

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2003/2004



ROJAM

Entertainment Network Asia

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

INTERIM RESULTS

The board of directors (the "Board") of Rojam Entertainment Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to present the unaudited consolidated results of the Group for the three months and six months ended 30th September 2003 together with the comparative unaudited figures for the corresponding periods in 2002.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE THREE MONTHS AND SIX MONTHS ENDED 30TH SEPTEMBER 2003

		Unaudited Three months ended 30th September		Unaudited Six months ended 30th September	
	Note	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	103,847	4,724	118,662	15,507
Other revenue	2	87	212	225	469
Total revenues		103,934	4,936	118,887	15,976
Less: overseas withholding taxation	4	-	(394)	-	(1,509)
		103,934	4,542	118,887	14,467
Cost of sales		(65,235)	(5,998)	(85,799)	(13,384)
Selling and distribution expenses		(15,696)	(19)	(19,799)	(21)
Other operating expenses		(2,570)	(10,945)	(10,037)	(12,806)
Amortisation of goodwill		(1,370)	-	(2,740)	-
Profit/(loss) before taxation	3	19,063	(12,420)	512	(11,744)
Taxation	4	(146)	-	10	-
Profit/(loss) after taxation		18,917	(12,420)	522	(11,744)
Minority interests		(4,030)	-	(2,043)	-
Profit/(loss) attributable to shareholders		14,887	(12,420)	(1,521)	(11,744)
Basic earning/(loss) per share	6	1 cent	(1.1 cents)	(0.1 cent)	(1.1 cents)

**CONSOLIDATED BALANCE SHEET
AS AT 30TH SEPTEMBER 2003 AND 31ST MARCH 2003**

		Unaudited 30th September 2003 HK\$'000	Audited 31st March 2003 HK\$'000
Non-current assets			
Intangible assets	7	109,260	109,304
Fixed assets	7	31,904	34,409
Current assets			
Record masters	7	9,042	3,264
Inventories		16,094	6,766
Trade receivables	8	35,464	17,827
Other receivables and prepayments		18,817	7,526
Cash and bank balances		59,791	80,042
		<u>139,208</u>	<u>115,425</u>
Current liabilities			
Trade payables	9	45,007	18,023
Accruals and other payables		10,767	14,798
Taxation payable		146	1,767
		<u>55,920</u>	<u>34,588</u>
Net current assets		<u>83,288</u>	<u>80,837</u>
Total assets less current liabilities		<u>224,452</u>	<u>224,550</u>
Financed by:			
Share capital	10	155,468	155,468
Reserves	11	67,711	69,566
Shareholders' funds		223,179	225,034
Minority interests		1,273	(484)
		<u>224,452</u>	<u>224,550</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2003**

		Unaudited Six months ended 30th September	
	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
Total equity as at 1st April		225,034	178,102
Loss attributable to shareholders		(1,521)	(11,744)
Exchange adjustment arising on translation of the accounts of overseas subsidiaries	11	(334)	42
Total equity as at 30th September		<u>223,179</u>	<u>166,400</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2003**

		Unaudited Six months ended 30th September	
		2003 HK\$'000	2002 HK\$'000
Net cash (outflow)/inflow from operations		(6,438)	20,821
Net cash (outflow)/inflow from investing activities		(10,914)	2,475
(Decrease)/increase in cash and cash equivalents		(17,352)	23,296
Exchange difference		(2,899)	(3,383)
Cash and cash equivalents at 1st April		<u>80,042</u>	<u>70,343</u>
Cash and cash equivalents at 30th September		<u>59,791</u>	<u>90,256</u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances		<u>59,791</u>	<u>90,256</u>

NOTES TO THE CONDENSED ACCOUNTS

1. Basis of preparation and accounting policies

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

The unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"), and Chapter 18 of the GEM Listing Rules. These accounts should be read in conjunction with the 2002/2003 annual accounts.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim accounts are consistent with those used in the annual accounts for the year ended 31st March 2003 except that the Group has adopted the new SSAP 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003. The effects of the changes to the Group's accounting policy are set out below.

Under the new SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax assets and liabilities.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

This change in accounting policy has no material effect on the Group's results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. Turnover, revenue and segment information

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

	Three months ended 30th September		Six months ended 30th September	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Record distribution income	95,992	58	106,327	131
Music production income				
– Production service fees	601	2,370	1,919	6,951
– Royalty income	3,093	1,533	3,654	6,901
Music publishing fee				
– Royalty income	30	51	36	83
Discotheque income	3,882	–	6,229	–
Artiste management fees	–	16	–	16
Event management income	10	10	20	24
Trademark licensing income	–	437	–	845
Merchandise sales	3	14	7	101
Banner advertising income	236	235	470	455
	103,847	4,724	118,662	15,507
Other revenue				
Bank interest income	87	212	225	409
Interest income from amount due from a shareholder	–	–	–	60
	87	212	225	469
Total revenues	103,934	4,936	118,887	15,976

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

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

Six months ended 30th September 2003						
	Record distribution	Music production	Discotheque	Others	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover						
External sales	106,327	5,573	6,229	533	-	118,662
Inter-segment sales	-	819	-	-	(819)	-
Total	<u>106,327</u>	<u>6,392</u>	<u>6,229</u>	<u>533</u>	<u>(819)</u>	<u>118,662</u>
Segment results	<u>4,469</u>	<u>(2,546)</u>	<u>(524)</u>	<u>549</u>	<u>(819)</u>	<u>1,129</u>
Unallocated costs						<u>(617)</u>
Profit before taxation						<u>512</u>
Taxation						<u>10</u>
Profit after taxation						<u>522</u>
Minority interests						<u>(2,043)</u>
Loss attributable to shareholders						<u>(1,521)</u>

Six months ended 30th September 2002				
	Record distribution	Music production	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>131</u>	<u>13,852</u>	<u>1,524</u>	<u>15,507</u>
Segment results	<u>110</u>	<u>(340)</u>	<u>844</u>	<u>614</u>
Unallocated costs				<u>(12,358)</u>
Loss before taxation				<u>(11,744)</u>
Taxation				<u>-</u>
Loss after taxation				<u>(11,744)</u>
Minority interests				<u>-</u>
Loss attributable to shareholders				<u>(11,744)</u>

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. Unallocated costs represent corporate expenses.

3. Profit before taxation

Profit before taxation is stated after crediting and charging the following:

	Six months ended 30th September	
	2003	2002
	HK\$'000	HK\$'000
<i>Crediting</i>		
Net exchange gains	4,268	9,474
<i>Charging</i>		
Management fee to the minority shareholder of Shanghai Rojam Entertainment Company Limited	282	-
Provision for bad and doubtful debts	8	-

4. Taxation and overseas withholding taxation

No provisions for Hong Kong profits tax, Japanese corporate income tax or US tax in any other jurisdictions have been made as the companies comprising the Group have no assessable profits for the three months and six months ended 30th September 2003 and the corresponding periods in 2002 respectively. PRC taxation has been provided on the profit of the Group's subsidiary in PRC and calculated at the applicable rates.

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

	Six months ended 30th September	
	2003	2002
	HK\$'000	HK\$'000
Current taxation		
– PRC foreign enterprise income tax	10	-

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

No provision for deferred taxation has been made as the Group has no material temporary differences arising during the three months and six months ended 30th September 2003 and 2002 or at the balance sheet dates. The deferred tax asset relating to tax losses has not been recognised, as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

5. Interim dividend

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

6. Earning/(loss) per share

The calculation of the basic earning/(loss) per share for the three months and six months ended 30th September 2003 is based on the Group's profit attributable to shareholders of approximately HK\$14,887,000 and loss attributable to shareholders of approximately HK\$1,521,000 respectively (three months and six months ended 30th September 2002: loss of HK\$12,420,000 and HK\$11,744,000) and the weighted average number of ordinary shares of 1,554,684,403 (2002: 1,104,684,403) shares.

Diluted earning per share has not been presented for the three months ended 30th September 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 six months ended 30th September 2003 and for the three months and six months ended 30th September 2002 as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share.

7. Capital expenditure

	Goodwill <i>HK\$'000</i>	Record masters <i>HK\$'000</i>	Total intangible assets <i>HK\$'000</i>	Fixed assets <i>HK\$'000</i>
Opening net book amount as at				
1st April 2003	106,978	5,590	112,568	34,409
Additions	–	10,496	10,496	718
Disposals	–	–	–	(265)
Depreciation/amortisation charge	(2,740)	(2,720)	(5,460)	(4,704)
Impairment charge	–	–	–	–
Exchange differences	–	698	698	1,746
	<u>104,238</u>	<u>14,064</u>	<u>118,302</u>	<u>31,904</u>
Current portion included under current assets	<u>–</u>	<u>(9,042)</u>	<u>(9,042)</u>	<u>–</u>
Closing net book amount as at 30th September 2003	<u>104,238</u>	<u>5,022</u>	<u>109,260</u>	<u>31,904</u>

8. Trade receivables

The majority of the Group's turnover is on credit terms of sixty to ninety days. For the royalty income, credit terms are normally negotiable between the Group and its customers and vary for different contracts. At 30th September 2003, the ageing analysis of the trade receivables were as follows:

	30th September 2003 <i>HK\$'000</i>	31st March 2003 <i>HK\$'000</i>
Current	26,427	14,489
30-60 days	369	1,457
61-90 days	793	566
Over 90 days	9,723	3,155
	37,312	19,667
Provision for doubtful debts	(1,848)	(1,840)
	<u>35,464</u>	<u>17,827</u>

9. Trade payables

At 30th September 2003, the ageing analysis of the trade payables were as follows:

	30th September 2003 HK\$'000	31st March 2003 HK\$'000
Current	33,970	18,023
30-60 days	10,310	-
61-90 days	719	-
Over 90 days	8	-
	<hr/> 45,007 <hr/>	<hr/> 18,023 <hr/>

10. Share capital

	Authorised Ordinary shares of HK\$0.1 each	
	Number of shares	<i>HK\$'000</i>
At 31st March 2003 and 30th September 2003	<u>5,000,000,000</u>	<u>500,000</u>
	Issued and fully paid Ordinary shares of HK\$0.1 each	
	Number of shares	<i>HK\$'000</i>
At 1st April 2002	1,104,684,403	110,468
Issue of shares on 10th October 2002	<u>450,000,000</u>	<u>45,000</u>
At 31st March 2003 and 30th September 2003	<u>1,554,684,403</u>	<u>155,468</u>

- (a) There were no changes in the authorised, and issued and fully paid share capital during the six months ended 30th September 2003.

(b) Share option schemes

(i) Pre-IPO Grant of Options

Details of outstanding share options granted pursuant to the pre-IPO grant of options scheme of the Company as at 30th September 2003 are as follows:

Date of grant	Exercise price HK\$	Number of options					Outstanding as at 30th September 2003	Exercise period
		Granted	Outstanding as at 1st April 2003	Exercised	Lapsed	Cancelled		
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 Option Scheme

Details of outstanding share options granted pursuant to the share option scheme of the Company as at 30th September 2003 are as follows:

Date of grant	Exercise price HK\$	Number of options					Outstanding as at 30th September 2003	Exercise period
		Granted	Outstanding as at 1st April 2003	Exercised	Lapsed	Cancelled		
12th July 2001	0.47	<u>52,240,000</u>	<u>21,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,500,000</u>	12th July 2001 to 11th July 2011

11. Reserves

	Share premium HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April 2003	148,329	(6,312)	(72,451)	69,566
Loss for the six months ended 30th September 2003	-	-	(1,521)	(1,521)
Exchange adjustment on the translation of accounts of overseas subsidiaries	-	(334)	-	(334)
At 30th September 2003	<u>148,329</u>	<u>(6,646)</u>	<u>(73,972)</u>	<u>67,711</u>
At 1st April 2002	148,329	(4,924)	(75,771)	67,634
Loss for the six months ended 30th September 2002	-	-	(11,744)	(11,744)
Exchange adjustment on the translation of accounts of overseas subsidiaries	-	42	-	42
At 30th September 2002	<u>148,329</u>	<u>(4,882)</u>	<u>(87,515)</u>	<u>55,932</u>

12. Contingent liabilities

The Group had no material contingent liabilities at 30th September 2003 and 31st March 2003.

13. Related party transactions

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

	Note	Six months ended 30th September 2003 HK\$'000	2002 HK\$'000
Revenues received and receivable from a related party:			
- trademark licence fees from			
Shanghai Rojam Entertainment Company Limited	(a)	-	845
Operating expenses paid and payable to related parties:			
- producer and performance fee paid to:			
- TK Networks Inc.	(b)	-	-
- Mr. Tetsuya Komuro	(c)	-	-
- rental payment and other charges to Yoshimoto			
Kogyo Co., Ltd.	(d)	612	-
- artiste royalties to Yoshimoto Kogyo Co., Ltd.	(e)	2,160	-
- homepage production service fee to Fandango, Inc.	(f)	277	-
		277	-

- (a) The trademark licence fees are charged for the use of trademarks by Shanghai Rojam Entertainment Company Limited ("Shanghai Rojam") in accordance with the terms of the relevant agreements. The Group ceased to receive the said fees from Shanghai Rojam following the completion of its acquisition on 30th September 2002.
- (b) Pursuant to a service agreement dated 2nd January 2001 between the Group and TK Networks Inc., a company wholly-owned by Mr. Tetsuya Komuro, TK Networks Inc. has, since 20th January 1998, procured and caused Mr. Tetsuya Komuro to provide producer services of music records to Rojam Entertainment Limited ("REL"). In consideration, REL may at its entire discretion give TK Networks Inc. a bonus payment. No bonus has been paid or is payable during the six months ended 30th September 2003 and the corresponding period in 2002.
- (c) 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 of the Group, with the grant of share options entitling him to subscribe for up to a maximum of 41,387,376 ordinary shares in the Company at an exercise price of HK\$0.1 per share, subject to terms and conditions attached thereto.
- (d) Pursuant to sub-lease agreements dated 29th March 2002 and 10th October 2002 between the Group and Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"), the Group will sub-let office premises from Yoshimoto for an aggregate monthly rental of JPY1,430,000 (approximately HK\$94,000), and other electricity and water charges, for a lease term up to 31st March 2005.
- (e) 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.
- (f) 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 homepages of the Group for an aggregate monthly fee of JPY900,000 (approximately HK\$59,000) for a contract term up to 31st March 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

	Current Quarter (Jul to Sept 2003) HK\$'M	Previous Quarter (Apr to Jun 2003) HK\$'M
Turnover	103.8	14.8
Operating expenditures*	83.5	32.1
Profit/(loss) from operations	19.1	(18.6)
Profit/(loss) attributable to shareholders	14.9	(16.4)

* *Cost of sales, selling & other operating expenses*

Financial Review

The turnover of the Group for the quarter under review was HK\$103.8 million, 7 times of the turnover of HK\$14.8 million recorded in the previous quarter. The profit attributable to shareholders for the three months ended 30th September 2003 was HK\$14.9 million, which showed a significant improvement compared to the loss of HK\$16.4 million recorded in the previous quarter. The improvement was mainly due to the fact that the revenue generated by the Group's business has significantly increased compared to the previous quarter. The record distribution revenue grew by 829% quarter-to-quarter to HK\$96.0 million, while music production revenue increased by 96% quarter-to-quarter to HK\$3.7 million and the discotheque revenue increased by 65% quarter-to-quarter to HK\$3.9 million.

Comparing overall financial performance to the same period of last year, turnover for the six months ended 30th September 2003 amounted to HK\$118.7 million, a 665% increase from HK\$15.5 million in the corresponding period in 2002. Loss attributable to shareholders in the first half of the financial year 2003/2004 was HK\$1.5 million, 87% lower than the loss of HK\$11.7 million for the same period in the financial year 2002/2003. The increase in the turnover, cost of sales, selling and distribution expenses, and minority interests were mainly attributed to the consolidation of the accounts of Shanghai Rojam Entertainment Company Limited ("Rojam Disco") and R&C Japan Ltd. ("R&C"), subsidiaries being acquired in September and October 2002 respectively.

Operation Review

Record Distribution

The record distribution reported healthy growth over the previous quarter. Revenue for this quarter increased by 8 times over the previous quarter to HK\$96.0 million. The main reason for the remarkable sales performance was the Group's strategy of shifting the focus to the popular and high-margin products, such as the comedy-oriented DVDs, to improve both turnover and overall earnings. Such favourable development has also convinced the Group to make available all the necessary resources to ensure that the growth trend will continue.

A summary of the music records produced and distributed by R&C during the six months ended 30th September 2003 is set out below:

Title	Artist	Released date	Format
Ninjo	Amy-N-Ryoo	23/4/2003	Album
Ashita-e 明日へ	Amy-N-Ryoo	21/5/2003	Single
I need you in my life	Aiko Katsumata 勝又亜依子	25/6/2003	Single
Michi 道	Takashi Utsunomiya 宇都宮隆	25/6/2003	Single
Painting	route φ	23/7/2003	Single
UTA TO OTO	Ram Jam World	23/7/2003	Album
BLUE FOX	Yukari Obata 小畑由香里	30/7/2003	Single
Shiawase-no-Hyogen 幸せの表現	Gaball (feat. Joanne)	6/8/2003	Single
Mabataki マバタキ	THE★SCANTY	6/8/2003	Single
Musashi-to-Yuku 武蔵と行く	Daisuke MiyaGawa 宮川大助	20/8/2003	Single
Musashi-to-Yuku 武蔵と行く	Daisuke MiyaGawa 宮川大助	20/8/2003	Cassette tape
DANCE	PENPALS	20/8/2003	Single
Wantok	Takashi Utsunomiya 宇都宮隆	3/9/2003	Album
LONELY	Amy-N-Ryoo	25/9/2003	Single
Nakunayo 泣くなよ	HOUND DOG	25/9/2003	Single

A summary of the audio-visual products produced and distributed by R&C for the six months ended 30th September 2003 is set out below:

Title	Artist	Released date	Format
LOVE-iCE	Takashi Utsunomiya 宇都宮隆	23/4/2003	DVD
TEN to TEN	Takashi Utsunomiya 宇都宮隆	23/4/2003	DVD
MANZAI drive 2 MANZAIドライブ2	Shinagawa-Shoji 品川庄司	28/5/2003	DVD
MANZAI drive 2 MANZAIドライブ2	Shinagawa-Shoji 品川庄司	28/5/2003	Video
Tora 囚	Koji Chihara 千原浩史	28/5/2003	DVD
Tora 囚	Koji Chihara 千原浩史	28/5/2003	Video
Shibu-kou Bakuhatsu 渋谷公爆発	Harigane-Rock ハリガネロック	25/6/2003	DVD
Shibu-kou Bakuhatsu 渋谷公爆発	Harigane-Rock ハリガネロック	25/6/2003	Video
Yasashisa-Cardigan 優しさカーディガン	Kokoriko ココリコ	25/6/2003	DVD
Yasashisa-Cardigan 優しさカーディガン	Kokoriko ココリコ	25/6/2003	Video
Yoshimoto Shinkigeki Gyagu 100 Renpatsu 2 保存版 吉本新喜劇 ギャグ100連発2	Yoshimoto Comedians 吉本新喜劇	25/6/2003	DVD
Yoshimoto Shinkigeki Gyagu 100 Renpatsu 3 保存版 吉本新喜劇 ギャグ100連発3	Yoshimoto Comedians 吉本新喜劇	25/6/2003	DVD
Gottsu-ee-Kanji #1 ごっつええ感じ#1	Down Town ダウンタウン	28/6/2003	DVD
Painting	route φ	23/7/2003	DVD

Title	Artist	Released date	Format
Kyodai-Genka 兄弟喧嘩	Nakagawa-ke 中川家	30/7/2003	DVD
Kyodai-Genka 兄弟喧嘩	Nakagawa-ke 中川家	30/7/2003	VHS
Hyaku-Shiki 百式	2Cho-Kennju 2丁拳銃	30/7/2003	DVD
Hyaku-Shiki 百式	2Cho-Kennju 2丁拳銃	30/7/2003	VHS
Hataraku-Ossann Ningyo 働くおっさん人形	Hitoshi Matsumoto 松本人志	6/8/2003	DVD
Gottsu-ee-Kanji #2 ごっつええ感じ #2	Down Town ダウンタウン	27/8/2003	DVD
Juu-ka 銃歌	2Cho-Kennju 2丁拳銃	27/8/2003	DVD
Juu-ka 銃歌	2Cho-Kennju 2丁拳銃	27/8/2003	VHS
Gottsu-ee-Kanji #3 ごっつええ感じ #3	Down Town ダウンタウン	24/9/2003	DVD
Gottsu-ee-Kanji #4 ごっつええ感じ #4	Down Town ダウンタウン	24/9/2003	DVD
8MEN	Shinagawa Shoji 品川庄司	25/9/2003	DVD
8MEN	Shinagawa Shoji 品川庄司	25/9/2003	VHS
Robert Live -Tanoshimouze! ロバートライブ 楽しもうぜ！ロバート	Robert	25/9/2003	DVD
Robert Live -Tanoshimouze! ロバートライブ 楽しもうぜ！ロバート	Robert	25/9/2003	VHS

Music Production

Music production business reported revenue of HK\$3.7 million for the quarter under review. Compared to the previous quarter, the 96% increase in the revenue of this segment was mainly due to the growth in the royalty. Nevertheless, this segment recorded a significant decrease of 60% in revenue to HK\$5.6 million for the six months ended 30th September 2003 over the corresponding period of the last year. The intense competition in the music production market in Japan has caused the decrease in number of music projects undertaken. To enhance the utilisation rates of the Rojam Studio and the in-house musicians, the Group has also rented the studio and provided advisory services in recording and editing to other record companies in Japan. The table below sets out the major projects undertaken by the Group during the six months ended 30th September 2003.

Month of the release	Record company	Title	Product	Artiste
2003				
June	Sony Music Entertainment Limited	PROUD OF YOU	CD Single	Shiina Hekiru
	Avex Inc	be true	CD Single	Cyber X feat, KEIKO
September	Avex Inc	global trance best	CD and DVD	globe

Rojam Disco

The outbreak of SARS in the first quarter of the financial year 2003/2004 created a difficult operating environment for most mainland China businesses, including the Group's discotheque business. The revenue generated from the discotheque business amounted to HK\$3.9 million for the quarter under review. Comparing to the previous quarter, the revenue increased by 65%, representing that the business has gradually recovered from the outbreak of SARS. The renovation programme was complete in August. The response from the customers was encouraging. The admissions grew simultaneously. During the quarter under review, the Group has also arranged the Group's producer, DJ Dragon, to give performance and employed a Japanese DJ to station in the discotheque.

PROSPECT

Due to the unsatisfactory performance in the first quarter of the financial year, the Group is behind in its future plan to record profit in every quarter. However, the Group remains committed to pursuing this target for the remainder of the plan. The second quarter has seen satisfactory growth broadly in line with the plan. The Group was breaking even up to the first half of the financial year.

In the second half of the financial year, the Group will continue to monitor the performance of each business division and fine-tune its business model, while at the same time additional initiatives will be undertaken to drive further organic growth. The Group was in preliminary stages of negotiation of the new initiatives. These initiatives, if successful, will represent an important foray into a higher margin business area, which in line with the Group's future strategy.

The economy in Japan is showing signs of recovery. Judging from orders on hand and indications from its customer, the Group anticipates that continual increase in turnover can be achieved for the rest of the financial year. In term of establishing a new entertainment house on the mainland, progress in this area was somewhat delayed by the outbreak of SARS but activity has since resumed vigorously. The Group has identified new business partners and being proactive in developing new markets so as to create more room for future growth of the Group's business.

The Group would like to take this opportunity to welcome Mr. Mitsuo Sakauchi as the Executive Vice President (Japan) and the Executive Director. The Group continues to focus on strengthening its senior management team in preparation for the ongoing expansion of the Group's business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operations with internally generated cash flows and the balance of proceeds from the placing of shares in May 2001. At 30th September 2003, cash and bank balances amounted to HK\$59.8 million, which consists of 59% in Hong Kong dollars, 18% in Japanese yen, 9% in Renminbi, and 14% held in other currencies. The Renminbi denominated balances were placed with licensed banks in the PRC and the conversion of these balances into foreign currencies is subject to the rules and regulation of foreign exchange control promulgated by the PRC government. During the six months ended 30th September 2003, the Group used HK\$6.4 million and HK\$10.9 million in its operations and investing activities respectively. At 30th September 2003, the Group has no borrowing. The gearing ratio of the Group, calculated as non-current liabilities to shareholders' funds, was 0.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's exposure to foreign currencies is limited to its investment in foreign subsidiaries, which are financed internally. At 30th September 2003, the Group has no outstanding foreign currency hedge contract.

CHARGE ON GROUP ASSETS

At 30th September 2003, the Group did not have any charge on its assets.

MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group did not have any plan for material investment and acquisition or disposal of material capital assets at 30th September 2003.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities at 30th September 2003.

EMPLOYEE INFORMATION

At 30th September 2003, the Group had 92 full-time employees. Staff costs, excluding Directors' emoluments, totalled HK\$6.2 million for the six months ended 30th September 2003 (2002: HK\$4.1 million). The Group's remuneration policy remained the same as detailed in the Annual Report for the year ended 31st March 2003.

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 six months
ended 30th September 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 1 producer service contract

The Group has not entered into any producer service contract during the period under review. Due to the relative keen competition in the music production business, the Group has been cautious in committing itself in entering into new producer service contract as well as other service contracts.

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

Discussions with potential customers have been in progress.

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

Produce not less than 13 records for contracted record companies

Produced 3 records for the contracted record companies. During the period under review, the Group reallocated the resources to its record distribution business to release those records under its label with higher profit margin.

Release not less than 6 records under the Group's label

Released over 40 records under the label of R&C during the period under review.

3. Geographical expansion in Asia

Taiwan

Explore other music related business opportunities

Business development of this region has been delayed. The Group is currently exploring the business feasibility in this market with a view to selecting those businesses that are most beneficial to the Group.

South Korea

Release not less than 3 records under the Group's co-brand label

The Group has not yet released any records in South Korea. The Group and the local partner, NEGA Network Co., Ltd. are closely looking into business opportunities.

PRC

Engage in not less than 1 music production or related project

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

Other Asian markets

Engage in not less than 1 music production or related project

The Group has continued to search for potential investments that would create synergy effect to its business.

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

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

The Group has promoted its music, artistes, producers and businesses through selected media channels.

5. Exploitation of the Internet media**Audition**

Conduct audition for artistes

Such audition was carried out in the television programme "Matsumoto Shinsuke" produced by Yoshimoto. During the period under review, the Group has signed up a new artiste, Tamaki Hiroshi.

Merchandise sales

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

Due to weaker performance of the consumer market, the Group has adopted a cautious approach in releasing additional feature product.

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

At 30th September 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 Komuro, 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 September 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 fully vested as at 30th September 2003.

Save as disclosed above, at 30th September 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 September 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. (Note 1)	450,000,000	28.94%
Yoshimoto Kogyo Co., Ltd. (Note 1)	450,000,000	28.94%
Softbank Entertainment Limited (Note 2)	91,750,000	5.90%
Softbank Investment Corporation (Note 2)	91,750,000	5.90%
Softbank Finance Corporation (Note 2)	91,750,000	5.90%
Softbank Corp. (Note 2)	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 September 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 September 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. By an undertaking dated 21st May 2001, Mr. Tetsuya Komuro unconditionally and irrevocably undertakes to the Company that he will not, and will procure that none of his associates (as defined in the GEM Listing Rules) will directly or indirectly (i) carry on or engage 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 and (ii) 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. Details of the undertaking are set out in the Company's prospectus dated 24th May 2001.



Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki, executive Directors of the Company, are directors of Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"), a substantial shareholder of the Company, and certain of its associates (as defined in the GEM Listing Rules, together the "Yoshimoto Group"). By two deeds of non-competition undertakings, both dated 10th October 2002 and entered into between Yoshimoto and each of (i) the Company and (ii) R&C Japan Ltd. ("R&C"), Yoshimoto irrevocably and unconditionally undertakes to each of the Company and R&C that, unless with the written consent of the Company or R&C (as the case may be) or except for certain circumstances, it will not and will procure that its subsidiaries and associates will not, carry on or be engaged, concerned or interested directly or indirectly in the production of master-tapes and licensing of such master-tape rights. Details of the two deeds of non-competition undertakings are set out in the Company's circular dated 31st July 2002.

Save as disclosed above, during the six months ended 30th September 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.

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 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 30th September 2003
			Granted	Outstanding as at 1st April 2003	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

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

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 of the Company and full-time employees of the Group pursuant to the share option scheme adopted by

the Company on 21st May 2001 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 30th September 2003
			Granted	Outstanding as at 1st April 2003	Exercised	Lapsed	Cancelled	
Mr. Arihito Yamada	12th July 2001	0.47	8,800,000	8,800,000	-	-	-	8,800,000
Full-time employees	12th July 2001	0.47	12,700,000	12,700,000	-	-	-	12,700,000
Total			<u>21,500,000</u>	<u>21,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,500,000</u>

Option period commences on the date of grant and expires 10 years thereafter. Options granted are fully vested as at 30th September 2003.

No options were granted during the six months ended 30th September 2003 and therefore the Directors of the Company have not performed the valuation of options granted in prior years. At 30th September 2003, options comprising a total of 30,740,000 underlying shares granted to two former Directors of the Company and certain full-time employees of the Group had lapsed, but not yet cancelled, following the cessation of their employment.

SPONSOR'S INTERESTS

As notified and updated by Core Pacific-Yamaichi Capital Limited ("CPY"), at 30th September 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 396,000 shares in the Company. Save as disclosed herein, neither CPY nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 30th September 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.

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 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. The audit committee has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed accounts for the six months ended 30th September 2003.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30th September 2003, the Company has complied with board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

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

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

By Order of the Board
Takeyasu Hashizume
President

Hong Kong, 12th November 2003