

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2002/2003



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 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 nine months ended 31st December 2002 together with the comparative unaudited figures for the corresponding periods in 2001.

	Note	Three months ended 31st December		Nine months ended 31st December	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	34,680	11,915	50,187	30,745
Other revenue	2	230	477	699	2,311
Total revenues		34,910	12,392	50,886	33,056
Less: overseas withholding taxation	3	–	(798)	(1,509)	(1,548)
		34,910	11,594	49,377	31,508
Cost of sales		(21,464)	(10,652)	(34,848)	(26,334)
Selling and distribution expenses		(4,393)	–	(4,414)	(15,083)
Other operating expenses		(9,419)	(17,739)	(15,213)	(44,718)
Amortisation and depreciation		(1,444)	(1,901)	(8,456)	(5,603)
Loss before taxation		(1,810)	(18,698)	(13,554)	(60,230)
Taxation	3	(212)	–	(212)	–
Loss after taxation		(2,022)	(18,698)	(13,766)	(60,230)
Minority interests		(1,451)	2	(1,451)	3
Loss attributable to shareholders		(3,473)	(18,696)	(15,217)	(60,227)
Loss per share – Basic	4	(0.2 cents)	(1.7 cents)	(1.2 cents)	(5.5 cents)

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. The Company's 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 and nine months ended 31st December 2002 are as follows:

	Three months ended 31st December		Nine months ended 31st December	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
Music production income				
– Production service fees	1,266	4,702	8,217	10,670
– Royalty income	1,771	3,683	8,672	6,524
Music publishing fee				
– Royalty income	32	101	115	121
Record distribution income	27,032	2,249	27,163	3,925
Disco income	4,302	–	4,302	–
Artiste management fees	38	–	54	898
Event management income	2	390	26	4,063
Trademark licensing income	–	499	845	1,410
Merchandise sales	9	61	110	2,249
Banner advertising income	228	230	683	885
	34,680	11,915	50,187	30,745
Other revenue				
Interest income	230	477	639	2,311
Interest income arising from amount due from a shareholder	–	–	60	–
Total revenues	34,910	12,392	50,886	33,056

3. Taxation and overseas withholding taxation

The amount of taxation charged to the consolidated profit and loss account represents taxation on the profits of the subsidiary in the People's Republic of China (the "PRC") and is calculated on the estimated assessable profits for the three months and nine months ended 31st December 2002 at the rates of taxation prevailing in the PRC.

No provisions for Hong Kong profits tax and Japanese corporate income tax have been made as the companies operating in these jurisdictions have no assessable profits for the three months and nine months ended 31st December 2002 and 2001.

Overseas withholding taxation represents Japan and PRC withholding taxes on the income subject to withholding taxes and is calculated at the rates applicable thereto.

4. Loss per share

The calculation of the basic loss per share for the three months and nine months ended 31st December 2002 is based on the unaudited consolidated loss of the Group of approximately HK\$3,473,000 and HK\$15,217,000 (three months and nine months ended 31st December 2001: HK\$18,696,000 and HK\$60,227,000) and the weighted average number of ordinary shares for the three months and nine months ended 31st December 2002 of 1,510,662,664 and 1,240,502,585 (three months and nine months ended 31st December 2001: 1,104,684,403 and 1,089,411,676) shares respectively.

Diluted loss per share has not been presented for the three months and nine months ended 31st December 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.

5. Interim dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December 2002 (2001: Nil).

6. Reserves

	Share premium HK\$'000	Exchange reserve HK\$'000	Retained earnings/ losses) HK\$'000	Total HK\$'000
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 nine months ended 31st December 2001	–	–	(60,227)	(60,227)
Exchange adjustments on the translation of accounts of overseas subsidiaries	–	542	–	542
	<u>148,329</u>	<u>(2,576)</u>	<u>(53,069)</u>	<u>92,684</u>
At 31st December 2001	<u>148,329</u>	<u>(2,576)</u>	<u>(53,069)</u>	<u>92,684</u>
At 1st April 2002	148,329	(4,924)	(75,771)	67,634
Premium on issue of shares	22,500	–	–	22,500
Share issue expenses	(5,176)	–	–	(5,176)
Loss for the nine months ended 31st December 2002	–	–	(15,217)	(15,217)
Exchange adjustments on the translation of accounts of overseas subsidiaries	–	48	–	48
	<u>–</u>	<u>48</u>	<u>–</u>	<u>48</u>
At 31st December 2002	<u>165,653</u>	<u>(4,876)</u>	<u>(90,988)</u>	<u>69,789</u>

BUSINESS REVIEW AND PROSPECTS

Financial Review

For the nine months ended 31st December 2002, the Group recorded a turnover of approximately HK\$50.2 million, increased by around 63% from approximately HK\$30.7 million over the corresponding period in 2001. The loss attributable to shareholders for the nine months ended 31st December 2002 was approximately HK\$15.2 million, decreased by around 75% from approximately HK\$60.2 million, compared with the corresponding period in 2001.

The amortisation of goodwill amounted to approximately HK\$1.4 million for the nine months ended 31st December 2002. The Group recorded a loss before interest, taxation, depreciation and amortisation of goodwill of approximately HK\$0.4 million and approximately HK\$5.1 million for the three months and nine months ended 31st December 2002 respectively. Comparing to the loss of approximately HK\$16.8 million and HK\$54.6 million for the corresponding periods in the last year respectively, the operating results of the Group have improved substantially.

With the newly acquired subsidiaries, namely Rojam Disco and R&C, in September and October 2002 respectively, the turnover of the Group increased significantly in the quarter ended 31st December 2002. Discotheque business contributed a turnover of approximately HK\$4.3 million for the quarter. Turnover from the record distribution segment for the nine months ended 31st December 2002 amounted to approximately HK\$27.2 million, almost 7 times of approximately HK\$3.9 million for the corresponding period of 2001.

Other operating expenses have continued to fall in this year. For the nine months ended 31st December 2002, other operating expenses amounted to approximately HK\$15.2 million, representing a decrease of around 66% from approximately HK\$44.7 million as compared with the corresponding period in 2001, mainly as a result of the rigorous cost-cutting measures.

As at 31st December 2002, the Group had a cash balance of approximately HK\$104.9 million, over 16% growth from HK\$90.3 million as at 30th September 2002. Cash balance has continued to increase in each of the past three quarters as the Group continues to focus its efforts on businesses that generate cash.

Operation Review

Record distribution

In this quarter, the Group acquired R&C and the leading entertainment company in Japan, Yoshimoto Kogyo Co. Ltd. ("Yoshimoto") became the second largest shareholder of the Group. The Group not only expanded its record distribution business, but also strengthened its music production business.

During the quarter, the Group developed a number of collaboration with Yoshimoto. On 30th October 2002, R&C released 1 single for Kuzu, a comedian group of two managed by Yoshimoto. The song was an ending theme of a TV programme broadcasted in Fuji TV. The sales quantity of the single up to the end of the quarter was over 130,000 copies, ranked the seventh on the Original Confidence magazine's hits chart, ORICON.

During the three months ended 31st December 2002, R&C released a total of 2 albums, 1 mini-album, 5 singles and 5 DVDs. The nationwide distribution channels established by R&C enabled its products to achieve quick penetration into the lucrative market. One of the popular new titles was "CASTLE IN THE CLOUDS". The single was performed by TM Network and was a campaign song of "Laugh & Peace", an event to celebrate both the 50th Anniversary of Nihon TV and the 90th Anniversary of Yoshimoto. Over 50,000 copies of the single were sold up to the end of this quarter and ranked the ninth on the ORICON.

Music production

New titles completed in the three months ended 31st December 2002 included 2 albums, 1 single and 1 DVD produced for Avex Inc. and 1 album, 1 mini-album and 1 single for the Group. Among popular new titles were "8 YEARS Many Classic Moments" and "seize the light", which have received overwhelming responses in Japan and ranked top ten on the ORICON.

Rojam disco

During the three months ended 31st December 2002, Rojam Disco attracted several TV stations, advertisement production houses and international artistes to organise different kinds of special events or hold their promotional programs at the disco. Local and

international DJs were invited to have live performances and introduce the latest music to Rojam Disco. Rojam Disco's 4th Anniversary Celebration Party and the Happy New Year Carnival held in December 2002 were popular functions of the quarter, which recorded approximately 1,500 patrons daily.

In order to strengthen the performance of Rojam Disco, renovation projects are being undertaken progressively. In November 2002, the Group also invited a crew of Japanese producers to deliver in-house training to the staff to improve the standard of services and enhance their knowledge of the industry.

Prospects

The Group is in negotiations with several business partners, including a major conglomerate and record distributors in Japan to explore cooperation opportunities. With significant positions established in the record distribution sector, more production has been planned and will be in the pipeline for release soon.

The 2010 World Expo and the possibility of building large-scale theme parks in Shanghai are big economic boosts for the PRC. The entertainment industry is expected to benefit from these events. The Group will expand profitable businesses and be ready for the challenges and opportunities ahead.

The Directors believe that the Group's continual disciplined expansion will create additional growth and value to the shareholders for the remainder of this financial year and into the future.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 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	Family interests	Total interests	Approximate shareholding in the Company
Mr. Tetsuya Komuro (<i>Note</i>)	472,830,667	2,200,000	475,030,667	30.55%
Mr. Arihito Yamada	8,913,600	–	8,913,600	0.57%

Note: As at 31st December 2002, Mr. Tetsuya Komuro and Ms. Keiko Yamada, the spouse of Mr. Tetsuya Komuro, personally held 472,830,667 shares and 2,200,000 shares respectively as at 31st December 2002. Mr. Tetsuya Komuro was accordingly taken to be interested in 475,030,667 shares as at 31st December 2002.

(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 in the Company at an exercise price of HK\$0.10 per share 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. Arihito Yamada was granted options to subscribe for up to a maximum of 8,800,000 shares in 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 31st December 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 nine months ended 31st December 2002 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors of the Company, or their spouses or children under eighteen years of age, had any right to subscribe for the shares of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2002, other than the interests of Mr. Tetsuya Komuro, the register required to be kept 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 shares held	Approximate shareholding in the Company
Yoshimoto America, Inc. <i>(Note)</i>	450,000,000	28.94%
Yoshimoto Kogyo Co., Ltd. <i>(Note)</i>	450,000,000	28.94%

Note: Yoshimoto America, Inc. is a wholly owned subsidiary of Yoshimoto Kogyo Co., Ltd. (“Yoshimoto Kogyo”). Yoshimoto Kogyo is accordingly deemed to be interested in 450,000,000 shares in the Company as at 31st December 2002.

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 31st
						December 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 31st December 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 31st December 2002, options comprising a total of 21,740,000 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. 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 31st December 2002
12th July 2001	0.47	30,500,000

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 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 nine months ended 31st December 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 or had any other conflicts of interest with the Group.

SPONSOR'S INTERESTS

As notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY"), as at 31st December 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 31st December 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 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

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 nine months ended 31st December 2002, the Company has complied with the 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 nine months ended 31st December 2002.

By Order of the Board
Tetsuya Komuro
Chairman

Hong Kong, 12th February 2003