Charge for the year	2,627	634	540	283	117	4,201
Exchange difference	-	-	(1)	(3)	-	(4)
At 31st March, 2001	2,627	634	555	315	117	4,248
Net book value						
At 31st March, 2001	23,618	20,235	5,350	1,070	307	50,580
At 31st March, 2000	-	-	25	58	-	83

12 Investment in subsidiaries – Company

	2001 HK\$'000	2000 HK\$'000
Unlisted investments, at cost	446	-
Loan to a subsidiary	31,637	-
	32,083	-

12 Investment in subsidiaries – Company (Continued)

The loan to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

The following is a list of the subsidiaries as at 31st March, 2001:

Name	Country/place of incorporation	Issued and fully paid up share capital	Attributable equity interest	Principal activities/ place of operation
Rojam Entertainment Limited	Hong Kong	HK\$100,000 100,000 ordinary shares of HK\$1 each	100%	Sale of records and other audio-visual products, artiste management and provision of marketing and promotion activities/ Hong Kong
Rojam International Limited	British Virgin Islands	US\$1 1 registered share of US\$1 each	100%	Intellectual property holding, music and web content production/ British Virgin Islands
Rojam Management Limited	Hong Kong	HK\$10,000 10,000 ordinary shares of HK\$1 each	100%	Provision of general administration and management services to group companies/ Hong Kong
Rojam Technology Japan Limited	Japan	¥3,000,000 60 units of shares of ¥50,000 each	100%	Administration of online record sales, sales and promotion coordination, management of fan clubs and Tokyo studio/Japan

Notes to the Accounts *(Continued)*

12 Investment in subsidiaries – Company *(Continued)*

Name	Country/place of incorporation	Issued and fully paid up share capital	Attributable equity interest	Principal activities/ place of operation
Rojam Link Japan Limited	Japan	¥3,000,000 60 units of shares of ¥50,000 each	53.3%	Inactive
Rojam.com Limited	Hong Kong	HK\$1,000 1,000 ordinary shares of HK\$1 each	100%	Provision of business development services/ Hong Kong
Rojam Investment Limited	British Virgin Islands	US\$1 1 registered share of US\$1 each	100%	Inactive

13 Inventories

	2001 <i>HK\$ '000</i>	2000 <i>HK\$ '000</i>
Finished goods	81	–
Production-in-progress	2,000	–
Merchandise	270	–
	<u>2,351</u>	<u>–</u>

At 31st March, 2001 and 2000, inventories are carried at cost.

14 Amounts due from/to related companies

The amounts represent trade receivables from/trade payable to related companies and are unsecured, interest-free and have no fixed terms of repayment.

15 Amounts due from/to subsidiaries

The amounts are unsecured, interest-free and have no fixed terms of repayment.

16 Cash and bank balances

Included in the balance is approximately HK\$3,080,000 (2000: Nil) of time deposits pledged as security for a corporate credit cards facility of the same amount granted to the Group.

17 Share capital

	Ordinary shares of US\$1 each		Authorised Ordinary shares of HK\$0.1 each		Total HK\$'000
	Number of shares	HK\$'000	Number of shares	HK\$'000	
At incorporation, 29th February, 2000 and 31st March, 2000	50,000	390	-	-	390
At 1st April, 2000	50,000	390	-	-	390
Re-denominate during the year	(50,000)	(390)	50,000	390	-
Sub-division of shares	-	-	3,850,000	-	-
Increase during the year	-	-	49,996,100,000	4,999,610	4,999,610
Cancel during the year	-	-	(45,000,000,000)	(4,500,000)	(4,500,000)
At 31st March, 2001	-	-	5,000,000,000	500,000	500,000

Notes to the Accounts *(Continued)*

17 Share capital *(Continued)*

	Issued and fully paid				
	Ordinary shares of US\$1 each		Ordinary shares of HK\$0.1 each		Total HK\$'000
	Number of shares	HK\$'000	Number of shares	HK\$'000	
At incorporation, 29th February, 2000 and 31st March, 2000	1	-	-	-	-
At 1st April, 2000	1	-	-	-	-
Re-denominate during the year	(1)	-	1	-	-
Sub-division of shares	-	-	77	-	-
Issue during the year	-	-	1,034,684,325	103,468	103,468
At 31st March, 2001	-	-	1,034,684,403	103,468	103,468

- (a) The Company was incorporated in the Cayman Islands on 29th February, 2000 with an authorised capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each, one of which was issued at par for cash on 29th February, 2000.
- (b) In preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the following changes in authorised and issued share capital of the Company took place:
- (i) On 13th April, 2000, the authorised and issued share capital of the Company was re-denominated into Hong Kong dollars as a result of which the authorised share capital of the Company became HK\$390,000 divided into 50,000 shares of HK\$7.80 each. In addition, every issued and unissued share of HK\$7.80 in the capital of the Company was subdivided into 78 shares as a result of which the Company has an authorised share capital of HK\$390,000 divided into 3,900,000 shares.

17 Share capital (Continued)

- (ii) On 15th April, 2000, as consideration for the acquisition by the Company of the entire issue capital of Rojam Entertainment Limited ("REL"), now a subsidiary of the Company, an aggregate of 999,999 shares of the Company were issued, credited as fully paid to the then shareholder of REL.
- (c) On 17th April, 2000, 176,470 ordinary shares of HK\$0.10 each were issued to a shareholder at par for cash.
- (d) On 8th May, 2000, the authorised share capital of the Company was increased from HK\$390,000 to HK\$5,000,000,000 by the creation of an additional 49,996,100,000 shares of HK\$0.10 each.
- (e) On 8th May, 2000, 598,823,530 ordinary shares of HK\$0.10 each were issued to the shareholders of the Company at par for cash.
- (f) On 25th May, 2000, the authorised share capital of the Company was reduced from HK\$5,000,000,000 to HK\$500,000,000 by the cancellation of 45,000,000,000 unissued ordinary shares of HK\$0.10 each.
- (g) On 10th July, 2000, 299,999,923 ordinary shares of HK\$0.10 each were issued to a shareholder for cash consideration of HK\$38,999,990. The excess over the par value of the shares issued was credited to the share premium account.
- (h) An aggregate of 134,684,403 ordinary shares of HK\$0.10 each were issued to strategic investors for an aggregate cash consideration of approximately HK\$107,747,000 on 4th August, 2000, 14th August, 2000, 30th August, 2000, 29th September, 2000 and 13th October, 2000. The excess over the par value of the shares issued was credited to the share premium account.
- (i) All new shares issued rank pari passu with the then existing shares in all respects.
- (j) The share capital presented in the consolidated balance sheet as at 31st March, 2000 represents the share capital of the Company, arising on incorporation and from the share sub-division and share swap transaction described in notes (a) and (b) above respectively, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation referred to in note 1.

Notes to the Accounts *(Continued)*

18 Reserves

(a) Group

	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	(Accumulated losses)/ retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 1999	–	–	(1,302)	(1,302)
Loss for the year	–	–	(916)	(916)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2000	<u>–</u>	<u>–</u>	<u>(2,218)</u>	<u>(2,218)</u>
At 31st March, 2000	–	–	(2,218)	(2,218)
Issue of shares (<i>note 17</i>)	103,279	–	–	103,279
Profit for the year	–	–	19,723	19,723
Dividends			(10,347)	(10,347)
Exchange adjustments on the translation of accounts of overseas subsidiaries	–	(3,118)	–	(3,118)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2001	<u>103,279</u>	<u>(3,118)</u>	<u>7,158</u>	<u>107,319</u>

18 Reserves (Continued)

(b) Company

	Share premium <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 29th February, 2000 (date of incorporation)	–	–	–
Issue of shares (<i>note 17</i>)	–	–	–
Loss for the period	–	–	–
	<hr/>	<hr/>	<hr/>
At 31st March, 2000	–	–	–
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1st April, 2000	–	–	–
Issue of shares (<i>note 17</i>)	103,279	–	103,279
Profit for the year	–	8,580	8,580
Dividends	–	(10,347)	(10,347)
	<hr/>	<hr/>	<hr/>
At 31st March, 2001	103,279	(1,767)	101,512
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Note:

The Company had a distributable reserve of approximately HK\$101.5 million as at 31st March, 2001, represented by share premium and retained earnings of the Company. Under the Companies Law (Revised) of the Cayman Islands, share premium of the Company is distributable to the members, subject to solvency tests.

Notes to the Accounts *(Continued)*

19 Notes to the consolidated cash flow statement

- (a) Reconciliation of profit/(loss) before taxation to net cash outflow from operating activities

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit/(loss) before taxation	19,722	(916)
Depreciation of fixed assets	4,201	27
Increase in inventories	(2,351)	-
Increase in trade receivable, prepayments and other receivables	(47,440)	(715)
Decrease/(increase) in amounts due from related companies	336	(2,185)
Increase/(decrease) in trade and other payables	12,324	(431)
Decrease in amounts due to related companies and director	629	560
Interest income	(3,762)	(23)
Net cash outflow from operating activities	<u>(16,341)</u>	<u>(3,683)</u>

- (b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Amounts due to shareholders	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Balance at the beginning of the year	100	100	-	-	23,908	21,848
Cash inflow / (outflow) for the year	206,647	-	-	-	(2,657)	2,060
Non-cash movements:						
Assignment of receivables <i>(note 22(j))</i>	-	-	-	-	(21,251)	-
Acquisition of a subsidiary	-	-	102	-	-	-
Share of loss	-	-	(1)	-	-	-
Balance at the end of the year	<u>206,747</u>	<u>100</u>	<u>101</u>	<u>-</u>	<u>-</u>	<u>23,908</u>

20 Commitments under operating leases

At 31st March, 2001, the Group had commitments in respect of land and buildings to make payments in the next twelve months under an operating lease which expire as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
In the second to fifth year inclusive	<u>9,495</u>	<u>4,043</u>

The Company did not have any commitments at 31st March, 2001 (2000: Nil).

21 Contingent liabilities

The Group and the Company had no material contingent liabilities at 31st March, 2001 (2000: Nil).

Notes to the Accounts *(Continued)*

22 Related party transactions

Apart from the Reorganisation, the Group has carried out the following material transactions with related parties during the year:

	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
Purchase of fixed assets from SK Kikaku Ltd. *	<i>(a)</i>	35,339	–
Revenues received and receivables from related parties:			
– trademark licence fees from Shanghai Chikou Entertainment Co. Ltd.	<i>(b)</i>	1,658	820
Operating expenses paid and payable to related parties:			
– music production service fee paid to Rojam Pictures, Inc.	<i>(c)</i>	1,410	–
– music production service fee paid to Iroas Corporation Ltd. *	<i>(c)</i>	17	–
– studio charges paid to Shu Corporation Ltd. and SK Planning:	<i>(d)</i>		
– Tokyo studio *		635	
– Hawaii studio		2,327	
– studio charges paid to PT.TK Disc Bali	<i>(d)</i>	122	–
– music production service fee paid to Shu Corporation Ltd. and SK Planning *	<i>(d)</i>	6,210	–
– reimbursement of expenses to Shu Corporation Ltd.	<i>(e)</i>	2,994	–
– website set up fee to Omnicourt Limited *	<i>(f)</i>	405	–
– website maintenance fee to Omnicourt Limited	<i>(e)</i>	471	–
– art direction fee paid to HAL Communications, Inc. *	<i>(f)</i>	790	
– producer and performance fee to:			
– Rojam, Inc.		note (g)	note (g)
– Mr. Tetsuya Komuro		note (h)	–
– artiste management fee paid to Iroas Corporation Limited *	<i>(i)</i>	254	–
– assignment of receivable from Shanghai Chikou Entertainment Co. Ltd. *	<i>(j)</i>	21,251	–

22 Related party transactions (Continued)

- (a) Pursuant to a sale and purchase agreement dated 28th December, 2000, the Group purchased certain music equipment and instruments and music studio fixtures from SK Kikaku Ltd., a company beneficially owned by Mr. Tetsuya Komuro and Mr. Kebo Wu, directors and shareholders of the Company, to the extent of 50% and 12.5% respectively.
- (b) Shanghai Chikou Entertainment Co., Ltd. ("SCE") is a 90% beneficially owned company of Mr. Kebo Wu. The trademark licence fees are charged for the uses of various trademarks by SCE in accordance with the terms of agreements.
- (c) Rojam Pictures, Inc. and Iroas Corporation Limited are companies wholly and beneficially owned by Mr. Tetsuya Komuro.
- (d) SK Planning and Shu Corporation Ltd. are beneficially owned by Mr. Tetsuya Komuro and Kebo Wu to the extent of 50% and 12.5% respectively. PT.TK Disc Bali is wholly and beneficially owned by Mr. Tetsuya Komuro.
- (e) The reimbursement of expenses to the respective related parties is at cost.
- (f) HAL Communications, Inc. ("Hal") and Omnicourt Limited are 100% beneficially owned companies of Mr. Hiroshi Ozawa, a director of the Company during the year, and his spouse. Hal and Omnicourt Limited became unrelated parties of the Group since the resignation of Mr. Hiroshi Ozawa as director of the Company on 20th December, 2000.
- (g) Pursuant to a service agreement dated 2nd January, 2001 between the Group and Rojam, Inc., a company wholly-owned by Mr. Tetsuya Komuro, Rojam, Inc. has, since 20th January, 1998 procured and caused Mr. Tetsuya Komuro to provide producer services of music records to REL. In consideration, REL may at its entire discretion give Rojam, Inc. a bonus payment. No bonus has been paid or is payable during the years ended 31st March, 2001 and 2000.

22 Related party transactions *(Continued)*

- (h) Pursuant to a service agreement dated 21st May, 2001 between Mr. Tetsuya Komuro and the Company, Mr. Tetsuya Komuro is remunerated, in the capacity of a chief executive producer, with the grant of share options entitling him to subscribe for up to a maximum of 41,387,376 ordinary subject to terms and conditions attached thereto.
- (i) The artiste management fee is charged at 3% to 8% of the net sales of products that involve the artiste's performance under the agreement.
- (j) Pursuant to an agreement between REL, Singing Mermaid Limited ("SML", a shareholder of the Company at the time of such agreement), and SCE dated 29th December, 2000, receivables of HK\$21,251,000 due from SCE to REL was assigned to SML as settlement of debts due by the Group to SML for the same amount.

In the opinion of the directors of the Company, the above related party transactions were carried out in the normal course of business and at terms mutually agreed between the Group and the respective related parties. Except for the reimbursement of expenses and the producer fee as set out in notes (e), (g) and (h) above, the Group charged and/or paid the above related parties at market prices or, where no market price was available, at cost plus a percentage mark-up in the range of 5% to 15%.

The directors also confirm that the above transactions except those marked with an asterisk will continue after the listing of the shares of the Company on GEM and that such transactions will be conducted based on the terms of the relevant agreements governing these transactions; all transactions marked with an asterisk have been discontinued after the listing of the shares of the Company on GEM.

23 Significant subsequent events

- (i) Pursuant to a resolution passed by the shareholders of the Company at an extraordinary general meeting held on 21st May, 2001, share options entitling their holders to subscribe for, in aggregate, up to a maximum of 51,734,220 ordinary shares in the Company of HK\$0.10 each were granted to music producers of the Group. Details of the grant of options are set out in the section headed "Pre-IPO Grant of Options" in the Prospectus.

- (ii) On 31st May, 2001, the Company's shares were listed on GEM by way of placing of 70 million new shares and 20 million existing shares at an issue price of HK\$1.00 per share. The Company raised net proceeds of approximately HK\$53 million out of the 70 million new shares issued.

Save as disclosed above, no significant events have occurred subsequent to 31st March, 2001.

24 Approval of accounts

The accounts were approved by the board of directors on 22nd June, 2001.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the first annual general meeting (the "Annual General Meeting") of the shareholders of Rojam Entertainment Holdings Limited (the "Company") will be held at Suite 1502, 15/F., Cheung Kong Center, 2 Queen's Road Central, Hong Kong on Thursday, 26th July, 2001 at 9:30 a.m. for the following purposes:-

1. to receive and consider the audited financial statements and the reports of the directors of the Company and auditors for the year ended 31st March, 2001;
2. to re-elect retiring directors and to authorise the board of directors of the Company to fix the directors' remuneration;
3. to re-appoint auditors and to authorise the board of directors of the Company to fix their remuneration;
4. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

" THAT:

- (a) subject to paragraph 4(c) below, the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company ("Shares") or securities convertible into Shares or to make offers or agreements or grant options including warrants which would or might require Shares to be allotted and issued be generally and unconditionally approved;
- (b) the Directors of the Company be authorised to make offers or agreements or grant options during the Relevant Period which would or might require Shares to be allotted and issued either during or after the end of the Relevant Period pursuant to paragraph 4(a) above;
- (c) the aggregate amount of the Shares allotted or agreed to be allotted by the directors of the Company pursuant to the approvals in paragraphs 4(a) and (b) above, otherwise than pursuant to:
 - (i) a rights issue (as defined below);
 - (ii) an issue of Shares in lieu of the whole or part of the dividend on Shares in accordance with the articles of association of the Company; or

- (iii) an exercise of rights of subscription or conversion under terms of any warrants issued by the Company or any securities which are convertible into Shares;
- (iv) the exercise of options granted or may be granted under the share option scheme of the Company conditionally adopted on 21st May, 2001 or any other share option scheme or similar arrangement for the time being adopted for the grant or issue to the executive directors, officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; or
- (v) the exercise of options granted pursuant to the Pre-IPO Grant of Options as approved by the shareholders of the Company in a general meeting held on 21st May, 2001,

shall not exceed 20 per cent. of the amount of the share capital of the Company in issue at the date of passing of this resolution; and

- (d) for the purpose of this resolution:

“Pre-IPO Grant of Options” shall have the same meaning as defined in the prospectus dated 24th May, 2001 issued by the Company;

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company following the passing of this resolution;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of Cayman Islands to be held; or
- (iii) the passing of an ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing the authority given to the Directors of the Company by this resolution; and

Notice of Annual General Meeting *(Continued)*

“rights issue” means the allotment or issue of shares or other securities of the Company which would or might require shares or securities of the Company to be allotted and issued pursuant to an offer made to all shareholders of the Company (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient including those in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

5. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

“ THAT:

- (a) the directors of the Company be granted an unconditional mandate to exercise all powers of the Company to purchase on the Growth Enterprise Market (“GEM”) or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission in Hong Kong and The Stock Exchange of Hong Kong Limited for this purpose such number of shares of the Company as will represent up to 10 per cent. of the amount of the share capital of the Company in issue at the date of passing of this resolution during the Approved Period (as defined below) in accordance with the Rules Governing the Listing of Securities on GEM (as amended from time to time); and
- (b) for the purpose of this resolution:

“Approved Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company following the passing of this resolution;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of Cayman Islands to be held; or

(iii) the passing of an ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing the authority given to the directors of the Company by this resolution."

6. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

" **THAT** the general unconditional mandate mentioned in Ordinary Resolution No. 4 as set out in the Notice convening this Meeting be extended by the addition to the aggregate amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate of the amount of the share capital of the Company purchased by the Company pursuant to the mandate to repurchase shares referred to in Ordinary Resolution No. 5 as set out in the Notice convening this Meeting provided that such extended amount shall not exceed 10 per cent. of the aggregate amount of the share capital of the Company in issue at the date of passing of this resolution."

7. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

" **THAT** the number of shares of the Company in respect of which options may be granted under the share option scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to the executive directors, officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company be renewed to an aggregate of 10% of the entire share capital of the Company in issue on the date of the passing of this resolution."

By Order of the Board
Chan Ying Chun
Company Secretary

Hong Kong, 29th June, 2001

Notice of Annual General Meeting *(Continued)*

Registered office:

Zephyr House,
Mary Street,
P.O. Box 2681,
George Town, Grand Cayman
Cayman Islands

Head office and principal place of business in Hong Kong:

Suite 1502, 15th Floor,
Cheung Kong Center,
2 Queen's Road Central,
Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority must be deposited with the Hong Kong branch share registrar of the Company, Central Registration Hong Kong Limited at Rooms 1901-5, 19/F., Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof.
- (3) An explanatory statement containing further details regarding Ordinary Resolution No. 5 above as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited will be dispatched to the members of the Company together with the Company's annual report for the year ended 31st March, 2001.