

# ROJAM ENTERTAINMENT HOLDINGS LIMITED

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

Third Quarterly Report 2004/2005



# ROJAM

Entertainment Network Asia

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

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*This report, for which the directors of Rojam Entertainment Holdings Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “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 2004 together with the comparative unaudited figures for the corresponding periods in 2003.

		Unaudited Three months ended 31st December		Unaudited Nine months ended 31st December	
	Note	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	<b>254,636</b>	67,338	<b>474,594</b>	186,000
Other revenue	2	<b>49</b>	48	<b>242</b>	273
Total revenues		<b>254,685</b>	67,386	<b>474,836</b>	186,273
Cost of sales		<b>(106,106)</b>	(39,349)	<b>(221,832)</b>	(125,148)
Selling and distribution expenses		<b>(60,370)</b>	(9,688)	<b>(113,653)</b>	(29,487)
Other operating expenses		<b>(25,674)</b>	(4,976)	<b>(51,142)</b>	(15,013)
Amortisation of goodwill		<b>2,748</b>	(1,370)	-	(4,110)
Profit before taxation		<b>65,283</b>	12,003	<b>88,209</b>	12,515
Taxation	3	<b>11,439</b>	(156)	<b>(5,151)</b>	(146)
Profit after taxation		<b>76,722</b>	11,847	<b>83,058</b>	12,369
Minority interests		-	(3,663)	<b>(2,615)</b>	(5,706)
Profit attributable to shareholders		<b>76,722</b>	8,184	<b>80,443</b>	6,663
Basic earnings per share	4	<b>4.9 cents</b>	0.5 cent	<b>5.2 cents</b>	0.4 cent

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 are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

These unaudited accounts should be read in conjunction with the 2003/2004 annual accounts. The accounting policies and methods of computation used in the preparation of these unaudited accounts are consistent with those used in the annual accounts for the year ended 31st March 2004 except that the Group has changed certain of its accounting policies.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. In

the nine months ended 31st December 2004, the Group early adopted the new HKFRSs below, which are relevant to its operations:

- HKFRS 3 Business Combinations
- HKAS 36 Impairment of Assets
- HKAS 38 Intangible Assets

The early adoption of HKFRS 3, HKAS 36 and HKAS 38 resulted in a change in the accounting policy for goodwill. Until 31st March 2004, goodwill was:

- amortised on a straight line basis over a maximum period of 20 years; and
- assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1st April 2004;
- accumulated amortisation as at 31st March 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and
- from the year ending 31st March 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

There was no impact on opening accumulated losses at 1st April 2004 from the adoption of HKFRS 3.

## 2. Turnover and revenue

The amounts of each significant category of revenue recognised during the three months and nine months ended 31st December 2004 are as follows:

	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>31st December</b>		<b>31st December</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover				
Record distribution income	<b>248,395</b>	60,642	<b>458,329</b>	166,969
Music production income	<b>1,198</b>	2,126	<b>2,299</b>	7,699
Music publishing royalty	<b>12</b>	8	<b>33</b>	44
Discotheque income	<b>5,028</b>	4,306	<b>13,746</b>	10,535
Event management income	-	-	-	20
Merchandise sales	<b>3</b>	2	<b>13</b>	9
Banner advertising income	-	254	<b>174</b>	724
	<b>254,636</b>	67,338	<b>474,594</b>	186,000
Other revenue				
Bank interest income	<b>49</b>	48	<b>242</b>	273
Total revenues	<b>254,685</b>	67,386	<b>474,836</b>	186,273

## 3. Taxation

No provisions for Hong Kong profits tax has been made as the Company and its subsidiaries in Hong Kong have no assessable profits for the period under review in the current and prior years. No provision for United States ("US") income tax has been made as the subsidiaries in US have no assessable profits for the period under review in the current and prior years.

The Japanese corporate income tax and the People's Republic of China (the "PRC") taxation have been provided on the profit of the Group's subsidiaries in Japan and the PRC respectively and calculated at the applicable rates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Unaudited Three months ended 31st December		Unaudited Nine months ended 31st December	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Current taxation				
– Japanese corporate income tax	(16,324)	–	–	–
– PRC taxation	362	156	628	146
Deferred taxation	4,523	–	4,523	–
	<u>(11,439)</u>	<u>156</u>	<u>5,151</u>	<u>146</u>

#### 4. Earnings per share

The calculations of the basic earnings per share for the three months and nine months ended 31st December 2004 are based on the Group's profit attributable to shareholders of approximately HK\$76,722,000 and HK\$80,443,000 respectively (three months and nine months ended 31st December 2003: HK\$8,184,000 and HK\$6,663,000 respectively) and the weighted average number of ordinary shares of 1,554,684,403 shares.

Diluted earnings per share has not been presented for the three months and nine months ended 31st December 2004 as there is no dilutive event as at 31st December 2004. Diluted earnings 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.

#### 5. Interim dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December 2004 (2003: Nil).

#### 6. Reserves

	Share premium HK\$'000	Exchange reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
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 adjustment on translation of the accounts of overseas subsidiaries	–	(338)	–	(338)
At 31st December 2003 (unaudited)	<u>148,329</u>	<u>(6,650)</u>	<u>(65,788)</u>	<u>75,891</u>
At 1st April 2004	148,329	(7,317)	(65,159)	75,853
Profit for the nine months ended 31st December 2004	–	–	80,443	80,443
Exchange adjustment on translation of the accounts of overseas subsidiaries	–	4,663	–	4,663
At 31st December 2004 (unaudited)	<u>148,329</u>	<u>(2,654)</u>	<u>15,284</u>	<u>160,959</u>

## BUSINESS REVIEW AND PROSPECT

### Financial Highlights

	<b>Third Quarter (Oct to Dec 2004)</b>	Second Quarter (Jul to Sept 2004)	First Quarter (Apr to Jun 2004)	Third Quarter in 2003/2004 (Oct to Dec 2003)
	<b>HK\$'M</b>	HK\$'M	HK\$'M	HK\$'M
Turnover	<b>254.6</b>	179.9	40.1	67.3
Operating expenditures*	<b>192.1</b>	153.3	41.2	54.0
Profit/(loss) from operations	<b>65.3</b>	25.4	(2.4)	12.0
Profit/(loss) attributable to shareholders	<b>76.7</b>	6.7	(3.0)	8.2

\* Cost of sales, selling & other operating expenses

### Sales by Business Segments

	<b>Third Quarter (Oct to Dec 2004)</b>		Second Quarter (Jul to Sept 2004)		First Quarter (Apr to Jun 2004)		Third Quarter in 2003/2004 (Oct to Dec 2003)	
	<b>HK\$'M</b>	%	HK\$'M	%	HK\$'M	%	HK\$'M	%
Record distribution	<b>248.4</b>	<b>98</b>	174.6	97	35.4	88	60.6	90
Music Production	<b>1.2</b>	-	0.7	-	0.4	1	2.1	3
Discotheque	<b>5.0</b>	<b>2</b>	4.6	3	4.1	10	4.3	6
Others	-	-	-	-	0.2	1	0.3	1
Group Total	<b>254.6</b>	<b>100</b>	179.9	100	40.1	100	67.3	100

### Financial Review

For the three months ended 31st December 2004, the Group recorded a significant improvement in its level of profitability. Operating profit for the third quarter was HK\$65.3 million representing a 157% growth from the second quarter and a fourfold growth from the corresponding quarter of last year. Profit attributable to shareholders for the third quarter amounted to HK\$76.7 million, representing an increase of 1,045% compared with the second quarter and 835% compared with the corresponding quarter of last year. The profit attributable to the shareholders for the nine months ended 31st December 2004 amounted to HK\$80.4 million, representing 12 times of HK\$6.7 million for the corresponding period of last year.

Turnover in the third quarter of the financial year 2004/2005 was HK\$254.6 million, being 42% and 278% higher than the second quarter of the financial year and the corresponding period of last year. As highlighted in the previous quarter, the record distribution reported healthy growth. The turnover from record distribution business increased by 42% when compared to the previous quarter and represented 98% of the total turnover of the Group. The Group recorded strong sales from new releases as well as previously released products.

During the quarter, the Group underwent a slight business restructuring. The music production division was merged into record distribution division. Since then, the Group can focus exclusively on revenue-generating business and maintain a more cost-effective operating structure as it goes forward. As a result of the merger, the Group was also able to offset the deferred tax asset by a provision for taxation equivalent to HK\$16.3 million made in the previous quarters. The close down of the non-profitable studio management would further reduce the Group's operating costs.

In view of the new financial reporting standards in Hong Kong, the Board has duly considered their benefit and approved the early adoption of the relevant reporting standards in the current financial year. The Group ceased the amortisation of goodwill from the beginning of the financial year. The reversal of the amortisation of goodwill made in the previous quarters amounted to HK\$2.7 million. Other than this, the adoption of the new financial reporting standards would not have any significant impact on the Group's results of operations and financial position.

At 31st December 2004, the Group had a cash balance of approximately HK\$225.9 million, threefold growth from HK\$54.8 million as at 30th September 2004 as a result of the cash inflow from operations.

Following the completion of the voluntary conditional securities exchange offer made by Fandango, Inc. ("Fandango") in December 2004, Fandango and Yoshimoto Kogyo Co., Ltd. ("Yoshimoto") and parties acting in concert with it became the controlling shareholders of the Company. Details of the substantial shareholders of the Company as at 31st December 2004 are disclosed under the section headed "Substantial Shareholders' Interests and Short Positions in the Shares or Underlying Shares of the Company".

## **Operation Review**

### *Record Distribution*

Record distribution reported revenue of HK\$248.4 million for the third quarter, an increase of 42% and 310% over the previous quarter and the corresponding period of last year respectively. Turnover from the record distribution represented 98% of the total turnover for the third quarter.

During the quarter, the record distribution division and the music production division were merged together to increase cost efficiencies of the divisions. The Group's wholly-owned subsidiary, R and C Ltd. ("R&C"), continued to produce and distribute premium music and visual content. As expected, the second half of the financial year 2004/2005 has had a good start. A range of products contributed to the sales success. R&C released a total of 20 music records and 12 DVDs and video tapes during the third quarter. New releases, including DVDs from Downtown, a hit single from Masatoshi Hamada & Noriyuki Makihara, and single and albums from Fayray, have all enjoyed significant success since release.

The Group also recorded strong sales from previously released titles. The turnover of the record distribution for the third quarter to date is well ahead of last year. The music market appears to be stabilising and improving significantly from the same period of last year. After two years' collaboration with Yoshimoto, R&C has set up a content library which strengthens its release schedules. R&C has also accumulated a number of audio and audio-visual products previously released which are still marketable.

## Rojam Disco

The discotheque business reported revenue of HK\$5.0 million for the third quarter, representing an increase of 9% and 16% compared to the previous quarter and the corresponding period of last year respectively. Turnover from the discotheque operation represented 2% of the total turnover for the third quarter.

Rojam Disco continued to enrich itself with new events and entertainment features to refresh customers' entertainment experiences. This was the first year the discotheque organised international DJs' parties and these events successfully increased the number of patrons. The competition in the entertainment industry in Shanghai has grown more intense as more players emerged in recent years. Rojam Disco has been taking advantage of the Group's resources, the introduction of the performance of the Japanese artists in the discotheque could make itself outperformed other competitors in the local market.

## Prospect

The Group is enjoying strong market share improvement in its major markets and continues to benefit from the expansion of music consumption through digital channels. The Group's digital distribution business is still in its nurturing stage and has not yet developed into new impetus of growth. The main growth driver remains within the record distribution business in Japan. Producing high quality music and visual content will continue to be the Group's first priority.

The Group will maintain its prudent financial approach and keep focusing on its business with immediate revenue. It will pay close attention to market trends and continue to push for revenue growth and greater operating efficiency. Given the trading momentum in the business and the expected high levels of release activity across the industry in the months ahead, the Group is assured that it will achieve a substantial full-year improvement in its overall performance.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

At 31st December 2004, the interests and short positions of the Directors and chief executives 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")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange as follows:

### **Ordinary shares of HK\$0.10 each in the Company**

<b>Name of Director</b>	<b>Capacity in which the shares are held</b>	<b>Personal interests</b>	<b>Total interests</b>	<b>Approximate shareholding in the Company</b>
Mr. Takeyasu Hashizume	Beneficial owner	1,730,000	1,730,000	0.11%
Mr. Akihito Yamada	Beneficial owner	8,913,600	8,913,600	0.57%
Mr. Yukitsugu Shimizu	Beneficial owner	430,000	430,000	0.03%
Mr. Hiroshi Osaki	Beneficial owner	1,300,000	1,300,000	0.08%



Save as disclosed above, at 31st December 2004, none of the Directors, chief executives or their respective associates (as defined in the GEM Listing Rules) was deemed to have 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) as recorded in the register required to be kept by the Company under Section 352 of the SFO or which, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the nine months ended 31st December 2004 was the Company, or any of its subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OR UNDERLYING SHARES OF THE COMPANY**

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st December 2004, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital:

<b>Name of shareholder</b>	<b>Interests in the ordinary shares of HK\$0.10 each in the Company</b>	<b>Approximate shareholding in the Company</b>
Yoshimoto America, Inc. ("Yoshimoto America")	450,000,000	28.94%
Fandango, Inc. ("Fandango") ( <i>Note 1</i> )	1,034,916,167	66.57%
Yoshimoto Kogyo Co., Ltd. ("Yoshimoto") ( <i>Note 2</i> )	1,034,916,167	66.57%
CS Loginet Inc.	91,750,000	5.90%

*Notes:*

1. Yoshimoto America is a wholly-owned subsidiary of Fandango, Fandango is deemed to have interest in the 450,000,000 shares in the Company held by Yoshimoto America in addition to 584,916,167 shares in the Company directly held by itself.
2. Fandango controlled as to 53.01% by Yoshimoto. Accordingly, Yoshimoto was interested in 1,034,916,167 shares in the Company by attribution.

Save as disclosed above, at 31st December 2004, 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 under Section 336 of the SFO.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki, executive Directors of the Company, are directors of Yoshimoto, a substantial shareholder of the Company, and certain of its associates (as defined in the GEM Listing Rules). Pursuant to two deeds of non-competition undertakings, both dated 10th October 2002, as each amended by a supplemental deed dated 28th September 2004, and entered into between Yoshimoto and each of (i) the Company and (ii) R and C 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 deeds of non-competition undertakings are set out in the circulars issued by the Company dated 31st July 2002 and 3rd September 2004.

Save as disclosed above, during the nine months ended 31st December 2004, 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.

## **AUDIT COMMITTEE**

The Company established an audit committee on 21st May 2001 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising the three independent non-executive Directors of the Company, namely Mr. Seiichi Nakaoda, Mr. Kwong Pui Kei and Mr. Law Kar Ping. The audit committee has reviewed the accounting principles and practices adopted by the Group and the unaudited accounts for the nine months ended 31st December 2004.

## **BOARD PRACTICES AND PROCEDURES**

During the nine months ended 31st December 2004, the Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 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 nine months ended 31st December 2004.

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

Hong Kong, 14th February 2005

*As at the date of this report, the Board comprises seven executive directors, namely Mr. Takeyasu Hashizume, Mr. Tetsuo Mori, Mr. Osamu Nagashima, Mr. Mitsuo Sakauchi, Mr. Arihito Yamada, Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki; and three independent non-executive directors, namely Mr. Seiichi Nakaoda, Mr. Kwong Pui Kei and Mr. Law Kar Ping.*