

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2003/2004



ROJAM

Entertainment Network Asia

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This report, for which the directors of Rojam Entertainment Holdings Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Rojam Entertainment Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

The board of directors (the “Board”) of Rojam Entertainment Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) announces the unaudited consolidated results of the Group for the three months ended 30th June 2003 together with the comparative unaudited figures for the corresponding period in 2002.

		Three months ended 30th June	
	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
Turnover	2	14,815	10,783
Other revenue	2	138	257
		<hr/>	<hr/>
Total revenues		14,953	11,040
Less: overseas withholding taxation	3	-	(1,115)
		<hr/>	<hr/>
		14,953	9,925
Cost of sales		(20,564)	(7,386)
Selling and distribution expenses		(4,103)	(2)
Other operating expenses		(7,467)	(1,861)
Amortisation of goodwill		(1,370)	-
		<hr/>	<hr/>
(Loss)/profit before taxation		(18,551)	676
Taxation	3	156	-
		<hr/>	<hr/>
(Loss)/profit after taxation		(18,395)	676
Minority interests		1,987	-
		<hr/>	<hr/>
(Loss)/profit attributable to shareholders		(16,408)	676
		<hr/>	<hr/>
Basic (loss)/earnings per share	4	(1.1 cents)	0.1 cent
		<hr/>	<hr/>

Notes:

1. Basis of preparation

The Company was incorporated in the Cayman Islands on 29th February 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its shares were listed on GEM on 31st May 2001.

The unaudited accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

2. Turnover and revenue

The amounts of each significant category of revenue recognised during the three months ended 30th June 2003 are as follows:

	Three months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Turnover		
Record distribution income	10,335	73
Music production income		
– Production service fees	1,318	4,581
– Royalty income	561	5,368
Music publishing fee		
– Royalty income	6	32
Discotheque income	2,347	–
Event management income	10	14
Trademark licensing income	–	408
Merchandise sales	4	87
Banner advertising income	234	220
	<hr/>	<hr/>
	14,815	10,783
Other revenues		
Bank interest income	138	197
Interest income from amount due from a shareholder	–	60
	<hr/>	<hr/>
	138	257
	<hr/>	<hr/>
Total revenues	14,953	11,040

3. Taxation and overseas withholding taxation

No provision for Hong Kong profits tax, Japanese corporate income tax and the People's Republic of China ("PRC") foreign enterprise income tax have been made as the companies comprising the Group have no assessable profits for the three months ended 30th June 2003 and 2002. Overseas withholding taxation represents Japan and PRC withholding taxes on the income subject to withholding taxes and is calculated at the rates applicable thereto.

4. (Loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of approximately HK\$16,408,000 (2002: profit of approximately HK\$676,000) and the weighted average number of 1,554,684,403 (2002: 1,104,684,403) ordinary shares in issue during the period.

Diluted loss per share has not been presented for the three months ended 30th June 2003 as the conversion of the potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share.

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

5. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months ended 30th June 2003 (2002: HK\$Nil).

6. Reserves

	Share premium HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April 2002	148,329	(4,924)	(75,771)	67,634
Profit for the period	-	-	676	676
Exchange adjustment on translation of the accounts of overseas subsidiaries	-	41	-	41
At 30th June 2002	<u>148,329</u>	<u>(4,883)</u>	<u>(75,095)</u>	<u>68,351</u>
At 1st April 2003	148,329	(6,312)	(72,451)	69,566
Loss for the period	-	-	(16,408)	(16,408)
Exchange adjustment on translation of the accounts of overseas subsidiaries	-	445	-	445
At 30th June 2003	<u>148,329</u>	<u>(5,867)</u>	<u>(88,859)</u>	<u>53,603</u>

BUSINESS REVIEW AND PROSPECTS

Financial Review

For the three months ended 30th June 2003, the Group recorded a turnover of approximately HK\$14.8 million, a 37% increase from HK\$10.8 million when compared to the three months ended 30th June 2002. Of the total turnover, HK\$10.3 million or 70% was generated from the record distribution business, HK\$1.9 million or 13% was generated from the music production business and HK\$2.3 million or 16% was generated from the discotheque business.

The drastic increases in the record distribution revenue by HK\$10.3 million or 140 times, the cost of sales by HK\$13.2 million or 1.8 times, the selling and distribution expenses by HK\$4.1 million or 2,050 times, and other operating expenses by HK\$5.6 million or 3 times, when compared to the corresponding period of the last year, were a result of the consolidation of the accounts of R&C Japan Ltd. ("R&C"). The introduction of the discotheque income of HK\$2.3 million was also a result of the consolidation of the accounts of Rojam Disco.

The combined impact of higher cost of sales, selling and distribution expenses and other operating expenses caused a loss attributable to shareholders of approximately HK\$16.4 million for the three months ended 30th June 2003, whereas the Group recorded a profit of approximately HK\$0.7 million for the same period of last year. The decrease in exchange gains on translation was also a cause of reduction of the profitability when compared to the previous financial year.

Due to the seasonal characteristics of the record industry, the first quarter of the financial year recorded comparatively lower turnover among the year. The repertoire released in this quarter also had a disappointing result as they did not perform as well as expected. The outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the first quarter also affected the turnover of Rojam Disco, resulting in reduced profitability of the Group's operations.

At 30th June 2003, the Group had a cash balance of approximately HK\$81.6 million, a 2% growth from HK\$80.0 million as at 31st March 2003.

Operations Review

Record distribution

R&C, an 80% indirectly owned subsidiary of the Company, is principally engaged in the sales of records and other audio-visual products, and production and licensing of music master tapes. This business division accounted for approximately 70% of the total turnover of the Group for the three months ended 30th June 2003.

The record distribution revenue fell short of the previous quarter's strong performance. Due to the effect of seasonality, sales are in general lower in the first quarter than in other quarters of the financial year. During the quarter under review, R&C produced and distributed 3 singles, 1 album, 4 video tapes and 9 DVDs. The performance of certain titles was not as satisfactory as expected. R&C is now focusing on scheduling the release of quality records in the coming quarters.

During the quarter under review, the Group has signed up three artistes, namely Amy-N-Ryoo, The SCANTY and PENPALS, and produced music recordings for them.

Music production

The products of the Group included 2 singles, produced for Avex Inc. and Sony Music Entertainment Limited respectively, as well as other order-by-order music projects. Revenue from the music production business dropped by 81%, compared to the first quarter of the previous year, was mainly attributed to the decrease in the number of music projects undertaken. To enhance revenue, the Group has also rented the Rojam Studio and provided advisory services in recording and editing to other record companies.

Rojam Disco

During the first quarter, the SARS crisis has drastically impacted the entertainment and tourism sectors in mainland China with most businesses reporting significant drop in sales. Rojam Disco also experienced a sales drop of over 40% when compared to the previous quarter.

To counteract the hostile market conditions, Rojam Disco adopted a more defensive approach during the first quarter, focusing on cost control including tightening operating expenses and re-designing advertising and promotional activities. Rojam Disco also conducted a full review of its hardware and software, and speeded up the ongoing renovation program. The Group's strategy is to ensure that this business segment is capable of rebounding quickly when the market conditions improve.

Prospects

Looking ahead, the markets are likely to remain challenging. The Group is assured of being able to face the issues, both in terms of supplying high-quality music, for which there is a growing demand, and in maximising the revenue generated from Rojam Disco.

The Group recognises that concentrating on profitable and sustainable sales from artists with long-term potential is an important objective. The Group will pursue an aggressive policy in its core businesses by streamlining the artist roster, terminating the unprofitable productions, restructuring costly development units and taking advantage of the cost-effective marketing.

The outbreak of SARS has created a negative impact on the economy in Hong Kong and mainland China. The entertainment and tourism sectors have been adversely affected by the weak consumer sentiment. However, as the situation comes under control and the fundamental factors supporting sales growth are still in place, the Group anticipates that the performance of Rojam Disco in the coming quarters can recover to the pre-SARS level. Figures from July confirmed a continuing upward pattern. In the second quarter, the renovation in Rojam Disco will be complete. The profit earning capability of Rojam Disco will undoubtedly be strengthened. A series of promotions has also been set for the third quarter in particular for a week of holidays near the Chinese National Day in October.

The Group is making progress in its efforts to build upon varied revenue streams. Currently, the Group is diligently working towards setting up a new entertainment house, aiming to lure a variety of customers. With strict adherence to the conservative cash management process during the first quarter of the financial year, preservation of funds was achieved to position the Group to launch new projects and invest in appropriate investment opportunities in the rest of the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30th June 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the directors of the Company as referred to in rule 5.40 of the GEM Listing Rules, were as follows:

(a) Interests in the ordinary shares of HK\$0.10 each in the Company

Name of director	Capacity in which the shares are held	Total number of shares held	Approximate shareholding in the Company
Mr. Tetsuya Komuro (<i>Note</i>)	Beneficial owner and interests by attribution	424,876,667	27.33%
Mr. Takeyasu Hashizume	Beneficial owner	1,730,000	0.11%
Mr. Arihito Yamada	Beneficial owner	8,913,600	0.57%
Mr. Yukitsugu Shimizu	Beneficial owner	430,000	0.03%
Mr. Hiroshi Osaki	Beneficial owner	1,300,000	0.08%

Note: Mr. Tetsuya Komuro and Ms. Keiko Yamada, the spouse of Mr. Tetsuya Komuro, were beneficial owners of 422,676,667 and 2,200,000 shares in the Company respectively. Mr. Tetsuya Komuro was accordingly interested in a total of 424,876,667 shares in the Company.

(b) Interests in the underlying shares of the Company pursuant to physically settled equity derivatives

Name of director	Date of grant	Exercise price (HK\$)	Granted	Number of share options	
				Outstanding as at 1st April 2003	Outstanding as at 30th June 2003
Mr. Tetsuya Komuro	21st May 2001	0.10	41,387,376	41,387,376	41,387,376
Mr. Arihito Yamada	12th July 2001	0.47	8,800,000	8,800,000	8,800,000

The share options granted to Mr. Tetsuya Komuro, the exercise period for which expires 10 years from 31st May 2001, 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%

The share options granted to Mr. Arihito Yamada, the exercise period for which expires 10 years from 12th July 2001, are vested as follows:

On 12th July 2001	Up to 50%
On 1st July 2002	Up to 100%

Save as disclosed above, at 30th June 2003, none of the directors, chief executive or their respective associates (as defined in the GEM Listing Rules) had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the directors of the Company as referred to in rule 5.40 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30th June 2003, the interests and short positions of persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly, or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO were:

Name of shareholder	Interests in the ordinary shares of HK\$0.10 each in the Company	Approximate shareholding in the Company
Yoshimoto America, Inc. (<i>Note 1</i>)	450,000,000	28.94%
Yoshimoto Kogyo Co., Ltd. (<i>Note 1</i>)	450,000,000	28.94%
Softbank Entertainment Limited (<i>Note 2</i>)	91,750,000	5.90%
Softbank Investment Corporation (<i>Note 2</i>)	91,750,000	5.90%
Softbank Finance Corporation (<i>Note 2</i>)	91,750,000	5.90%
Softbank Corp. (<i>Note 2</i>)	91,750,000	5.90%

Notes:

1. Yoshimoto America Inc., a wholly-owned subsidiary of Yoshimoto Kogyo Co., Ltd., was the beneficial owner of 450,000,000 shares in the Company. Accordingly, Yoshimoto Kogyo Co., Ltd. was interested in 450,000,000 shares in the Company by attribution.
2. Softbank Entertainment Limited, controlled as to 100% by Softbank Investment Corporation, was the beneficial owner of 91,750,000 shares in the Company. Softbank Investment Corporation was controlled as to 65.20% by Softbank Finance Corporation, which was in turn controlled as to 100% by Softbank Corp. Accordingly, each of Softbank Investment Corporation, Softbank Finance Corporation and Softbank Corp. was interested in 91,750,000 shares in the Company by attribution.

Save as disclosed above, at 30th June 2003, the directors or chief executives of the Company were not aware of any other person (other than the directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of

Divisions 2 and 3 of Part XV of the SFO or, directly, or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' INTEREST IN COMPETING BUSINESS

At 30th June 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"). M-Tres is the management company of Mr. Takashi Utsunomiya, a producer of the Group. Rojam Entertainment Limited, a wholly-owned subsidiary of the Company, has entered into an exclusive recording artiste agreement with Mr. Takashi Utsunomiya and M-Tres in July 2000. The principal business of M-Tres is event production and management business.

Save as disclosed above, during the three months ended 30th June 2003, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business, which competed or might compete with the business of the Group or had any other conflict of interests with the Group.

SPONSOR'S INTERESTS

As notified and updated by Core Pacific-Yamaichi Capital Limited ("CPY"), at 30th June 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 30th June 2003.

Pursuant to the sponsor agreement dated 31st May 2001 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.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 30th June 2003.

By Order of the Board
Takeyasu Hashizume
President

Hong Kong, 7th August 2003