

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Interim 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.

INTERIM RESULTS

The board of directors (the "Board") of Rojam Entertainment Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to present the consolidated results of the Group for the three months and six months ended 30th September 2002, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th September 2002, and the consolidated balance sheet as at 30th September 2002 of the Group, all of which are unaudited and condensed, along with selected explanatory notes.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE THREE MONTHS AND SIX MONTHS ENDED 30TH SEPTEMBER 2002

	Note	Unaudited Three months ended 30th September		Unaudited Six months ended 30th September	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	4,724	9,183	15,507	18,830
Other revenue	2	212	1,058	469	1,834
Total revenues		4,936	10,241	15,976	20,664
Less: overseas withholding taxation	3	(394)	(665)	(1,509)	(750)
		4,542	9,576	14,467	19,914
Cost of sales		(5,998)	(10,100)	(13,384)	(15,682)
Selling and distribution expenses		(19)	(6,034)	(21)	(15,083)
Other operating expenses		(10,945)	(15,721)	(12,806)	(30,681)
Loss before taxation		(12,420)	(22,279)	(11,744)	(41,532)
Taxation	3	-	-	-	-
Loss after taxation		(12,420)	(22,279)	(11,744)	(41,532)
Minority interests		-	-	-	1
Loss attributable to shareholders		(12,420)	(22,279)	(11,744)	(41,531)
Loss per share – Basic	5	(1.1 cents)	(2.0 cents)	(1.1 cents)	(3.8 cents)

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH SEPTEMBER 2002**

	<i>Note</i>	Unaudited 30th September 2002 HK\$'000	Audited 31st March 2002 HK\$'000
Intangible asset	6	24,179	–
Fixed assets	6	38,050	41,418
Deposit for investment in subsidiaries		–	31,500
Current assets			
Inventories		3,908	4,749
Amount due from a shareholder		–	5,373
Amounts due from related companies		–	1,637
Trade receivables	7	6,445	17,957
Other receivables and prepayments		10,843	14,406
Cash and bank balances		90,256	70,343
		111,452	114,465
Current liabilities			
Trade payables	8	69	2,851
Accruals and other payables		6,399	6,430
		6,468	9,281
Net current assets		104,984	105,184
Total assets less current liabilities		167,213	178,102
Financed by:			
Share capital	9	110,468	110,468
Reserves		55,932	67,634
Shareholders' funds		166,400	178,102
Minority interests		813	–
		167,213	178,102

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2002**

	Unaudited	
	Six months ended	
	30th September	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	20,821	(25,566)
Net cash from/(used in) investing activities	2,475	(16,725)
Net cash from financing activities	-	41,704
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	23,296	(587)
Exchange difference	(3,383)	1,780
Cash and cash equivalents at 1st April	70,343	132,412
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Cash and cash equivalents at 30th September	90,256	133,605
	<hr/> 	<hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2002**

	Unaudited			(Accumul- ated losses)/ retained	
	Share Capital HK\$'000	Share Premium HK\$'000	Exchange reserve HK\$'000	earnings HK\$'000	Total HK\$'000
At 1st April 2002	110,468	148,329	(4,924)	(75,771)	178,102
Loss for the six months ended 30th September 2002	-	-	-	(11,744)	(11,744)
Net losses not recognised in the profit and loss account	-	-	42	-	42
At 30th September 2002	110,468	148,329	(4,882)	(87,515)	166,400
At 1st April 2001	110,468	103,279	(3,118)	7,158	217,787
Loss for the six months ended 30th September 2001	-	-	-	(41,531)	(41,531)
Premium on issue of shares	-	63,000	-	-	63,000
Share issue expenses	-	(17,950)	-	-	(17,950)
Net losses not recognised in the profit and loss account	-	-	3,182	-	3,182
At 30th September 2001	110,468	148,329	64	(34,373)	224,488

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

1. Basis of preparation and accounting policies

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. The Company's shares were listed on GEM on 31st May 2001.

The unaudited condensed consolidated accounts have been prepared under the historical cost convention and in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants, and Chapter 18 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules").

These condensed accounts should be read in conjunction with the 2001/2002 Annual Report.

The accounting policies and methods of computation used in the preparation of these condensed consolidated accounts are consistent with those used in the annual accounts for the year ended 31st March 2002 except that the Group has adopted the new and revised SSAPs which are effective for accounting periods commencing on or after 1st January 2002.

2. Turnover, revenue and segment information

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

	Three months ended 30th September 2002		Six months ended 30th September 2002	
	HK\$'000	2001 HK\$'000	HK\$'000	2001 HK\$'000
Turnover				
Music production income				
– Production service fees	2,370	2,053	6,951	5,968
– Royalty income	1,533	2,841	6,901	2,841
Music publishing fee				
– Royalty income	51	17	83	20
Record distribution income	58	1,298	131	1,676
Artiste management fees	16	898	16	898
Event management income	10	113	24	3,673
Trademark licensing income	437	484	845	911
Merchandise sales	14	1,250	101	2,188
Banner advertising income	235	229	455	655
	4,724	9,183	15,507	18,830
Other revenue				
Interest income	212	1,058	409	1,834
Interest income arising from amount due from a shareholder	–	–	60	–
	212	1,058	469	1,834
Total revenues	4,936	10,241	15,976	20,664

An analysis of the Group's turnover and results for the period by business segments is as follows:

	Six months ended 30th September 2002						Total HK\$'000
	Music production HK\$'000	Music publishing HK\$'000	Record distribution HK\$'000	Event management HK\$'000	Merchandise sales HK\$'000	Others HK\$'000	
Turnover	<u>13,852</u>	<u>83</u>	<u>131</u>	<u>24</u>	<u>101</u>	<u>1,316</u>	<u>15,507</u>
Segment results	<u>(340)</u>	<u>83</u>	<u>110</u>	<u>24</u>	<u>13</u>	<u>724</u>	<u>614</u>
Unallocated cost							<u>(12,358)</u>
Loss before taxation							<u>(11,744)</u>
Taxation							<u>-</u>
Loss after taxation							<u>(11,744)</u>
Minority interests							<u>-</u>
Loss attributable to shareholders							<u>(11,744)</u>

	Six months ended 30th September 2001						Total HK\$'000
	Music production HK\$'000	Music publishing HK\$'000	Record distribution HK\$'000	Event management HK\$'000	Merchandise sales HK\$'000	Others HK\$'000	
Turnover	<u>8,809</u>	<u>20</u>	<u>1,676</u>	<u>3,673</u>	<u>2,188</u>	<u>2,464</u>	<u>18,830</u>
Segment results	<u>(869)</u>	<u>20</u>	<u>1,200</u>	<u>1,031</u>	<u>872</u>	<u>1,522</u>	<u>3,776</u>
Unallocated cost							<u>(45,308)</u>
Loss before taxation							<u>(41,532)</u>
Taxation							<u>-</u>
Loss after taxation							<u>(41,532)</u>
Minority interests							<u>1</u>
Loss attributable to shareholders							<u>(41,531)</u>

No geographical segment information is presented as during the six months ended 30th September 2002, less than 10% of the Group's segment revenue and segment results were derived from activities conducted outside Japan.

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 2002 and 2001 respectively. 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.

4. Interim dividend

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

5. Loss per share

The calculation of the basic loss per share for the three months and six months ended 30th September 2002 is based on the unaudited consolidated loss of the Group of approximately HK\$12,420,000 and HK\$11,744,000 (three months and six months ended 30th September 2001: HK\$22,279,000 and HK\$41,531,000) and the weighted average number of ordinary shares of 1,104,684,403 (three months and six months ended 30th September 2001: 1,104,684,403 and 1,081,733,583) shares.

Diluted loss per share has not been presented for the three months and six months ended 30th September 2002 and for the corresponding periods in 2001 as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share.

6. Capital expenditure

	Goodwill HK\$'000	Fixed assets HK\$'000
Six months ended 30th September 2002		
Opening net book amount	-	41,418
Additions	-	383
Acquisition of a subsidiary	24,179	3,254
Disposals	-	(22)
Depreciation charge	-	(10,408)
Exchange differences	-	3,425
	<hr/>	<hr/>
Closing net book amount	24,179	38,050

7. Trade receivables

The majority of the Group's turnover is on credit terms of sixty to ninety days. The ageing analysis of the trade receivables at end of the period was as follows:

	30th September 2002 HK\$'000	31st March 2002 HK\$'000
Current	1,706	5,055
30-60 days	206	3,854
61-90 days	640	2,806
Over 90 days	3,893	6,242
	<hr/>	<hr/>
	6,445	17,957

8. Trade payables

At 30th September 2002 and 31st March 2002, the ageing of the trade payables was current.

9. Share capital

	Authorised Ordinary shares of HK\$0.1 each	
	Number of shares	<i>HK\$'000</i>
At 31st March 2002 and 30th September 2002	<u>5,000,000,000</u>	<u>500,000</u>

	Issued and fully paid Ordinary shares of HK\$0.1 each	
	Number of shares	<i>HK\$'000</i>
At 1st April 2001	1,034,684,403	103,468
Issue during the year (<i>Note (a)</i>)	<u>70,000,000</u>	<u>7,000</u>
At 31st March 2002 and 30th September 2002	<u>1,104,684,403</u>	<u>110,468</u>

- (a) 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. All new shares issued rank pari passu with the then existing shares in all respects. The excess of issue price over the par value of the shares issued, net of share issue expenses incurred, has been credited to the share premium account of the Company. The Company raised net proceeds of approximately HK\$52.1 million out of the 70 million new shares issued.
- (b) There were no changes in the authorised and issued and fully paid share capital during the six months ended 30th September 2002.

10. Acquisition

On 30th September 2002, the Group acquired 90% of the registered share capital of Shanghai Rojam Entertainment Company Limited ("Shanghai Rojam", formerly known as Shanghai Chikou Entertainment Co. Limited). Shanghai Rojam is a Sino-foreign joint venture established in Shanghai under the laws of the PRC and is principally engaged in entertainment businesses and operations in Shanghai. The consideration of HK\$31,500,000 was settled in cash. The fair value of the net identifiable assets of Shanghai Rojam at 30th September 2002 was RMB8,654,000. The resulting goodwill was HK\$24,179,000.

The assets and liabilities arising from the acquisition are as follows:

	30th September 2002 <i>HK\$'000</i>
Fixed assets (<i>Note 6</i>)	3,254
Inventories	293
Trade and other receivables	218
Cash and bank balances	5,880
Trade and other payables	<u>(1,511)</u>
Fair value of net assets	8,134
Minority interests	(813)
Goodwill (<i>Note 6</i>)	<u>24,179</u>
Total purchase consideration	<u>31,500</u>

11. Commitments under operating leases – land and building

At 30th September 2002, the Group had future aggregate minimum lease payments under operating leases as follows:

	30th September 2002 HK\$'000	31st March 2002 HK\$'000
Within one year	8,164	8,101
In the second to fifth year inclusive	11,237	11,772
	<u>19,401</u>	<u>19,873</u>

12. Contingent liabilities

The Group had no material contingent liabilities at 30th September 2002 and 31st March 2002.

13. Related party transactions

Significant related party transactions, which were carried out in the ordinary and normal course of the Group's business are as follows:

		Six months ended 30th September 2002 HK\$'000	2001 HK\$'000
Revenues received and receivables from related parties:			
– trademark licence fees from Shanghai Rojam	(a)	845	912
Operating expenses paid and payable to related parties:			
– Hawaii studio charges paid to SK Planning		–	224
– studio charges paid to PT.TK Disc Bali		–	22
– producer and performance fee paid to:			
– TK Networks Inc.		–	Note (b)
– Mr. Tetsuya Komuro		Note (c)	Note (c)
Payment of share of listing expenses on behalf of			
Billion Moment Limited		<u>–</u>	<u>5,128</u>

- (a) Prior to 30th September 2002, on which date the Group acquired 90% of the registered share capital of Shanghai Rojam from Mr. Kebo Wu, a former director of the Company, Shanghai Rojam was a 90% beneficially owned company of Mr. Kebo Wu. The trademark licence fees are charged for the use of various trademarks by Shanghai Rojam in accordance with the terms of agreements.
- (b) Pursuant to a service agreement dated 2nd January 2001 between the Group and TK Networks Inc., a company wholly-owned by Mr. Tetsuya Komuro, TK Networks Inc. has, since 20th January 1998 procured and caused Mr. Tetsuya Komuro to provide producer services of music records to Rojam Entertainment Limited (“REL”). In consideration, REL may at its entire discretion give TK Networks Inc. a bonus payment. No bonus has been paid or is payable during the six months ended 30th September 2001.
- (c) Pursuant to a service agreement dated 21st May 2001 between Mr. Tetsuya Komuro and the Company, Mr. Tetsuya Komuro is remunerated, in his capacity as the chief executive producer of the Group, with the grant of share options entitling him to subscribe for up to a maximum of 41,387,376 ordinary shares in the Company of HK\$0.1 each at an exercise price of HK\$0.1, subject to terms and conditions attached thereto.

14. Significant subsequent events

- (a) On 10th October 2002, the completion of the acquisition by the Group of 80% of the equity interest in R&C Japan Ltd. ("R&C"), an indirectly wholly owned subsidiary of Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"), a company incorporated in Japan, at a consideration of HK\$67.5 million took place, pursuant to the conditional sale and purchase agreement dated 20th June 2002 as amended by two supplemental agreements dated 29th July 2002 and 13th September 2002 respectively entered into between the Company and Yoshimoto. The consideration was satisfied by the issue and allotment of 450,000,000 new ordinary shares of the Company of HK\$0.10 each at HK\$0.15 per share. The estimated goodwill is approximately HK\$90 million. R&C was incorporated in Japan, and is principally engaged in record distribution business.
- (b) By a writ of summons issued from the Registry of the High Court of Hong Kong on 10th October 2002, as amended by an amended writ of summons issued on 22nd October 2002, Turbo Top Limited claimed against Rojam Management Limited, a wholly owned subsidiary of the Company, for among other things, outstanding rental, management fee and rates.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The most significant event of the second quarter was the completion of the acquisition of the Rojam Disco. The company became the subsidiary of the Group as at 30th September 2002. The acquisition of R&C was also completed on 10th October 2002.

Comparing overall financial performance to the same period of last year, turnover for the six months ended 30th September 2002 amounted to approximately HK\$15.5 million, a decrease of 18% from HK\$18.8 million for the corresponding period in 2001. The loss attributable to shareholders for the six months ended 30th September 2002 decreased by 72% to approximately HK\$11.7 million compared to a loss of HK\$41.5 million for the six months ended 30th September 2001. The loss attributable to shareholders decreased from approximately HK\$22.3 million for the three months ended 30th September 2001 to HK\$12.4 million for the three months ended 30th September 2002.

The Group's continued effort in cost control and the absence of the start-up costs for the Group's music production business and the huge promotional costs during the six months ended 30th September 2002 resulted in a significant reduction of operating expenses by over 70% to HK\$12.8 million as compared with HK\$45.8 million for the same period of last year.

The decrease in turnover was mainly due to the decrease in turnover in the record distribution, event management and merchandise sales. Music production turnover, on the contrary, increased by 57% to approximately HK\$13.9 million while segment loss narrowed by 61% to approximately HK\$0.3 million, reflected the Group has improved the operating efficiencies of this core business.

Operation Review

During the period under review, the Group was exploring the opportunities to strengthen its core business in the provision of music content production services and other music-related services as well as to enhance the utilisation of the Group's studio in Tokyo, Rojam Studio. The table below sets out the major projects undertaken by the Group during the six months ended 30th September 2002.

Month of The release	Record company/Customer	Name of project	Project type	Artist
April	Avex Inc	Lights 2	CD, album	globe
	Avex Inc	OVER THE RAINBOW	CD, single	globe
May	Sony Music Entertainment Limited	MOTTO SWEETS	CD, single	Shiina Hekiru
	R & C Japan Ltd.	ULTRAS 2002	CD, album	ULTRAS
	R & C Japan Ltd.	RUNNING ON	CD, mini album	Naoto Kine
	R & C Japan Ltd.	AIDA Kimetekure	CD, single	ULTRAS
June	R & C Japan Ltd.	UPGRADED	CD and DVD	GABALL
July	R & C Japan Ltd.	ECSTASY	CD, single	Y.S.P. ALL STARS
July	Avex Inc	dreams from above	CD, single	globe vs push
	M-Tres Ltd.	TRANCE TOUR/category all Genre	Music production	globe
	Axiv Inc.	May I...	Remix	KRUD
August	Sony Music Entertainment Limited	LOVE TOMORROW	CD, single	Shiina Hekiru
September	Avex Inc	global trance2	CD, album	globe

Prospect

With the establishment in mainland China and the expansion in Japan, the Group is actively negotiating with various business partners, seeking to grow the existing businesses and create synergies with both business partners and its existing businesses.

The Group is exploring the opportunity to fully utilise the competitive advantages of the Rojam Disco. Looking ahead, the Group will introduce trendy Japanese entertainment concepts and elements into Shanghai and other parts of mainland China, establish new and music-related businesses, such as scouting talents in music in mainland China, and strive to lead the Rojam Disco to be an international entertainment parlour.

Having acquired two subsidiaries, a new effective and efficient operation plan has been implemented towards the end of the financial year. The new operation plan, aiming to boost revenue and accelerate the growth rate of profitability, included reorganisation of personnel, enhancement on marketing programmes and comprehensive review on the cost structure. The Group will benefit from the stable cash flow generated by its existing businesses and from the growth anticipated from the new business. Lastly, the Group welcomed Mr. Hiroshi Osaki and Mr. Yukitsugu Shimizu as the executive directors in October 2002.

OTHER INFORMATION

Financial Resources and Liquidity

The Group financed its operations with internally generated cash flows and the balance of proceeds from the placing of shares in May 2001. As at 30th September 2002, the Group's cash and bank balances was at HK\$90.3 million, compared to HK\$70.3 million at 31st March 2002. During the six months ended 30th September 2002, the Group generated HK\$23.3 million from its operations and investing activities. The Group has no borrowing throughout the period under review.

Foreign Exchange Exposure

Since over 90% of the Group's revenue was derived from Japan operation, the Group is exposed to foreign currency risk for the Japanese currency. Management's attitude is risk adverse and is prepared to put hedging measures in place should the market situation turn volatile.

Capital Structure

There were no changes in the Company's capital structure during the six months ended 30th September 2002.

Acquisitions of subsidiaries

The acquisition of 90% of the registered share capital of Shanghai Rojam was completed on 30th September 2002. The company is a Sino-foreign joint venture established in Shanghai under the laws of the PRC and is principally engaged in entertainment businesses and operations in Shanghai. The discotheque business operation is conducted under the name "Rojam Disco".

On 10th October 2002, the Group also acquired 80% of the equity interest in R&C Japan Ltd., an indirectly wholly owned subsidiary of Yoshimoto Kogyo Co., Ltd. The company was incorporated in Japan, and is principally engaged in record distribution business.

Other than the above, the Group did not have any plan for material investment and acquisition of material capital assets as at 30th September 2002.

Charge on Group Assets

As at 30th September 2002, the Group did not have any charge on its assets.

Contingent Liabilities

The Group had no material contingent liabilities at 30th September 2002.

Employee Information

As at 30th September 2002, the Group had 99 full-time employees spreading from Hong Kong, Japan and mainland China. Staff costs, excluding directors' emoluments, totalled HK\$4.1 million for the six months ended 30th September 2002. The Group's remuneration policy remained the same as detailed in the Annual Report for the year ended 31st March 2002.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective as stated in the prospectus dated 24th May 2001 (the "Prospectus")

Actual business progress for the six months ended 30th September 2002

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

The Group has entered into a service contract with CAPCON, a games software provider in Japan, for the production of music content to a game software during the period under review. After introducing Yoshimoto as a strategic investor, the Group would be in a better position to secure music production contracts than the Group normally would, taking into consideration the intense competition from other established players.

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

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

Produce not less than 12 records for contracted record companies

Completed.

Release not less than 5 records under the Group's label

The Group has decided to shift the music distribution business to the newly acquired subsidiary, R&C. With the acquisition of R&C, the Directors currently estimate that the Group would release not less than 5 audio and audio-visual recordings in the next six months.

3. Geographical expansion in Asia

Taiwan

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

The contract with the Group's local representative has expired. Due to the unfavourable economic conditions prevailing in the region, the Group has put its plan to enter the market in Taiwan on hold until the market conditions improved.

South Korea

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

The Group has not yet released any records in South Korea because no suitable partner has been identified so far. The Directors are of the view that at the current stage, it is more cost effective to concentrate the Group's resources on the existing markets, such as Japan and PRC.

PRC

Engage in not less than 1 music production or related project

The Group is discussing with certain local partners to explore co-operation opportunity, but no agreement has yet been reached.

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

Sponsor or participate in television programs, activities and events in Asia to promote the Group's music, artistes, producers and business

The Group participated in various promotional activities in Hong Kong, Japan and mainland China to promote its music, artistes, producers and business.

5. Exploitation of the Internet media

Audition

Conduct audition for artistes

With the acquisition of the Rojam Disco, the Group is studying the feasibility of other forms of audition for artistes.

Merchandise sales

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

No new feature product was released during the period under review.

USE OF PROCEEDS FROM THE PLACING OF SHARES

The net proceeds to the Group from the placing of shares in May 2001 (the “Placing”), after deduction of underwriting fees and related expenses payable by the Company in relation to the Placing, were approximately HK\$52.1 million. During the period from 31st May 2001 (date of listing) to 30th September 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

	As stated in the Prospectus <i>HK\$ million</i>	Actual <i>HK\$ million</i>
– 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 (<i>Note 1</i>);	5.0	6.3
– For the recruitment of producers mainly to strengthen its music production capacity (<i>Note 2</i>);	16.0	3.5
– 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 (<i>Note 3</i>);	13.5	9.3
– For training and development of artistes in different Asian countries to achieve geographic expansion (<i>Note 4</i>);	2.0	0.4
– 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 (<i>Note 5</i>); and	1.5	–
– For general working capital purposes.	2.0	2.0
	<u>40.0</u>	<u>21.5</u>

The remaining net proceeds of approximately HK\$30.6 million were placed on short term deposits with licensed banks in Hong Kong for future use as identified by the Group’s business plans.

Notes:

1. Additional studio equipment was acquired for certain music production services.
2. No producer was recruited during the period under review, therefore the proceeds utilised were less than expected.

3. Most of the promotional activities that took place during the period under review were press conferences and interviews, the Group has not engaged in any sponsorship. Therefore, expenditure on promoting activities was reduced.
4. The Group has not concentrated on artiste management, thus limited cash resources were being utilized.
5. The Group has not established any music learning centre. It was still at the planning stage.

DIRECTORS' INTEREST IN EQUITY OR DEBT SECURITIES

As at 30th September 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	Approximate effective interests in the Company
Mr. Tetsuya Komuro	472,830,667	42.80%
Mr. Tomohiko Domen	27,022,000	2.45%
Mr. Arihito Yamada	8,913,600	0.81%

(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".

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".

Save as disclosed above, as at 30th September 2002, 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 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 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 September 2002, other than the interest of Mr. Tetsuya Komuro, in the equity securities of the Company, no interest representing 10% or more of the Company issued share capital 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:

Name	Date of grant	Exercise price (HK\$)	Granted	Exercised	Lapsed	As at 30th September 2002
Mr. Tetsuya Komuro	21st May 2001	0.1	41,387,376	-	-	41,387,376
Mr. Naoto Kine	21st May 2001	0.8	5,173,422	-	-	5,173,422
Mr. Koji Kubo	21st May 2001	0.8	5,173,422	-	-	5,173,422
Total			<u>51,734,220</u>	<u>-</u>	<u>-</u>	<u>51,734,220</u>

Option period commences on 31st May 2001 and expires 10 years thereafter. As at 30th September 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.

(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 September 2002, options comprising a total of 20,540,000 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 as at 30th September 2002
12th July 2001	0.47	31,700,000

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

COMPETING INTERESTS

As at 30th September 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. 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 2002, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) 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 2002, Core Pacific – Yamaichi Securities, Tokyo, an associate (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of CPY, held 1,026,000 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 September 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.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30th September 2002, the Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

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 2002.

By Order of the Board
Tetsuya Komuro
Chairman

Hong Kong, 13th November 2002