

# ROJAM ENTERTAINMENT HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

Third Quarterly Report 2003/2004



# ROJAM

Entertainment Network Asia

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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.*

## 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 nine months ended 31st December 2003 together with the comparative unaudited figures for the corresponding periods in 2002.

	Note	Three months ended 31st December		Nine months ended 31st December	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	<b>67,338</b>	34,680	<b>186,000</b>	50,187
Other revenue	2	<b>48</b>	230	<b>273</b>	699
Total revenues		<b>67,386</b>	34,910	<b>186,273</b>	50,886
Less: overseas withholding taxation	3	<b>-</b>	-	<b>-</b>	(1,509)
		<b>67,386</b>	34,910	<b>186,273</b>	49,377
Cost of sales		<b>(39,349)</b>	(21,464)	<b>(125,148)</b>	(34,848)
Selling and distribution expenses		<b>(9,688)</b>	(4,393)	<b>(29,487)</b>	(4,414)
Other operating expenses		<b>(4,976)</b>	(9,419)	<b>(15,013)</b>	(15,213)
Amortisation of goodwill		<b>(1,370)</b>	(1,444)	<b>(4,110)</b>	(8,456)
Profit/(loss) before taxation		<b>12,003</b>	(1,810)	<b>12,515</b>	(13,554)
Taxation	3	<b>(156)</b>	(212)	<b>(146)</b>	(212)
Profit/(loss) after taxation		<b>11,847</b>	(2,022)	<b>12,369</b>	(13,766)
Minority interests		<b>(3,663)</b>	(1,451)	<b>(5,706)</b>	(1,451)
Profit/(loss) attributable to shareholders		<b>8,184</b>	(3,473)	<b>6,663</b>	(15,217)
Basic earning/(loss) per share	4	<b>0.5 cent</b>	(0.2 cent)	<b>0.4 cent</b>	(1.2 cents)

Notes:

### 1. Basis of preparation

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

The unaudited accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (the "HKSA"). Certain comparative figures have been reclassified to conform with the current period's presentation.

## 2. Turnover and revenue

The amounts of each significant category of revenue recognised during the three months and nine months ended 31st December 2003 are as follows:

	Three months ended 31st December		Nine months ended 31st December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover				
Record distribution income	<b>60,642</b>	27,032	<b>166,969</b>	27,163
Music production income				
– Production service fees	<b>970</b>	1,266	<b>2,889</b>	8,217
– Royalty income	<b>1,156</b>	1,771	<b>4,810</b>	8,672
Music publishing fee				
– Royalty income	<b>8</b>	32	<b>44</b>	115
Discotheque income	<b>4,306</b>	4,302	<b>10,535</b>	4,302
Artiste management fees	–	38	–	54
Event management income	–	2	<b>20</b>	26
Trademark licensing income	–	–	–	845
Merchandise sales	<b>2</b>	9	<b>9</b>	110
Banner advertising income	<b>254</b>	228	<b>724</b>	683
	<b>67,338</b>	34,680	<b>186,000</b>	50,187
Other revenue				
Interest income	<b>48</b>	230	<b>273</b>	639
Interest income from amount due from a shareholder	–	–	–	60
	<b>48</b>	230	<b>273</b>	699
Total revenues	<b>67,386</b>	34,910	<b>186,273</b>	50,886

## 3. Taxation and overseas withholding taxation

The amount of taxation charged to the consolidated profit and loss account represents taxation on the profits of the subsidiary in the People's Republic of China (the "PRC") and is calculated on the estimated assessable profits for the three months and nine months ended 31st December 2003 at the rates of taxation prevailing in the PRC.

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 nine months ended 31st December 2003 and the corresponding periods in 2002.

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

In the current period, the Group has adopted, for the first time, Statement of Standard Accounting Practice 12 (Revised) "Income Taxes" issued by the HKSA. The Group has not recorded deferred taxation effect on the results of the Group for the current or prior accounting periods.

#### 4. Earning/(loss) per share

The calculation of the basic earning per share for the three months and nine months ended 31st December 2003 is based on the unaudited consolidated profit of the Group of approximately HK\$8,184,000 and HK\$6,663,000 (three months and nine months ended 31st December 2002: loss of HK\$3,473,000 and HK\$15,217,000) and the weighted average number of ordinary shares for the three months and nine months ended 31st December 2003 of 1,554,684,403 (three months and nine months ended 31st December 2002: 1,510,662,664 and 1,240,502,585) shares.

Diluted earning per share has not been presented for the three months and nine months ended 31st December 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 three months and nine months ended 31st December 2002 as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share.

#### 5. Interim dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December 2003 (2002: 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
Loss for the nine months ended 31st December 2002	–	–	(15,217)	(15,217)
Exchange adjustments on the translation of accounts of overseas subsidiaries	–	48	–	48
	<u>148,329</u>	<u>(4,876)</u>	<u>(90,988)</u>	<u>52,465</u>
At 31st December 2002	148,329	(4,876)	(90,988)	52,465
At 1st April 2003	148,329	(6,312)	(72,451)	69,566
Profit for the nine months ended 31st December 2003	–	–	6,663	6,663
Exchange adjustments on the translation of accounts of overseas subsidiaries	–	(338)	–	(338)
	<u>–</u>	<u>(338)</u>	<u>–</u>	<u>(338)</u>
<b>At 31st December 2003</b>	<b><u>148,329</u></b>	<b><u>(6,650)</u></b>	<b><u>(65,788)</u></b>	<b><u>75,891</u></b>

## BUSINESS REVIEW AND PROSPECT

### Financial Highlights

	Third Quarter (Oct to Dec 2003) HK\$'M	Second Quarter (Jul to Sept 2003) HK\$'M	First Quarter (Apr to Jun 2003) HK\$'M
Turnover	67.3	103.8	14.8
Operating expenditures*	54.0	83.5	32.1
Profit/(loss) from operations	12.0	19.1	(18.6)
Profit/(loss) attributable to shareholders	8.2	14.9	(16.4)

\* Cost of sales, selling & other operating expenses

## Financial Review

Turnover in the third quarter of the financial year 2003/2004 was HK\$67.3 million, being HK\$36.5 million or 35% lower than the second quarter of the financial year. The decline was primarily driven by the lower revenue from the Group's core business, the record distribution business, as a result of a drop in the number of music records released during the quarter under review.

The overall operating expenditures and profit from operations were mainly based on turnover down 35% and 37% to HK\$54.0 million and HK\$12.0 million respectively, in comparison with the previous quarter. The net results for the third quarter showed that the Group had continued to make good progress. Profit attributable to shareholders for the third quarter amounted to HK\$8.2 million. The net results for the nine months ended 31st December 2003 became positive, reaching a profit of HK\$6.7 million.

Comparing overall financial performance to the corresponding period of last year, the Group had shown significant improvement. The turnover for the nine months ended 31st December 2003 amounted to HK\$186.0 million, over 2.7 times increase from HK\$50.2 million in 2002, a direct consequence of the consolidation of R&C and Rojam Disco for a full nine-month period. The consolidation also resulted in the cost of sales and selling and distribution expenses increasing by 259% and 568% respectively. In view of the loss of HK\$15.2 million recorded in the previous year, the Group achieved a leap in profitability this year – turning around the consolidated results for the current financial period from a loss to a net profit of over HK\$6 million.

## Operation Review

### *Record Distribution*

Record distribution reported revenue of HK\$60.6 million, a drop of 37% from HK\$96.0 million over the previous quarter. Revenue dropped because the number of products released during the quarter decreased – the Group released 4 music records and 12 audio-visual products during the quarter, compared to 11 music records and 15 audio-visual products in the previous quarter. Another reason for the drop was that most of the audio-visual products were released only in the last month of the quarter, hence the sales from such new releases were not fully reflected in the current quarter. Nevertheless, the segment still achieved encouraging performance as sales of earlier releases complemented by new releases from young artistes enabled the Group to reduce the production costs and increase its profit margins.

The focus of the record distribution segment remained firmly on producing high-margin products. The segment continued to produce and distribute audio and visual products under the Yoshimoto umbrella and win quality customers. During the quarter, several record companies in Japan were secured by the Group as anchor distributors and business partners.

### *Music Production*

New titles completed in the third quarter included 1 mini album for the Group, 1 single entitled "KCO" for Avex Inc and 2 singles entitled "Standby!" and "Color" respectively for Sony Music Entertainment Limited. The business in this segment was not as satisfactory as expected. The individual project size was comparatively smaller than that of previous quarters. The revenue recorded for the third quarter was HK\$2.1 million, representing a 43% decrease from the second quarter and a 30% decrease from the corresponding period of last year.

### *Rojam Disco*

Rojam Disco continued to make progress in the post-SARS period and recorded revenue of HK\$4.3 million for the quarter, representing a 10% growth over the second quarter.

The “5th Anniversary X’mas Eve Party” and the “New Year’s Eve Party” continued to be the most popular functions over the months. Rojam Disco has established itself as a popular venue for festive fun in Shanghai. In addition to the Japanese DJ’s stationed there, Rojam Disco also invited Mr. John Digwee, a pioneer of Progressive House music and DJ who was ranked the world’s top two, to perform in November. Continuous enrichment of appealing new events and entertainment features to refresh customers’ entertainment experiences definitely increased the competitive edge of Rojam Disco, successfully attracting a new array of customers including first-time disco-goers and both local and overseas tourists.

## Prospect

The Group has achieved profitability for a second consecutive quarter, in line with its goal to record profit in every quarter. The final quarter of the financial year has in the past embraced the peak months of the Group’s businesses and there is no reason for the situation to be different this year. In the forthcoming quarters, the Group will continue to focus on strengthening its overall sales and marketing function and enhance the brand presence of each of its business segments. The Group will further maximise its business synergies, concentrate its resources on core businesses with profit prospects, set new growth platform and strengthen its foothold in the mainland China market so as to maintain competitiveness. The Group will also continue to gather momentum for corporate growth by exploring new investment, partnership and alliance opportunities in the region. With the potential benefits gained from the recent revival of the Asian economy, the Group believes its revenue will continue to grow.

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

At 31st December 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 31st December 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 31st December 2003.

Save as disclosed above, at 31st December 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 31st December 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 31st December 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 31st December 2003, Mr. Tetsuya Komuro, an executive Director and a substantial 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 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 nine months ended 31st December 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 31st December 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 66,000 shares in the Company. Save as disclosed herein, neither CPY nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31st December 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.

### **BOARD PRACTICES AND PROCEDURES**

During the nine months ended 31st December 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 purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31st December 2003.

By Order of the Board  
**Takeyasu Hashizume**  
*President*

Hong Kong, 13th February 2004