

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

2002/2003 Annual Report



ROJAM

Entertainment Network Asia

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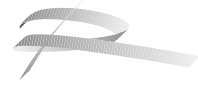
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This annual report, for which the directors of Rojam Entertainment Holdings Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities 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 annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



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BOARD OF DIRECTORS

Executive Directors

Tetsuya Komuro (*Chairman*)
Takeyasu Hashizume (*President*)
Tetsuo Mori
(*Executive Vice President (Greater China)*)
Osamu Nagashima
(*Executive Vice President (Japan)*)
Arihito Yamada
(*Executive Vice President (Finance)*)
Yukitsugu Shimizu
Hiroshi Osaki

Independent Non-executive Directors

Seiichi Nakaoda
Yeung Mui Kwan, David

COMPLIANCE OFFICER

Arihito Yamada

COMPANY SECRETARY

Etsuko Hoshiyama, *AICPA, AHKSA*

QUALIFIED ACCOUNTANT

Cheng Kit Sum, *FCCA, AHKSA*

AUDIT COMMITTEE

Seiichi Nakaoda
Yeung Mui Kwan, David

AUTHORISED REPRESENTATIVES

Arihito Yamada
Tetsuo Mori

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 2403, 24/F, Tower 2
Lippo Centre
89 Queensway
Hong Kong

WEBSITE

<http://www.rojam.com>

STOCK CODE

8075

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International
(Cayman) Limited
Butterfield House
Fort Street
P. O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
Rooms 1901-5, 19/F
Hopewell Centre
183 Queen's Road East
Hong Kong

SPONSOR

Core Pacific – Yamaichi Capital Limited

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS

As to Hong Kong Law:
Deacons

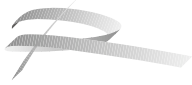
As to Cayman Islands Law:
Conyers Dill & Pearman

As to Japanese Law:
Nagashima Ohno & Tsunematsu

PRINCIPAL BANKERS

Credit Suisse First Boston
Hong Kong Branch

The Hong Kong and Shanghai Banking
Corporation Limited



Financial Summary

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Results for the year ended 31st March					
Turnover	<u>129,491</u>	<u>48,756</u>	<u>134,925</u>	<u>1,506</u>	<u>4,662</u>
Profit/(loss) before taxation	<u>10,571</u>	<u>(82,933)</u>	<u>19,722</u>	<u>(916)</u>	<u>(1,302)</u>
Profit/(loss) attributable to shareholders	<u>3,320</u>	<u>(82,929)</u>	<u>19,723</u>	<u>(916)</u>	<u>(1,302)</u>
Assets and liabilities					
Total assets	<u>259,138</u>	187,383	234,022	23,005	21,608
Total liabilities	<u>(34,588)</u>	(9,281)	(23,134)	(25,123)	(22,811)
Minority interests	<u>484</u>	—	(101)	—	—
Net assets/(liabilities)	<u>225,034</u>	<u>178,102</u>	<u>210,787</u>	<u>(2,118)</u>	<u>(1,203)</u>



This is my first statement delivered as the President of Rojam Entertainment Holdings Limited ("Rojam" or the "Company") and its subsidiaries (together, the "Group") in the Annual Report. The financial year of 2002/2003 was another year of milestone for the Group. I am pleased to present the results of the Group for the financial year ended 31st March 2003.

FINANCIAL HIGHLIGHTS

Our acquisition, rationalisation and integration strategies adopted over the past two years have been rewarded by solid financial performance. The Group recorded a profit before taxation of HK\$10.6 million in the year, compared to a loss of HK\$82.9 million in 2001/2002. Revenue increased by 1.5 times from HK\$51.4 million to HK\$130.4 million. Total costs decreased by 10% from HK\$131.5 million to HK\$118.8 million. Profit attributable to shareholders amounted to HK\$3.3 million, compared to a loss of HK\$82.9 million in the previous year. Positive cash flow of HK\$14.5 million was achieved for the year. Basic earning per share was 0.3 HK cent, compared to a loss per share of 7.6 HK cents.

The Directors do not recommend the payment of any dividend for the year ended 31st March 2003.

STRATEGIC INVESTORS

It is part of the Group's business development strategy to establish and maintain strategic partnerships with reputable companies with superior industry influence in the Group's established and developing business areas. We believe that the relationships with these strategic partners will provide synergies to the Group and also introduce potential clients and opportunities to the Group.

During the year, one of the major entertainment companies in Japan, Yoshimoto Kogyo Co., Ltd. ("Yoshimoto") became the largest shareholder of the Group. Yoshimoto currently holds 450,000,000 ordinary shares representing approximately 28.94% of the issued share capital of the Company. Yoshimoto was founded in 1912 with its headquarters in Osaka. Shares of Yoshimoto are listed on the Tokyo Stock Exchange Section 1 and the Osaka Securities Exchange Section I. Its operations include planning, production and sale of TV, radio and live programmes using many entertainers under its contracts. It also manages real estate, travel, amusement and other commercial TV stations, radio broadcasting companies and advertisement companies in Japan.

The strategic alliance with Yoshimoto provides synergies to the Group on a number of different levels. The Group is able to leverage Yoshimoto's brand name, considerable talent and resources in the entertainment industry. The Group can also be better positioned to strengthen its music production capabilities by sourcing via Yoshimoto's existing network and programme for new music talents including both performers and producers. In particular, the Group can enjoy access to Yoshimoto's large pool of potential music performing talents and is in a better position to secure music production contracts and to enjoy a higher and more steady source of income from music production.

BUSINESS REVIEW

The Group has successfully acquired R&C Japan Ltd. ("R&C") and Rojam Disco (or "Shanghai Rojam") in October 2002. It has also successfully managed growth by turning integrations into its core competence. Significant growth of sales in the core businesses was recorded for the financial year 2002/2003.



President's Statement *(Continued)*

The Group converted synergies from the acquisition of R&C into concrete results. Riding on Yoshimoto's artiste resources and overwhelming influences in the local television industry, the Group has produced and distributed popular titles during the year under review. Our records regularly reached top 10 in the Japanese hits chart.

Our Rojam Disco attracted a total of approximately 150,000 patrons in the second half of the financial year (from the date on which the acquisition completed to the financial year end). Since its acquisition, the Group continued to explore the opportunity to fully utilise the competitive advantages of the Rojam Disco as well as introduce trendy Japanese entertainment concepts and elements into Shanghai.

There are other events also significant but in a different way. In the first quarter of the financial year, a major restructuring programme that streamlined our business was completed. Our operating efficiencies were further enhanced while the operating costs were further reduced. In addition, the Group's website was revamped during the year to allow easier access to the most updated company news. Press releases and presentations were distributed in a proactive manner so that investors could keep good track of the latest information.

OUTLOOK

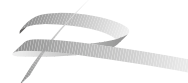
I believe music and entertainment is playing an ever important role in tomorrow's society. Music productions and distributions are the Group's core competences, positioning the Group well for the future.

The number of employees increased from 23 to 101 since the inclusion of the employees in R&C(7) and Rojam Disco(77) and our presence extended to mainland China and the USA during the year. The fast expansion requires a visionary, talented and disciplined team. Securing market shares, turning around under-performing operations and rapidly integrating new assets are not without their frustrations. Nevertheless, the team has overcome the challenges one by one. With this competitive advantage, we shall continue to undergo geographical expansion. Our next step is to set up additional entertainment houses including open a new discotheque in Asia.

On behalf of the board of Directors, I would like to extend my sincere thanks and appreciation to all our colleagues and team of producers and music talents for their hard work and commitment and to our customers, suppliers and shareholders for their continued support. I look forward to celebrating another year of achievements with the team in the forthcoming financial year.

Takeyasu Hashizume
President

26th June 2003



FINANCIAL REVIEW

Overall performance

The year under review indicated the successful completion of the major restructuring programme taken place in the previous year that streamlined operations, integrated business units and rationalised production. The comparatively high operating costs, which was the main reason of the loss in the last financial year, were sharply reduced. It also proved the fruitful acquisitions made during the year. The Group recorded a profit after taxation but before minority interests of HK\$10.2 million for the year ended 31st March 2003, compared to a loss of HK\$82.9 million for the year ended 31st March 2002. Profit attributable to shareholders for the year was HK\$3.3 million, compared to a loss of HK\$82.9 million for the last year. The profit achieved was a result of the broadened revenue base and continued cost discipline.

Turnover and other revenue

The Group recorded a total turnover and other revenue of approximately HK\$130.4 million for the year ended 31st March 2003, representing a growth of 153% from HK\$51.4 million in the previous year.

The record distribution business was the largest revenue contributor at 66%, with music production business, discotheque business and other businesses each contributing 26%, 7% and 1% respectively.

In line with the Group's geographical focus, revenue generated in Japan represented 92% of total revenue, while operations in mainland China and Hong Kong contributed 7% and 1% respectively.

Segment results

Comparing segmental financial performance to the previous year demonstrates the continuing improvement of the Group's operations with the result that the record distribution business and music production business have improved their segment profits for the year ended 31st March 2003.

The record distribution business delivered solid financial growth in the financial year 2002/2003. Turnover reached HK\$85.1 million, over 20 times of the turnover of the last year. The sharp increase was mainly due to the consolidation with the result of R&C. The strong growth of revenue coupled with continuing cost discipline increased the segment profit by 269% to HK\$32.4 million.

The music production revenue grew by 17% to HK\$38.7 million and segment profit amounted to HK\$1.2 million as compared to a loss of HK\$0.05 million in last year. Benefiting from the acquisition of R&C, more projects have been undertaken and economies of scale have been achieved.

The revenue generated from the new discotheque business was HK\$8.8 million. Excluding the goodwill amortisation charge of HK\$0.6 million and the professional charges in relation to the acquisition, the segment operating profit amounted to HK\$1.1 million.



FINANCIAL REVIEW *(Continued)*

Cost of sales and operating expenses

Cost of sales increased by 10% from HK\$41.4 million to HK\$45.5 million. Selling and distribution expenses increased by 173% from HK\$13.8 million to HK\$37.7 million. The increase reflected the consolidation of newly acquired businesses and the growth of sales in particular the record distribution sales.

The operating expenses dropped by 57% from HK\$76.3 million to HK\$32.9 million. The Group remains committed to maintaining a low cost and controlled operating environment. In particular, corporate operating expenses recorded a 79% decrease compared to the financial year 2001/2002. Staff costs decreased by 26% from HK\$15.1 million to HK\$11.1 million in contrast with the expansion of work force. The Group will continue to manage its expenses base while prudently investing in the necessary corporate resources to continue to integrate and add value to the acquired businesses.

Operating expenses as a percentage of revenue was reduced from 148% to 25%, reflecting the impact of economies of scale brought by the new acquisitions and signifying that a learner cost structure was in place to support a larger revenue base compared to the previous financial year.

FINANCIAL RESOURCES AND LIQUIDITY

At 31st March 2003, the Group's total shareholder's funds amounted to approximately HK\$225.0 million as compared to HK\$178.1 million as at 31st March 2002. Current assets amounted to approximately HK\$115.4 million, of which approximately HK\$80.0 million were cash and bank balances. At 31st March 2003, the Group had current liabilities of approximately HK\$34.6 million.

During the year, the Company issued in total 450,000,000 new ordinary shares of HK\$0.10 each at HK\$0.15 per share. The shares satisfied the consideration payable for the acquisition of R&C.

The Group financed its operations with internally generated cash flows and the balance of proceeds from the placing of shares in May 2001. During the year ended 31st March 2003, the Group had a net cash outflow from operating activities of HK\$16.1 million. Net cash inflow from investing activities amounted to HK\$30.6 million. The Group has no borrowing throughout the year under review. The gearing ratio of the Group, calculated as non-current liabilities to shareholders' funds, was 0.

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. At 31st March 2003, the Group has no outstanding foreign currency hedge contracts.



CHARGE ON GROUP ASSETS

At 31st March 2003, the Group did not have any charge on its assets.

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, the People's Republic of China (the "PRC") 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". For the period from 1st October 2002 to 31st March 2003, Shanghai Rojam recorded a turnover of HK\$8.8 million and profit after taxation of HK\$1.1 million.

On 10th October 2002, the Group also acquired 80% of the equity interest in R&C, a former indirectly wholly-owned subsidiary of Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"). R&C was incorporated in Japan, and is principally engaged in the production of music master tapes and licensing of master tape rights. For the period from 11th October 2002 to 31st March 2003, R&C recorded a turnover of HK\$85.1 million and profit after taxation of HK\$34.3 million.

At 31st March 2003, the Group did not have any plan for material investment and acquisition of material capital assets.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities at 31st March 2003.

EMPLOYEE INFORMATION

At 31st March 2003, the Group had 101 full-time employees in Hong Kong, Japan and Shanghai. Staff costs, excluding Directors' emoluments, totalled HK\$11.1 million (2002: HK\$15.1 million). The Group's remuneration policy is basically determined by the performance of individual employees. Staff benefits, including medical coverage and provident funds are also provided to employees. In addition, training and development programmes are provided on an ongoing basis throughout the Group. The Group has also adopted a share option scheme whereby eligible employees of the Group may be granted options to subscribe for shares in the Company.



OPERATIONS REVIEW

Record distribution

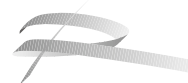
The record distribution business is now the highest revenue generator. Synergies realised from the acquisition of R&C and the collaboration with the leading entertainment company in Japan, Yoshimoto has generated significant incremental sales.

With Yoshimoto's dominant position in the entertainment industry, the cooperation has given the Group access to a number of regional TV stations, a broad advertiser base and most importantly, to its pool of popular artistes such as Kuzu. R&C released 1 single namely "Ikiteru kototte subarashii", 1 album namely "Kuzu-Album" and 1 DVD namely "Kuzu-LIVE 2002" for Kuzu, a comedian group of two managed by Yoshimoto. With this popular artist, the album and single were well received by the public and they reached the second and the seventh respectively on the Original Confidence magazine's hits chart, ORICON on a single day.

By participating in Yoshimoto's television programmes and tie-up activities, the Group could achieve low-cost effective advertising without spending huge amounts of money on promotion. The comedy-oriented products such as DVD for talk show released by the Group were high-margin products, which secure steady source of profits for the Group.

For the period from 11th October 2002 to 31st March 2003, R&C released a total of 8 albums, 1 mini-album, 10 singles and 12 DVDs. The nationwide distribution channels established by R&C enabled its products achieve quick penetration into the lucrative market. Among these records, the production of 5 albums, 1 mini album and 1 single were produced by the Group's producers. With its versatile in-house music production team, state-of-art music production facilities in the Rojam Studio and valuable production experience, the Group could produce its music in comparatively lower costs and guaranteed quality. One of the popular new titles was "CASTLE IN THE CLOUDS". The single was performed by TM Network, a musical band comprising the Group's producers, Tetsuya Komuro, Naoto Kine and Takashi Utsunomiya and was a campaign song of "Laugh & Peace", an event that celebrated both of the 50th Anniversary of Nihon TV and the 90th Anniversary of Yoshimoto. The single was ranked the ninth on the ORICON.

The Group has contracted with 4 artists: mushroom, HOUND DOG, Yukari Obata and Kiichi Yokoyama. They were introduced to the public with the release of their respective new records.



OPERATIONS REVIEW (Continued)

Record distribution (Continued)

A summary of the music records produced and distributed by R&C for the period from 11th October 2002 to 31st March 2003 is set out below.

Title	Artist	Released date	Format
Honey Moon	Sayaka Kamiyama 神山さやか	19/10/2002	Single
CASTLE IN THE CLOUDS	TM Network	30/10/2002	Single
Ikiteru kototte subarashii 生きてることってすばらしい	Kuzu くず	30/10/2002	Single
Wakuwaku It's Love わくわく It's Love	route φ	9/11/2002	Single
TK PRESENTS SYNTHESIZED TRANCE volume 1	Tetsuya Komuro	20/11/2002	Album
Popcorn	Hound dog	7/12/2002	Single
Big Dipper	Hound dog	7/12/2002	Album
Ci e la musica	Naoto Kine	21/12/2002	Mini Album
Boku de arutameni ボクであるために	mushroom	18/1/2003	Single
Fuyu-hotaru 冬蛍	Yukari Obata 小畑由香里	22/1/2003	Single
Kioku-to-Kiroku – Major Turn- Round (キヲクトキロク)	TM Network	5/2/2003	Album
SYNTHESIZED TRANCE VOL.2	Tetsuya Komuro	26/2/2003	Album
Dreamin'	Laynah	26/2/2003	Single
PIANO VOICE TK PIANO WORKS	Tetsuya Komuro	19/3/2003	Album
PIANO WIND TK AMBIENT SELECTION	Tetsuya Komuro	19/3/2003	Album



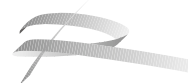
OPERATIONS REVIEW *(Continued)*

Record distribution *(Continued)*

Title	Artist	Released date	Format
Kuzu-Album くずアルバム	Kuzu くず	26/3/2003	Album
Artist Proof	Kiichi Yokoyama 横山輝一	26/3/2003	Album
Aqua reat	Kiichi Yokoyama 横山輝一	26/3/2003	Single
infinity	Meyou	26/3/2003	Single

A summary of the DVDs produced and distributed by R&C for the period from 11th October 2002 to 31st March 2003 is set out below.

Title	Artist	Released date
Konto-Live/INSTANT コントライブ/INSTANT	Shinagawa Shoji 品川庄司	19/10/2002
Seihuku Shinderera 制服 シンデレラ	Various	19/10/2002
Super Hitori-Gottsu vol.2 スーパー一人ごっつ vol.2	Hitoshi Matsumoto 松本人志	30/10/2002
Super Hitori-Gottsu vol.3 スーパー一人ごっつ vol.3	Hitoshi Matsumoto 松本人志	21/11/2002
Super Hitori-Gottsu vol.4 スーパー一人ごっつ vol.4	Hitoshi Matsumoto 松本人志	21/12/2002
Super Hitori-Gottsu vol.5 スーパー一人ごっつ vol.5	Hitoshi Matsumoto 松本人志	18/1/2003
VISUALBUM "Kansei" VISUALBUM "完成"	Hitoshi Matsumoto 松本人志	26/3/2003
VISUALBUM "Ringo" VISUALBUM "りんご"	Hitoshi Matsumoto 松本人志	26/3/2003



OPERATIONS REVIEW (Continued)

Record distribution (Continued)

Title	Artist	Released date
VISUALBUM "Banana" VISUALBUM "ばなな"	Hitoshi Matsumoto 松本人志	26/3/2003
VISUALBUM "Budou" VISUALBUM "ぶどう"	Hitoshi Matsumoto 松本人志	26/3/2003
Kuzu-LIVE 2002 くず LIVE 2002	Kuzu くず	26/3/2003
Gyagu 100 Renpatsu ギャグ100 連発	Yoshimoto Shin-kigeki 吉本新喜劇	29/3/2003

Music production

Music production business also benefited from the acquisition of R&C. Margin improvement and solid profit growth were achieved against an economic downturn.

The Group has been producing popular records to the reputable record companies. Among popular new titles were "8 YEARS Many Classic Moments" and "seize the light", which have received overwhelming response in Japan and ranked top ten on the ORICON.

The table below sets out the major projects undertaken by the Group during the year ended 31st March 2003.

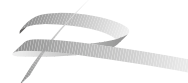
Month of the release	Record company	Title	Product	Artiste
2002				
April	Avex Inc	Lights 2	CD Album	globe
	Avex Inc	OVER THE RAINBOW	CD Single	globe
May	Sony Music	MOTTO SWEETS	CD Single	Shiina Hekiru
	Entertainment Limited			
	R & C Japan Ltd.	ULTRAS 2002	CD Album	ULTRAS
	R & C Japan Ltd.	RUNNING ON	CD Mini album	Naoto Kine
	R & C Japan Ltd.	AIDA Kimetekure	CD Single	ULTRAS



OPERATIONS REVIEW *(Continued)*

Music production *(Continued)*

Month of the release	Record company	Title	Product	Artiste
June	R & C Japan Ltd.	UPGRADED	CD and DVD	GABALL
July	R & C Japan Ltd.	ECSTASY	CD Single	Y.S.P. ALL STARS
	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
	Avex Inc	globe TOUR 2002 CATEGORY TRANCE & ALL GENRE – 1 day SPECIAL LIVE in Nipponbudokan	Live DVD	globe
	Toshiba EMI	KS-Tribute to Kazushi Sakuraba	CD Album	Tetsuya Komuro
November	Avex Inc	8 YEARS Many Classic Moments	CD Album	globe
	Avex Inc	seize the light	CD Single	globe
December	Avex Inc	8 YEARS – Clips Collection	DVD	globe
	Avex Inc	Ballads & Memories	CD Album	globe
2003				
March	Sony Records	10 Carat	CD Album	Shina Hekiru
	Avex Inc	PIANO globe – globe piano collection	CD Album	Tetsuya Komuro
	Avex Inc	TK WORKS super tune –BEST SELECTIONS–	CD Album	Tetsuya Komuro
	Avex Inc	LEVEL 4	CD Album	globe
	Avex Inc	get it on now feat. KEIKO	CD Single	globe



OPERATIONS REVIEW (Continued)

Rojam Disco

The Group is building an integrated entertainment platform. Acquiring the Rojam Disco during the year has brought to the platform an initial presence in mainland China, a channel to promote the Group's music and a broader stream of its revenue. With only half-yearly results consolidated, Rojam Disco performed well after its acquisition.

During the year under review, Rojam Disco attracted several TV stations, advertisement production houses and international artistes to organise different kinds of special events or hold their promotional programs. Local and international DJs were invited to have live performance and introduce the latest music to the Rojam Disco. More events, such as "afternoon" disco party and dancers' live performances were held than ever. Rojam Disco's 4th Anniversary Celebration Party, the Happy New Year Carnival and the Valentine's Night were popular functions of the year, which each recorded approximately 1,500 patrons.

In order to strengthen the performance of the Rojam Disco, renovation projects were 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.

The Group also launched the website www.rojam.com/disco in October 2002 to provide Rojam Disco's latest news.

PROSPECTS

To stay ahead of competitions, the Group shall continue to maximise cost synergies among its different operations to reinforce its competitive edge. The Group will also continue its efforts in building cash flow, strengthening brand equity and consolidate opportunities in the music production chain.

To develop a more diverse revenue base, the Group will further introduce new music products and reinforce its distribution channels. It will also seek additional opportunities for business co-operation. Stringent cost control will be maintained over the Group's operating costs.

The Group sees tremendous opportunities present in the mainland China market in the coming years. With a proven result of achieving profitability, the Group will continue to expand its discotheque business prudently and selectively seek opportunities to growth.

Rewarding the shareholders is always on the mind of the management. In future, the Group will not only pursue its mission of being one of premier integrated music production house in Asia but also demand a good return on its shareholders' investments – a return based on long-term growth of a company that will stand the test of time.



Comparison of Business Objectives with Actual Business Progress

Business objective as stated in the prospectus dated 24th May 2001 **Actual business progress in respect of the year ended 31st March 2003**

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 2 producer service contracts

Although no new producer service contract was entered into during the year, after introduced Yoshimoto as a strategic investor, the Group is in a better position to secure music production contracts than the Group normally is, 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

In view of the current market condition, the Group has entered into only one new service contract with CAPCON, a games software provider in Japan, for the production of music content to a game software. During the year, the Group has also provided various music content production services including event themes and special sound effects to different customers.

Introduce not less than 1 artiste selected from the Group's audition system to contracted record companies

The artiste audition was carried out in the television programme "Matsumoto Shinsuke" produced by Yoshimoto. The Group also plans to participate in another television audition programme, though no artiste was selected during the year.

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

Produce not less than 25 records for contracted record companies

Released 23 records for the contracted record companies.

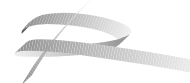
Release not less than 10 records under the Group's label

Since the acquisition of R&C, the Group has released over 25 records.

Recruit not less than 3 producers

The Group is of the view that a strong team of producers has already been assembled in the Rojam Studio, therefore, no new producer was recruited.

Comparison of Business Objectives with (Continued) Actual Business Progress



Business objective as stated in the prospectus dated 24th May 2001

Actual business progress in respect of the year ended 31st March 2003

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. The Group is now seeking for another local partner for future development. The preliminary plan is to tie-up with local television stations and record companies.

Engage in not less than 1 music production or related project

Engagement of new projects was postponed until further business development in this region.

South Korea

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

The Group has not yet released any records in South Korea. During the year, the Group sought out a suitable local partner, NEGA Network Co., Ltd. to form business tie-in alliance to explore business opportunities in Korea.

The People's Republic of China ("PRC")

Engage in not less than 2 music production or related projects

In addition to its discotheque business, the Group is discussing with certain local partners to explore co-operation opportunity including but not limited to new shop opening, but no agreement has yet been reached.

Other Asian markets

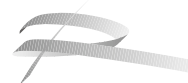
Explore music related business opportunities

Leveraging the resources built with the Rojam Disco, the Group is closely looking into new shop opening opportunities at other major cities' prime locations of tourist attractions in PRC.



Comparison of Business Objectives with Actual Business Progress *(Continued)*

Business objective as stated in the prospectus dated 24th May 2001	Actual business progress in respect of the year ended 31st March 2003
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 businesses	The Group participated in various promotional activities in Hong Kong, Japan and PRC to promote its music, artistes, products, producers and business.
5. Exploitation of the Internet media	
Audition	
Conduct audition for artistes and producers	Such audition was carried out in the Yoshimoto's television programmes (refer to 1 above).
Merchandise sales	
Release not less than 2 major feature products to be sold via the Group's music entertainment portal	During the year under review, the Group focused its resources on the records production and distribution, thus no new feature product was released.
Music learning centre	
Expand the operation of the music learning centre on both conventional and Internet platforms targeting 1 Asian market other than Japan	Upon the completion of the market research, the Group is of the view that music learning centre is not a suitable project for the Group to launch at this stage. However, the Group provided advisory services to CAT, a company based in Japan, to launch a music college. The Group is planning to start its music learning centre project in 2004 and utilise the resources in Rojam Disco.



EXECUTIVE DIRECTORS

Mr. Tetsuya Komuro, aged 44, is the Chairman of the Board and the Chief Executive Producer of the Group's music production team. Mr. Komuro co-founded the Group in January 1998 and is responsible for formulating the overall business strategies and development of the Group. He is also the mentor of the Group's production team providing vision and guidance in music production. Mr. Komuro is an international renowned music composer, arranger and producer and a member of several pop groups, namely globe, Kiss Destination and TM Network. Mr. Komuro has produced for a number of well-known artistes in Japan, such as Namie Amuro, Ami Suzuki and TRF and has made his name in the international arena on a number of occasions.

Mr. Takeyasu Hashizume, aged 55, the President of the Group, joined the Group in October 2002. He is responsible for the Group's overall management, operations and strategic planning. He has over 25 years of experience in the music and entertainment business. After he graduated from Waseda University, Japan in 1972, Mr. Hashizume joined Sony Music Entertainment (Japan) Inc. (formerly known as CBS/Sony), where he was responsible for production and marketing, and had engaged in production involving a number of popular singers such as Saori Minami, Momoe Yamaguchi, TUBE, THE BOOM, Hiromi Go and NAHKI&DIANA KING. In 1996, Mr. Hashizume became the President of Eastwest Japan, Inc. (currently known as Warner Entertainment Japan, Inc.), where he was responsible for production involving Towa Tei, PENICILIN and Dir en grey. Mr. Hashizume joined R&C Japan Ltd., as a Director in May 2001, and has since led several projects such as "TK's Gaball", "TX ASAYAN" audition, "Aiko Katsumata", "Sayaka Kamiyama" and the World-cup project "ULTRAS 2002".

Mr. Tetsuo Mori, aged 53, the Executive Vice President (Greater China) of the Group, has joined the Group since November 2001. He is responsible for the Group's overall public relations and marketing, entertainment operations and business development of the Group in the Greater China region. He has over 20 years' experience in the music and entertainment industry. Mr. Mori joined Sony Music Entertainment (Japan) Inc. in 1978. He was the Director of Sony Music Entertainment (Hong Kong) Limited from 1991 to 1995. He was also the first Chief Representative of Sony Music Entertainment (Japan) Hong Kong office from 1992 to 1996, and was responsible for the marketing plan and promotion of Japanese artistes, such as Mika Chiba, Mayumi Itsuwa and "D-Project", in the Asian countries.

Mr. Osamu Nagashima, aged 47, the Executive Vice President (Japan) of the Group, has joined the Group since November 2001. He is responsible for the Group's music production, studio management and marketing in Japan. Mr. Nagashima graduated from Meiji University in 1980 and joined Warner Entertainment Japan, Inc. (formerly known as Warner Pioneer, Inc.). He has more than 20 years' experience in international and domestic music business. Prior to joining the Group, Mr. Nagashima was the Executive Vice President of Eastwest Japan, Inc.



EXECUTIVE DIRECTORS *(Continued)*

Mr. Arihito Yamada, aged 40, the Executive Vice President (Finance) of the Group, is responsible for the overall management of the Group in the areas of finance, legal, administration and corporate development. Mr. Yamada was educated in Japan and has a Bachelor of Economics degree from Keio University, Japan and a Master of Laws degree from Tsukuba University, Japan. He is a member of the Institute of Certified Public Accountants in Japan and has over 15 years' experience in accounting and tax planning in PricewaterhouseCoopers including 3 years in Los Angeles office, specialising in the area of mergers and acquisitions, finance and tax planning of the entertainment industry. Prior to joining the Group in July 2000, Mr. Yamada was a partner of PricewaterhouseCoopers Tokyo office and the Chief Executive Officer of PricewaterhouseCoopers Entertainment Ltd.

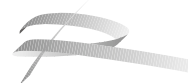
Mr. Yukitsugu Shimizu, aged 61, joined the Group in October 2002. After graduated from Osaka City University, Japan in 1965, Mr. Shimizu joined UFJ Bank Limited (formerly known as The Sanwa Bank, Limited), and then he had been working in the banking industry for 28 years. In 1993, Mr. Shimizu joined Yoshimoto Kogyo Co., Ltd. ("Yoshimoto") as a General Manager of the Accounting Department and was appointed as a Director in the same year. Since 2001, Mr. Shimizu has been the Director and General Manager of the Tokyo Production Control Department of Yoshimoto.

Mr. Hiroshi Osaki, aged 49, joined the Group in October 2002. Mr. Osaki has over 25 years' experience in entertainment business with Yoshimoto since his graduation from Kansai University, Japan in 1978. Mr. Osaki has substantial experience in the artiste management industry. He has also been producing numerous TV programs and has established the position of Yoshimoto in the industry as the largest TV program producing company as well as began the music business and made it successful. Mr. Osaki was appointed as a General Producer of Yoshimoto's Tokyo Branch Office in 1995 and became the first CEO of Fandango, Inc., which is a joint venture between KDDI Corporation and Yoshimoto. Since 2001, he has been the Director and General Manager of Yoshimoto.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Seiichi Nakaoda, aged 38, was appointed as an Independent Non-executive Director in February 2001. He is a member of The Japanese Institute of Certified Public Accountants and has over 15 years' experience in finance and accounting practice. Mr. Nakaoda is the managing Director of an accounting consultancy firm in Hong Kong.

Mr. Yeung Mui Kwan, David, aged 47, was appointed as an Independent Non-executive Director in April 2001. He is a Fellow of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants and has over 20 years' experience in finance and accounting practice. Mr. Yeung is now practising in his own accounting consultancy firm.



SENIOR MANAGEMENT

Ms. Hung Shi Wei, Halina, aged 31, Legal and Special Project Advisor, has joined the Group since November 2000. She is a barrister and solicitor admitted to practise in Victoria, Australia, and is responsible for the Group's legal matters and corporate development projects. Ms. Hung graduated from Monash University, Australia with a Bachelor of Economics Degree and a Bachelor of Laws Degree. She holds a Graduate Diploma in Applied Finance and Investments, and has over 7 years of experience in legal compliance, business development and corporate finance.

Ms. Cheng Kit Sum, aged 31, Financial Controller, has joined the Group since May 2000. She is responsible for managing the Group's finance and accounting processes, maintaining finance control and performing statutory financial reporting. Ms. Cheng holds a Bachelor of Arts Degree in Accountancy and a Master of Science Degree in Finance. She is a Fellow of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Ms. Cheng has over 8 years of experience in financial management, accounting and auditing. Prior to joining the Group, she worked for PricewaterhouseCoopers in Hong Kong.

Mr. Keiichi Uezumi, aged 33, General Manager of Business Planning, has joined the Group since July 2000. He was qualified as a Japanese Certified Public Accountant (CPA) in 1996, and passed the US CPA Examination in 2000. He holds a Bachelor Degree of Economics from Seikei University. Mr. Uezumi has over 10 years, of experience in accounting and tax planning, in PricewaterhouseCoopers including 5 years in Tokyo office and 3 years in Los Angeles office. He is a specialist in finance and international tax planning in the entertainment industry and Internet business. Prior to joining the Group, Mr. Uezumi was a manager of PricewaterhouseCoopers' Tokyo office.

COMPANY SECRETARY

Ms. Etsuko Hoshiyama, aged 41, has joined the Group since March 2000. She holds a Bachelor Degree of Law from Kwansai Gakuin University, Japan and a Master Degree of Laws in Taxation from University of Denver, USA. She is an associate member of the American Institution of Certified Public Accountants and the Hong Kong Society of Accountants. Before joining the Group, Ms. Hoshiyama was a tax manager of PricewaterhouseCoopers in Hong Kong. She has over 10 years of experiences in tax, business consulting, and business development.



Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31st March 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 41.

The Directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

FIXED ASSETS

Details of the fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 19 to the accounts.

DISTRIBUTABLE RESERVES

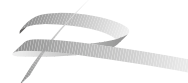
At 31st March 2003, the Company had distributable reserves of approximately HK\$30.3 million (2002: HK\$56.7 million) represented by share premium and accumulated losses of the Company. Under the Companies Law (Revised) of the Cayman Islands, share premium of the Company is distributable to the members of the Company, subject to solvency tests.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March 2003.



DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Tetsuya Komuro	
Mr. Takeyasu Hashizume	(appointed on 27th February 2003)
Mr. Tetsuo Mori	
Mr. Osamu Nagashima	(appointed on 27th February 2003)
Mr. Akihito Yamada	
Mr. Yukitsugu Shimizu	(appointed on 10th October 2002)
Mr. Hiroshi Osaki	(appointed on 10th October 2002)
Mr. Tomohiko Domen	(resigned on 17th October 2002)

Independent non-executive Directors

Mr. Seiichi Nakadao
Mr. Yeung Mui Kwan, David

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Mr. Seiichi Nakadao and Mr. Yeung Mui Kwan, David retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive and independent non-executive Directors has entered into a service agreement with the Company.

The service agreement with Mr. Tetsuya Komuro is of three years' duration commencing on 21st May 2001 and shall continue for successive three year periods until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after the initial term of three years.

In addition to providing services as an executive Director, Mr. Tetsuya Komuro has also been engaged by the Company to provide services to Rojam International Limited, a wholly-owned subsidiary of the Company, in the capacity of chief executive producer and will be further remunerated with the grant of options in respect of the shares of the Company pursuant to the Pre-IPO Grant of Options (as more particularly described in the section headed "Directors' and chief executives' interests in equity or debt securities" of this report) and a discretionary bonus to be paid at the absolute discretion of the board of Directors of the Company.



DIRECTORS' SERVICE CONTRACTS *(Continued)*

Each of the service agreements with Mr. Takeyasu Hashizume, Mr. Tetsuo Mori, Mr. Osamu Nagashima, Mr. Arihito Yamada, Mr. Yukitsugu Shimizu, Mr. Hiroshi Osaki, Mr. Seiichi Nakaoda and Mr. Yeung Mui Kwan, David is of an initial duration of two years. In the case of Mr. Takeyasu Hashizume, his service agreement commenced on 27th February 2003; in the case of Mr. Tetsuo Mori, his service agreement commenced on 7th January 2002; in the case of Mr. Osamu Nagashima, his service agreement commenced on 27th February 2003; in the case of Mr. Arihito Yamada, his service agreement commenced on 1st July 2000; in the case of Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki, their service agreements commenced on 10th October 2002; in the case of Mr. Seiichi Nakaoda, his service agreement commenced on 6th February 2001; and in the case of Mr. Yeung Mui Kwan, David, his service agreement commenced on 1st April 2001. It is provided in each of these service agreements that the term of service shall continue until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after the initial term of two years. As at the date of this report, the service agreements for which the initial term of two years has lapsed remain in force.

Save as disclosed, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 19 to 21.


DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group had entered into transactions with certain Directors or companies related to them. Details of the material related party transactions and the Directors' interests therein are set out in note 24 to the accounts. Certain of the transactions disclosed in note 24 also constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The information required to be disclosed in respect of these connected transactions, in accordance with Chapter 20 of the GEM Listing Rules, is set out below.



DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

(a) Licence agreement

1. Pursuant to a licence agreement dated 5th July 2000 (as amended by a supplementary agreement dated 17th May 2001) entered into by Rojam Entertainment Limited ("REL") and Shanghai Chikou Entertainment Co., Ltd. ("SCE"), which is owned as to 90% by Chikou Co., Ltd., a company wholly and beneficially owned by Mr. Kebo Wu, a former executive Director who resigned from the Company with effect from 12th January 2002, and as to 10% by Shanghai Huanyu Import and Export Company Limited, a company incorporated in the People's Republic of China ("PRC") and is independent of the Group, REL agreed to grant a non-exclusive sub-licence to SCE to use the trademark of Rojam International Limited, "Rojam.com" in a discotheque in the premises situate at 4th Floor, HK Plaza, 283 Huai Hai Zhong Road, Shanghai, PRC (the "Services"). The term of the licence agreement is for an initial four-year period from 1st April 2000 to 31st March 2004 and thereafter renewable at the option of REL for consecutive three-year periods until 31st March 2010. The licence fee payable to REL is in the form of royalty computed as 5% of gross revenue attributable to SCE in the provision of the Services.
2. Pursuant to a licence agreement dated 5th July 2000 (as amended by a supplementary agreement dated 17th May 2001) entered into by REL and SCE, REL agreed to grant a non-exclusive sub-licence to SCE to use the logo '

The amount paid to REL under the above two licence agreements for the year ended 31st March 2003 was approximately HK\$845,000 (2002: HK\$1,845,000).

Upon the completion of the Shanghai Chikou Acquisition on 30th September 2002 (as more detailed in note (g) of this section), SCE became a 90% indirectly owned subsidiary of the Company and was renamed as Shanghai Rojam Entertainment Company Limited. The above two licence agreements have been terminated following the completion of the Shanghai Chikou Acquisition.

(b) Studio rental

1. Pursuant to an agreement dated 19th May 2001 made between SK Planning KK ("SK Planning") and REL, REL has since 1st April 2000 rented from SK Planning the music studio situate at 377 Keahole St. D-03, Honolulu, Hawaii 96825, USA for the use by the Group to be confirmed on an order by order basis. The term of the agreement is from 1st April 2000 to 31st March 2004. SK Planning is a wholly-owned subsidiary of Richtone Holding Limited, which is held by Mr. Tetsuya Komuro. The fees payable for the use of the said studio are computed as studio charges and an additional 15% of the studio charges as administration fee.



DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS *(Continued)*

(b) Studio rental *(Continued)*

2. Pursuant to an agreement dated 19th May 2001 made between PT. TK Disc Bali and REL, REL has since 1st April 2000 rented from PT. TK Disc Bali, a company beneficially owned by Mr. Tetsuya Komuro, the music studio situate at Jalan Raya Seminyak, Gang Plawa No. 566, Kuta-Bali 80361, Indonesia to be confirmed on an order by order basis. The term of the agreement is from 1st April 2000 to 31st March 2004. The fees payable for the use of the said studio are computed as studio charges and an additional 15% of the studio charges as administration fee.

Upon the said studio as described in (1) having been sold to an independent third party in April 2002 and the said studio as described in (2) having ceased operation during the year, REL did not rent the studios as described in (1) and (2) during the year ended 31st March 2003 (2002: HK\$246,000).

(c) Master music production agreement

Pursuant to a master music production agreement dated 10th October 2002 and entered into between Rojam Japan Limited ("Rojam Japan") and R&C Japan Ltd. ("R&C"), Rojam Japan will produce (including the rendition of producer services, covering planning, review, selection of songs/songwriters, performance, attendance at recording/editing, instruction to artists, sound quality adjustment, inspection and other related matters) master-tapes of such artists as designated by R&C and transfer such master-tapes to R&C. This agreement and the maximum aggregate amount of all future transactions to be carried out in accordance with the terms of this agreement of HK\$12,000,000 for the period from 10th October 2002 to 31st March 2003 and HK\$24,000,000 for each of the two years ending 31st March 2005 (the "cap"), have been approved by the independent shareholders of the Company by way of poll at the extraordinary general meeting of the Company held on 7th October 2002 (the "EGM"). The term of this agreement is from 10th October 2002 to 31st March 2005, and thereafter renewable by mutual agreement for consecutive three-year periods provided that the GEM Listing Rules are complied with. As the annual cap is greater than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company, this agreement and the cap are subject to review and re-approval by way of poll by the independent shareholders of the Company at the annual general meeting of the Company for as long as the transactions under this agreement continue.

Under this agreement, R&C is liable to pay Rojam Japan (i) producer royalty calculated as follows per copy of recording: (retail price net of consumption tax minus container charge (being 15% of the retail price net of consumption tax) for the container in which the record is packaged) times producer royalty rate (up to a maximum of 5%, depending on the relevant artist) times sales quantity (being 80% of the actual total shipment in numbers from the sales office of the record company that R&C entrusts its distribution, excluding all the records distributed for promotion or advertising or those for which R&C will not receive income); and (ii) production costs for the production of the master-tapes, being Rojam Japan's out-of-pocket expenses relating to the production, plus its administration costs which is fixed as 15% of such out-of-pocket expenses. Producer royalty will accrue in respect of any and all the audio and audio-visual recordings embodying the master-tapes produced by Rojam Japan on a perpetual basis as copies of the relevant music records are sold, even in the event that this agreement expires or is terminated. Further details of this agreement are contained in the circular of the Company dated 16th September 2002 (the "Circular").



DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

(c) Master music production agreement (Continued)

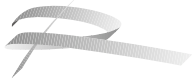
The aggregate amount of producer royalty and production costs received by Rojam Japan under this agreement for the period from 10th October 2002 to 31st March 2003 was approximately HK\$1,693,000.

The independent non-executive Directors have reviewed the transactions carried out in accordance with this agreement for the period from 10th October 2002 to 31st March 2003 and formed the opinion that the Company should continue with this agreement. An ordinary resolution will be proposed at the forthcoming annual general meeting of the Company to re-approve this agreement and the cap by way of poll by the independent shareholders of the Company.

(d) Master artist performance agreement

Pursuant to a master artist performance agreement dated 10th October 2002 and entered into between R&C and Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"), Yoshimoto will procure artists or groups of artists managed by Yoshimoto and nominated by R&C from time to time to perform to enable the reproduction and distribution of records (which include, but not limited to, any analog disc records, compact discs, minidiscs, digital audio discs and recorded tapes) or videogram (which includes, but not limited to, any video discs, video tapes or any other tangible medium for the purpose of playing back of visual or audio-visual recordings). This agreement and the cap of HK\$2,000,000 for the period from 10th October 2002 to 31st March 2003 and HK\$4,000,000 for each of the two years ending 31st March 2005, have been approved by the independent shareholders of the Company by way of poll at the EGM. The term of this agreement is from 10th October 2002 to 31st March 2005, and thereafter renewable by mutual agreement for consecutive three-year periods provided that the GEM Listing Rules are complied with. Under this agreement, R&C is liable to pay Yoshimoto artist royalties in connection with the sales of the audio and audio-visual recordings as follows: retail price net of consumption tax minus container charge (being 15% of the retail price net of consumption tax) for the container in which the record is packaged times artist royalty rate (between 1% to 3%, depending on the relevant artist) times sales quantity (being 80% of the total shipment of audio and audio-visual recordings in numbers from the distributor's warehouse, taking into account the expected return of goods). R&C is liable to pay artist royalties for as long as the sales of the audio and audio-visual recordings subject to this agreement continue on a perpetual basis, even in the event that this agreement expires or is terminated. Further details of this agreement are contained in the Circular.

The aggregate amount of artist royalties paid to Yoshimoto under this agreement for the period from 10th October 2002 to 31st March 2003 was approximately HK\$1,070,000.



DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS *(Continued)*

(e) Sub-lease agreements

Pursuant to a sub-lease agreement dated 29th March 2002 and entered into between R&C and Yoshimoto, R&C will sub-let from Yoshimoto office premises with a total floor area of around 117.4 square metres located in an office building (the "Building") in Tokyo. The term of this agreement is from 1st April 2002 to 31st March 2005, subject to termination by Yoshimoto giving a 3-month prior notice to R&C in the event of termination of the head lease (the "Head Lease") entered into between Yoshimoto and a third party for use of the office premises in the Building. Under this agreement, R&C is liable to pay Yoshimoto rent of JPY830,000 per month (subject to adjustments in accordance with changes in rent or other fees payable under the Head Lease), and electricity and water charges.

Pursuant to a sub-lease agreement dated 10th October 2002 and entered into between Rojam Japan and Yoshimoto, Rojam Japan will sub-let from Yoshimoto office premises with a total floor area of around 66 square metres located in the Building. The term of this agreement is from 10th October 2002 to 31st March 2005, subject to termination by Yoshimoto giving a 3-month prior notice to Rojam Japan in the event of termination of the Head Lease. Under this agreement, Rojam Japan is liable to pay Yoshimoto rent of JPY600,000 per month (subject to adjustments in accordance with changes in rent or other fees payable under the Head Lease), and electricity and water charges.

These agreements and the cap of HK\$1,500,000 for each of the three financial years ending 31st March 2005, have been approved by the independent shareholders of the Company by way of poll at the EGM. Further details of these agreements are contained in the Circular.

The aggregate amount of rental payments and other charges paid to Yoshimoto under these agreements for the period from 10th October 2002 to 31st March 2003 was approximately HK\$587,000.

(f) Master video production agreements

Pursuant to a master video production agreement dated 10th October 2002 and entered into between R&C and Yes Visions Co., Ltd. ("Yes Visions"), and a master video production agreement dated 10th October 2002 and entered into between R&C and Y's Vision Co., Ltd. ("Y's Vision"), R&C will engage Yes Visions and Y's Vision respectively to produce videos, containing visual or audio-visual recordings, to complement R&C's promotional activities in conjunction with its release of artists' music records and other products. The term of each of these agreement is from 10th October 2002 to 31st March 2005. Under these agreements, R&C is liable to pay Yes Visions and Y's Vision production costs of the videos, containing visual or audio-visual recordings, being Yes Visions' and Y's Vision's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses.



DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

(f) Master video production agreements (Continued)

These agreements and the cap of HK\$2,000,000 for each of the three financial years ending 31st March 2005, have been approved by the independent shareholders of the Company by way of poll at the EGM. Further details of these agreements are contained in the Circular.

For the period from 10th October 2002 to 31st March 2003, the Group has not engaged Yes Visions and Y's Vision for the production of videos for its promotional activities and therefore no payment has been made to them.

The independent non-executive Directors have reviewed the above connected transactions from notes (a) to (f) and confirmed that the connected transactions:

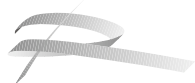
- (i) have been entered into in the ordinary and usual course of the business of the Group;
- (ii) have been entered into on normal commercial terms;
- (iii) have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) have not exceeded their respective caps.

(g) Shanghai Chikou Acquisition

On 11th January 2002, the Group entered into a sale and purchase agreement with Chikou Co. Ltd. ("Chikou"), a company incorporated in Japan which is wholly owned by Mr. Kebo Wu, an ex-Director of the Company who resigned with effect from 12th January 2002, to acquire 90% of the registered share capital of Shanghai Chikou Entertainment Co., Ltd. ("Shanghai Chikou") at a total consideration of HK\$31.5 million (the "Shanghai Chikou Acquisition"). Shanghai Chikou is a sino-foreign 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 had entertainment related non-discotheque businesses such as karaoke parlors and game centers operating in Shanghai, which were demerged from Shanghai Chikou and excluded from the Shanghai Chikou Acquisition. Details of the Shanghai Chikou Acquisition are contained in the Company's circular dated 8th February 2002.

The Shanghai Chikou Acquisition was approved by the independent shareholders of the Company by way of poll at the extraordinary general meeting of the Company held on 25th February 2002. A deposit of HK\$14.0 million had been paid to the seller shortly after the signing of the said agreement, and the balancing amount of HK\$17.5 million had been paid into an escrow account during the prior year ended 31st March 2002.

On 30th September 2002, the Directors announced that all the conditions underlying the said agreement have been fulfilled and therefore, the Shanghai Chikou Acquisition was completed on 30th September 2002. Shanghai Chikou was renamed as Shanghai Rojam Entertainment Company Limited and became a 90% owned indirect subsidiary of the Group.



DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS *(Continued)*

(h) Financial assistance to Billion Moment Limited

The Company's shares were listed on GEM on 31st May 2001 by way of placing of 70 million new shares and 20 million existing shares held by Billion Moment Limited, a company owned as to 90% by Mr. Kebo Wu and 10% by Ms. Cheng Wing Ki, Aouda, the spouse of Mr. Wong Ho Yan, Daniel, an ex-Director of the Company who resigned with effect from 12th January 2002. Pursuant to the underwriting agreement dated 23rd May 2001 and entered into between the Company, Billion Moment Limited and the underwriters, the Company and Billion Moment Limited had to bear their respective share of underwriting commission, and listing fees and expenses. The Company has paid on behalf of Billion Moment Limited the latter's share of underwriting commission, and listing fees and expenses totalling around HK\$5,128,000. Billion Moment Limited repaid such amount in full with interest payment to the Company in July 2002.

Save as aforesaid and disclosed in the section headed "Directors' service contracts" in this report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st March 2003, 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 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 1)</i>	472,830,667	2,200,000	475,030,667	30.55%
Mr. Arihito Yamada	8,913,600	–	8,913,600	0.57%
Mr. Tomohiko Domen <i>(Note 2)</i>	27,022,000	–	27,022,000	1.74%

Notes:

- (1) At 31st March 2003, 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. Mr. Tetsuya Komuro was accordingly taken to be interested in 475,030,667 shares at 31st March 2003.
- (2) Mr. Tomohiko Domen has resigned as Director of the Company with effect from 17th October 2002. As recorded in the register maintained by the Company under Section 29 of the SDI Ordinance, Mr. Tomohiko Domen was interested in 27,022,000 shares at the date of his resignation.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES (Continued)

(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 the Company" 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. Arihito Yamada was 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 the Company" of this report.

Save as disclosed above, at 31st March 2003, 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 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.

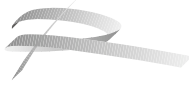
Save as disclosed above, at no time during the year ended 31st March 2003 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDER

At 31st March 2003, 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 the Company's issued share capital.

Name of shareholder	Number of shares held	Approximate shareholding in the Company
Yoshimoto America, Inc. (Note)	450,000,000	28.94%
Yoshimoto Kogyo Co., Ltd. (Note)	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 at 31st March 2003.



MANAGEMENT CONTRACTS

No contract of significance concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

USE OF PROCEEDS FROM THE PLACING OF SHARES

The net proceeds to the Group from the placing of shares on 31st May 2001 (the "Placing"), after deduction of underwriting fees and 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 31st March 2003, the Group has incurred the following amounts to achieve the business objectives as set out in the prospectus dated 24th May 2001 (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>);	10.0	6.7
– For the recruitment of producers mainly to strengthen its music production capacity (<i>Note 2</i>);	16.0	4.7
– 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>);	18.0	9.9
– For training and development of artistes in different Asian countries to achieve geographic expansion (<i>Note 4</i>);	2.0	0.9
– 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	2.0	–
– For general working capital purposes.	5.0	5.0
	<u>53.0</u>	<u>27.2</u>

The remaining net proceeds of approximately HK\$24.9 million were placed on short term deposits with licensed banks in Hong Kong for future use as identified by the Group's business plans.



USE OF PROCEEDS FROM THE PLACING OF SHARES (Continued)

Notes:

1. Since the current hardware and software capacity in the Rojam Studio fits for its production, the capital investment injected was less than expected.
2. The Group is of the view that a strong team of producers has already been assembled in the Rojam Studio. No producer was recruited during the year under review, therefore the proceeds utilised were less than expected.
3. Most of the promotional activities that took place during the year 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 utilised.
5. The Group has not established any music learning centre during the year under review.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	29%
– five largest suppliers combined	41%

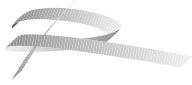
Sales

– the largest customer	65%
– five largest customers combined	92%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.



AUDIT COMMITTEE

The Company established an audit committee on 21st May 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 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.

During the year, the audit committee reviewed and commented on the Group's financial statements, interim report and quarterly reports and provided advice and comments thereon to the Board. Two meetings were held during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

At 31st March 2003, Mr. Tetsuya Komuro, an executive Director and the controlling shareholder of the Company, was interested in approximately 24% of M-Tres Ltd. ("M-Tres"), which is the management company of Mr. Takashi Utsunomiya, a producer of the Group. Under the management of M-Tres, Mr. Takashi Utsunomiya (together with M-Tres) and Rojam Entertainment Limited ("REL"), a wholly-owned subsidiary of the Company, have entered into an executive recording artiste agreement in July 2000 whereby REL became the record company for Mr. Takashi Utsunomiya. The principal business of M-Tres is event production and management business. Mr. Tetsuya Komuro has confirmed that he has not taken any management role in M-Tres and he is solely a passive investor. He has also confirmed that he has verbally undertaken to the other shareholders of M-Tres that he will not dispose of his interests in M-Tres and there may be adverse impact on the business of M-Tres if he does so. Given the scope and nature of business of M-Tres and the passive nature of Mr. Tetsuya Komuro's involvement in it and further that event production and management is not the core business of the Group, the Directors consider that Mr. Tetsuya Komuro's retention of his interests in M-Tres will not have any significant adverse impact on the business of the Group.

Mr. Tetsuya Komuro has unconditionally and irrevocably undertaken to the Company that (i) he will not, and will procure that none of his associates (as defined in the GEM Listing Rules) will directly or indirectly, carry on or engage or be engaged in any business which shall compete or may compete, with the provision of producer services, music publishing, trademark licensing, artiste and event management, record distribution, and music learning center (the "Restricted Business") whether directly or indirectly with effect from six months after the commencement date of dealings in the shares of the Company on GEM and (ii) he will not, and will procure that none of his associates (as defined in the GEM Listing Rules) will, directly or indirectly, own more than 5% of the equity interest in any company whose business includes the Restricted Business, save for the 24% equity interest in M-Tres as described above. The above undertaking will cease to have effect on the earliest of the date on which (i) Mr. Tetsuya Komuro and/or his associates (as defined in the GEM Listing Rules) cease to be shareholder(s) who is/are together entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of the Company; (ii) the shares of the Company cease to be listed and traded on GEM; or (iii) the principal business of the Group ceases to be the Restricted Business.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) have any interests in a business, which competes or may compete with the business of the Group.



PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would obligate the Company to offer new shares on a pro-rata basis to existing shareholders.

SPONSOR'S INTERESTS

As notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY"), as at 31st March 2003, Core Pacific-Yamaichi Securities Co., Ltd., 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 March 2003.

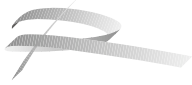
Pursuant to the sponsor agreement dated 31st May 2001 and entered into between CPY and the Company, CPY received, and will receive, fees for acting as the Company's retained sponsor for the period from 31st May 2001 to 31st March 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

OUTSTANDING SHARE OPTIONS OF THE COMPANY

(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 (the "Pre-IPO Scheme") 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\$)	Number of options					Outstanding as at 31st March 2003
			Granted	Outstanding as at 1st April 2002	Exercised	Lapsed	Cancelled	
Mr. Tetsuya Komuro	21st May 2001	0.1	41,387,376	41,387,376	-	-	-	41,387,376
Mr. Naoto Kine	21st May 2001	0.8	5,173,422	5,173,422	-	-	-	5,173,422
Mr. Koji Kubo	21st May 2001	0.8	5,173,422	5,173,422	-	-	-	5,173,422
Total			51,734,220	51,734,220	-	-	-	51,734,220



OUTSTANDING SHARE OPTIONS OF THE COMPANY *(Continued)*

(a) Pre-IPO Grant of Options *(Continued)*

Option period commences on 31st May 2001 and expires 10 years thereafter. Options granted are vested as follows:

On 31st May 2002	Up to 30%
On 31st May 2003	Up to 60%
On 31st May 2004	Up to 100%

(b) Share Option Scheme (the "2001 Scheme")

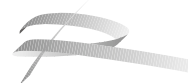
Options to subscribe for up to an aggregate of 52,240,000 shares in the Company were granted on 12th July 2001 to the then executive Directors and full-time employees of the Group pursuant to the 2001 Scheme and the terms and conditions contained in the offer letter dated 12th July 2001 from the Company.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

Name	Date of grant	Exercise price (HK\$)	Number of options					Outstanding as at 31st March 2003
			Granted	Outstanding as at 1st April 2002	Exercised	Lapsed	Cancelled	
Mr. Arihito Yamada	12th July 2001	0.47	8,800,000	8,800,000	-	-	-	8,800,000
2 former executive Directors	12th July 2001	0.47	15,400,000	15,400,000	-	(15,400,000)	-	-
41 employees	12th July 2001	0.47	28,040,000	16,100,000	-	(3,400,000)	-	12,700,000
Total			52,240,000	40,300,000	-	(18,800,000)	-	21,500,000

Option period commences on the date of grant and expires 10 years thereafter. Options granted are vested as follows:

On first anniversary of the date of commencement of the grantee's employment with the Group	Up to 50%
On second anniversary of the date of commencement of the grantee's employment with the Group	Up to 100%

No options were granted during the year and therefore the Directors do not perform the valuation of options granted in prior years. At 31st March 2003, options comprising a total of 30,740,000 underlying shares granted to two former executive Directors and certain full time employees of the Group had lapsed, but not yet cancelled, following the cessation of their employment.



OUTSTANDING SHARE OPTIONS OF THE COMPANY (Continued)

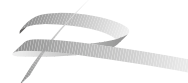
A summary of the principal terms of the Pre-IPO Scheme and the 2001 Scheme (together, the "Schemes") is as follows:

	The Pre-IPO Scheme	The 2001 Scheme
1. Purpose	As an inducement to engage certain individuals for the provision of producer services	As an incentive to employees and executive Directors
2. Participants	The names of the participants are set out in (a) above	Eligible full-time employees including executive Directors of any company in the Group
3. Total number of shares available for issue and percentage of issued share capital represented by such number	Options to subscribe for up to an aggregate of 51,734,220 shares were outstanding as at 31st March 2003. No further options shall be granted under the Pre-IPO Scheme. The maximum number of shares in respect of which options may be granted under the Schemes and any other share option schemes of the Company in issue shall not exceed 30% of the total number of shares in issue from time to time (i.e. 466,405,320 shares for the Schemes as at the date of this report) (excluding (i) any shares issued pursuant to the Schemes and any other share option schemes; and (ii) any pro rata entitlements to further shares issued in respect of those mentioned in (i) above).	See below
4. Maximum entitlement of each participant	The entitlements of each of the participants are set out in (a) above. No further options shall be granted under the Pre-IPO Scheme.	25% of the aggregate of all shares subject to the 2001 Scheme
5. The period within which the shares must be taken up under an option	10 years from 31st May 2001	Not less than 3 years commencing from the date of grant and not more than 10 years from the date of grant



OUTSTANDING SHARE OPTIONS OF THE COMPANY *(Continued)*

	The Pre-IPO Scheme	The 2001 Scheme
6. The minimum period for which an option must be held before it can be exercised	Refer to the vesting mechanism set out in (a) above	Refer to the vesting mechanism set out in (b) above
7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid	Not applicable	HK\$1.00 on acceptance of the offer of an option
8. The basis of determining the exercise price	The exercise prices are set out in (a) above. No further options shall be granted under the Pre-IPO Scheme.	The exercise price is determined by the Directors and being not less than the higher of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) an amount equals to the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (c) the nominal value thereof
9. The remaining life of the Schemes	No further options shall be granted under the Pre-IPO Scheme.	The 2001 Scheme period will end on 20th May 2011



PENSION SCHEME ARRANGEMENTS

The subsidiaries operating in Hong Kong are required to participate in a defined contribution retirement scheme of the Group or Company set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance. Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

The subsidiaries operating in Japan are required to participate in defined contribution retirement schemes organised by the relevant local government authorities since incorporation. They are required to make contributions to the retirement schemes at a rate of 8.675% of the basic salary of their employees up to a maximum of JPY 605,000 (approximately HK\$39,000) per employee.

The subsidiary in the PRC are required to participate in defined contribution retirement scheme organised by the relevant local government authorities since incorporation. They are required to make contributions to the retirement scheme at a rate of around 7% of the basic salary of their employees.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Takeyasu Hashizume

President

Hong Kong, 26th June 2003



Auditors' Report

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF ROJAM ENTERTAINMENT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 41 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26th June 2003

Consolidated Profit and Loss Account



For the year ended 31st March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	2	129,491	48,756
Other revenues	2	864	2,671
Total revenues		130,355	51,427
Less: overseas withholding taxation	4	(982)	(2,839)
		129,373	48,588
Cost of sales		(45,503)	(41,377)
Selling and distribution expenses		(37,730)	(13,842)
Other operating expenses		(32,942)	(76,302)
Amortisation of goodwill		(2,627)	–
Profit/(loss) before taxation	3	10,571	(82,933)
Taxation	4	(382)	–
Profit/(loss) after taxation		10,189	(82,933)
Minority interests		(6,869)	4
Profit/(loss) attributable to shareholders		3,320	(82,929)
Basic earning/(loss) per share	6	0.3 cent	(7.6 cents)



Consolidated Balance Sheet

As at 31st March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Intangible assets	10	109,304	–
Fixed assets	11	34,409	41,418
Deposit for investment in subsidiaries	13	–	31,500
Current assets			
Record masters	10	3,264	–
Inventories	14	6,766	4,749
Amount due from a shareholder		–	5,373
Amounts due from related companies		–	1,637
Trade receivables	16	17,827	17,957
Other receivables and prepayments		7,526	14,406
Cash and bank balances	17	80,042	70,343
		<u>115,425</u>	<u>114,465</u>
Current liabilities			
Trade payables	18	18,023	2,851
Accruals and other payables		14,798	6,430
Taxation payable		1,767	–
		<u>34,588</u>	<u>9,281</u>
Net current assets		<u>80,837</u>	<u>105,184</u>
Total assets less current liabilities		<u>224,550</u>	<u>178,102</u>
Financed by:			
Share capital	19	155,468	110,468
Reserves	20(a)	69,566	67,634
Shareholders' funds		225,034	178,102
Minority interests		(484)	–
		<u>224,550</u>	<u>178,102</u>
On behalf of the Board			

Takeyasu Hashizume
Director

Arihito Yamada
Director

Balance Sheet



As at 31st March 2003

		2003	2002
	<i>Note</i>	HK\$'000	HK\$'000
Investments in subsidiaries	12	50,177	–
Current assets			
Amount due from a shareholder		–	5,373
Amounts due from subsidiaries	15	143,500	169,595
Other receivables and prepayments		829	5,165
Cash and bank balances		51,547	26,249
		195,876	206,382
Current liabilities			
Amounts due to subsidiaries	15	59,611	37,931
Accruals and other payables		715	1,240
		60,326	39,171
Net current assets		135,550	167,211
Total assets less current liabilities		185,727	167,211
Financed by:			
Share capital	19	155,468	110,468
Reserves	20(b)	30,259	56,743
Shareholders' funds		185,727	167,211
On behalf of the Board			

Takeyasu Hashizume
Director

Arihito Yamada
Director



Consolidated Statement of Changes in Equity

For the year ended 31st March 2003

	<i>Note</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
Total equity as at 1st April		178,102	210,787
Profit/(loss) attributable to shareholders		3,320	(82,929)
Reserve realised upon disposal of a subsidiary		–	33
Exchange adjustment arising on translation of the accounts of overseas subsidiaries	20(a)	(1,388)	(1,839)
Issue of shares	19(d)	45,000	70,000
Share issue expenses		–	(17,950)
Total equity as at 31st March		<u>225,034</u>	<u>178,102</u>

Consolidated Cash Flow Statement



For the year ended 31st March 2003

		2003	2002
	<i>Note</i>	HK\$'000	HK\$'000
Net cash outflow from operations	21(a)	(16,130)	(57,834)
Investing activities			
Purchase of fixed assets		(1,319)	(16,976)
Purchase of record masters		(8,439)	–
Sale of fixed assets		101	659
Sale of a subsidiary		–	(92)
Purchase of subsidiaries, net of cash acquired	21(b)	39,175	–
Deposit for investment in subsidiaries		–	(31,500)
Interest received		1,109	2,426
Net cash inflow/(outflow) from investing activities		30,627	(45,483)
Net cash inflow/(outflow) before financing activities		14,497	(103,317)
Financing activities			
Net proceeds from issue of shares	21(c)	–	52,050
Dividends paid		–	(10,347)
Net cash inflow from financing activities		–	41,703
Increase/(decrease) in cash and cash equivalents		14,497	(61,614)
Exchange difference		(4,798)	(455)
Cash and cash equivalents at the beginning of the year		70,343	132,412
Cash and cash equivalents at the end of the year		80,042	70,343
Analysis of balances of cash and cash equivalents			
Cash and bank balances		80,042	70,343



Notes to the Accounts

1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The 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 ("HKSA").

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of the above had no material effect on amounts reported in prior year, except that certain presentation have been changed upon the adoption of SSAP 1 (revised) "Presentation of financial statements" and SSAP 15 (revised) "Cash flow statements".

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

Subsidiaries are those entities in which the company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of Directors; or to cast majority of votes at the meetings of the board of Directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill.



1. Principal accounting policies (Continued)

(b) Consolidation (Continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries that include loan capital are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Revenue recognition

- (i) Revenue from record distribution and merchandise sales are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has been passed.
- (ii) Revenue from production services is recognised when the production is completed.
- (iii) Royalty income and trademark licensing income are recognised on an accrual basis.
- (iv) Revenue from operation of discotheque, including sales of food and beverages, is recognised when the services are rendered.
- (v) Revenue from artiste management is recognised when the services are rendered.
- (vi) Revenue from event management is recognised when the event is completed.
- (vii) Advertising revenues from banner advertisements are recognised over the period in which the advertisements are displayed, provided that no significant obligations remain and collection of the receivable is reasonably assured.
- (viii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(d) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets or liabilities of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over a maximum of 20 years.



1. Principal accounting policies *(Continued)*

(d) Intangibles *(Continued)*

(ii) Record masters

Record masters represent accumulated costs incurred in the production, less any expected losses, of master tapes from which the relevant audio-visual products are released at the balance sheet date. The amount recognised as an asset is amortised using the straight-line method over the estimated life of the record performance, with a maximum of 24 months.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(e) Fixed assets

Fixed assets, comprising computer equipment, studio equipment, leasehold improvements, office equipment, furniture and fixtures, discotheque equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20% – 50%
Studio equipment	10% – 20%
Office equipment, furniture and fixtures	20% – 50%
Computer equipment	30% – 50%
Discotheque equipment	20%
Motor vehicles	30%

Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.



1. Principal accounting policies (Continued)

(f) Inventories

Inventories comprise finished goods of audio-visual products, merchandise and production-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis comprises purchase cost, direct production costs and a portion of the overhead. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from date of investment.

(i) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.



1. **Principal accounting policies** *(Continued)*

(j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are incorporated into the accounts by translating foreign currencies into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the profit and loss account of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

(l) Related companies

Related companies are those companies in which the Company's Directors or shareholders have significant direct or indirect interests.

(m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.



1. Principal accounting policies (Continued)

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Pensions obligations

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and there are no provisions under these schemes whereby forfeited contributions may be used to reduce future contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

(iii) Equity compensation benefits

Pursuant to a written resolution of the shareholders of the Company dated 21st May 2001, two share option schemes, namely Pre-IPO grant of options and share option scheme, were adopted by the Company. No charge is recognised in the profit and loss account in respect of the value of options granted during the year. The share options granted will be recognised in the balance sheet at the time when the share options are exercised. Share capital will be credited at par for each share issued upon the exercise of share options, with share premium credited at the excess of net proceeds received over total share capital credited.

(o) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories and receivables. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries (notes 10 and 11).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.



Notes to the Accounts *(Continued)*

2. Turnover, revenue and segment information

The Group is principally engaged in record distribution, music production, music publishing, discotheque operation, artiste management, event management, trademark licensing, merchandise sales and banner advertising. Revenues recognised during the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Record distribution income	85,082	3,979
Music production income		
– Production service fees	14,195	20,598
– Royalty income	19,366	12,600
Music publishing fee		
– Royalty income	135	174
Discotheque income	8,767	–
Artiste management fees	33	874
Event management income	32	5,162
Trademark licensing income	845	1,846
Merchandise sales	117	2,425
Banner advertising income	919	1,098
	129,491	48,756
Other revenues		
Bank interest income	804	2,426
Interest income from amount due from a shareholder (<i>note 24(h)</i>)	60	245
	864	2,671
Total revenues	130,355	51,427



2. Turnover, revenue and segment information (Continued)

Primary reporting format – business segments

The Group is organised on a worldwide basis into six main business segments:

- | | | |
|---------------------|---|--|
| Record distribution | – | distributing records under its own labels and records containing master sound recordings which have been licensed from third parties in Hong Kong and Japan |
| Music production | – | provision of encompassing producer services, master tape recordings, mixing services, re-mixing services, arranging services and advisory services in respect of selection of songs for records production |
| Music publishing | – | granting of licences for use of the musical works owned by or licensed to the Group |
| Discotheque | – | operations of discotheque |
| Event management | – | organising concerts and other similar events for promotion of the music production team's music works |
| Merchandise sales | – | selling featured products of the Group's artistes |

The Group's inter-segment transactions mainly consist of record distribution and music production between subsidiaries. The transactions were entered into on terms similar to those with independent third parties and were eliminated on consolidation.

Secondary reporting format – geographical segments

Although the Group's six business segments are managed on a worldwide basis, they operate in three main geographical areas:

- | | | |
|--|---|---|
| Hong Kong | – | music publishing and record distribution |
| Japan | – | record distribution, music production, music publishing, event management and merchandise sales |
| The People's Republic of China ("PRC") | – | operations of discotheque and trademark licensing |

There are no sales between the geographical segments.



Notes to the Accounts *(Continued)*

2. Turnover, revenue and segment information *(Continued)*

Primary reporting format – business segments *(Continued)*

	2003								Total HK\$'000
	Record distribution HK\$'000	Music production HK\$'000	Music publishing HK\$'000	Discotheque HK\$'000	Event management HK\$'000	Merchandise sales HK\$'000	Others HK\$'000	Elimination HK\$'000	
Turnover									
External sales	85,082	33,561	135	8,767	32	117	1,797	-	129,491
Inter-segment sales	-	5,117	-	-	-	-	-	(5,117)	-
Total	85,082	38,678	135	8,767	32	117	1,797	(5,117)	129,491
Segment results	32,356	1,217	135	(887)	32	24	1,829	(5,117)	29,589
Unallocated costs									(19,018)
Profit before taxation									10,571
Taxation									(382)
Profit after taxation									10,189
Minority interests									(6,869)
Profit attributable to shareholders									3,320
Segment assets	116,743	30,982	34	28,762	-	-	94	-	176,615
Unallocated assets									82,523
Total assets									259,138
Segment liabilities	(27,693)	(2,809)	-	(2,845)	-	-	-	-	(33,347)
Unallocated liabilities									(1,241)
Total liabilities									(34,588)
Minority interests									484
Net assets									225,034
Capital expenditure	92,949	121	-	29,401	-	-	-	-	122,471
Unallocated capital expenditure									171
									122,642
Amortisation of intangible assets	3,008	-	-	636	-	-	-	-	3,644
Depreciation	4,858	1,914	8	843	-	-	-	-	7,623
Unallocated depreciation									7,387
									15,010



2. Turnover, revenue and segment information (Continued)

Primary reporting format – business segments (Continued)

	2002						Total HK\$'000
	Record distribution HK\$'000	Music production HK\$'000	Music publishing HK\$'000	Event management HK\$'000	Merchandise sales HK\$'000	Others HK\$'000	
Turnover	<u>3,979</u>	<u>33,198</u>	<u>174</u>	<u>5,162</u>	<u>2,425</u>	<u>3,818</u>	<u>48,756</u>
Segment results	<u>120</u>	<u>(49)</u>	<u>174</u>	<u>915</u>	<u>858</u>	<u>5,179</u>	<u>7,197</u>
Unallocated costs							<u>(90,130)</u>
Loss before taxation							<u>(82,933)</u>
Taxation							<u>-</u>
Loss after taxation							<u>(82,933)</u>
Minority interests							<u>4</u>
Loss attributable to shareholders							<u>(82,929)</u>
Segment assets	<u>1,339</u>	<u>30,794</u>	<u>57</u>	<u>4,371</u>	<u>89</u>	<u>1,688</u>	<u>38,338</u>
Unallocated assets							<u>149,045</u>
Total assets							<u>187,383</u>
Segment liabilities	<u>(11)</u>	<u>(1,841)</u>	<u>-</u>	<u>(1,378)</u>	<u>-</u>	<u>-</u>	<u>(3,230)</u>
Unallocated liabilities							<u>(6,051)</u>
Total liabilities							<u>(9,281)</u>
Net assets							<u>178,102</u>
Capital expenditure	<u>889</u>	<u>7,420</u>	<u>39</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,348</u>
Unallocated capital expenditure							<u>8,628</u>
							<u>16,976</u>
Depreciation	<u>234</u>	<u>1,950</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,194</u>
Unallocated depreciation							<u>20,031</u>
							<u>22,225</u>



Notes to the Accounts *(Continued)*

2. Turnover, revenue and segment information *(Continued)*

Secondary reporting format – geographical segments

	Turnover 2003 <i>HK\$'000</i>	Segment results 2003 <i>HK\$'000</i>	Total assets 2003 <i>HK\$'000</i>	Capital expenditure 2003 <i>HK\$'000</i>
Hong Kong	1,088	1,030	40,701	126
Japan	118,792	28,584	162,029	93,115
PRC	9,611	(25)	34,653	29,401
Other countries	–	–	21,755	–
	<u>129,491</u>	<u>29,589</u>	<u>259,138</u>	<u>122,642</u>
Unallocated costs		<u>(19,018)</u>		
Profit before taxation		<u>10,571</u>		
	Turnover 2002 <i>HK\$'000</i>	Segment results 2002 <i>HK\$'000</i>	Total assets 2002 <i>HK\$'000</i>	Capital expenditure 2002 <i>HK\$'000</i>
Hong Kong	2,392	395	62,485	1,000
Japan	44,518	(27,246)	85,271	15,976
PRC	1,846	1,476	1,476	–
Other countries	–	–	38,151	–
	<u>48,756</u>	<u>(25,375)</u>	<u>187,383</u>	<u>16,976</u>
Unallocated costs		<u>(57,558)</u>		
Loss before taxation		<u>(82,933)</u>		



3. Profit/(loss) before taxation

Profit/(loss) before taxation is stated after crediting and charging the following:

	2003	2002
	HK\$'000	HK\$'000
Crediting		
Gain on disposal of fixed assets	94	–
Exchange gains	9,315	–
Gain on disposal of a subsidiary	–	5
	9,409	5
Charging		
Auditors' remuneration	1,176	598
Cost of inventories sold	40,205	40,693
Depreciation of fixed assets	15,010	22,225
Exchange losses	–	2,440
Loss on disposal of fixed assets	–	1,898
Management fee paid to the minority shareholder (<i>note 12</i>)	705	–
Operating leases on land and buildings	6,545	10,667
Settlement sum for early termination of a lease agreement (<i>Note below</i>)	5,900	–
Record masters		
– Amortisation	1,017	–
– Impairment charge	1,832	–
Provision for inventories	829	684
Provision for bad and doubtful debts	294	2,121
Staff costs (excluding Directors' remuneration) (<i>note 8</i>)	11,074	15,050

Note: During the year, the landlord issued proceedings against Rojam Management Limited ("RML"), a wholly-owned subsidiary of the Company, for, among other things, the alleged outstanding sums due and payable to the landlord pursuant to a lease agreement. RML has subsequently surrendered to the landlord the premises let under the lease agreement, and the landlord has agreed to accept the surrender and discontinue the proceedings against RML upon RML making payment to the landlord of the settlement sum of HK\$5.9 million, which consists of forfeiture of rental deposits of approximately HK\$2.0 million and a further sum of approximately HK\$3.9 million. Consequently, the proceedings were discontinued during the year, and therefore the Directors are of the opinion that there is no further contingency on such legal action.



Notes to the Accounts *(Continued)*

4. Taxation and overseas withholding taxation

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries in Hong Kong have no assessable profits for the current and prior year.

No provision for Japanese corporate income tax has been made for the current year as there is allowable tax loss brought forward from prior years. No provision for Japanese corporate income tax had been made in prior year as the subsidiary in Japan had no assessable profit.

PRC taxation has been provided on the profit of the Group's subsidiary in PRC and calculated at the applicable rates.

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

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Current taxation		
– PRC taxation	382	–

No provision has been made in the accounts for deferred taxation. The unprovided deferred taxation assets as at 31st March 2003 are analysed below:

	2003 HK\$'000	2002 HK\$'000
Potential tax losses	9,469	4,462
Accumulated depreciation allowance	7	2,116
	9,476	6,578

5. Profit/(loss) attributable to shareholders

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$26,484,000 (2002: loss of HK\$89,819,000).



6. Earning/(loss) per share

The calculation of basic earning/(loss) per share is based on the Group's profit attributable to shareholders of HK\$3,320,000 (2002: loss of HK\$82,929,000) and the weighted average number of ordinary shares for the year of 1,317,972,074 (2002: 1,093,177,554) shares.

Diluted earning per share has not been presented for the year ended 31st March 2003 as there is no material dilution effect arising from the share options granted by the Company. Diluted loss per share has not been presented for the year ended 31st March 2002 as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share.

7. Dividends

No dividend had been paid or declared by the Company during the year (2002: HK\$Nil).

8. Staff costs (excluding Directors' remuneration)

	2003	2002
	HK\$'000	HK\$'000
Wages and salaries	10,198	14,395
Unutilised annual leave	164	–
Pension costs – defined contribution plans (<i>Note below</i>)	712	655
	11,074	15,050

Note:

	2003	2002
	HK\$'000	HK\$'000
Contributions paid and payable to defined contribution retirement schemes in respect of:		
Hong Kong	101	198
Japan	581	457
PRC	30	–
	712	655



Notes to the Accounts *(Continued)*

9. Directors' and senior management's emoluments

- (a) Emoluments paid and payable to the Directors for the year ended 31st March 2003 are as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	480	473
Basic salaries, allowances and benefits in kind	4,214	7,887
Pension contribution	38	13
	<u>4,732</u>	<u>8,373</u>

Directors' fees disclosed above include HK\$480,000 (2002: HK\$473,000) paid to the independent non-executive Directors.

Four current executive Directors of the Company received individual emoluments of approximately HK\$2,428,000 (2002: HK\$2,869,000), HK\$1,605,000 (2002: HK\$501,000), HK\$121,000 (2002: HK\$Nil) and HK\$98,000 (2002: HK\$Nil) for the year ended 31st March 2003 respectively. No emoluments were paid to the remaining executive Directors during the year. Two past executive Directors received individual emoluments of approximately HK\$Nil (2002: HK\$2,655,000) and HK\$Nil (2002: HK\$1,875,000) for the year ended 31st March 2003.

- (b) The five individuals whose emoluments were the highest in the Group for the year ended 31st March 2003 include three (2002: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two highest paid employees for the year ended 31st March 2003 are as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries and allowances	1,800	2,095
Pension contribution	25	12
	<u>1,825</u>	<u>2,107</u>



9. Directors' and senior management's emoluments (Continued)

(b) (Continued)

The number of employees whose emoluments fell within the following bands is as follows:

	2003	2002
HK\$Nil – HK\$1,000,000	2	–
HK\$1,000,001 – HK\$1,500,000	–	2
	<u> </u>	<u> </u>

(c) During the year, no emoluments have been paid by the Group to the Directors of the Company and the highest paid employees mentioned above as bonus, an inducement to join or upon joining the Group or as compensation for loss of office.

10. Intangible assets

	Goodwill	Record	Total
	<i>HK\$'000</i>	<i>masters</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	
At 1st April 2002	–	–	–
Additions	–	8,439	8,439
Acquisition of subsidiaries (note 21(b))	109,605	–	109,605
Amortisation charge	(2,627)	(1,017)	(3,644)
Impairment charge	–	(1,832)	(1,832)
	<u> </u>	<u> </u>	<u> </u>
	106,978	5,590	112,568
Current portion included under current assets	–	(3,264)	(3,264)
	<u> </u>	<u> </u>	<u> </u>
At 31st March 2003	<u>106,978</u>	<u>2,326</u>	<u>109,304</u>



Notes to the Accounts *(Continued)*

11. Fixed assets – Group

	Leasehold improve- ments <i>HK\$'000</i>	Studio equipment <i>HK\$'000</i>	Office equipment, furniture and fixtures <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Discotheque equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost							
At 1st April 2002	34,461	23,955	6,254	1,975	–	185	66,830
Additions	237	190	93	78	721	–	1,319
Acquisition of subsidiaries (note 21(b))	–	–	18	7	3,254	–	3,279
Disposals	–	–	(1,378)	(126)	–	–	(1,504)
Write-off	(19,722)	–	(3,389)	–	–	–	(23,111)
Exchange differences	1,503	2,440	105	82	–	19	4,149
At 31st March 2003	16,479	26,585	1,703	2,016	3,975	204	50,962
Accumulated depreciation							
At 1st April 2002	17,085	3,170	4,021	1,085	–	51	25,412
Charge for the year	8,369	3,538	1,668	532	843	60	15,010
Disposals	–	–	(1,373)	(124)	–	–	(1,497)
Write-off	(19,722)	–	(3,389)	–	–	–	(23,111)
Exchange differences	304	378	30	21	–	6	739
At 31st March 2003	6,036	7,086	957	1,514	843	117	16,553
Net book value							
At 31st March 2003	10,443	19,499	746	502	3,132	87	34,409
At 31st March 2002	17,376	20,785	2,233	890	–	134	41,418



12. Investments in subsidiaries – Company

	2003	2002
	HK\$'000	HK\$'000
Unlisted investments, at cost	56,162	5,985
Loan to a subsidiary	31,637	31,637
	87,799	37,622
Provisions for diminution in value	(37,622)	(37,622)
	50,177	–

The loan to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

The following is a list of the subsidiaries as at 31st March 2003:

Name	Place of incorporation/ establishment and kind of legal entity	Issued and fully paid up share capital/ registered capital	Attributable equity interest	Principal activities and place of operation
Rojam Entertainment Limited	Hong Kong, limited liability company	100,000 ordinary shares of HK\$1 each	100%	Sale of records and other audio-visual products, provision of marketing and promotion activities, provision of general administration and management services to group companies in Hong Kong
Rojam International Limited	British Virgin Islands (“BVI”), limited liability company	1 registered share of US\$1 each	100%	Intellectual property holding, music and web content production in Hong Kong and Japan
Rojam Management Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK\$1 each	100%	Inactive



Notes to the Accounts *(Continued)*

12. Investments in subsidiaries – Company *(Continued)*

The following is a list of the subsidiaries as at 31st March 2003: *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Issued and fully paid up share capital/ registered capital	Attributable equity interest	Principal activities and place of operation
Rojam Japan Limited	Japan, limited liability company	400 shares totalling ¥90,000,000	100%	Administration of online record sales, sales and promotion coordination, music production and management of Tokyo Studio in Japan
Rojam.com Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK\$1 each	100%	Inactive
Rojam Investment Limited	BVI, limited liability company	1 registered share of US\$1 each	100%	Investment holding in Hong Kong and PRC
Rojam U.S.A., Inc.	United States of America ("USA"), limited liability company	2 registered shares of US\$1 each	100%	Investment holding in USA
R&C Japan Ltd. ("R&C")	Japan, limited liability company	600 shares totalling ¥30,000,000	80%	Sales of records and other audio-visual products, master tape right licensing and music production in Japan
Shanghai Rojam Entertainment Company Limited ("Shanghai Rojam") <i>(Note below)</i>	PRC, limited liability company	US\$1,000,000	90%	Operation of discotheque business in PRC
Yoshimoto Music Holdings, Inc.	USA, limited liability company	5 registered shares of US\$1 each	80%	Investment holding in USA and Japan



12. Investments in subsidiaries – Company (Continued)

The following is a list of the subsidiaries as at 31st March 2003: (Continued)

Note:

The Group entered into a Chinese-foreign cooperative joint venture contract with the minority shareholder of Shanghai Rojam pursuant to the Shanghai Chikou Acquisition (as defined and further detailed in note 13). By virtue of the said contract, this minority shareholder has agreed to accept a pre-fixed amount as its return on investment, whereas the Group will be entitled to/responsible for any or all operating profit/loss. The pre-fixed amount paid/payable to this minority shareholder is recognised as management fee payable to the minority shareholder in the consolidated profit and loss account.

According to the terms of the said contract, the minority shareholder is entitled to a pre-fixed amount of RMB600,000 for the year ended 31st December 2002, and of RMB500,000 per annum from the year beginning 1st January 2003. Such amount might be subjected to further negotiation should the business encounter significant changes.

13. Deposit for investment in subsidiaries

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., Ltd. (“Shanghai Chikou”) at a consideration of HK\$31.5 million (the “Shanghai Chikou Acquisition”). The Shanghai Chikou Acquisition was approved by the independent shareholders of the Company by way of poll at the extraordinary general meeting of the Company held on 25th February 2002. A deposit of HK\$14.0 million had been paid to the seller shortly after the signing of the said agreement, and the balancing amount of HK\$17.5 million had been paid into an escrow account during the prior year ended 31st March 2002.

On 30th September 2002, the Directors announced that all the conditions underlying the said agreement have been fulfilled and therefore, the Shanghai Chikou Acquisition was completed on 30th September 2002. Shanghai Chikou was renamed as Shanghai Rojam Entertainment Company Limited and became a 90% indirectly owned subsidiary of the Company.

14. Inventories

	2003	2002
	HK\$'000	HK\$'000
Finished goods	189	67
Production-in-progress	5,180	4,660
Merchandise	1,397	22
	6,766	4,749

At 31st March 2003, the carrying amounts of inventories that are carried at net realisable value amounted to HK\$520,000 (2002: HK\$502,000).

15. Amounts due from/to subsidiaries

The amounts are unsecured, interest-free and have no fixed terms of repayment.



Notes to the Accounts *(Continued)*

16. Trade receivables

The majority of the Group's turnover is on credit terms of sixty to ninety days. At 31st March 2003, the ageing analysis of the trade receivables were as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Current	14,489	5,055
30-60 days	1,457	3,854
61-90 days	566	2,806
Over 90 days	3,155	8,376
	19,667	20,091
Provision for doubtful debts	(1,840)	(2,134)
	17,827	17,957

17. Cash and bank balances

Included in the balance is approximately HK\$5,892,000 (2002: HK\$Nil) denominated in Renminbi in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulation of foreign exchange control promulgated by the PRC government.

18. Trade payables

At 31st March 2003 and 31st March 2002, the ageing of the trade payables was current.

19. Share capital

	Authorised Ordinary shares of HK\$0.1 each	
	Number of shares	HK\$'000
At 31st March 2002 and 31st March 2003	5,000,000,000	500,000
	Issued and fully paid Ordinary shares of HK\$0.1 each	
	Number of shares	HK\$'000
At 1st April 2001	1,034,684,403	103,468
Issue during the year	70,000,000	7,000
At 31st March 2002 and 1st April 2002	1,104,684,403	110,468
Issue during the year <i>(note 19(d))</i>	450,000,000	45,000
At 31st March 2003	1,554,684,403	155,468



19. Share capital (Continued)

(a) Pursuant to a resolution passed by the shareholders of the Company on 21st May 2001, two share options schemes, namely, the pre-IPO grant of options and share options scheme respectively, were adopted by the Company subject to the terms and conditions stipulated therein.

(b) During the year, no options were granted or exercised, and 18,800,000 options had lapsed following the cessation of the employment of the relevant Directors and employees with the Group.

(c) **Share options scheme**

(i) *Pre-IPO Grant of Options*

Details of outstanding share options granted pursuant to the pre-IPO grant of options of the Company as at 31st March 2003 are as follows:

Date of grant	Exercise Price HK\$	Granted	As at	Exercised	Lapsed	Cancelled	As at	Exercise period
			1st April 2002				31st March 2003	
21st May 2001	0.1	41,387,376	41,387,376	-	-	-	41,387,376	31st May 2001 to 30th May 2011
21st May 2001	0.8	10,346,844	10,346,844	-	-	-	10,346,844	31st May 2001 to 30th May 2011
		<u>51,734,220</u>	<u>51,734,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,734,220</u>	

(ii) *Share Options Scheme*

Details of outstanding share options granted pursuant to the share options scheme of the Company as at 31st March 2003 are as follows:

Date of grant	Exercise Price HK\$	Granted	As at	Exercised	Lapsed	Cancelled	As at	Exercise period
			1st April 2002				31st March 2003	
12th July 2001	0.47	52,240,000	40,300,000	-	(18,800,000)	-	21,500,000	12th July 2001 to 11th July 2011
		<u>52,240,000</u>	<u>40,300,000</u>	<u>-</u>	<u>(18,800,000)</u>	<u>-</u>	<u>21,500,000</u>	



Notes to the Accounts *(Continued)*

19. Share capital *(Continued)*

- (d) Pursuant to a sale and purchase agreement dated 20th June 2002, as amended by two supplemental agreements dated 29th July 2002 and 13th September 2002 respectively, and entered into between the Company and Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"), a company incorporated and listed in Japan, the Company procured the purchase of 80% equity interest in R&C, an indirectly wholly-owned subsidiary of Yoshimoto incorporated in Japan and principally engaged in the production of music master tapes and licensing of master tape rights, at a consideration of HK\$67.5 million. The consideration was satisfied by the issue and allotment of 450 million new shares of the Company. The transaction was completed on 10th October 2002, and the shares were booked at the closing price of HK\$0.10 per share quoted on The Stock Exchange of Hong Kong Limited at the date of completion as considerations for the acquisition of R&C.

20. Reserves

(a) Group

	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profit/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2001	103,279	(3,118)	7,158	107,319
Loss for the year	–	–	(82,929)	(82,929)
Premium on issue of shares	63,000	–	–	63,000
Share issue expenses	(17,950)	–	–	(17,950)
Reserve realised upon disposal of a subsidiary	–	33	–	33
Exchange adjustment on the translation of accounts of overseas subsidiaries	–	(1,839)	–	(1,839)
At 31st March 2002	<u>148,329</u>	<u>(4,924)</u>	<u>(75,771)</u>	<u>67,634</u>
At 1st April 2002	148,329	(4,924)	(75,771)	67,634
Profit for the year	–	–	3,320	3,320
Exchange adjustment on the translation of accounts of overseas subsidiaries	–	(1,388)	–	(1,388)
At 31st March 2003	<u>148,329</u>	<u>(6,312)</u>	<u>(72,451)</u>	<u>69,566</u>



20. Reserves (Continued)

(b) Company

	Share premium	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April 2001	103,279	(1,767)	101,512
Issue of shares	63,000	–	63,000
Share issue expenses	(17,950)	–	(17,950)
Loss for the year	–	(89,819)	(89,819)
	<u>148,329</u>	<u>(91,586)</u>	<u>56,743</u>
At 31st March 2002	<u>148,329</u>	<u>(91,586)</u>	<u>56,743</u>
At 1st April 2002	148,329	(91,586)	56,743
Loss for the year	–	(26,484)	(26,484)
	<u>148,329</u>	<u>(118,070)</u>	<u>30,259</u>
At 31st March 2003	<u>148,329</u>	<u>(118,070)</u>	<u>30,259</u>

21. Notes to the consolidated cash flow statement

(a) Reconciliation of profit/(loss) before taxation to net cash outflow from operations

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) before taxation	10,571	(82,933)
Depreciation of fixed assets	15,010	22,225
Amortisation of goodwill	2,627	–
Amortisation of record masters	1,017	–
Impairment of record masters	1,832	–
Interest income	(864)	(2,671)
(Gain)/loss on disposal of fixed assets	(94)	1,898
	<u>30,099</u>	<u>(61,481)</u>
Operating profit/(loss) before working capital changes	30,099	(61,481)
Decrease/(increase) in inventories	1,033	(2,398)
Decrease in trade receivables, prepayments and other receivables	9,593	15,831
Decrease/(increase) in amounts due from related companies	1,637	(1,152)
Decrease/(increase) in amount due from a shareholder	5,128	(5,128)
Decrease in trade payables, accruals and other payables	(63,620)	(3,236)
Decrease in amounts due to related companies	–	(270)
	<u>(16,130)</u>	<u>(57,834)</u>
Net cash outflow from operations	<u>(16,130)</u>	<u>(57,834)</u>



Notes to the Accounts *(Continued)*

21. Notes to the consolidated cash flow statement *(Continued)*

(b) Purchase of subsidiaries

	2003 HK\$'000
Net liabilities acquired	
Fixed assets	3,279
Inventories	3,050
Trade and other receivables	2,583
Cash and bank balances	44,352
Trade and other payables	(87,160)
Taxation payable	(1,385)
Minority shareholders' interests	7,353
	<hr/>
	(27,928)
Goodwill	<hr/> 109,605
	<hr/> 81,677 <hr/> <hr/>
Satisfied by	
Deposit for investment in subsidiaries paid during the year ended 31st March 2002	31,500
Issue of shares <i>(note 19(d))</i>	45,000
Direct costs relating to the acquisition	5,177
	<hr/>
	81,677 <hr/> <hr/>

The subsidiaries acquired during the year contributed HK\$29,822,000 in respect of cash outflow from operating activities and HK\$643,000 in respect of cash outflow from investing activities.

Analysis of net cash inflow in respect of the purchase of subsidiaries:

	2003 HK\$'000
Bank balances and cash in hand acquired	44,352
Direct costs relating to the acquisition	(5,177)
	<hr/>
Net cash inflow in respect of the purchase of subsidiaries	39,175 <hr/> <hr/>



21. Notes to the consolidated cash flow statement (Continued)

(c) **Analysis of changes in financing during the year**

	Share capital		Minority interests	
	including premium			
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at the beginning of the year	258,797	206,747	–	101
Cash inflow from financing activities	–	52,050	–	–
Issue of shares (note 19(d))	45,000	–	–	–
Acquisition of subsidiaries	–	–	(7,353)	–
Disposal of a subsidiary	–	–	–	(97)
Minority interests' share of profit/(loss)	–	–	6,869	(4)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at the end of the year	<u>303,797</u>	<u>258,797</u>	<u>(484)</u>	<u>–</u>

(d) Save as disclosed in note 19(d) to the accounts, there is no other significant non-cash transaction in the current year.

22. Commitments under operating leases – land and building

At 31st March 2003, the Group had future aggregate minimum lease payments under operating leases as follows:

	2003	2002
	HK\$'000	HK\$'000
Not later than one year	4,619	8,101
Later than one year and not later than five years	4,650	11,772
	<u>9,269</u>	<u>19,873</u>

23. Contingent liabilities

The Group and the Company had no material contingent liabilities at 31st March 2003 and 2002.



Notes to the Accounts *(Continued)*

24. Related party transactions

Save as disclosed in other notes to the accounts, the Group has carried out the following material transactions with related parties during the year:

	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
Revenues received and receivable from related parties:			
– trademark licence fees from Shanghai Rojam	(a)	845	1,845
Operating expenses paid and payable to related parties:			
– studio charges paid to SK Planning	(b)	–	224
– studio charges paid to PT. TK Disc Bali	(b)	–	22
– producer and performance fee to:			
– TK Networks Inc.		note (f)	<i>note (f)</i>
– Mr. Tetsuya Komuro		note (g)	<i>note (g)</i>
– rental payment and other charges to Yoshimoto	(c)	587	–
– artiste royalties to Yoshimoto	(d)	1,070	–
– homepage production service fee to Fandango, Inc.	(e)	336	–
Payment of share of listing expenses on behalf of Billion Moment Limited	(h)	–	5,128

- (a) The trademark licence fees are charged for the use of various trademarks by Shanghai Rojam in accordance with the terms of agreements. The Group ceased to receive the said fee from Shanghai Rojam following the completion of its acquisition on 30th September 2002.
- (b) SK Planning and PT. TK Disc Bali are beneficially owned by Mr. Tetsuya Komuro. The Group did not rent the studios from these two companies in the current year.
- (c) Pursuant to the sub-lease agreements dated 29th March 2002 and 10th October 2002 between the Group and Yoshimoto, the Group will sub-let office premises from Yoshimoto for an aggregate monthly rental payment of JPY1,430,000 (approximately HK\$93,000), and other electricity and water charges, for a lease term up to 31st March 2005.



24. Related party transactions (Continued)

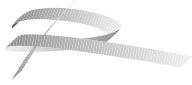
- (d) Pursuant to a master artist performance agreement dated 10th October 2002 between the Group and Yoshimoto, Yoshimoto will procure artists managed by Yoshimoto and nominated by the Group, to perform to enable the Group to reproduce and distribute the records or videogram of those artists. Artist royalties in connection with the sales of such audio and audio-visual recordings are payable to Yoshimoto by the Group according to the rates as stipulated in the agreement.
- (e) Fandango, Inc. ("Fandango") is a company beneficially owned as to 65% by Yoshimoto. Pursuant to the web production agreements dated 1st April 2002 and 10th October 2002 between the Group and Fandango, Fandango will render production services for the homepages of the Group for an aggregate monthly fee of JPY900,000 (approximately HK\$58,000) for a contract term up to 31st March 2005.
- (f) 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 years ended 31st March 2003 and 2002.
- (g) Pursuant to a service agreement dated 21st May 2001 between Mr. Tetsuya Komuro and the Group, Mr. Tetsuya Komuro is remunerated, in the capacity of chief executive producer, with the grant of share options entitling him to subscribe for up to a maximum of 41,387,376 ordinary shares in the Company at an exercise price of HK\$0.1 per share, subject to terms and conditions attached thereto.

In the opinion of the Directors of the Company, the above related party transactions were carried out in the ordinary and usual course of business and on terms mutually agreed between the Group and the respective related parties. Except for the producer fee as set out in notes (f) and (g) above, the Group charged and/or paid the above related parties at market prices.

- (h) Pursuant to an underwriting and placing agreement dated 23rd May 2001, the expenses in connection with the placing of 90 million shares of the Company, consisting of 70 million new shares issued and allotted by the Company and 20 million existing shares from Billion Moment Limited, were to be borne by the respective parties according to the number of shares offered by each of them. Billion Moment Limited is a 90% beneficially owned company of Mr. Kebo Wu. During the year, Billion Moment Limited repaid the Company in full the said principal sum with interest accrued from the date of listing up to the date of repayment.

25. Approval of accounts

The accounts were approved by the board of Directors on 26th June 2003.



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Rojam Entertainment Holdings Limited (“Company”) will be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 22nd July 2003 at 9:30 a.m. for the following purposes:

1. to receive and consider the audited consolidated financial statements of the Company, and the reports of the Directors of the Company and auditors for the year ended 31st March 2003;
2. to re-elect retiring Directors and to authorise the board of Directors of the Company to fix the Directors’ remuneration;
3. to re-appoint auditors and authorise the board of Directors of the Company to fix their remuneration;
4. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph 4(c) below, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional ordinary shares of HK\$0.10 each in the share capital of the Company (“Shares”), or to grant offers, agreements or options which would or might require Shares to be issued, allotted or disposed of be generally and unconditionally approved;
- (b) the Directors of the Company be authorised to grant offers, agreements or options during the Relevant Period which would or might require Shares to be issued, allotted or disposed of either during or after the end of the Relevant Period pursuant to paragraph 4(a) above;
- (c) the aggregate amount of the Shares allotted or agreed to be allotted by the Directors of the Company pursuant to the approvals in paragraphs 4(a) and (b) above, otherwise than pursuant to:
 - (i) a rights issue (as defined below);
 - (ii) an issue of Shares in lieu of the whole or part of the dividend on Shares in accordance with the articles of association of the Company; or
 - (iii) an exercise of rights of subscription or conversion under terms of any warrants issued by the Company or any securities which are convertible in to Shares; or
 - (iv) the exercise of options granted or may be granted under the share option scheme of the Company conditionally adopted on 21st May 2001 or any other share option scheme or similar arrangement for the time being adopted for the grant or issue to the executive Directors, officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; or
 - (v) the exercise of options granted pursuant to the Pre-IPO Grant of Options as approved by the shareholders of the Company in a general meeting held on 21st May 2001,

shall not exceed 20% of the amount of the share capital of the Company in issue at the date of passing of this resolution; and



- (d) for the purpose of this resolution:

"Pre-IPO Grant of Options" shall have the same meaning as defined in the Company's prospectus dated 24th May 2001;

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company following the passing of this resolution;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; or
- (iii) the passing of any ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing the authority given to the Directors of the Company by this resolution; and

"rights issue" means the allotment or issue of shares or other securities of the Company which would or might require shares or securities of the Company to be allotted and issued pursuant to an offer made to all shareholders of the Company (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient including those in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong)."

5. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

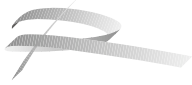
"THAT:

- (a) the Directors of the Company be granted an unconditional mandate to exercise all powers of the Company during the Approved Period (as defined below) to purchase on the Growth Enterprise Market or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission in Hong Kong and The Stock Exchange of Hong Kong Limited for this purpose such number of Shares as will represent up to 10% of the amount of the share capital of the Company in issue at the date of passing of this resolution; and

- (b) for the purpose of this resolution:

"Approved Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company following the passing of this resolution;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; or
- (iii) the passing of any ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing the authority given to the directors of the Company by this resolution."



Notice of Annual General Meeting *(Continued)*

6. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

“THAT conditional upon Resolution Nos. 4 and 5 above being passed, the general unconditional mandate mentioned in Resolution No. 4 above be extended by the addition to the aggregate amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate of the amount of the share capital of the Company purchased by the Company pursuant to the mandate to repurchase Shares referred to in Resolution No. 5 above.”

7. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

“THAT the master music agreement (“Agreement”) dated 10th October 2002 and entered into between Rojam Japan Limited and R&C Japan Ltd. (a copy of which marked “A” has been produced to this Meeting and signed by the chairman of this Meeting for the purpose of identification) be and is hereby re-approved and **THAT** the maximum aggregate amount of all future transactions to be carried out in accordance with the terms of the Agreement of HK\$24,000,000 for each of the two years ending 31st March 2005 be and is hereby re-approved.”

By Order of the Board
Etsuko Hoshiyama
Company Secretary

Hong Kong, 30th June 2003

Principal place of business:

Unit 2403, 24/F, Tower 2
Lippo Centre
89 Queensway
Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company but must attend the meeting in person to represent the member of the Company.
- (2) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms, 1901-5, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, in accordance with the instructions printed thereon by not less than 48 hours before the time of the meeting or an adjournment thereof.
- (3) Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting should he so wish, in that event, his form of proxy will be deemed to have been revoked.
- (4) Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holder(s), and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members of the Company in respect of the joint holding.
- (5) A circular containing further details regarding Resolution Nos. 4 to 6 as required by the Rules Governing the Listing of Securities of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited will be dispatched to shareholders of the Company.