

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2002/2003



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 ended 30th June 2002 together with the comparative unaudited figures for the corresponding period in 2001.

		Three months ended 30th June	
	<i>Note</i>	2002 HK\$'000	2001 HK\$'000
Turnover	2	10,783	9,647
Other revenue	2	257	776
		<hr/>	<hr/>
Total revenues		11,040	10,423
Less: overseas withholding taxation	3	(1,115)	(85)
		<hr/>	<hr/>
		9,925	10,338
Cost of sales		(7,386)	(5,582)
Selling and distribution expenses		(2)	(9,049)
Other operating expenses		(1,861)	(14,960)
		<hr/>	<hr/>
Profit/(loss) before taxation		676	(19,253)
Taxation	3	-	-
		<hr/>	<hr/>
Profit/(loss) after taxation		676	(19,253)
Minority interests		-	1
		<hr/>	<hr/>
Profit/(loss) attributable to shareholders		676	(19,252)
		<hr/>	<hr/>
Earnings/(loss) per share – Basic	4	0.1 cent	(1.8 cents)
		<hr/>	<hr/>

Notes:

1. 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. Its shares were listed on GEM on 31st May 2001.

The unaudited 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. Turnover and revenue

The amounts of each significant category of revenue recognised during the three months ended 30th June 2002 are as follows:

	Three months ended 30th June	
	2002 HK\$'000	2001 HK\$'000
Turnover		
Music production income		
– Production service fees	4,581	3,915
– Royalty income	5,368	–
Music publishing fee		
– Royalty income	32	3
Record distribution income	73	378
Event management income	14	3,560
Trademark licensing income	408	427
Merchandise sales	87	938
Banner advertising income	220	426
	10,783	9,647
Other revenue		
Interest income	197	776
Interest income arising from amount due from a shareholder (<i>see note below</i>)	60	–
	257	776
Total revenues	11,040	10,423

Note: The amount due from a shareholder is unsecured, interest bearing at prime rate prevailing in Hong Kong and fully settled on 5th July 2002.

3. Taxation and overseas withholding taxation

No provision 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 ended 30th June 2002 and 2001. Overseas withholding taxation represents Japan and the People's Republic of China (the "PRC") withholding taxes on the income subject to withholding taxes and is calculated at the rates applicable thereto.

4. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of approximately HK\$676,000 (2001: loss of approximately HK\$19,252,000) and the weighted average number of 1,104,684,403 (2001: 1,058,530,557) ordinary shares in issue during the period.

Diluted earnings per share has not been presented for the three months ended 30th June 2002 as the exercise price of the Company's outstanding share options was higher than the average market price of the shares of the Company during the period or, if applicable, the vesting period.

Diluted loss per share has not been presented for the three months ended 30th June 2001 as the conversion of the potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share.

5. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months ended 30th June 2002 (2001: Nil).

6. Reserves

	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings/ losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2001	103,279	(3,118)	7,158	107,319
Premium on issue of shares	63,000	-	-	63,000
Share issue expenses	(17,950)	-	-	(17,950)
Loss for the period	-	-	(19,252)	(19,252)
Exchange adjustment on the translation of accounts of overseas subsidiaries	-	2,125	-	2,125
	<u>148,329</u>	<u>(993)</u>	<u>(12,094)</u>	<u>135,242</u>
At 30th June 2001	<u>148,329</u>	<u>(993)</u>	<u>(12,094)</u>	<u>135,242</u>
At 1st April 2002	148,329	(4,924)	(75,771)	67,634
Profit for the period	-	-	676	676
Exchange adjustment on the translation of accounts of overseas subsidiaries	-	41	-	41
	<u>-</u>	<u>41</u>	<u>-</u>	<u>41</u>
At 30th June 2002	<u>148,329</u>	<u>(4,883)</u>	<u>(75,095)</u>	<u>68,351</u>

BUSINESS REVIEW AND PROSPECTS

Financial Review

As mentioned in the last annual report, the Group has implemented a restructuring programme in the financial year 2001/2002, in which the Group streamlined its operations to address ongoing economic uncertainty in the general business environment. The restructuring programme included integrating the Group's Internet business in Hong Kong and Japan, rearranging the music business strategies in Hong Kong, retrenching staff, deferring capital expenditures, reviewing operating efficiencies, reassessing the fixed assets and controlling overall costs. Simultaneously, the Group reallocated the resources to support its music production business in Japan and expanded this core business by acquiring R&C Japan Ltd. The Group also extended its business to mainland China by acquiring the Rojam Disco.

The quarter ended 30th June 2002 was the first full quarter following the successful completion of the restructuring programme. The restructuring has shown encouraging results, as the Group reached profitability and recorded positive operating cash flow in this quarter, and the overall financial results were better than in the preceding quarters, positioning the Group well for future growth.

The Group achieved an operating profit of approximately HK\$0.7 million and earnings before interest, taxation, depreciation and amortisation of approximately HK\$4.9 million for the quarter ended 30th June 2002, compared to loss of approximately HK\$22.7 million and HK\$11.5 million respectively for the fourth quarter of financial year 2001/2002. Earnings per share was 0.1 cent, compared to loss per share of 1.8 cents for the previous quarter.

For the three months ended 30th June 2002, the depreciation charge was approximately HK\$4.2 million. The huge charge was due to the change of accounting estimates as a part of the restructuring programme. Moreover, the operating expenses were substantially reduced from HK\$18.2 million for the previous quarter to HK\$11.1 million for this quarter, ignoring the effect of the net exchange gains and the adjustment of the depreciation charge made in the previous quarter. The reduction was mainly attributed to the decrease of staff costs by 20%, legal and professional fees by 80%, office expenses and other outgoing expenses by 20% and no provision for doubtful debt was considered necessary, as compared to the previous quarter.

Comparing the financial performance to the same period of last year, turnover for the three months ended 30th June 2002 recorded an increase of 12% from HK\$9.6 million to HK\$10.8 million, reflecting the Group's broadened revenue streams and customer base. Despite the growth in the turnover, operating expenses were reduced by half from HK\$24.8 million for the same quarter of last year. Taking into account the huge depreciation charge in current period, the Group has a leaner cost structure in place to support a larger revenue base compared to the previous year. This was achieved by two means. Firstly, with the increasing popularity and the recognition accorded by the industry to the Group's products, promotional activities as well as the related expenses could undoubtedly be reduced. Secondly, the Group adopted an effective cost management throughout the year.

The Group financed its operations with internally generated cash flows and the balance of proceeds from the placing of shares. Net cash inflow from operating activities was approximately HK\$7.1 million, interest received was HK\$0.3 million and cash outflow for the purchase of fixed assets was HK\$0.3 million during the three months ended 30th June 2002. As at 30th June 2002, the Group has cash balance of approximately HK\$77.4 million, 10% growth from HK\$70.3 million as at 31st March 2002.

Operation Review

During the period under review, the Group continued to focus its resources on its music production segment. Over 90% of the turnover for this quarter was generated from the music production business. The products of the Group included 1 album and 1 single produced for Avex Inc., 1 single for Sony Music Entertainment Limited, and 1 album, 1 mini-album, 2 singles and 1 CD+DVD twin set for R & C Japan Ltd., as well as other order-by-order music projects such as music video production and music arranging service. The Group also succeeded in extending its products to more popular artistes including Y.S.P ALL STARS. By producing the musical products to popular artistes, the sales of such products will be satisfactory, which in turn generate stable producer royalty income to the Group.

Material Investments

Rojam Disco

On 11th January 2002, the Group entered into a sale and purchase agreement to acquire 90% of the registered share capital of Shanghai Chikou Entertainment Co. Limited ("Shanghai Chikou"). Under the sale and purchase agreement, completion of the acquisition is subject to certain conditions. The conditions include, among others, the demerger of the entertainment related non-discotheque businesses including karaoke parlours and game centers from Shanghai Chikou into a newly formed joint venture owned by the existing shareholders of Shanghai Chikou (the "Demerger") becoming effective and the obtaining of the transfer approvals from the relevant approving authority.

The Demerger has been approved by the relevant authorities. The relevant parties are currently proceeding with the procedures necessary to obtain the transfer approvals. Further, the Group is under discussion with the potential PRC partner in the details of the joint venture. In parallel, the Group has begun conducting market research in the local market to identify business potentials, formulating group-wide financial and operating standards, and devising appropriate business strategies.

R&C Japan Ltd.

On 20th June 2002, the Company announced that it had entered into a conditional agreement to acquire 80% effective interest in R&C Japan Ltd. ("R&C") from Yoshimoto Kogyo Co. Ltd ("Yoshimoto", Tokyo Stock Exchange and Osaka Securities Exchange stock code: 9665). The total consideration, amounting to HK\$67.5 million, will be satisfied entirely by the issue and allotment of 450,000,000 new shares to Yoshimoto.

The acquisition is expected to introduce a number of synergistic benefits from both Yoshimoto and R&C. During the period under review, the Group has produced several master tapes for R&C as summarised in the section headed Operation Review. The completion of the acquisition is conditional upon certain conditions as stipulated in the relevant agreement dated 20th June 2002, as amended by the supplemental agreement dated 29th July 2002.

Prospects

The primary short-term objective of the Group is the completion of the acquisitions of Shanghai Chikou and R&C, which is expected to take place on or before 30th September 2002. The Group is now consolidating a complete music production chain. The acquisitions will provide important competitive advantages to the Group in pursuing its business objectives. At the same time, the Group continues to explore new opportunities in the music entertainment industry to accelerate the path to sustainable profitability. There are reasons for optimism in the performance of the forthcoming quarters.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30th June 2002, 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
Mr. Tetsuya Komuro	472,830,667
Mr. Tomohiko Domen	27,022,000
Mr. Arihito Yamada	8,913,600

(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. Details in relation to the grant and exercise of such option together with the period of exercise are briefly summarised 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 and Mr. Arihito Yamada were each granted options to subscribe for up to a maximum of 8,800,000 shares of the Company at an exercise price of HK\$0.47 per share. Details in relation to the grant and exercise of such option together with the period of exercise are briefly summarised in the section headed "Outstanding Share Options" of this report.

Save as disclosed above, as at 30th June 2002, 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 three months ended 30th June 2002 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 June 2002, no interest, other than the interest of Mr. Tetsuya Komuro, in the equity securities of the Company was recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance.

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 June 2002, 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 of the Company dated 24th May 2001 (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. Option period commences on the date of grant and expires 10 years thereafter. As at 30th June 2002, options comprising a total of 18,840,000 underlying shares granted to a former director and certain full time employees of the Group had lapsed, but not yet cancelled, following the cessation of their employment. Details of the options outstanding (which include the options granted to Mr. Tomohiko Domen and Mr. Arihito Yamada as disclosed above) are set out as follows:

Date of grant	Exercise price (HK\$)	Number of shares to be issued under the granted options
12th July 2001	0.47	33,400,000

A brief summary of the other principal terms of the Share Option Scheme is set out in the Prospectus.

COMPETING INTERESTS

As at 30th June 2002, 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. The principal business of M-Tres is event production and management business.

Save as disclosed above, during the three months ended 30th June 2002, 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 June 2002, Core Pacific-Yamaichi International (H.K.) Limited, an associate (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of CPY, held 1,032,000 shares in the Company. Save as disclosed herein, 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 as at 30th June 2002.

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 of the Company, 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 three months ended 30th June 2002.

By Order of the Board
Tetsuya Komuro
Chairman

Hong Kong, 9th August 2002