

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2001/2002



ROJAM

Entertainment Network Asia

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors of Rojam Entertainment Holdings Limited collectively and individually accept 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 nine months ended 31st December, 2001 together with the comparative unaudited figures for the corresponding periods in 2000.

	Notes	Three months ended 31st December, 2001		Nine months ended 31st December, 2001	
		HK\$'000	2000 HK\$'000	HK\$'000	2000 HK\$'000
Turnover	2	11,915	91,194	30,745	94,012
Other revenue	2	477	1,728	2,311	2,893
Total revenues		12,392	92,922	33,056	96,905
Less: overseas withholding taxation	3	(798)	(7,612)	(1,548)	(7,914)
		11,594	85,310	31,508	88,991
Cost of music production and record sales		(10,652)	(12,118)	(26,334)	(13,608)
Selling and distribution expenses		-	(8,520)	(15,083)	(13,141)
Other operating expenses		(19,640)	(22,238)	(50,321)	(44,489)
(Loss)/profit before taxation		(18,698)	42,434	(60,230)	17,753
Taxation	3	-	-	-	-
(Loss)/profit after taxation		(18,698)	42,434	(60,230)	17,753
Minority interests		2	-	3	1
(Loss)/profit attributable to shareholders		(18,696)	42,434	(60,227)	17,754
(Loss)/earnings per share - Basic	4	(1.7 cents)	4.1 cents	(5.5 cents)	2.3 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").

- (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 unaudited consolidated results of the Group for the three months and nine months ended 31st December, 2001, including the comparative unaudited 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 nine months ended 31st December, 2001 are as follows:

	Three months ended		Nine months ended	
	31st December, 2001	2000	31st December, 2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Music production income				
– Royalty income	3,683	3,046	6,524	3,046
– Production service fees	4,702	–	10,670	–
– Signing bonus	–	73,000	–	73,000
Music publishing fee				
– Royalty income	101	–	121	12
Record distribution income	2,249	10,448	3,925	11,319
Artiste management fees	–	238	898	278
Event management income	390	73	4,063	83
Trademark licensing income	499	507	1,410	1,199
Merchandise sales	61	2,888	2,249	3,048
Banner advertising income	230	994	885	2,027
	11,915	91,194	30,745	94,012
Other revenue				
Interest income	477	1,728	2,311	2,893
Total revenues	12,392	92,922	33,056	96,905

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 nine months ended 31st December, 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)/earnings per share

The calculation of the basic loss per share for the three months ended 31st December, 2001 is based on the unaudited consolidated loss of the Group of approximately HK\$18,696,000 (2000: profit of approximately HK\$42,434,000) and the weighted average number of 1,104,684,403 (2000: 1,032,238,751) shares of the Company in issue during the period.

The calculation of the basic loss per share for the nine months ended 31st December, 2001 is based on the unaudited consolidated loss of the Group of approximately HK\$60,227,000 (2000: profit of approximately HK\$17,754,000) and the weighted average number of 1,089,411,676 (2000: 769,569,724) shares of the Company in issue during the period.

No diluted loss per share is presented for the three months and nine months ended 31st December, 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 nine months ended 31st December, 2000.

5. Interim dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December, 2001 (2000: HK\$0.01 per share).

6. Reserves

	Share premium <i>HK\$'000</i>	Exchange (accumulated reserve <i>HK\$'000</i>	Retained earnings/ losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2000	–	–	(2,219)	(2,219)
Issue of shares	103,279	–	–	103,279
Profit for the nine months ended 31st December, 2000	–	–	17,754	17,754
Exchange adjustments on the translation of accounts of overseas subsidiaries	–	142	–	142
	<u>103,279</u>	<u>142</u>	<u>15,535</u>	<u>118,956</u>
At 31st December, 2000	<u>103,279</u>	<u>142</u>	<u>15,535</u>	<u>118,956</u>
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 nine months ended 31st December, 2001	–	–	(60,227)	(60,227)
Exchange adjustments on the translation of accounts of overseas subsidiaries	–	542	–	542
	<u>–</u>	<u>542</u>	<u>–</u>	<u>542</u>
At 31st December, 2001	<u>148,329</u>	<u>(2,576)</u>	<u>(53,069)</u>	<u>92,684</u>

BUSINESS REVIEW AND PROSPECTS

Financial Review

For the nine months ended 31st December, 2001, the Group recorded a turnover of approximately HK\$31 million, representing a decrease of 67% from HK\$94 million for the corresponding period in 2000. Loss for the nine months ended 31st December, 2001 amounted to approximately HK\$60 million, compared with a profit of approximately HK\$18 million for the corresponding period in 2000.

The drops in both turnover and net result as compared to last year were mainly attributed to the fact that no signing bonus was received and record distribution income decreased during the nine months ended 31st December, 2001. In the nine months ended 31st December, 2000, a non-refundable signing bonus of approximately HK\$73 million was received from Avex Inc. as an inducement for the Group to enter into a producer service agreement with Avex Inc. Unfortunately, the global economic downturn and the weakening Japanese economy for this year have led to a great deal of uncertainty in the industry. The operating environment became more difficult. No signing bonus was derived for the nine months ended 31st December, 2001. In addition, the Group reduced the number of titles released under its label and shifted its resources to the music production business.

The Group recorded a turnover of approximately HK\$12 million for the three months ended 31st December, 2001, an increase of 24% from HK\$10 million and an increase of 30% from HK\$9 million as compared to the first quarter and second quarter respectively. The Group worked diligently during the period. The number of projects engaged as well as the royalty income received has increased from the previous quarters.

Other operating expenses included unrealized exchange losses of HK\$5 million for the three months ended 31st December, 2001, primarily as a result of the translation of accounts in foreign currencies after the recent depreciation of the Japanese yen. Nevertheless, taking out such non-cash item, the other operating expenses amounted to HK\$15 million, representing a 32% decrease from HK\$22 million as compared with the corresponding period in 2000 which indicated that the Group has implemented better cost control measures during this quarter.

Operation Review

Music production

Turnover of the music production business for the nine months ended 31st December, 2001 was HK\$17 million, remaining as the major business of the Group which accounted for 56% of total turnover. In October 2001, the Group entered into a new master tape agreement with Toshiba EMI and produced 1 single under this agreement. In addition, during the three months ended 31st December, 2001, the products of the Group included 5 singles produced for Avex Inc., 3 singles for Sony Music Entertainment Limited, 2 singles for R & C Japan Ltd. and 2 music audio-visual products for Pony Canyon Inc.

Event management

The Group organized 2 live talk shows for Naoto Kine in October and December 2001.

Record distribution

During the three months ended 31st December, 2001, the Group released 1 album, "LOVE-ICE" for Takashi Utsunomiya and 1 mini-album, "Tsurezure" for Naoto Kine.

Geographical Expansion

Considering the global economic situation, the Group will further explore music related business opportunities in mainland China following the PRC's accession to the World Trade Organisation. On 11th January, 2002, the Group entered into a sale and purchase agreement with Chikou Co., Ltd to acquire 90% of the registered share capital of Shanghai Chikou Entertainment Co. Limited ("Shanghai Chikou") at a total consideration of HK\$31.5 million (subject to adjustment) (the "Shanghai Chikou Acquisition"). Shanghai Chikou is a sino-foreign equity joint venture principally engaged in entertainment businesses and operations in Shanghai. The discotheque business operation is conducted under the name "Rojam Disco". Other than the discotheque business, Shanghai Chikou has entertainment related non-discotheque businesses such as karaoke parlors and game centers operating in Shanghai, which are to be demerged from Shanghai Chikou and excluded from the Shanghai Chikou Acquisition. Rojam Disco has established itself as a popular venue in downtown Shanghai for young adults aged from 18 to 25. These young patrons are potential customers of the Group's music and music related products and services. The Directors believe that the Shanghai Chikou Acquisition will provide the Group with important competitive advantages in establishing an initial foothold and increasing the Group's current level of recognition and publicity in mainland China. Details of the Shanghai Chikou Acquisition are contained in the Company's circular dated 8th February, 2002.

Prospects

Looking forward, the Group has strong initiatives to expand its customer base and guide its music to infiltrate into a variety of multi-media content and products. Operating in an increasingly difficult economic climate on both the global and local fronts, the Group will continue to tighten its cost control measures, and focus more tightly on its core competencies and those operations and markets with growth potential.

The appointment of Mr. Tetsuo Mori as the director of the Company and Mr. Osamu Nagashima as the director of Rojam Japan Limited, a wholly-owned subsidiary of the Company, will strengthen the management team of the Group. With their extensive experience in the music entertainment industry and profound knowledge of the international music market, the Group will be able to maintain its competitiveness in the industry.

RESIGNATION OF DIRECTORS

Mr. Kebo Wu and Mr. Wong Ho Yan, Daniel resigned as directors of the Company for personal reasons with effect from 12th January, 2002. Mr. Wong Ho Yan, Daniel also resigned as compliance officer and authorized representative of the Company under the GEM Listing Rules, and as authorized representative of the Company for the acceptance of service of process in Hong Kong. Mr. Arihito Yamada has been appointed as compliance officer and authorized representative of the Company for the acceptance of service of process in Hong Kong, and Mr. Tetsuo Mori has been appointed as authorized representative of the Company under the GEM Listing Rules, in place of Mr. Wong Ho Yan, Daniel with effect from 12th January, 2002.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December, 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:

1. As at 31st December, 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 31st December, 2001. Mr. Tetsuya Komuro was accordingly taken to be interested in 468,992,667 shares as at 31st December, 2001.
2. As at 31st December, 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 31st December, 2001.

3. As at 31st December, 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 December, 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 report.

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 report.

Save as disclosed above, as at 31st December, 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 nine months ended 31st December, 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 December, 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 31st December, 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	28,040,000
Total		<u>52,240,000</u>

Option period commences on the date of grant and expires 10 years thereafter. As at 31st December, 2001, options comprising a total of 1,200,000 underlying shares granted to certain full time employees of the Group had lapsed, but not yet cancelled, following the cessation of their employment. Save as aforesaid, all such options granted were outstanding as at 31st December, 2001. A brief summary of the other principal terms of the Share Option Scheme is set out in the Prospectus.

COMPETING INTERESTS

As at 31st December, 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 nine months ended 31st December, 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 31st December, 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 nine months ended 31st December, 2001.

By Order of the Board
Tetsuya Komuro
Chairman

Hong Kong, 8th February, 2002