

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2001



ROJAM

Entertainment Network Asia

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This 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 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

The board of directors (the "Board") of Rojam Entertainment Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to announce the unaudited consolidated results of the Group for the three months and six months ended 30th September, 2001 together with the comparative unaudited figures for the corresponding periods in 2000.

	Note	Three months ended 30th September,		Six months ended 30th September,	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	9,183	2,105	18,830	2,818
Other revenue	2	1,058	1,085	1,834	1,165
Total revenues		10,241	3,190	20,664	3,983
Less: overseas withholding taxation	3	(665)	(240)	(750)	(302)
		9,576	2,950	19,914	3,681
Cost of music production and record sales		(10,100)	(1,205)	(15,682)	(1,490)
Selling and distribution expenses		(6,034)	(2,571)	(15,083)	(4,621)
Other operating expenses		(15,721)	(13,728)	(30,681)	(22,251)
Loss before taxation		(22,279)	(14,554)	(41,532)	(24,681)
Taxation	3	-	-	-	-
Loss after taxation		(22,279)	(14,554)	(41,532)	(24,681)
Minority interests		-	1	1	1
Loss for the period		(22,279)	(14,553)	(41,531)	(24,680)
Basic loss per share	4	(2.0 cents)	(1.6 cents)	(3.8 cents)	(3.9 cents)

Notes:

1. Group reorganisation and basis of preparation

- 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"), which was completed on 19th September, 2000, to rationalise the structure of the Company and its subsidiaries in preparation for the listing of the Company's shares on the 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").
- 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 unaudited consolidated results of the Group for the three months and six months ended 30th September, 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 unaudited accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong.

2. Turnover and revenue

The amounts of each significant category of revenue recognised during the three months and six months ended 30th September, 2001 are as follows:

	Three months ended 30th September, 2001		Six months ended 30th September, 2001	
	HK\$'000	2000 HK\$'000	HK\$'000	2000 HK\$'000
Turnover				
Music production income				
– Royalty income	2,841	–	2,841	–
– Production service fees	2,053	–	5,968	–
Music publishing fee				
– Royalty income	17	12	20	12
Record distribution income	1,298	869	1,676	871
Artiste management fees	898	40	898	40
Event management income	113	10	3,673	10
Trademark licensing income	484	384	911	692
Merchandise sales	1,250	160	2,188	160
Banner advertising income	229	630	655	1,033
	9,183	2,105	18,830	2,818
Other revenue				
Interest income	1,058	1,085	1,834	1,165
Total revenues	10,241	3,190	20,664	3,983

3. 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 three months and six months ended 30th September, 2001 and 2000. Overseas withholding taxation represents Japan and the People's Republic of China withholding taxes on the income subject to withholding taxes and is calculated at the applicable rates.

4. Loss per share

The calculation of basic loss per share for the three months and six months ended 30th September, 2001 is based on the unaudited consolidated loss of the Group of approximately HK\$22,279,000 and HK\$41,531,000 (three months and six months ended 30th September, 2000: loss of approximately HK\$14,553,000 and HK\$24,680,000) and the weighted average number of 1,104,684,403 and 1,081,733,583 (three months and six months ended 30th September, 2000: 915,489,088 and 637,517,535) shares respectively of the Company in issue during the respective periods.

No diluted loss per share is presented for the three months and six months ended 30th September, 2001 as the exercise of the share options granted by the Company would have no dilutive effect. There was no dilutive event for the three months and six months ended 30th September, 2000.

5. Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2001 (2000: Nil).

6. Reserves

	Share premium HK\$'000	Exchange reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st April, 2000	-	-	(2,219)	(2,219)
Issue of shares	90,154	-	-	90,154
Loss for the six months ended 30th September, 2000	-	-	(24,680)	(24,680)
	<u>90,154</u>	<u>-</u>	<u>(26,899)</u>	<u>63,255</u>
At 30th September, 2000				
At 1st April, 2001	103,279	(3,118)	7,158	107,319
Issue of shares pursuant to placing	63,000	-	-	63,000
Share issuing expenses	(17,950)	-	-	(17,950)
Loss for the six months ended 30th September, 2001	-	-	(41,531)	(41,531)
Exchange adjustments on the translation of accounts of overseas subsidiaries	-	3,182	-	3,182
	<u>-</u>	<u>3,182</u>	<u>-</u>	<u>3,182</u>
At 30th September, 2001	<u>148,329</u>	<u>64</u>	<u>(34,373)</u>	<u>114,020</u>

BUSINESS REVIEW AND PROSPECTS

Financial Review

The Company's shares were listed on GEM 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 net proceeds from the placing are approximately HK\$52 million. During the six months ended 30th September, 2001, the Group recorded a turnover of approximately HK\$19 million, whereas only HK\$3 million was recorded during the six months ended 30th September, 2000. A net loss of approximately HK\$42 million was recorded for the six months ended 30th September, 2001, compared with a net loss of approximately HK\$25 million for the six months ended 30th September, 2000. The increase in turnover and the deterioration in net result were mainly due to the expansion of business operation, and additional manpower and resources being added to the music production activities of the Group respectively.

During the six months ended 30th September, 2001, the Group has reviewed its operating system and cost structure aiming at further improving its operational efficiency and cost control. Nevertheless, other operating expenses increased during the six months ended 30th September, 2001 which was mainly due to the increases in staff costs, rental expenses and depreciation expenses. Staff costs and rental expenses escalated as the Group expanded its overall workforce and office premises while the depreciation expenses became one of the major costs after the completion of the renovation works at the Group's studio in Japan and more studio equipment was put into use. Being a young and growing enterprise, the Group envisages the importance of promoting and raising the level of recognition and publicity of the Group and its label. The Group has sponsored two television programmes and one radio programme in Japan. A considerable amount of resources and effort has also been injected into these programmes that eventually led to higher selling and distribution expenses for the six months ended 30th September, 2001.

Turnover for the three months ended 30th September, 2001 has slightly decreased by approximately 6% as compared with the three months ended 30th June, 2001. Event management revenue dropped significantly from the last quarter since the Group has not undertaken any new event management project. The drop in revenue was, however, balanced by the introduction of new music production projects (some of which is already generating revenue ahead of plan) and the release of new titles for the Group's talents, Naoto Kine and Takashi Utsunomiya, during the second quarter.

As at 30th September, 2001, the Group had maintained a strong financial position – debt-free and with approximately HK\$134 million cash on hand.

Operation Review

Music production

During the period under review, the Group has engaged in a number of music production projects. To broaden its income stream, the Group has extended its music production services to cover a wider scope of content with musical requirements such as drama, movie, animation and games software. The table below sets out the major projects undertaken by the Group during the six months ended 30th September, 2001.

Month of the release	Record company/Customer	Name of project	Project type	Artiste
June	Pony Canyon Inc	Amaretto	CD, album	Kiss Destination
June	Pony Canyon Inc	DEAR MY CLOSE FRIEND	CD, single	Kiss Destination
July	Avex Inc	Try this shoot	CD, single	globe
July	Sony Music Entertainment Limited	01717	CD, single	Ken
July	Sony Music Entertainment Limited	Shiina Hekiru for live	CD, single	Shiina Hekiru
July	Waseda Jitsugyo School	Waseda Kagayaku	Music	
August	CAPCON	Clock Tower	Music content for a game software	
August	Sony Music Entertainment Limited	jungle life	CD, single	Shiina Hekiru
September	Avex Inc	global trance	CD, album	globe
September	R & C Japan Ltd.	REPRESENT_01	CD, album	GABALL

Subsequent to the period ended 30th September, 2001, the Group has also completed a number of remarkable projects. The Group was responsible for the overall music production of the famous animation “Cyborg 009” on TV Tokyo in Japan. In addition, the Group has produced the theme song for the drama series entitled “Star no koi” and being broadcasted on Fuji TV; the theme song is performed by “globe”.

Event management

The “Namie Amuro 2001 Concert Tour in Taiwan”, organized by the Group and originally scheduled to be held on 28th, 30th September and 1st October, 2001 was cancelled due to the threat of typhoon and bad weather.

Record distribution

The Group released 1 mini-album, “Ukigumo” for Naoto Kine and 2 singles, “Running to Horizon” and “LOVE-ICE” for Takashi Utsunomiya.

Merchandise sales

Following the success of “First Impression” and “Second Impression”, photo books released in February and May 2001 respectively featuring TM Network’s “Major-Turn-Round” concert tour held across Japan from December 2000 to January 2001, the Group released their sequel entitled “Third Impression” in July 2001. Apart from the photo books, DVD featuring this TM Network’s concert tour will also be released in the next quarter.

Promotional activities

The Group was the tie-up sponsor in the function of World PC Expo 2001 held in September 2001. World PC Expo 2001 was a large-scale exhibition for computer products and was organized by SOTEC, a reputable personal computer manufacturer in Japan. By participating in such event, the Group has promoted the new GABALL’s album, “REPRESENT_01”.

Prospects

The Group, taking advantage of its experienced producer team and engineers and state-of-the-art music production facilities, has been successful in securing a number of music production projects and offering wide-ranging quality music production services to its customers. Looking forward, the Group will continue to expand its customer base and guide its music to infiltrate into a variety of multi-media content and products. Currently, the Group is in active negotiations with several potential partners and will announce such new projects when they mature.

With the diversified business operation and the strategic alliance and synergy with its business partners, the Group expects that it will be able to distribute and promote its musical masterpieces in a cost-effective manner. At the same time, the Group will continue to review its operating and other costs. With the combination of broaden customer base, tightened cost control, experienced producer teams and enhanced studio, the Group will be able to maintain its competitiveness in the market.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective up to 30th September, 2001 as stated in the Prospectus

Actual business progress up to 30th September, 2001

1. Expand the Group’s customer base and enhance its core business operations of music production by building up its business alliance with major players in the entertainment industry

Enter into not less than 1 producer service contract

Entered into new producer service contracts with Waseda Jitsugyo School, Sony Music Entertainment Limited and R & C Japan Ltd.

Enter into not less than 3 contracts with software companies, computer and games companies, etc. for the provision of music content production services

In view of the current market condition, the Group took a more prudent approach towards selecting business partners. The Group has entered into a service contract with CAPCON, a games software provider in Japan, for the production of music content for a game software called “Clock Tower”.

2. Strengthen the Group's music production capacity through the sourcing of new talents

Produce not less than 4 records for contracted record companies

Produced 3 albums and 5 singles for the contracted record companies.

Release not less than 2 records under the Group's label

Released 2 singles and 1 mini album under the Group's label.

3. Geographical expansion in Asia

Taiwan

Participate in artiste auditions organized by the Group's local representative

Completed.

Explore business opportunities in licensing the Group's trademark rights to entertainment companies, for example, discotheques

Continued to assess opportunities that fulfill the Group's strategic needs.

South Korea

Co-operate with the Group's strategic partner to establish music production and record distribution operations

Took the first step in establishing the presence of the Group in South Korea by entering into a producer contract with Jin, a reputable Korean music producer for the provision of producer services.

4. Increase the Group's current level of recognition and publicity by investing in business development and marketing

Sponsor television programs in Japan and Taiwan with a view to promoting the Group's contracted artistes and producers

Sponsored, in Japan, 2 television programs, namely "club TK" on BS Fuji and "radio TK" on Fuji Television Network, and a radio program named "mix in KD – produced by Rojam".

Self-organize or participate in not less than 1 concert to promote the Group's music

The Group's first organized concert, "Namie Amuro 2001 Concert Tour in Taiwan" was originally planned to be held in Taipei on 28th, 30th September and 1st October, 2001. However, due to the threat of typhoon and bad weather, following consultation with the performing artiste and local units, the Group decided to cancel the concert.

5. Exploration of the Internet media

Audition

Conduct audition for artistes

Owing to delays in system upgrade and maintenance, the Group had decided to postpone its online audition for artistes. The Group expects that the next round of "Click Audition" will be launched in the following quarter.

Merchandise sales

Release not less than 1 major feature product to be sold via the Group's music entertainment portal

Released "Second Impression" and "Third Impression", photo books featuring TM Network's "Major-Turn-Round" concert tour held across Japan from December 2000 to January 2001, in May and July 2001 respectively.

Music learning center

Conduct market research and plan the operation of a music learning center on both conventional and Internet platforms in languages other than Japanese

Identified Taiwan and the PRC to be potential markets for the establishment of a music learning center and commenced market research.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30th September, 2001, 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 and the Stock Exchange were as follows:

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

Name of director	Personal interests	Family interests	Corporate interests
Mr. Tetsuya Komuro (<i>Note 1</i>)	467,892,667	1,100,000	–
Mr. Kebo Wu (<i>Note 2</i>)	–	–	75,883,333
Mr. Tomohiko Domen	27,022,000	–	–
Mr. Arihito Yamada	8,913,600	–	–
Mr. Wong Ho Yan, Daniel (<i>Note 3</i>)	–	5,306,000	–

Notes:

- As at 30th September, 2001, Mr. Tetsuya Komuro personally held 467,892,667 shares. Ms. Asami Yoshida, the spouse of Mr. Tetsuya Komuro, personally held 1,100,000 shares as at 30th September, 2001. Mr. Tetsuya Komuro was accordingly taken to be interested in 468,992,667 shares as at 30th September, 2001.
- As at 30th September, 2001, Billion Moment Limited ("Billion Moment") held 75,883,333 shares. 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 75,883,333 shares as at 30th September, 2001.
- As at 30th September, 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 30th September, 2001.

(b) Share options of the Company

Pre-IPO Grant of Options

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. Further details are set out in the section headed "Outstanding Share Options" of this announcement.

Share Option Scheme

Pursuant to the share option scheme adopted by the Company on 21st May, 2001 (the "Share Option Scheme") and the terms and conditions contained in the offer letter dated 12th July, 2001 from the Company, on 12th July, 2001, Mr. Tomohiko Domen, Mr. Arihito Yamada and Mr. Wong Ho Yan, Daniel were granted options to subscribe for up to a maximum of 8,800,000 shares, 8,800,000 shares and 6,600,000 shares of the Company respectively at an exercise price of HK\$0.47 per share. Further details are set out in the section headed "Outstanding Share Options" of this announcement.

Save as disclosed above, as at 30th September, 2001, none of the directors or their associates (as defined in the Rules Governing the Listing of Securities on GEM (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 by the Company 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 six months ended 30th September, 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 30th September, 2001, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed 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 held
Mr. Tetsuya Komuro	468,992,667

OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Grant of Options

Options to subscribe for up to an aggregate of 51,734,220 shares in the Company were granted on 21st May, 2001 to the following grantees as an inducement to engage them for the provision of producer services to the Group pursuant to the terms of certain producer service agreements. Details of the options are set out as follows:

Grantee	Exercise price (HK\$)	Number of shares to be issued under the granted options
Mr. Tetsuya Komuro	0.1	41,387,376
Mr. Naoto Kine	0.8	5,173,422
Mr. Koji Kubo	0.8	5,173,422
Total		<u>51,734,220</u>

Option period commences on 31st May, 2001 and expires 10 years thereafter. As at 30th September, 2001, all such options granted were outstanding. A brief summary of the other principal terms of the Pre-IPO Grant of Options is set out in the Prospectus.

(b) Share Option Scheme

Options to subscribe for up to an aggregate of 52,240,000 shares in the Company were granted on 12th July, 2001 to the executive directors and full-time employees of the Group pursuant to the Share Option Scheme and the terms and conditions contained in the offer letter dated 12th July, 2001 from the Company. Details of the options are set out as follows:

Grantee	Exercise price (HK\$)	Number of shares to be issued under the granted options
Mr. Tomohiko Domen	0.47	8,800,000
Mr. Arihito Yamada	0.47	8,800,000
Mr. Wong Ho Yan, Daniel	0.47	6,600,000
41 employees	0.47	<u>28,040,000</u>
Total		<u>52,240,000</u>

Option period commences on the date of grant and expires 10 years thereafter. As at 30th September, 2001, all such options granted were outstanding. A brief summary of the other principal terms of the Share Option Scheme is set out in the Prospectus.

COMPETING INTERESTS

As at 30th September, 2001, Mr. Tetsuya Komuro, an executive director and the controlling shareholder of the Company, was interested in approximately 24% of M-Tres Ltd. ("M-Tres"). M-Tres is the management company of Mr. Takashi Utsunomiya, a producer of the Group. Rojam Entertainment Limited, a wholly-owned subsidiary of the Company, has entered into an exclusive recording artiste agreement with Mr. Takashi Utsunomiya and M-Tres in July 2000. The principal business of M-Tres is event production and management business.

Save as disclosed above, during the six months ended 30th September, 2001, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed or might compete with the business of the Group.

SPONSOR'S INTERESTS

As notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY"), as at 30th September, 2001, 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.

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 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 two members comprising the two independent non-executive directors, namely Mr. Seiichi Nakaoda and Mr. Yeung Mui Kwan, David.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September, 2001.

By Order of the Board
Tetsuya Komuro
Chairman

Hong Kong, 12th November, 2001