

**ROJAM ENTERTAINMENT HOLDINGS LIMITED**

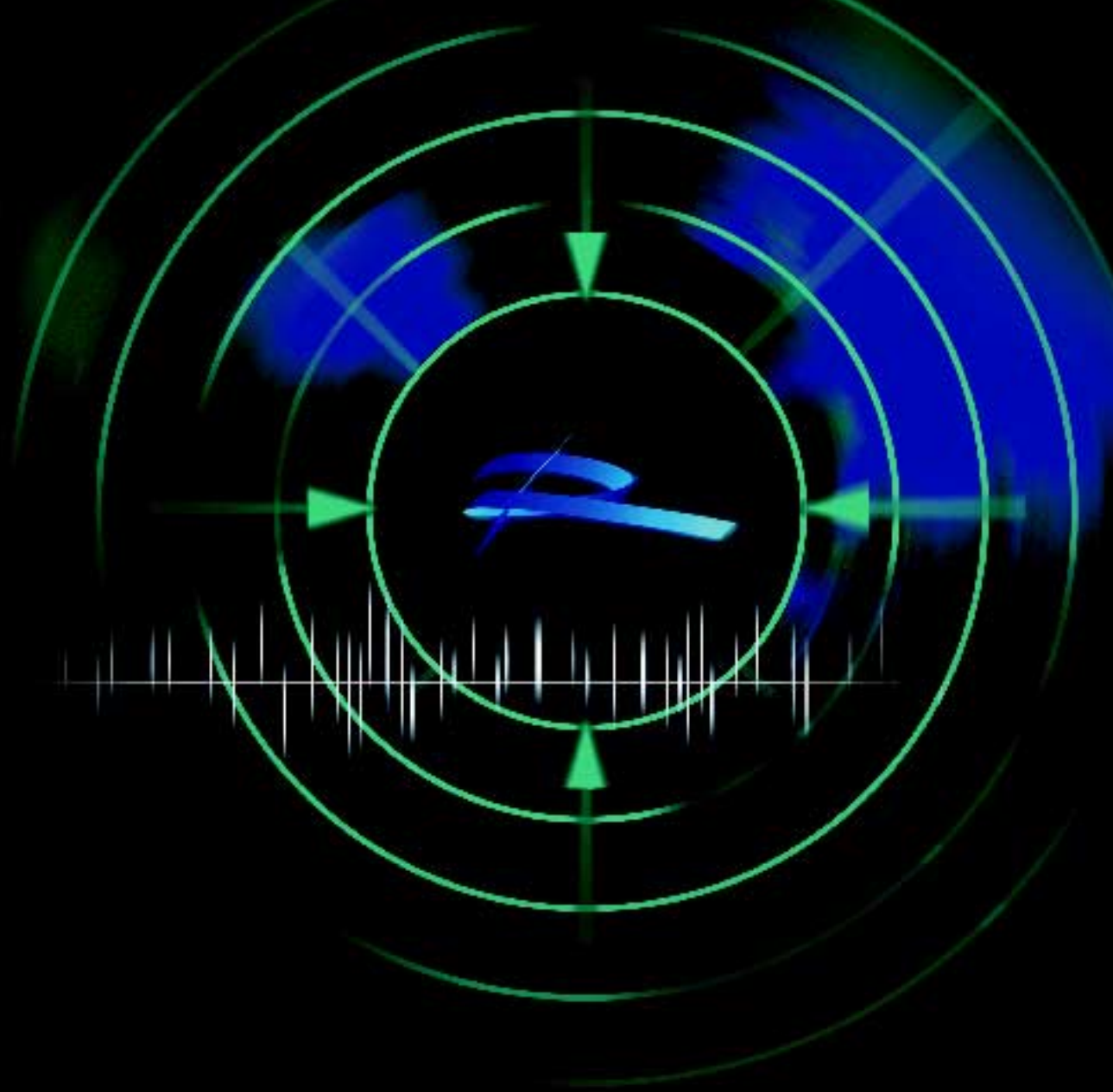
*(Incorporated in the Cayman Islands with limited liability)*

**2004/2005 Annual Report**



**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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**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.**

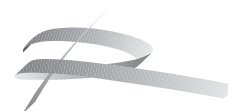
**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**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.**

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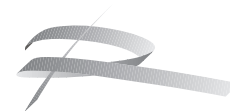
*This annual report, for which the directors of Rojam Entertainment Holdings Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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# Corporate Information



## BOARD OF DIRECTORS

### Executive Directors

Takeyasu Hashizume (*President*)  
Tetsuo Mori (*Executive Vice President*  
(*Business Development*))  
Osamu Nagashima (*Executive Vice President (Asia)*)  
Mitsuo Sakauchi (*Executive Vice President (Japan)*)  
Arihito Yamada (*Executive Vice President (Finance)*)  
Yukitsugu Shimizu  
Hiroshi Osaki

### Independent Non-executive Directors

Seiichi Nakaoda  
Kwong Pui Kei  
Law Kar Ping

## COMPLIANCE OFFICER

Arihito Yamada

## COMPANY SECRETARY

Etsuko Hoshiyama, *AICPA, CPA*

## QUALIFIED ACCOUNTANT

Cheng Kit Sum, Clara, *FCCA, CPA*

## AUDIT COMMITTEE

Seiichi Nakaoda  
Kwong Pui Kei  
Law Kar Ping

## AUTHORISED REPRESENTATIVES

Arihito Yamada  
Tetsuo Mori

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## WEBSITE

<http://www.rojam.com>

## STOCK CODE

8075

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
46th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## AUDITORS

PricewaterhouseCoopers

## LEGAL ADVISORS

*As to Hong Kong Law:*  
Deacons

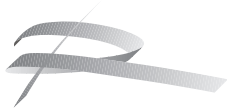
*As to Cayman Islands Law:*  
Conyers Dill & Pearman

## PRINCIPAL BANKERS

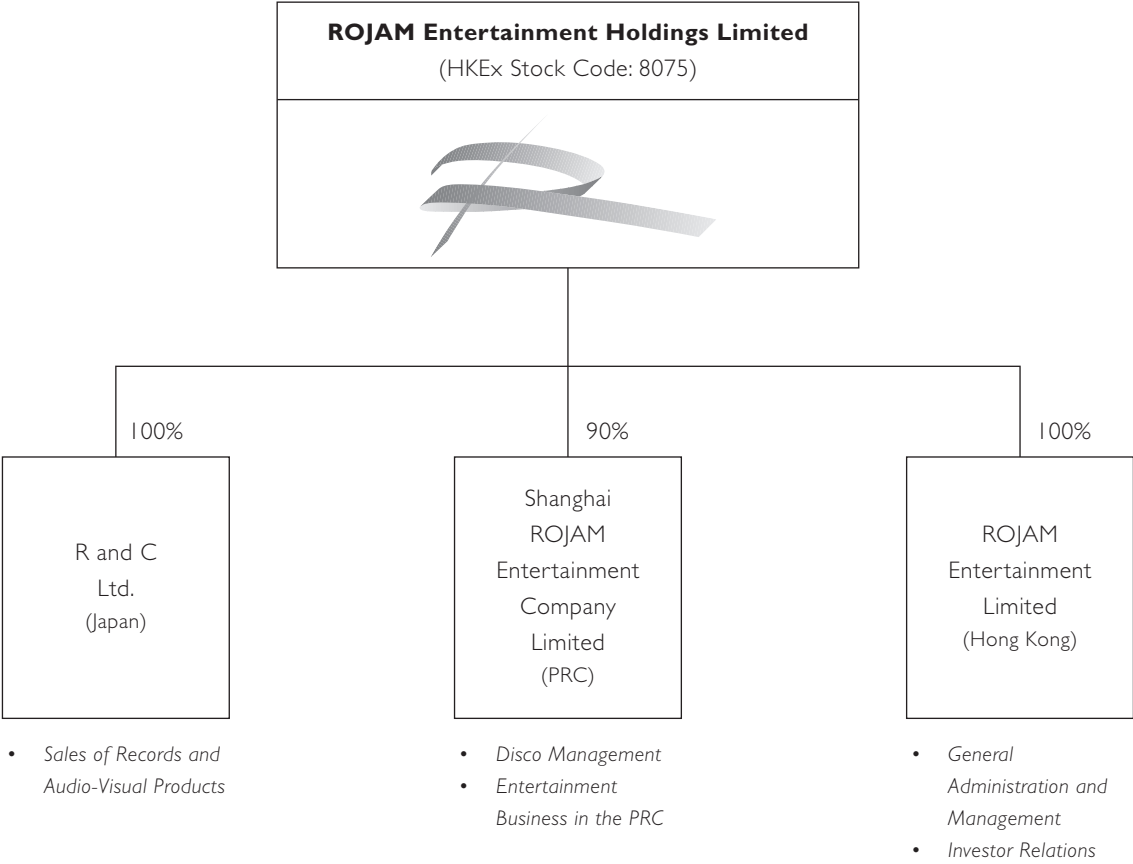
Mizuho Corporate Bank, Ltd.

The Hong Kong and Shanghai Banking  
Corporation Limited

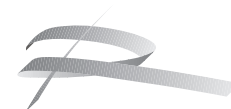
# Simplified Corporate Chart



The following is a simplified corporate chart of principal operating subsidiaries of Rojam Entertainment Holdings Limited (the “Company”) and its subsidiaries (collectively known as the “Group”).



# Financial Summary



	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000	Restated 2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>Results for the year ended 31st March</b>					
Turnover	<b>535,716</b>	249,349	129,491	48,756	134,925
Profit/(loss) before taxation	<b>70,815</b>	11,146	10,571	(82,933)	19,722
Profit/(loss) attributable to shareholders	<b>57,824</b>	7,292	3,320	(82,929)	19,723
<b>Assets and liabilities</b>					
Total assets	<b>460,454</b>	298,383	259,138	187,383	234,022
Total liabilities	<b>(171,619)</b>	(65,178)	(34,588)	(9,281)	(23,134)
Minority interests	<b>(675)</b>	(1,884)	484	–	(101)
Net assets	<b>288,160</b>	231,321	225,034	178,102	210,787

The figures for the year ended 31st March 2003 have been restated pursuant to the adoption of Statement of Standard Accounting Practice 12 Income Taxes (revised).

# President's Statement



I am delighted to be reporting on another exhilarating year for the Group. This year represented a dramatic turn-around for the Group. We have demonstrated our ability to drive good revenue growth and continue our strong profit momentum.

## FINANCIAL RESULTS

The turnover in the financial year of 2004/2005 was double that in last year, an increase from HK\$249.3 million to HK\$535.7 million. Profit before taxation for the year amounted to HK\$70.8 million, representing 6 times from HK\$11.1 million of the last year. Profit attributable to shareholders was HK\$57.8 million, 8 times of HK\$7.3 million for the previous year. Positive cash flow of HK\$120.1 million was achieved for the year. Basic earnings per share was 3.7 HK cents, compared to 0.5 HK cent of last year.

## DIVIDEND

In view of the strong performance of the financial year and the cash flow position and requirements to ensure the sustainable future growth of the Group's business, the Board recommends a final dividend of 1.2 HK cents per share payable on or before 24th June 2005. This translates into a 32% dividend payout ratio for the current year profit. The Group will endeavour to achieve a sustainable and steadily increasing dividend over the longer term, with a view to generating the best possible return for shareholders.

## BUSINESS REVIEW

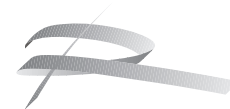
The Group's businesses developed well in the financial year 2004/2005. Its market position in the distribution of music and entertainment content was further entrenched. The Group maintained its focus on its core record distribution business, implemented brand enhancement, continued to expand its client portfolio. Its clientele during the year was further expanded by our new distribution contracts, further reinforcing our market position in this specialized sector in the music and entertainment scene in Japan.

On 28th September 2004, the Group completed its acquisition of a further 20% stake in R&C. The Group was delighted to increase its ownership of this successful company. R&C has now been established as a wholly-owned record label of the Group producing and distributing quality music products and content in Japan.

Following the completion of the voluntary conditional securities exchange offer made by Fandango in December 2004, Fandango and Yoshimoto became the controlling shareholders of the Company. This change further enhanced the position of the Group as the largest production arm of audio and audio-visual products of Yoshimoto's content in Japan and extends its presence in the digital distribution business by leverage on Fandango's experience and industry network.

On another front, Rojam Disco delivered stable returns in every quarter. The discotheque business continued with its process of business development. In this year, we are also embarking on a more aggressive shop development program in mainland China.





## **OUTLOOK**

At present, the Group is financially strong and in a net cash status. The Group is proactively looking for good investment opportunities that will create long-term values to its business portfolio and expand its presence in the entertainment market.

There is a Chinese saying that goes "live in peace and think of turmoil". Despite the encouraging results being delivered in the second and third quarter the need for a clear understanding of the future becomes all the more important in the fourth quarter to allow the Group's management to focus their energies and to face the various future challenges and opportunities presented to the Group. As such, the Group has strategically positioned itself, both operationally and financially, to leap forward for a greater share of the entertainment business in the domestic and international markets. Our vision is to become a prominent entertainment business group in Asia in the years ahead.

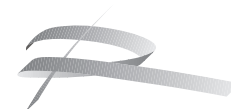
I would like to extend a warm welcome to Mr. Kwong Pui Kei and Mr. Law Kar Ping who joined the Board as Independent Non-executive Directors with effect from 14th September 2004. Mr. Yeung Mui Kwan, David resigned as Independent Non-executive Director with effect from 20th September 2004.

I would like to close by thanking the management team and all my colleagues for their dedication and commitment over the past years, our business partners and our shareholders for their long-standing trust and support.

**Takeyasu Hashizume**  
*President*

Hong Kong, 27th May 2005

# Management Discussion and Analysis



## FINANCIAL REVIEW

	<b>Fourth Quarter (Jan to Mar 2005)</b> HK\$'M	<b>Third Quarter (Oct to Dec 2004)</b> HK\$'M	<b>Second Quarter (Jul to Sept 2004)</b> HK\$'M	<b>First Quarter (Apr to Jun 2004)</b> HK\$'M	<b>Total</b> HK\$'M
Turnover	61.1	254.6	179.9	40.1	535.7
Operating expenditures*	78.6	192.2	153.3	41.2	465.3
(Loss)/profit from operations	(17.5)	65.3	25.4	(2.4)	70.8
(Loss)/profit attributable to shareholders	(22.6)	76.7	6.7	(3.0)	57.8

\* Cost of sales, selling & other operating expenses

## Sales by business segments

	<b>Fourth Quarter (Jan to Mar 2005)</b>		<b>Third Quarter (Oct to Dec 2004)</b>		<b>Second Quarter (Jul to Sept 2004)</b>		<b>First Quarter (Apr to Jun 2004)</b>		<b>Total</b>	
	HK\$'M	%	HK\$'M	%	HK\$'M	%	HK\$'M	%	HK\$'M	%
Record distribution	56.5	93	248.4	98	174.6	97	35.3	88	514.8	96
Music Production	0.3	–	1.2	–	0.7	–	0.4	1	2.6	1
Discotheque	4.3	7	5.0	2	4.6	3	4.2	10	18.1	3
Others	–	–	–	–	–	–	0.2	1	0.2	–
<b>Group Total</b>	<b>61.1</b>	<b>100</b>	<b>254.6</b>	<b>100</b>	<b>179.9</b>	<b>100</b>	<b>40.1</b>	<b>100</b>	<b>535.7</b>	<b>100</b>

## Overall performance

The Group has achieved a double in turnover and sevenfold growth in net profit during the year under review. With the established policy of seeking stable growth while exercising stringent risk control, the Group not only has achieved significant growths in both turnover and net profit, but has also achieved great improvements in risk control and cash flow management.

The Group recorded a profit before taxation of HK\$70.8 million for the year ended 31st March 2005, sixfold from HK\$11.1 million for the year ended 31st March 2004. Profit attributable to shareholders for the year was HK\$57.8 million, representing 8 times of HK\$7.3 million. Improvement in net profit of the Group was entirely driven by R and C Ltd. ("R&C") and the phasing of its release schedule.

The acquisition of a further 20% stake in R&C was completed in September 2004. The additional goodwill arising from the acquisition amounted to HK\$28.2 million. 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.

In view of the strong performance of the financial year 2004/2005, the Board recommends a dividend of 1.2 HK cents per share.



## FINANCIAL REVIEW (Continued)

### Turnover and other revenue

The group recorded a total turnover and other revenue of approximately HK\$536.1 million for the year ended 31st March 2005, representing a growth of 115% from HK\$249.6 million in the previous year. The record distribution business was the largest revenue contributor at 96% (2004: 90%), with discotheque business and music production business each contributing 3% (2004: 6%) and 1% (2004: 4%) respectively. Revenue generated in Japan represented 97% (2004: 94%) of total revenue, while operations in mainland China contributed 3% (2004: 6%).

### Segment results

The organic growth of the record distribution business continued to be strong in this year as the Group kept producing higher margin products, such as comedian audio-visual products. Turnover reached HK\$514.8 million, over 129% increase from HK\$224.5 million of the last year. The significant increase was mainly due to the strong sales of the new release of the audio and audio-visual products. Segment profit amounted to HK\$88.5 million, a 238% increase from HK\$26.2 million. The increase in the segment profit was due to the increase in sales during the year.

Despite strong operating performance in the record distribution sector, a continual drop in music production income had an unfavourable effect on the Group's results. Due to the downward trend in music production, the Group's music production income declined to HK\$2.6 million, a 71% decrease from HK\$9.0 million in last year. Segment loss of HK\$7.5 million was recorded, compared to HK\$4.9 million in last year.

The revenue generated from the discotheque business was HK\$18.1 million, over 22% increase from HK\$14.8 million in the last year. Segment profit amounted to HK\$1.3 million, 63% increase from HK\$0.8 million in last year.

### Cost of sales and operating expenses

Cost of sales increased by 113% to HK\$293.2 million from HK\$137.5 million. Selling and distribution expenses increased by 89% to HK\$133.5 million from HK\$70.5 million. The operating expenses increased by 54% to HK\$38.6 million from HK\$25.0 million. The higher costs are reflected in the corresponding increases in record sales and higher operating revenue.

The Group's operating expenses as a percentage of revenue was reduced from 10% to 7%, reflecting the Group's continuous efforts in cost rationalisation. A well-managed and competitive cost base has been established ready to promote further revenue growth.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of 1.2 HK cents per share for the year ended 31st March 2005 (2004: Nil).

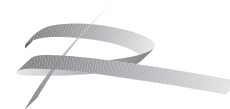
The dividend will be payable on or before Friday, 24th June 2005 to shareholders whose names appear on the Register of Members of the Company on Monday, 20th June 2005, following approval at the annual general meeting.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed between Friday, 17th June 2005 and Monday, 20th June 2005 (both days inclusive) during which period no transfer of the Company's shares will be effected. To qualify for the aforesaid final dividend, all completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Thursday, 16th June 2005.

## LIQUIDITY AND FINANCIAL RESOURCES

At 31st March 2005, the Group's shareholders' funds increased to approximately HK\$288.2 million as compared to HK\$231.3 million as at 31st March 2004. Total assets amounted to approximately HK\$460.5 million (2004: HK\$298.4 million), of which current assets amounted to HK\$273.0 million (2004: HK\$161.1 million). At 31st March 2005, the Group had current liabilities, non-current liabilities and minority interests of approximately HK\$170.6 million (2004: HK\$64.2 million), HK\$1.0 million (2004: HK\$0.9 million) and HK\$0.7 million (2004: HK\$1.9 million) respectively. Net asset value per share was HK\$0.19 (2004: HK\$0.15). Current ratio was 1.6 (2004: 2.5).



## **LIQUIDITY AND FINANCIAL RESOURCES** (Continued)

The Group financed its operations with internally generated cash flows. At 31st March 2005, cash and bank balances increased to HK\$209.8 million (2004: HK\$90.4 million), which consists of 12% in Hong Kong dollars, 78% in Japanese yen, 6% in Renminbi and 4% held in other currencies. The Renminbi denominated balances were placed with licensed banks in the People's Republic of China ("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 year ended 31st March 2005, the Group had net cash inflow of HK\$208.7 million from its operations and net cash outflow of HK\$87.8 million from its investing activities.

At 31st March 2005, the Group has no long-term borrowing, the same as for the past years. The gearing ratio of the Group, calculated as non-current liabilities to shareholders' funds, was zero.

## **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 31st March 2005, the Group has no outstanding foreign currency hedge contracts (2004: Nil).

## **CHARGE ON GROUP ASSETS**

At 31st March 2005, the Group did not have any charge on its assets (2004: Nil).

## **MATERIAL ACQUISITION/ DISPOSAL AND SIGNIFICANT INVESTMENTS**

The acquisition of 20% of the issued share capital in Yoshimoto Music Holdings, Inc. ("Yoshimoto Music") was completed on 28th September 2004. The total consideration of this acquisition was Japanese Yen ("JPY") 400,000,000 (representing approximately HK\$28,400,000). After the completion of the acquisition, Yoshimoto Music became a wholly-owned subsidiary of the Group. Details of this acquisition are set out in the circular issued by the Company dated 3rd September 2004.

During the year ended 31st March 2005, a subsidiary of the Company has paid a deposit of US\$3,000,000 (approximately HK\$23,400,000) to an independent third party company (the "US Company") established in the United States of America (the "USA") whose principal focus is to engage in the production and distribution of digital entertainment content through multi-media platforms such as the internet and mobile phones in Japan and the USA, to subscribe for 30,000 shares of Series A Convertible Preferred Stocks (the "Stocks") of the US Company. Up to the approval date of these accounts, the allotment of the Stocks has not been done as the Series A Convertible Preferred Stock Purchase Agreement has not been completed.

Save as disclosed, the Group did not have any other plan for material investment, acquisition or disposal of material capital assets at 31st March 2005.

## **CONTINGENT LIABILITIES**

The Group had no material contingent liabilities at 31st March 2005 (2004: Nil).

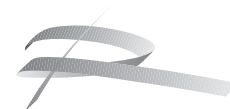
## **EMPLOYEE INFORMATION**

At 31st March 2005, the Group had 100 (2004: 89) full-time employees in Hong Kong, Japan and Shanghai. Staff costs, excluding Directors' emoluments, totalled HK\$18.9 million (2004: HK\$17.3 million). The Group's remuneration policy is basically determined by the performance of individual employee. In general, salary review is conducted annually. Staff benefits, including medical coverage and provident funds, are also provided to employees.

## **OPERATIONS REVIEW**

### **Record distribution**

The record distribution business reported revenue of HK\$514.8 million, more than 129% increase over the turnover of HK\$224.5 million recorded in last year. The increase was attributable to the strong sales from new releases as well as previously released products. The record distribution business contributed 96% of the total revenue, being the largest revenue generator of the Group. As a result of the higher sales recorded, segment profit was HK\$88.5 million, a 238% increase from HK\$26.2 million in last year.



## OPERATIONS REVIEW (Continued)

### Record distribution (Continued)

R&C conducts the Group's record distribution business and engages principally in production and licensing of music master tapes. The acquisition of a further 20% stake in R&C was completed in September 2004. R&C has now been established as a wholly-owned subsidiary of the Group producing and distributing quality music products and content in Japan.

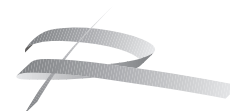
During the year, the Group secured additional reputable record distributors to expand its sales network in Japan. The Group continues to pursue a number of opportunities related to the new uses of its music and entertainment content. For the year under review, the Group released a total of 53 music records and 54 audio-visual products, compared to 30 music records and 51 audio-visual products in the last year. The second and third quarter recorded the highest sales over the year. The titles released were well received by the public and some of which had reached high rankings on the ORICON chart in Japan. These titles included a debut single from Gorie; the popular dual men group, Downtown, released a series of DVDs namely "ダウンタウンのガキの使いやあらへんで!!" (Downtown no Gaki-no Tsukai ya Arahende!!); a hit single from Masatoshi Hamada & Noriyuki Makihara and singles and albums from Fayray.

During the fourth quarter, the Group was not keen on releasing new titles. It has adopted a more conservative approach in rolling out its product release plans. It also re-examined its sales direction and reviewed its technology development of its digital distribution business. Sales revenue from the Group hence decreased substantially in the fourth quarter when compared to the previous two quarters.

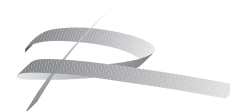
However, after two years of collaboration with Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"), R&C has set up a content library and accumulated a number of audio and audio-visual products previously released which are still marketable. The Group believed that as long as it continues to strengthen its release schedules, the sales will grow healthily year on year.

A summary of the music records produced and distributed by the Group for the year ended 31st March 2005 is set out below.

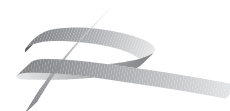
Title	Artist	Released date	Format
CALL	Yosuke Sakanoue 坂上庸介	14/04/2004	Album
Tatta Hitotsu no Ai no Uta たったひとつの愛のうた	HOUND DOG	21/04/2004	Single
Goose Bumps I	Goose Bumps	19/05/2004	Album
Aishitemo Aishitarinai 愛しても愛し足りない	Fayray	26/05/2004	Single
Seasons (Special Edition)	Hiroshi Tamaki 玉木宏	02/06/2004	Single+DVD
Seasons	Hiroshi Tamaki 玉木宏	02/06/2004	Single
Hizumi ヒズミ	Amy-N-Ryoo	23/06/2004	Single
Watashi no Aoi sora (Special Package) わたしの青い空 (初回限定盤)	Takashi Fujii 藤井隆	08/07/2004	Single+DVD

**OPERATIONS REVIEW** (Continued)**Record distribution** (Continued)

Title	Artist	Released date	Format
Watashi no Aoi sora わたしの青い空 (通常盤)	Takashi Fujii 藤井隆	08/07/2004	Single
BUBBLEGUN	Various Artists	28/07/2004	Mini Album
Niji-iro Theatre 虹色シアター	Yoshiyasu Ichikawa 市川喜康	28/07/2004	Album
LET GO e.p.	Penpals	28/07/2004	Single
SUMMER TIME -PRIDE OF NIIGATA-	Penpals	28/07/2004	Single
All by myself オールバイマイセルフ	Takashi Fujii 藤井隆	28/07/2004	Album
Kuu 空	TAKA	04/08/2004	Album
BELIEVE	RUN&GUN	18/08/2004	Single
Orange オレンジ	Amy-N-Ryoo	18/08/2004	Single
Mickey (special package)	Gorie ゴリエ	08/09/2004	Single+DVD
Mickey	Gorie ゴリエ	08/09/2004	Single
Inoue Aoyama/HONEY 井上青山/HONEY	Amy-N-Ryoo	22/09/2004	Album
Yaritai youni やりたいように	Zamagi ザマギ	06/10/2004	Single
Kuchi duke 口づけ	Fayray	13/10/2004	Single
HOURGLASS (Limited Edition)	Fayray	27/10/2004	Album
HOURGLASS	Fayray	27/10/2004	Album
Overtone	Takashi Utsunomiya 宇都宮隆	03/11/2004	Album
Emotion (Limited Edition)	Hiroshi Tamaki 玉木宏	10/11/2004	Single

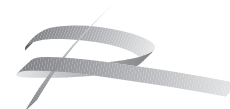
**OPERATIONS REVIEW** (Continued)**Record distribution** (Continued)

Title	Artist	Released date	Format
Emotion	Hiroshi Tamaki 玉木宏	10/11/2004	Single
RazzoodocK	LONG SHOT PARTY	10/11/2004	Album
NATIVE	Kotani kinnya	12/11/2004	Mini Album
Tokyo	Tomo-Chika 友近	17/11/2004	Single
Chicken Rice チキンライス	Masatoshi Hamada& Noriyuki Makihara 浜田雅功と槇原敬之	17/11/2004	Single
Ai no Sorea -Soundtrack- 愛のソレア サウンドトラック	Various Artists	25/11/2004	Album
machi "町"	Ikurou Fujiwara 藤原いくろう	25/11/2004	Album
enemy of life	2am	25/11/2004	Album
I miss you アイミスユー	Goose Bumps	25/11/2004	Single
Mirai ga nakutemo dakishimete 未来がなくても抱きしめて	Nikkyu 8000 yen 日給8000円	25/11/2004	Single
Tamani ha naitemo iidesuka? たまには泣いてもいいですか?	Jikyuu 800 yen 時給800円	25/11/2004	Single
Magical Death マジカル Death	Zamagi ザマギ	08/12/2004	Single
RIPPLE (Limited Edition)	Hiroshi Tamaki 玉木宏	15/12/2004	Album+DVD
RIPPLE	Hiroshi Tamaki 玉木宏	15/12/2004	Album
Brack Jack ブラックジャック	RUN&GUN	19/01/2005	Single

**OPERATIONS REVIEW** (Continued)**Record distribution** (Continued)

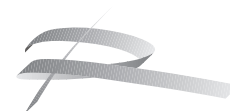
Title	Artist	Released date	Format
ALL BONUS TRACKS	ZAMAGI ザマギ	19/01/2005	Album
ZOID Original Sound Track	Various Artists (2a.m.)	19/01/2005	Album
V.A. ~REGGAE E? WOMEN~ V.A. ~REGGAE えっ? WOMEN~	Amy-N-Ryoo	09/02/2005	Album
Hadakann-bo はだかん帽	Minnna no uta みんなのうた	23/02/2005	Single+DVD
Time Capsule タイムカプセル	as	23/02/2005	Single
Hateshinai tabi no naka de... 果てしない旅の中で...	RUN&GUN	23/02/2005	Album
Kinou no Kaze 昨日の風	Tsubaki つばき	23/02/2005	Single
TAKASHI UTSUNOMIYA THE BEST 2000-2004	Takashi Utsunomiya 宇都宮隆	23/03/2005	Album
Seisyun Destroy 青春デストロイ	2Cho Kenju	10/03/2005	Mini Album
GB3rd GB3RD~太陽の子~	GB	10/03/2005	Album
Syonen Butterfly 少年バタフライ	SBPF	10/03/2005	Single
SONGS	HOUND DOG	30/03/2005	Single



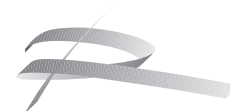
**OPERATIONS REVIEW** (Continued)**Record distribution** (Continued)

A summary of the audio-visual products produced and distributed by the Group for the year ended 31st March 2005 is set out below.

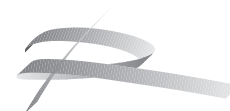
Title	Artist	Released date	Format
A.F.O.K.2002-2003 TOUR "PLAY ROCKS" FINAL PARTY live at AKASAKA BLITZ	PENPALS	21/04/2004	DVD
Ranpo R Vol.2 乱歩R Vol.2	Various Artists	21/04/2004	DVD
Ranpo R Vol.2 乱歩R Vol.2	Various Artists	21/04/2004	VHS
Futari no Mito-Komon 二人の水戸黄門	Various Artists	28/04/2004	DVD
Futari no Mito-Komon 二人の水戸黄門	Various Artists	28/04/2004	VHS
Penalty Solo Live 2003 ペナルティ 単独ライブ2003	Penalty ペナルティ	28/04/2004	DVD
Penalty Solo Live 2003 ペナルティ 単独ライブ2003	Penalty ペナルティ	28/04/2004	VHS
Ranpo R Vol.3 乱歩 R Vol.3	Various Artists	26/05/2004	DVD
Ranpo R Vol.3 乱歩 R Vol.3	Various Artists	26/05/2004	VHS
Ranpo R Vol.4 乱歩 R Vol.4	Various Artists	26/05/2004	DVD
Ranpo R Vol.4 乱歩 R Vol.4	Various Artists	26/05/2004	VHS
Ranpo R DVD BOX 乱歩 R DVD BOX	Various Artists	26/05/2004	DVD
Tora 040229 ☐ 040229	Chihara Hiroshi 千原浩史	26/05/2004	DVD
Tora 040229 ☐ 040229	Chihara Hiroshi 千原浩史	26/05/2004	VHS

**OPERATIONS REVIEW** (Continued)**Record distribution** (Continued)

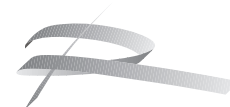
Title	Artist	Released date	Format
Seasons (Special Edition)	Hiroshi Tamaki 玉木宏	02/06/2004	Single+DVD
Realize	Hiroshi Tamaki 玉木宏	30/06/2004	DVD
Uchu Tarzan 宇宙ターザン	Various Artists	30/06/2004	DVD
Uchu Tarzan 宇宙ターザン	Various Artists	30/06/2004	VHS
Watashi no Aoi sora (Special Package) わたしの青い空(初回限定盤)	Takashi Fujii 藤井隆	08/07/2004	Single+DVD
M-1 Grand prix 2003 M-1グランプリ2003	Various Artists	14/07/2004	DVD
Kyuukon 球根	Impulse インパルス	28/07/2004	DVD
Kyuukon 球根	Impulse インパルス	28/07/2004	VHS
Seireki 200X Nen, Kinsyu-hou wo sekou suru 西暦二〇〇X年、禁酒法ヲ施行スル	The Plan 9	11/08/2004	DVD
Seireki 200X Nen, Kinsyu-hou wo sekou suru 西暦二〇〇X年、禁酒法ヲ施行スル	The Plan 9	11/08/2004	VHS
NETA JIN	Tomonori Jinnai 陣内智則	11/08/2004	DVD
NETA JIN	Tomonori Jinnai 陣内智則	11/08/2004	VHS
Gaki-no Tsukaiya Arahende① ガキの使いやあらへんで①	Down Town ダウンタウン	24/08/2004	DVD
TM NETWORK DOUBLE-DECADE TOUR	TM NETWORK	01/09/2004	DVD

**OPERATIONS REVIEW** (Continued)**Record distribution** (Continued)

Title	Artist	Released date	Format
Mickey (special package)	Gorie ゴリエ	08/09/2004	Single+DVD
Gaki-no Tsukaiya Arahende② ガキの使いやあらへんで②	Down Town ダウンタウン	24/08/2004	DVD
Hyaku-shiki2004 百式2004	2Cho-Kennju 2丁拳銃	24/08/2004	DVD
Hyaku-shiki2004 百式2004	2Cho-Kennju 2丁拳銃	24/08/2004	VHS
Gaki-no Tsukaiya Arahende③ ガキの使いやあらへんで③	Down Town ダウンタウン	27/10/2004	DVD
Kigeki-oh Shinbeesu 喜劇王しんべえす	Various Artists	05/11/2004	DVD
Kigeki-oh Shinbeesu 喜劇王しんべえす	Various Artists	05/11/2004	VHS
Kirin! Kirin! Kirin! 麒麟!麒麟!麒麟!	Kirin 麒麟	25/11/2004	DVD
Gaki-no Tsukaiya Arahende④ ガキの使いやあらへんで④	Down Town ダウンタウン	25/11/2004	DVD
A.F.O.K.2004 TOUR FINAL "ROCK'EM ALL" live at Zeep Tokyo	PENPALS	01/12/2004	DVD
Wakkie no Chimei shiritori Vol.1 ワッキーの地名しりとり	Wakkie ワッキー	10/12/2004	DVD
RIPPLE (Limited Edition)	Hiroshi Tamaki 玉木宏	15/12/2004	Album+DVD
Shin-pu Base Neta to Uta 新風baseネタトウタ	Various Artists	15/12/2004	DVD
Jetball Hour 04 ジェットボールアワー04	Football hour フットボールアワー	22/12/2004	DVD

**OPERATIONS REVIEW** (Continued)**Record distribution** (Continued)

Title	Artist	Released date	Format
Zero ゼロ	Child Machine チャイルドマシーン	22/12/2004	DVD
King of Live	Dainoji ダイノジ	22/12/2004	DVD
RED BOX	HOUND DOG	19/01/2005	DVD
The Ten Show	The Plan 9	26/01/2005	DVD
Wakkie no Chimei Shiritori Vol.2 ワッキーの地名しりとり②	Wakkie ワッキー	26/01/2005	DVD
Penalty's Solo Live 2004 ペナルティ単独ライブ2004	Penalty ペナルティ	26/01/2005	DVD
Wakkie no Chimei Shiritori Vol.3 ワッキーの地名しりとり③	Wakkie ワッキー	23/02/2005	DVD
POINT~点~	Shinagawa Syoji 品川庄司	23/02/2005	DVD
Hadakann-bo はだかん帽	Minnna no uta みんなのうた	23/02/2005	Single + DVD
5-6-7 more & Live	Yukari Oonishi to Shinsekai 大西ユカリと新世界	23/02/2005	DVD
Wakkie no Chimei Shiritori Vol.4 ワッキーの地名しりとり④	Wakkie ワッキー	23/03/2005	DVD
Manzai Fashion Show ~Manpuku~ 漫オファッションショー ~漫服~	Various Artists	30/03/2005	DVD



## **OPERATIONS REVIEW** (Continued)

### **Music production**

Revenue from the music production business dropped by 71% from HK\$9.0 million to HK\$2.6 million. Segment loss was HK\$7.5 million, compared to HK\$4.9 million in last year. As most of the producer contracts expired during the year, the music production division was merged into record distribution division. Since then, the Group could focus exclusively on revenue-generating business and maintain a more cost-effective operating structure as it goes forward.

### **Rojam Disco**

The discotheque business reported revenue of HK\$18.1 million with a segment profit of HK\$1.3 million, representing a 22% and 63% rise in turnover and segment profit respectively, when compared to revenue of HK\$14.8 million and a segment profit of HK\$0.8 million in previous year.

The average daily customer flow for the year at Rojam Disco reached 730, a jump of 14% over the figure of 640 recorded during the previous year. The average spending level also increased by 7% over the previous year. Over the years, Rojam Disco has become not only a magnet for local disco-goers, but also an attractive destination for tourists from Asia and around the world. 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 outperform other competitors in the local market.

Regular events such as dance competition and "face-changing" performance further added to the excitement and innovation for which Rojam Disco has long been renowned. Other successful events held during the year included the international DJ parties. Since the second quarter, Rojam Disco has invited the world's top DJs namely Scott Bond, Anne Savage, The Thrillseekers, Agnelli and Nelson, Above & Beyond, Matt Hardwick, DJ Eva and DJ John Kelly; as well as international artists, including Chris Walker, a US vocalist and Michael Learns to Rock, top Rock Band in Denmark to perform live at the discotheque. The proven success in such international events has provided the Group with the competitive edge to maintain a stable revenue source.

Additional factors which helped to drive the discotheque's business forward included the introduction of the VIP privilege programme. The programme offers loyal patrons multifarious services. Regular renovation work and theme decorations are carried out to make customers feel fresh and exciting towards the discotheque.

## **PROSPECTS**

Looking forward, the Group will continue to face tremendous challenges. The record distribution business remains the focus of the Group. Whilst maintaining a stable growth in its core business revenue, the Group shall also develop and identify new uses for its music content.

The Group will endeavour to enhance its core competitiveness and will make use of its competitive advantages in terms of its access of Yoshimoto's pool of talents and larger scale of operation, to implement on a continued basis a differentiated sales strategy, to promote rational competition and to entrench its market position in its record distribution business. The Group will put emphasis on innovation and business promotion to procure greater development in its discotheque business.

At the same time, the Group will fully utilize its existing competitive advantages in terms of its network, technology and resources and its market experience in its digital distribution business. The Group shall preserve its sound fundamentals, enhance its sustainable development capability, accurately seize investment opportunities, and achieve the maximization of enterprise value whilst providing premium music content. With the well defined business strategy, the Group is assured of delivering consistent business growth in the coming financial years.

# Directors and Senior Management Profile



## EXECUTIVE DIRECTORS

**Mr. Takeyasu Hashizume**, aged 57, President, was appointed to the Board in February 2003. He is responsible for the Group's overall management, operations and strategic planning. He has over 30 years of experience in the music and entertainment business. After he graduated from Waseda University, Japan in 1972, Mr. Hashizume joined Sony Music Entertainment (Japan) Inc. (formerly known as CBS/Sony), where he was responsible for production and marketing. Mr. Hashizume became President of Eastwest Japan, Inc. (currently known as Warner Entertainment Japan, Inc.) in 1996. Mr. Hashizume joined R and C Ltd., as its President in May 2001. Mr. Hashizume was appointed as President of Fandango, Inc. in December 2004.

**Mr. Tetsuo Mori**, aged 55, Executive Vice President (Business Development), has joined the Group since November 2001 and was appointed to the Board in January 2002. He is responsible for the overall entertainment operations and business development of the Group. He has over 20 years of experience in the music and entertainment industry. Mr. Mori joined Sony Music Entertainment (Japan) Inc. in 1978. He was a director of Sony Music Entertainment (Hong Kong) Limited from 1991 to 1995. From 1992 until 1996, he was also the first Chief Representative of Sony Music Entertainment (Japan) Hong Kong office, and was responsible for the marketing plan and promotion of Japanese artists in the Asian countries. Mr. Mori was appointed as a director of Fandango, Inc. in December 2004.

**Mr. Osamu Nagashima**, aged 49, Executive Vice President (Asia), has joined the Group since November 2001 and was appointed to the Board in February 2003. He is responsible for the Group's music production and marketing in Japan. Mr. Nagashima graduated from Meiji University, Japan in 1980 and joined Warner Entertainment Japan, Inc. (formerly known as Warner Pioneer, Inc.). He has more than 20 years of experience in music business. Prior to joining the Group, Mr. Nagashima was the Executive Vice President of Eastwest Japan, Inc.

**Mr. Mitsuo Sakauchi**, aged 48, Executive Vice President (Japan), joined the Group and was appointed to the Board in November 2003. He is responsible for the Group's business operations in Japan. Mr. Sakauchi has over 20 years of experience in the marketing and promotion of music records. After he graduated from Nihon University, Japan in 1980, Mr. Sakauchi joined For Life Music Entertainment Inc. (formerly known as For Life Record Inc.) as a director, where he was involved in the promotion of a number of popular artists and marketing. Mr. Sakauchi was appointed as a director of Fandango, Inc. in December 2004.

**Mr. Arihito Yamada**, aged 42, Executive Vice President (Finance), joined the Group and was appointed to the Board in July 2000. He is responsible for the overall management of the Group in the areas of finance, legal, administration and corporate development. Mr. Yamada was educated in Japan and has a Bachelor of Economics degree from Keio University, Japan and a Master of Laws degree from Tsukuba University, Japan. He is a member of the Institute of Certified Public Accountants in Japan and has over 20 years of experience in accounting, finance, investment, corporate development and tax planning including 15 years of experience in Japan and Los Angeles offices of PricewaterhouseCoopers, specialising in the area of mergers and acquisitions, finance and tax planning of the entertainment industry. Prior to joining the Group, Mr. Yamada was a partner of PricewaterhouseCoopers Tokyo office and Chief Executive Officer of PricewaterhouseCoopers Entertainment Ltd. Mr. Yamada was appointed as a director of Fandango, Inc. in December 2004.

**Mr. Yukitsugu Shimizu**, aged 63, joined the Group and was appointed to the Board in October 2002. After graduated from Osaka City University, Japan in 1965, Mr. Shimizu joined UFJ Bank Limited (formerly known as The Sanwa Bank, Limited), and then he had been working in the banking industry for 28 years. In 1993, Mr. Shimizu joined Yoshimoto Kogyo Co., Ltd. as a general manager of its accounting department and was appointed as a director in the same year. Since 2001, Mr. Shimizu has been a director and general manager of the Tokyo Production Control Department of Yoshimoto Kogyo Co., Ltd..

**Mr. Hiroshi Osaki**, aged 51, joined the Group and was appointed to the Board in October 2002. Mr. Osaki has over 25 years of experience in entertainment business with Yoshimoto since his graduation from Kansai University, Japan in 1978. Mr. Osaki has substantial experience in the artiste management industry. He has also been producing numerous TV programs and has established the position of Yoshimoto Kogyo Co., Ltd. in the industry as the largest TV program producing company as well as began the music business and made it successful. Mr. Osaki was appointed as a general producer of Yoshimoto Kogyo Co., Ltd.'s Tokyo Branch Office and became a director of Fandango, Inc. in 1995. Since 2001, he has been a director and general manager of Yoshimoto Kogyo Co., Ltd..



## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Seiichi Nakaoda**, aged 40, was appointed as an Independent Non-executive Director in February 2001. He is a member of The Japanese Institute of Certified Public Accountants and has over 15 years of experience in finance and accounting practice. Mr. Nakaoda is the managing director of an accounting consultancy firm in Hong Kong.

**Mr. Kwong Pui Kei**, aged 43, was appointed as an Independent Non-executive Director in September 2004. Mr. Kwong is a Fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and has over 18 years of experience in finance and accounting practice. Mr. Kwong is practicing in his own accountancy firm.

**Mr. Law Kar Ping**, aged 50, was appointed as an Independent Non-executive Director in September 2004. Mr. Law has over 25 years of experience in accounting and business advisory services. He is a Fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and an Associate of the Hong Kong Institute of Company Secretaries. Mr. Law is practicing in his own accountancy firm.

## SENIOR MANAGEMENT

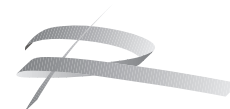
**Ms. Cheng Kit Sum, Clara**, aged 33, Financial Controller, has joined the Group since May 2000. She is responsible for managing the Group's finance and accounting processes, maintaining finance control, performing statutory financial reporting and corporate development projects. Ms. Cheng holds a Bachelor of Arts Degree in Accountancy and a Master of Science Degree in Finance. She is a Fellow of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Cheng has over 10 years of experience in financial management, accounting and auditing. Prior to joining the Group, she worked for PricewaterhouseCoopers in Hong Kong.

**Mr. Jun Sato**, aged 33, General Manager of Business Management, has joined the Group since April 2004. He is responsible for the Group's business planning, and finance and accounting of the operation in Japan. Mr. Sato holds a Bachelor of Economics from Keio University in Japan and a Bachelor of Business from University of Nebraska in the USA. He holds a Certified Public Accountant license registered in the state of California. Prior to joining the Group, he had worked for PricewaterhouseCoopers Los Angeles office for 7 years as a tax consultant and was responsible for Japanese companies.

## COMPANY SECRETARY

**Ms. Etsuko Hoshiyama**, aged 43, has joined the Group since March 2000. She holds a Bachelor Degree of Law from Kwansei Gakuin University, Japan and a Master Degree of Laws in Taxation from University of Denver, the USA. She is an associate member of the American Institution of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. Before joining the Group, Ms. Hoshiyama was a tax manager of PricewaterhouseCoopers in Hong Kong. She has over 15 years of experiences in tax, business consulting, and business development.

# Report of the Directors



The Directors submit their report together with the audited accounts for the year ended 31st March 2005.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION**

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

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

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated profit and loss account on page 38.

The Directors recommend the payment of a final dividend of 1.2 HK cents per share, totalling HK\$18,656,000 for the year ended 31st March 2005.

## **RESERVES**

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

## **FIXED ASSETS**

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

## **SHARE CAPITAL**

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

## **DISTRIBUTABLE RESERVES**

At 31st March 2005, the Company had distributable reserves of approximately HK\$26.9 million (2004: HK\$19.6 million) represented by share premium and accumulated losses of the Company. Under the Companies Law (Revised) of the Cayman Islands, share premium of the Company is distributable to the members of the Company, subject to solvency tests.

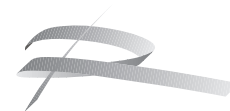
## **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March 2005.





## DIRECTORS

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

### Executive Directors

Mr. Takeyasu Hashizume

Mr. Tetsuo Mori

Mr. Osamu Nagashima

Mr. Mitsuo Sakauchi

Mr. Arihito Yamada

Mr. Yukitsugu Shimizu

Mr. Hiroshi Osaki

Mr. Tetsuya Komuro

(resigned on 21st May 2004)

### Independent non-executive Directors

Mr. Seiichi Nakaoda

Mr. Kwong Pui Kei

Mr. Law Kar Ping

Mr. Yeung Mui Kwan, David

(appointed on 14th September 2004)

(appointed on 14th September 2004)

(resigned on 20th September 2004)

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Messrs. Osamu Nagashima, Mitsuo Sakauchi and Arihito Yamada retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

## DIRECTORS' SERVICE CONTRACTS

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

Each of the service agreements with Mr. Takeyasu Hashizume, Mr. Tetsuo Mori, Mr. Osamu Nagashima, Mr. Mitsuo Sakauchi, Mr. Arihito Yamada, Mr. Yukitsugu Shimizu, Mr. Hiroshi Osaki, Mr. Seiichi Nakaoda, Mr. Kwong Pui Kei and Mr. Law Kar Ping is of an initial duration of two years. In the case of Mr. Takeyasu Hashizume, his service agreement commenced on 27th February 2003; in the case of Mr. Tetsuo Mori, his service agreement commenced on 7th January 2002; in the case of Mr. Osamu Nagashima, his service agreement commenced on 27th February 2003; in the case of Mr. Mitsuo Sakauchi, his service agreement commenced on 12th November 2003; in the case of Mr. Arihito Yamada, his service agreement commenced on 1st July 2000; in the case of Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki, their service agreements commenced on 10th October 2002; in the case of Mr. Seiichi Nakaoda, his service agreement commenced on 6th February 2001; in the cases of Mr. Kwong Pui Kei and Mr. Law Kar Ping, their service agreements commenced on 14th September 2004. It is provided in each of these service agreements that their terms of service shall continue until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after the initial term of two years. Up to the date of this report, the terms of service agreements for those Directors whose initial terms of two years have lapsed, remain in force.

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



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

During the year, the Group had entered into transactions with certain Directors or companies related to them. Details of the material related party transactions and the Directors' interests therein are set out in note 25 to the accounts. Certain of the transactions disclosed in note 25 also constitute connected transactions under the GEM Listing Rules. The information required to be disclosed in respect of these connected transactions, in accordance with Chapter 20 of the GEM Listing Rules, is set out below.

### **(a) Master music production agreement**

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

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

Upon completion of the acquisition of 20% of the issued share capital in Yoshimoto Music on 28th September 2004, R&C became the wholly-owned subsidiary of the Company. The transactions thereafter under this agreement would no longer constitute connected transactions in accordance with Chapter 20 of the GEM Listing Rules. The aggregate amount of producer royalty and production costs received by R&C Asia under this agreement for the period from 1st April 2004 to 28th September 2004 was approximately HK\$4,672,000 (2004: HK\$13,201,000).

### **(b) Master royalty agreement**

Pursuant to a master royalty agreement ("Master Royalty Agreement 2002") dated 10th October 2002 and entered into between R&C and Yoshimoto, Yoshimoto will procure artists or groups of artists managed by Yoshimoto and nominated by R&C from time to time to perform to enable the reproduction and distribution of records (which include, but not limited to, any analog disc records, compact discs, minidiscs, digital audio discs and recorded tapes) or videogram (which includes, but not limited to, any video discs, video tapes or any other tangible medium for the purpose of playing back of visual or audio-visual recordings). This agreement and the cap of HK\$2,000,000 for the period from 10th October 2002 to 31st March 2003 and HK\$4,000,000 for each of the two years ended 31st March 2005, have been approved by the independent shareholders of the Company by way of poll at the EGM 2002. Further details of this agreement are contained in the Circular 2002.

On 30th August 2004, R&C and Yoshimoto entered into a master royalty agreement ("Master Royalty Agreement 2004") to extend the term of the Master Royalty Agreement 2002 to expire on 31st March 2007 and the scope of the agreement to include promotional activities and copyright licensing in addition to the artist performance arrangements.



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

### **(b) Master royalty agreement** (Continued)

Pursuant to the Master Royalty Agreement 2004, Yoshimoto will also include promotional activities and copyright licensing in addition to the artist performance arrangements. Yoshimoto will include R&C's visual and audio-visual recordings in certain television programs produced by Yoshimoto for promotion purpose and grant R&C the right to manufacture and sell audio-visual products containing the content of the television programs for which Yoshimoto is the owner of the master rights. This agreement and the annual caps of HK\$20,000,000, HK\$22,000,000 and HK\$26,000,000 for each of the three years ending 31st March 2007, respectively, have been approved by the independent shareholders of the Company by way of poll at the extraordinary general meeting of the Company held on 27th September 2004 (the "EGM 2004"). The term of this agreement is from 30th August 2004 to 31st March 2007, and thereafter renewable by mutual agreement for consecutive three-year periods provided that the GEM Listing Rules are complied with. The Master Royalty Agreement 2002 was superseded by the Master Royalty Agreement 2004. Under this agreement, R&C is also liable to pay Yoshimoto artist royalties in connection with the sales of the audio and audio-visual products as follows: retail price net of consumption tax minus container charge (being 15% of the retail price net of consumption tax) for the container in which the record is packaged) times artist royalty rate (between 1% to 10%, depending on the relevant artist) times sales quantity (being 80% of the total shipment of audio and audio-visual products in numbers from the distributor's warehouse, taking into account the expected return of goods). R&C is liable to pay artist royalties for as long as the sales of the audio and audio-visual recordings subject to this agreement continue on a perpetual basis, even in the event that this agreement expires or is terminated. Further details of this agreement are contained in the circular of the Company dated 11th September 2004 (the "Circular 2004").

The aggregate amount of artist royalties paid to Yoshimoto under the master royalty agreements for the year ended 31st March 2005 was approximately HK\$12,483,000 (2004: HK\$3,877,000).

### **(c) Sub-lease agreements**

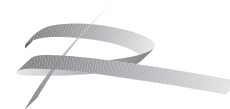
Pursuant to sub-lease agreements dated 29th March 2002 and entered into between R&C and Yoshimoto and dated 10th October 2002 and entered into between R&C Asia and Yoshimoto, each of R&C and R&C Asia will sub-let from Yoshimoto office premises with a total floor area of around 117.4 square metres and 66 square metres respectively located in an office building (the "Building") in Tokyo, Japan. Under these agreements, each of R&C and R&C Asia is liable to pay Yoshimoto rent of JPY830,000 and JPY600,000 respectively per month, and electricity and water charges.

These agreements and the annual cap of HK\$1,500,000 for each of the three financial years ended 31st March 2005, have been approved by the independent shareholders of the Company by way of poll at the EGM 2002. Further details of these agreements are contained in the Circular 2002.

Each of R&C and R&C Asia had terminated its sub-lease agreement with Yoshimoto with effect from 19th July 2004.

R&C has entered into a sub-lease agreement with Yoshimoto to sub-let from Yoshimoto, office premises with a total floor area of around 298.7 square metres located at the 3rd Floor of Taisei Yoshimoto Building, 1-14 Kanda Jimbo-cho, Chiyoda-ku, Tokyo, Japan for a period from 20th July 2004 to 31st March 2006. Under this agreement, R&C is liable to pay Yoshimoto rent of JPY1,687,618 per month, and electricity, gas and water charges.

The annual cap for the rental payments and other charges under the sub-lease agreement is HK\$2,000,000 for each of the two financial years ending 31st March 2006. This connected transaction falls within Rule 20.34 of the GEM Listing Rules, which is exempted from independent shareholders' approval requirements. The aggregate amount of rental payments and other charges paid to Yoshimoto under this agreement for the year ended 31st March 2005 was approximately HK\$1,507,000 (2004: HK\$1,249,000).



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

### **(d) Music studio sub-lease agreement**

Pursuant to a lease agreement dated 30th August 2004 and entered into between R&C Asia and Fandango, Inc. ("Fandango"), R&C Asia will sub-let to Fandango a portion of a warehouse with a total floor area of around 1,344 square metres located in a warehouse building (the "Warehouse Building") in Tokyo, Japan, together with the music equipment and facilities contained therein (hereinafter refer to as the "Facilities"). The term of this agreement is from 30th August 2004 to 31st March 2007, subject to termination by R&C giving a 1-month prior notice to Fandango in the event of termination of the head lease entered into between R&C and a third party for use of the Warehouse Building. Under this agreement, Fandango is liable to pay R&C rent of the actual operating costs of the sub-let property and the Facilities, which will be R&C's out-of-pocket expenses relating to the operation plus its administration cost fixed at 10% of such expenses with a maximum amount of JPY19,000,000 per month (equivalent to approximately HK\$1,387,000). This agreement and the annual cap of HK\$17,000,000 for each of the three years ending 31st March 2007, have been approved by the independent shareholders of the Company by way of poll at the EGM 2004. Further details of this agreement are contained in the Circular 2004.

The sub-lease agreement was subsequently transferred from R&C Asia to R&C on 1st November 2004 as a result of the merger of the companies.

During the year, Fandango did not sub-let the premises. Accordingly, no rental has been received from Fandango for the year ended 31st March 2005 (2004: Nil).

### **(e) (i) Master video production agreements with Yes Visions Co., Ltd. and Y's Vision Co., Ltd.**

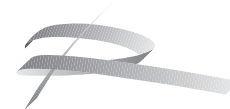
Pursuant to a master video production agreement dated 10th October 2002 and entered into between R&C and Yes Visions Co., Ltd. ("Yes Visions"), and a master video production agreement dated 10th October 2002 and entered into between R&C and Y's Vision Co., Ltd. ("Y's Vision"), R&C will engage Yes Visions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

These agreements and the annual cap of HK\$2,000,000 for each of the three financial years ended 31st March 2005, have been approved by the independent shareholders of the Company by way of poll at the EGM 2002. Further details of these agreements are contained in the Circular 2002. The aggregate amount of production costs paid to Yes Visions and Y's Vision under these agreements for the year ended 31st March 2005 was approximately HK\$104,000 (2004: HK\$383,000).

### **(ii) Master video production agreement with International Television System, Inc.**

Pursuant to a master video production agreement dated 30th August 2004 and entered into between R&C and International Television System, Inc. ("ITS"), R&C will engage ITS to produce videos, containing visual or audio-visual recordings in accordance with requirements and specifications of and in such form as specified by R&C. The term of this agreement is from 30th August 2004 to 31st March 2007. Under this agreement, R&C is liable to pay ITS production costs of the videos, containing visual or audio-visual recordings, being ITS's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses.

The annual cap for the production costs under this agreement is HK\$2,000,000 for each of the three financial years ending 31st March 2007. This connected transaction falls within Rule 20.34 of the GEM Listing Rules, which is exempted from independent shareholders' approval requirements. The aggregate amount of production costs paid to ITS under this agreement for the year ended 31st March 2005 was approximately HK\$90,000 (2004: Nil).



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

### **(f) Master consignment agreement**

Pursuant to a master consignment agreement dated 30th August 2004 and entered into between R&C and Yoshimoto Club Co., Ltd. ("Yoshimoto Club"), R&C will engage Yoshimoto Club to produce and sell merchandise to R&C on an order by order basis. The term of this agreement is from 30th August 2004 to 31st March 2007. Under this agreement, R&C is liable to pay Yoshimoto Club production costs of the merchandise, being Yoshimoto Club's out-of-pocket expenses relating to the production plus administration cost which is fixed at 10% of such out-of-pocket expenses.

The annual cap for the production costs plus administration costs under this agreement is HK\$3,500,000 for each of the three financial years ending 31st March 2007. This connected transaction falls within Rule 20.34 of the GEM Listing Rules, which is exempted from independent shareholders' approval requirements. The aggregate amount of production costs paid to Yoshimoto Club under this agreement for the year ended 31st March 2005 was approximately HK\$1,895,000 (2004: Nil).

### **(g) Master merchandise royalty agreements**

Pursuant to a master merchandise royalty agreement dated 30th August 2004 and entered into between R&C and each of Fandango and Yoshimoto Club, R&C will grant Fandango and Yoshimoto Club respectively the rights to utilise the content, masters or artists under the ownership of R&C in the production of merchandise. Fandango and Yoshimoto Club are entitled to distribute such merchandise through its normal sales channels including internet and mail order. The term of each of these agreements is from 30th August 2004 to 31st March 2007, and thereafter renewable by mutual agreement for consecutive three-year periods. Under these agreements, Fandango and Yoshimoto Club is liable to pay to R&C in connection with the rights granted as follows: retail price net of consumption tax times merchandise royalty rate (between 5% to 30%, subject to mutual agreement) times sales quantity.

The annual cap for the merchandise royalty fees under these agreements is HK\$4,000,000 for each of the three financial years ending 31st March 2007. This connected transaction falls within Rule 20.34 of the GEM Listing Rules, which is exempted from independent shareholders' approval requirements. During the year, no such right was granted to Fandango and Yoshimoto Club by R&C and therefore, no merchandise royalty fees has been received from Fandango and Yoshimoto Club (2004: Nil).

### **(h) Master digital distribution agreement**

Pursuant to a master digital distribution agreement dated 30th August 2004 and entered into between R&C and Fandango, Fandango will distribute R&C's audio and audio-visual recordings through the internet, mobile telephones, or other digital media on an order by order basis. The term of this agreement is from 30th August 2004 to 31st March 2007. Under this agreement, Fandango is liable to pay to R&C in connection with the distribution of R&C's content a commission of 50% of the revenue for distributing R&C's content after subtracting external costs. R&C will pay Fandango the development cost for the new digital content distribution system.

The annual caps for the commission under this agreement are HK\$1,200,000, HK\$2,300,000 and HK\$2,800,000 for the three financial years ending 31st March 2007 respectively. This connected transaction falls within Rule 20.34 of the GEM Listing Rules, which is exempted from independent shareholders' approval requirements. During the year, no commission was received from Fandango under this agreement. The aggregate amount of development cost paid to Fandango under this agreement for the year ended 31st March 2005 was approximately HK\$978,000 (2004: Nil).



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

### **(i) Master promotion agreement**

Pursuant to a master promotion agreement dated 30th August 2004 and entered into between R&C and Yoshimoto, Yoshimoto will promote R&C's audio and audio-visual recordings through television and radio programs, magazines, or any other advertisements produced by Yoshimoto and local television stations for R&C on an order by order basis. The term of each of this agreement is from 30th August 2004 to 31st March 2007. Under this agreement, R&C is liable to pay to Yoshimoto in connection with the promotion of R&C's content a fee based on Yoshimoto's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses.

The annual cap for the production costs under this agreement is HK\$3,500,000 for each of the three financial years ending 31st March 2007. This connected transaction falls within Rule 20.34 of the GEM Listing Rules, which is exempted from independent shareholders' approval requirements. The aggregate amount of promotion costs paid to Yoshimoto under this agreement for the year ended 31st March 2005 was approximately HK\$1,879,000 (2004: Nil).

### **(j) Acquisition of 20% of the issued share capital in Yoshimoto Music**

On 28th September 2004, the Company acquired 20% of the issued share capital of Yoshimoto Music, the then subsidiary of the Company, which holds the entire issued share capital of R&C, from Yoshimoto America, Inc. ("Yoshimoto America"), a shareholder of the Company, for a consideration of JPY400,000,000 (approximately HK\$28,400,000). The acquisition has been approved by the independent shareholders of the Company by way of poll at the extraordinary general meeting of the Company held on 23rd September 2004. Details of the acquisition are contained in the circular issued by the Company on 3rd September 2004.

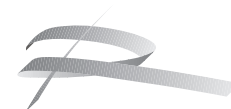
The independent non-executive Directors have reviewed the above connected transactions from notes (a) to (i) and confirmed that the connected transactions have been entered into:

- (i) in the ordinary and usual course of the business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as approximate) independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also confirmed that the connected transactions from notes (a) to (i):

- (i) have been approved by the board of Directors;
- (ii) are in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;
- (iii) have been entered into in accordance with the relevant agreement governing the transactions; and
- (iv) have not exceeded their respective caps.

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



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

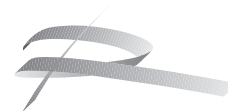
At 31st March 2005, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange were 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>Approximate shareholding in the Company</b>
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%

Save as disclosed above, at 31st March 2005, 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 under section 352 of the SFO or which, pursuant to Rules 5.46 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 under the heading "Outstanding share options of the Company" in this report, at no time during the year ended 31st March 2005 was the Company, its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporation.



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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st March 2005, 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:

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

Note:

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 March 2005, 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.

## MANAGEMENT CONTRACTS

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

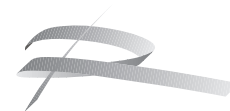
## MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
– the largest supplier	53%
– five largest suppliers combined	60%
Sales	
– the largest customer	89%
– five largest customers combined	93%

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





## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the year.

## **PURCHASE, SALE OR 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 year ended 31st March 2005.

## **AUDIT COMMITTEE**

The Company established an audit committee on 21st May 2001 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has 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.

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

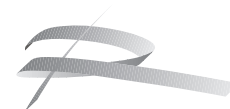
## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

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

## **PRE-EMPTIVE RIGHTS**

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



## OUTSTANDING SHARE OPTIONS OF THE COMPANY

### (a) Pre-IPO Grant of Options

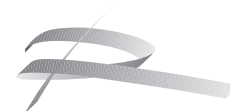
Options to subscribe for up to an aggregate of 51,734,220 shares in the Company were granted on 21st May 2001 (the "Pre-IPO Scheme") to the following grantees as an inducement to engage them for the provision of producer services to the Group pursuant to the terms of certain producer service agreements. Details of the options are set out as follows:

Name	Date of grant	Exercise price (HK\$)	Number of options					Outstanding as at 31st March 2005
			Granted	Outstanding as at 1st April 2004	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			<u>51,734,220</u>	<u>51,734,220</u>	<u>-</u>	<u>-</u>	<u>(51,734,220)</u>	<u>-</u>

Options 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%

During the year, no options were granted or exercised under the Pre-IPO Grant of Options, and 51,734,220 options had been cancelled following the termination of producer service agreements of the relevant individuals with the Group.

**OUTSTANDING SHARE OPTIONS OF THE COMPANY** (Continued)**(b) Share Options Scheme (the “2001 Scheme”)**

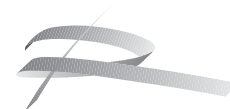
Options to subscribe for up to an aggregate of 52,240,000 shares in the Company were granted on 12th July 2001 to the then executive Directors and full-time employees of the Group pursuant to the 2001 Scheme and the terms and conditions contained in the offer letter dated 12th July 2001 from the Company.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

Name	Date of grant	Exercise price (HK\$)	Number of options					Outstanding as at 31st March 2005
			Granted	Outstanding as at 1st April 2004	Exercised	Lapsed	Cancelled	
Mr. Arihito Yamada	12th July 2001	0.47	8,800,000	8,800,000	-	-	(8,800,000)	-
Two former executive Directors	12th July 2001	0.47	15,400,000	-	-	-	-	-
41 employees	12th July 2001	0.47	28,040,000	11,400,000	-	-	(11,400,000)	-
Total			<u>52,240,000</u>	<u>20,200,000</u>	<u>-</u>	<u>-</u>	<u>(20,200,000)</u>	<u>-</u>

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

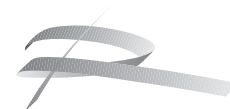
On first anniversary of the date of commencement of the grantee's employment with the Group	Up to 50%
On second anniversary of the date of commencement of the grantee's employment with the Group	Up to 100%

No options were granted during the year and therefore the Directors do not perform the valuation of options granted in prior years. On 23rd September 2004, the Company passed an ordinary resolution in respect of the termination of the 2001 Scheme. Details of the termination of the 2001 Scheme were disclosed in the circular issued by the Company on 1st September 2004.

**OUTSTANDING SHARE OPTIONS OF THE COMPANY** (Continued)

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

	<b>The Pre-IPO Scheme</b>	<b>The 2001 Scheme</b>
1. Purpose	As an inducement to engage certain individuals for the provision of producer services	As an incentive to employees and executive Directors
2. Participants	The names of the participants are set out in (a) above	Eligible full-time employees including executive Directors of any company in the Group
3. Total number of shares available for issue and percentage of issued share capital represented by such number	All options have been cancelled during the year ended 31st March 2005. No option was outstanding as at 31st March 2005.	All options have been cancelled during the year ended 31st March 2005. No option was outstanding as at 31st March 2005.
	The maximum number of shares in respect of which options may be granted under the Schemes and any other share option schemes of the Company in issue shall not exceed 30% of the total number of shares in issue from time to time (i.e. 466,405,320 shares for the Schemes as at the date of this report) (excluding (i) any shares issued pursuant to the Schemes and any other share option schemes; and (ii) any pro rata entitlements to further shares issued in respect of those mentioned in (i) above).	
4. Maximum entitlement of each participant	The entitlements of each of the participants are set out in (a) above. No further options shall be granted under the Pre-IPO Scheme.	25% of the aggregate of all shares subject to the 2001 Scheme
5. The period within which the shares must be taken up under an option	10 years from 31st May 2001	Not less than 3 years commencing from the date of grant and not more than 10 years from the date of grant
6. The minimum period for which an option must be held before it can be exercised	Refer to the vesting mechanism set out in (a) above	Refer to the vesting mechanism set out in (b) above
7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid	Not applicable	HK\$1.00 on acceptance of the offer of an option



**OUTSTANDING SHARE OPTIONS OF THE COMPANY** (Continued)

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

	<b>The Pre-IPO Scheme</b>	<b>The 2001 Scheme</b>
8. The basis of determining the exercise price	The exercise prices are set out in (a) above. No further options shall be granted under the Pre-IPO Scheme.	<p>The exercise price is determined by the Directors and being not less than the higher of:</p> <p>(a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day;</p> <p>(b) an amount equals to the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and</p> <p>(c) the nominal value thereof</p>
9. The remaining life of the Schemes	All outstanding options had been cancelled following the termination of producer service agreements of the relevant individuals with the Group for the year ended 31st March 2005.	All outstanding options had been cancelled following an ordinary resolution passed on 23rd September 2004 by the Company in respect of the termination of the 2001 Scheme. Details of the termination of the 2001 Scheme were disclosed in the circular issued by the Company on 1st September 2004.



## **PENSION SCHEME ARRANGEMENTS**

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

The subsidiaries operating in Japan are required to participate in defined contribution retirement schemes organised by the relevant local government authorities since incorporation. It is required to make contributions to the retirement schemes at a rate of 6.967% of the basic salary of their employees up to a yearly maximum of JPY518,000 (approximately HK\$38,000) per employee.

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

## **AUDITORS**

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

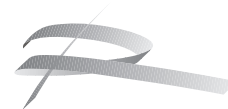
On behalf of the Board

**Takeyasu Hashizume**

*President*

Hong Kong, 27th May 2005

# Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor, Prince's Building  
Central, Hong Kong  
Telephone (852) 2289 8888  
Facsimile (852) 2810 9888

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF ROJAM ENTERTAINMENT HOLDINGS LIMITED**

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

We have audited the accounts on pages 38 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of Directors and auditors**

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

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Basis of opinion**

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

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

### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 27th May 2005

# Consolidated Profit and Loss Account

For the year ended 31st March 2005



	Note	2005 HK\$'000	2004 HK\$'000
Turnover	2	<b>535,716</b>	249,349
Other revenue	2	<b>405</b>	297
Total revenues		<b>536,121</b>	249,646
Cost of sales		<b>(293,168)</b>	(137,472)
Selling and distribution expenses		<b>(133,491)</b>	(70,527)
Other operating expenses		<b>(38,647)</b>	(25,021)
Amortisation of goodwill	1(d)(i)	<b>–</b>	(5,480)
Profit before taxation	3	<b>70,815</b>	11,146
Taxation	4	<b>(11,825)</b>	(1,162)
Profit after taxation		<b>58,990</b>	9,984
Minority interests		<b>(1,166)</b>	(2,692)
Profit attributable to shareholders	5	<b>57,824</b>	7,292
Basic earnings per share	6	<b>3.7 cents</b>	0.5 cent
Dividend	7		
Final dividend proposed after the balance sheet date		<b>18,656</b>	–



# Consolidated Balance Sheet

As at 31st March 2005



	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Intangible assets	10	<b>136,842</b>	107,943
Fixed assets	11	<b>22,120</b>	29,332
Deposit for purchase of investment securities	13	<b>23,400</b>	–
Deferred tax assets	21	<b>5,090</b>	–
		<b>187,452</b>	137,275
<b>Current assets</b>			
Record masters	10	<b>21,996</b>	14,785
Inventories	14	<b>19,971</b>	12,925
Trade receivables	16	<b>10,194</b>	13,100
Other receivables and prepayments		<b>11,036</b>	29,870
Cash and bank balances	17	<b>209,805</b>	90,428
		<b>273,002</b>	161,108
<b>Current liabilities</b>			
Trade payables	18	<b>87,290</b>	35,717
Accruals and other payables		<b>67,122</b>	28,383
Taxation payable		<b>16,173</b>	147
		<b>170,585</b>	64,247
<b>Net current assets</b>			
		<b>102,417</b>	96,861
<b>Total assets less current liabilities</b>			
		<b>289,869</b>	234,136
<b>Financed by:</b>			
Share capital			
Share capital	19	<b>155,468</b>	155,468
Reserves			
Reserves	20(a)	<b>114,036</b>	75,853
Proposed dividend			
Proposed dividend	20(a)	<b>18,656</b>	–
<b>Shareholders' funds</b>			
		<b>288,160</b>	231,321
Minority interests			
Minority interests		<b>675</b>	1,884
<b>Non-current liabilities</b>			
Deferred tax liabilities	21	<b>1,034</b>	931
		<b>289,869</b>	234,136

On behalf of the Board

**Takeyasu Hashizume**  
Director

**Arihito Yamada**  
Director

# Balance Sheet

As at 31st March 2005



	Note	2005 HK\$'000	2004 HK\$'000
Investments in subsidiaries	12	<b>91,338</b>	50,132
Current assets			
Amounts due from subsidiaries	15	<b>57,973</b>	167,269
Other receivables and prepayments		<b>178</b>	182
Cash and bank balances		<b>33,439</b>	25,015
		<b>91,590</b>	192,466
Current liabilities			
Amounts due to subsidiaries	15	<b>–</b>	66,825
Accruals and other payables		<b>571</b>	680
		<b>571</b>	67,505
Net current assets		<b>91,019</b>	124,961
Total assets less current liabilities		<b>182,357</b>	175,093
Financed by:			
Share capital	19	<b>155,468</b>	155,468
Reserves	20(b)	<b>8,233</b>	19,625
Proposed dividend	20(b)	<b>18,656</b>	–
Shareholders' funds		<b>182,357</b>	175,093

On behalf of the Board

**Takeyasu Hashizume**  
Director

**Arihito Yamada**  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31st March 2005



	Note	2005 HK\$'000	2004 HK\$'000
Total equity as at the beginning of the year		<b>231,321</b>	225,034
Profit attributable to shareholders		<b>57,824</b>	7,292
Exchange adjustment on translation of the accounts of overseas subsidiaries	20(a)	<b>(985)</b>	(1,005)
Total equity as at the end of the year		<b><u>288,160</u></b>	<b><u>231,321</u></b>

# Consolidated Cash Flow Statement

For the year ended 31st March 2005



	Note	2005 HK\$'000	2004 HK\$'000
Net cash inflow from operations	22(a)	<b>208,698</b>	45,420
Overseas taxation paid		<b>(773)</b>	(1,914)
Net cash inflow from operating activities		<b>207,925</b>	43,506
Investing activities			
Purchase of fixed assets		<b>(2,153)</b>	(785)
Addition of record masters		<b>(32,238)</b>	(27,727)
Sale of fixed assets		-	98
Purchase of additional interests of subsidiaries	22(c)	<b>(30,441)</b>	-
Deposit for purchase of investment securities	13	<b>(23,400)</b>	-
Interest received		<b>405</b>	297
Net cash outflow from investing activities		<b>(87,827)</b>	(28,117)
Increase in cash and cash equivalents		<b>120,098</b>	15,389
Exchange difference		<b>(721)</b>	(5,003)
Cash and cash equivalents at the beginning of the year		<b>90,428</b>	80,042
Cash and cash equivalents at the end of the year		<b>209,805</b>	90,428
Analysis of balances of cash and cash equivalents			
Cash and bank balances		<b>209,805</b>	90,428



## I. PRINCIPAL ACCOUNTING POLICIES

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

### (a) Basis of preparation

The accounts have been prepared 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 ("HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. With effect from 1st April 2004, the Group has early adopted HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets".

The Group has not early adopted other new HKFRSs except for those mentioned above in the accounts for the year ended 31st March 2005. The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

Changes to the Group's accounting policies and the effect of adopting these new policies are set out in note I(d) and (f) below.

### (b) Consolidation

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

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

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

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

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

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

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

### (c) Revenue recognition

- (i) Revenue from record distribution and merchandise sales is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has been passed.
- (ii) Revenue from production services is recognised when the production is completed.
- (iii) Royalty income is recognised on an accrual basis.



## I. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) Revenue recognition (Continued)

- (iv) Revenue from operation of discotheque, including sales of food and beverages, is recognised when the service is rendered.
- (v) Revenue from event management is recognised when the event is completed.
- (vi) Advertising revenues from banner advertisements is recognised over the period in which the advertisement is displayed, provided that no significant obligation remains and collection of the receivable is reasonably assured.
- (vii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (d) Intangibles

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition.

Goodwill on acquisitions is included in intangible assets. Up to 31st March 2004, goodwill was amortised using the straight line method over a maximum of 20 years and assessed for impairment at each balance sheet date. From 1st April 2004, with the early adoption of HKFRS 3, goodwill is not subject to amortisation and the accumulated amortisation as at 31st March 2004 has been eliminated with a corresponding decrease in the cost of goodwill. Goodwill is tested annually for impairment, as well as when there are indications of impairment. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment (Note 2).

The early adoption of HKFRS 3 from 1st April 2004 represents a change in the accounting policy for goodwill and resulted in a decrease of HK\$6,184,000 in goodwill amortisation expenses for the year ended 31st March 2005 and an increase of HK\$6,184,000 in operating profit.

#### (ii) Record masters

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

### (e) Fixed assets

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

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

Leasehold improvements	20% – 50%
Studio equipment	10% – 20%
Office equipment, furniture and fixtures	20% – 25%
Computer equipment	30%
Discotheque equipment	20%
Motor vehicle	20% – 30%

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



## I. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (f) Impairment of assets

Up to 31st March 2004, intangible and tangible assets were tested for impairment when there is any indication that these assets are impaired. A provision for impairment in value was recognised to the extent that the carrying amount cannot be recovered either by selling the asset or from the discounted future earnings from operating the asset. Such provision was recognised in the consolidated profit and loss account.

From 1st April 2004, assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### (g) Inventories

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

### (h) Trade receivables

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

### (i) Cash and cash equivalents

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

### (j) Contingent liabilities and contingent assets

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

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

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

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

### (k) Deferred taxation

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. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.



## I. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (l) Translation of foreign currencies

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

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

### (m) Related companies

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

### (n) Operating leases

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

### (o) Employee benefits

#### (i) Employee leave entitlements

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

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

#### (ii) Pensions obligations

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

#### (iii) Equity compensation benefits

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

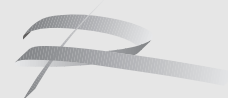
### (p) Segment reporting

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

Unallocated (costs)/income represent corporate (expenses)/income. Segment assets consist primarily of intangible assets, fixed assets, inventories and receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

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





## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in record distribution, music production and discotheque operation. Revenues recognised during the year are as follows:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Turnover		
Record distribution income (note below)	<b>514,785</b>	224,505
Music production income	<b>2,636</b>	8,991
Discotheque income	<b>18,070</b>	14,786
Music publishing royalty	<b>36</b>	49
Event management income	<b>–</b>	21
Merchandise sales	<b>15</b>	12
Banner advertising income	<b>174</b>	985
	<b>535,716</b>	249,349
Other revenue		
Bank interest income	<b>405</b>	297
Total revenues	<b>536,121</b>	249,646

Note:

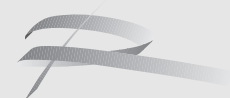
During the year, a subsidiary of the Company, R and C Ltd. ("R&C"), entered into a transaction to produce a program for distribution under DVD format and the content of which was extracted from a TV program produced by a third party company (the "Third Party"), which is established and operated in Japan. The artist featured in this TV program was a contracted artist of the ultimate holding company of R&C. Under the terms of this agreement, R&C owns the right to the master tapes for this program and bears all costs of production and distribution of the DVDs.

In return for the use of the content of the TV program for producing the DVDs, R&C agreed to share a fixed percentage of the profits realised from the sales of the DVDs with the Third Party and was required to pay a commission to the Third Party based on sales of the DVDs to ultimate customers as part of the business transactions described below. The profit shared by the Third Party and the commission charges have been included in the cost of sales in the profit and loss account of the Group for the year ended 31st March 2005.

Furthermore, in accordance with the terms of the abovementioned agreement, R&C sold the completed DVDs produced from the master tapes to the Third Party and subsequently bought back these DVDs from the Third Party through an outside distributor (the "Transactions"). These DVDs were then sold by R&C to outside individual customers through the outside distributor using normal distribution terms and arrangements. The total sales to the Third Party amounting to over HK\$240 million and the total purchases from the outside distributor in the same amount resulting from the Transactions have been recorded on a net basis in order to reflect the substance of the Transactions.

The Directors consider that the Transactions are only incidental to the Group's core business transactions and had no impact on the profit and loss account of the Group for the year ended 31st March 2005 as other than the commission charges included in the cost of sales, no revenue or purchases related to the Transactions were effectively recognised by the Group.

The Directors have also obtained an independent legal opinion to confirm that the Transactions are considered as normal trading transactions and such transactions are not disallowed under the present legal regime in the jurisdiction in which R&C operates. The Directors are also of the view that the Transactions would not have any material legal and tax implications to the Group.



## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

### Primary reporting format – business segments

The Group is principally engaged in three main business segments:

- |                     |   |  |
|---------------------|---|--|
| Record distribution | – | distributing records and audio-visual products under its own labels and records containing master sound recordings which have been licensed from third parties   |
| 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 |
| Discotheque         | – | operations of discotheque  |

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)/income represent corporate (expenses)/income.

### Secondary reporting format – geographical segments

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

- |                |   |  |
|----------------|---|--|
| Hong Kong      | – | record distribution                      |
| Japan          | – | record distribution and music production |
| Mainland China | – | operations of discotheque                |

There are no sales between the geographical segments.



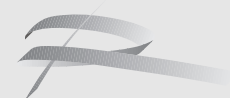
## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

### Primary reporting format – business segments

	2005					Total HK\$'000
	Record distribution HK\$'000	Music production HK\$'000	Discotheque HK\$'000	Others (note below) HK\$'000	Elimination HK\$'000	
Turnover						
External sales	514,785	2,636	18,070	225	-	535,716
Inter-segment sales	65	4,607	-	-	(4,672)	-
Total	<u>514,850</u>	<u>7,243</u>	<u>18,070</u>	<u>225</u>	<u>(4,672)</u>	<u>535,716</u>
Segment results	<u>88,474</u>	<u>(7,547)</u>	<u>1,296</u>	<u>440</u>	<u>(4,672)</u>	<u>77,991</u>
Unallocated costs						(7,176)
Profit before taxation						70,815
Taxation						(11,825)
Profit after taxation						58,990
Minority interests						(1,166)
Profit attributable to shareholders						<u>57,824</u>
Segment assets	<u>198,815</u>	<u>1</u>	<u>27,139</u>	<u>317</u>	<u>-</u>	<u>226,272</u>
Unallocated assets						234,182
Total assets						<u>460,454</u>
Segment liabilities	<u>(166,033)</u>	<u>(685)</u>	<u>(3,750)</u>	<u>-</u>	<u>-</u>	<u>(170,468)</u>
Unallocated liabilities						(1,151)
Total liabilities						<u>(171,619)</u>
Minority interests						(675)
Net assets						<u>288,160</u>
Capital expenditure	<u>33,155</u>	<u>-</u>	<u>1,230</u>	<u>-</u>	<u>-</u>	<u>34,385</u>
Unallocated capital expenditure						6
						<u>34,391</u>
Amortisation of intangible assets	<u>22,619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,619</u>
Impairment charge on intangible assets	<u>1,664</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,664</u>
Depreciation	<u>8,347</u>	<u>40</u>	<u>513</u>	<u>1</u>	<u>-</u>	<u>8,901</u>
Unallocated depreciation						98
						<u>8,999</u>

Note:

Others include music publishing, event management and merchandise sales which were separately disclosed in the 2004 accounts. Nevertheless, they are now all grouped under others as the accounts involved are insignificant for separate disclosure. Accordingly, the comparative figures have been reclassified to conform with the current year's presentations.

**2. TURNOVER, REVENUE AND SEGMENT INFORMATION** (Continued)**Primary reporting format – business segments** (Continued)

	2004					
	Record distribution HK\$'000	Music production HK\$'000	Discotheque HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Turnover						
External sales	224,505	8,991	14,786	1,067	–	249,349
Inter-segment sales	52	13,201	–	–	(13,253)	–
Total	<u>224,557</u>	<u>22,192</u>	<u>14,786</u>	<u>1,067</u>	<u>(13,253)</u>	<u>249,349</u>
Segment results	<u>26,243</u>	<u>(4,928)</u>	<u>825</u>	<u>1,102</u>	<u>(13,253)</u>	9,989
Unallocated income						1,157
Profit before taxation						11,146
Taxation						(1,162)
Profit after taxation						9,984
Minority interests						(2,692)
Profit attributable to shareholders						<u>7,292</u>
Segment assets	<u>167,054</u>	<u>13,839</u>	<u>26,351</u>	<u>92</u>	<u>–</u>	207,336
Unallocated assets						91,047
Total assets						<u>298,383</u>
Segment liabilities	<u>(57,897)</u>	<u>(2,568)</u>	<u>(1,431)</u>	<u>–</u>	<u>–</u>	(61,896)
Unallocated liabilities						(3,282)
Total liabilities						<u>(65,178)</u>
Minority interests						(1,884)
Net assets						<u>231,321</u>
Capital expenditure	<u>27,767</u>	<u>2</u>	<u>429</u>	<u>–</u>	<u>–</u>	28,198
Unallocated capital expenditure						314
						<u>28,512</u>
Amortisation of intangible assets	<u>12,480</u>	<u>–</u>	<u>1,271</u>	<u>–</u>	<u>–</u>	<u>13,751</u>
Impairment charge on intangible assets	<u>3,816</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,816</u>
Depreciation	<u>7,057</u>	<u>282</u>	<u>1,508</u>	<u>2</u>	<u>–</u>	8,849
Unallocated depreciation						695
						<u>9,544</u>

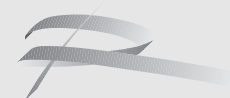


## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

### Secondary reporting format – geographical segments

	Turnover 2005 HK\$'000	Segment results 2005 HK\$'000	Total assets 2005 HK\$'000	Capital expenditure 2005 HK\$'000
Hong Kong	210	125	38,819	6
Japan	517,436	76,452	359,163	33,155
Mainland China	18,070	1,407	39,072	1,230
Other countries	–	7	23,400	–
	<u>535,716</u>	<u>77,991</u>	<u>460,454</u>	<u>34,391</u>
Unallocated costs		<u>(7,176)</u>		
Profit before taxation		<u>70,815</u>		

	Turnover 2004 HK\$'000	Segment results 2004 HK\$'000	Total assets 2004 HK\$'000	Capital expenditure 2004 HK\$'000
Hong Kong	1,034	1,216	21,595	145
Japan	233,529	7,833	236,931	27,938
Mainland China	14,786	878	34,470	429
Other countries	–	62	5,387	–
	<u>249,349</u>	<u>9,989</u>	<u>298,383</u>	<u>28,512</u>
Unallocated income		<u>1,157</u>		
Profit before taxation		<u>11,146</u>		



### 3. PROFIT BEFORE TAXATION

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

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
<b>Crediting</b>		
Gain on disposal of fixed assets	–	43
Exchange gains	<b>533</b>	10,366
Recovery of bad debts previously written off	<b>334</b>	11
<b>Charging</b>		
Auditors' remuneration	<b>1,307</b>	1,051
Cost of inventories sold	<b>274,642</b>	127,561
Depreciation of fixed assets	<b>8,999</b>	9,544
Management fee paid to the minority shareholder (note 12)	<b>470</b>	470
Operating leases on land and buildings	<b>5,562</b>	4,696
Record masters (note 10)		
– Amortisation	<b>22,619</b>	8,271
– Impairment charges	<b>1,664</b>	3,816
Amortisation of goodwill (note 10)	–	5,480
Provision for inventories	<b>4,991</b>	5,156
Bad debt written off	<b>1,751</b>	–
Staff costs (excluding Directors' emoluments) (note 8)	<b>18,854</b>	17,260

### 4. TAXATION

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

No provision for United States income tax has been made as the subsidiaries in the United States of America (the "USA") have no assessable profits for the current and prior year.

The Japanese corporate income tax has been provided on the profit of the Group's subsidiaries in Japan and calculated at the applicable rates.

The People's Republic of China (the "PRC") taxation has been provided on the profit of the Group's subsidiary in the PRC and calculated at the applicable rates.



#### 4. TAXATION (Continued)

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

	2005 HK\$'000	2004 HK\$'000
Current taxation:		
– Japanese corporate income tax	16,815	–
– PRC taxation	–	294
Over-provision in prior years:		
– PRC taxation	(16)	–
Deferred taxation (note 21)	(4,974)	868
Taxation charge	<u>11,825</u>	<u>1,162</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	70,815	11,146
Calculated at a taxation rate of 17.5% (2004: 17.5%)	12,393	1,951
Effect of different taxation rates in other countries	22,048	3,882
Income not subject to taxation	(5,970)	(3,150)
Expenses not deductible for taxation purposes	4,982	969
Utilisation of previously unrecognised tax losses	(21,854)	–
Recognition of temporary differences previously not recognised	–	(5,197)
Tax losses unrecognised	242	2,707
Over-provision in prior years	(16)	–
Taxation charge	<u>11,825</u>	<u>1,162</u>

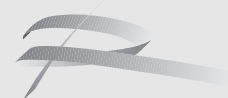
#### 5. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$7,264,000 (2004: loss of HK\$10,634,000).

#### 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$57,824,000 (2004: HK\$7,292,000) and 1,554,684,403 (2004: 1,554,684,403) ordinary shares in issue during the year.

Diluted earnings per share has not been presented for the year ended 31st March 2005 as there was no material dilutive effect arising from the share options granted by the Company. Diluted earnings per share has not been presented for the year ended 31st March 2004 as the conversion of potential ordinary shares would have anti-dilutive effect to the basic earnings per share.

**7. DIVIDEND**

	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>
Final, proposed, of 1.2 HK cents (2004: Nil) per share	<b>18,656</b>	–

At a meeting held on 27th May 2005, the board of directors proposed a final dividend of 1.2 HK cents per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of distributable reserve for the year ending 31st March 2006.

**8. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)**

	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>
Wages and salaries	<b>17,975</b>	16,363
Unutilised annual leave	–	24
Pension costs-defined contribution plans (note below)	<b>879</b>	873
	<b>18,854</b>	17,260

Note:

	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>
Contributions paid and payable to defined contribution retirement schemes in respect of:		
Hong Kong	<b>80</b>	86
Japan	<b>636</b>	603
PRC	<b>163</b>	184
	<b>879</b>	873





## 9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The aggregate amounts of emoluments paid and payable to the Directors of the Company for the year ended 31st March 2005 are as follows:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Fees	415	480
Basic salaries, allowances and benefits in kind	8,806	7,997
Pension contribution	186	294
	<b>9,407</b>	<b>8,771</b>

The independent non-executive Directors of the Company received individual emoluments of approximately HK\$113,000 (2004: HK\$240,000), HK\$170,000 (2004: HK\$240,000), HK\$66,000 (2004: Nil) and HK\$66,000 (2004: Nil) for the year ended 31st March 2005 respectively.

The executive Directors of the Company received individual emoluments of approximately HK\$2,422,000 (2004: HK\$2,464,000), HK\$2,503,000 (2004: HK\$2,402,000), HK\$1,148,000 (2004: HK\$1,213,000), HK\$1,246,000 (2004: HK\$1,177,000), HK\$1,257,000 (2004: HK\$621,000) and HK\$416,000 (2004: HK\$414,000) for the year ended 31st March 2005 respectively. No emoluments were paid to the remaining executive Directors during the year.

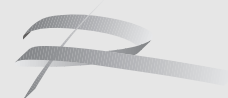
- (b) The five individuals whose emoluments were the highest in the Group for the year include five (2004: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one highest paid employee for the year ended 31st March 2004 are as follows:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Basic salaries and allowances	-	976
Pension contribution	-	72
	<b>-</b>	<b>1,048</b>

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

	<b>2005</b>	2004
HK\$1,000,001 – HK\$1,500,000	<b>-</b>	<b>1</b>

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

**10. INTANGIBLE ASSETS**

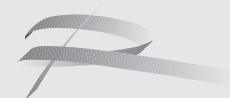
	<b>Goodwill</b>		<b>Record masters</b>		<b>Total</b>	
	<b>2005</b>	2004	<b>2005</b>	2004	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Cost						
At the beginning of the year	<b>109,605</b>	109,605	<b>36,166</b>	8,439	<b>145,771</b>	118,044
Additions	<b>28,155</b>	–	<b>32,238</b>	27,727	<b>60,393</b>	27,727
Effect of change in accounting policy (note 1(d)(i))	<b>(8,107)</b>	–	–	–	<b>(8,107)</b>	–
At the end of the year	<b>129,653</b>	109,605	<b>68,404</b>	36,166	<b>198,057</b>	145,771
Accumulated amortisation and impairment losses						
At the beginning of the year	<b>8,107</b>	2,627	<b>14,936</b>	2,849	<b>23,043</b>	5,476
Amortisation charge	–	5,480	<b>22,619</b>	8,271	<b>22,619</b>	13,751
Impairment charge	–	–	<b>1,664</b>	3,816	<b>1,664</b>	3,816
Effect of change in accounting policy (note 1(d)(i))	<b>(8,107)</b>	–	–	–	<b>(8,107)</b>	–
At the end of the year	–	8,107	<b>39,219</b>	14,936	<b>39,219</b>	23,043
Net book value						
At the end of the year	<b>129,653</b>	101,498	<b>29,185</b>	21,230	<b>158,838</b>	122,728
Current portion included under current assets	–	–	<b>(21,996)</b>	(14,785)	<b>(21,996)</b>	(14,785)
	<b>129,653</b>	101,498	<b>7,189</b>	6,445	<b>136,842</b>	107,943

**Impairment test for goodwill**

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to the country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Japan		
– Record distribution and music production	<b>106,134</b>	77,979
PRC		
– Discotheque	<b>23,519</b>	23,519
	<b>129,653</b>	101,498



## 10. INTANGIBLE ASSETS (Continued)

### Impairment test for goodwill (Continued)

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on annual budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate in which the CGU operates.

Key assumptions used for value-in-use calculations:

	<b>Gross margin<sup>1</sup></b>	<b>Growth rate<sup>2</sup></b>	<b>Discount rate<sup>3</sup></b>
Japan			
– Record distribution and music production	50%	20%	4.4%
PRC			
– Discotheque	27%	10%	6.1%

These assumptions have been used for the analysis of each CGU within the business segment.

1. Budgeted gross margin.
2. Weighted average growth rate used to extrapolate cash flows beyond the budget period.
3. Pre-tax discount rate applied to the cash flow projections reflects specific risks relating to the relevant segments.

Management determined budgeted gross margin and the weighted average growth rates based on past performance of the Group's respective CGUs and its expectations for the development of the market.

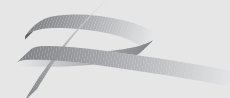
**11. FIXED ASSETS**

	<b>Leasehold improve- ments</b> HK\$'000	<b>Studio equipment</b> HK\$'000	<b>Office equipment, furniture and fixtures</b> HK\$'000	<b>Computer equipment</b> HK\$'000	<b>Discotheque equipment</b> HK\$'000	<b>Motor vehicle</b> HK\$'000	<b>Total</b> HK\$'000
Cost							
At 1st April 2004	18,883	30,184	1,887	2,315	4,404	232	57,905
Additions	–	–	328	595	1,230	–	2,153
Disposals	–	–	(406)	(931)	–	–	(1,337)
Exchange differences	(254)	(408)	(16)	(18)	–	(3)	(699)
At 31st March 2005	<u>18,629</u>	<u>29,776</u>	<u>1,793</u>	<u>1,961</u>	<u>5,634</u>	<u>229</u>	<u>58,022</u>
Accumulated depreciation							
At 1st April 2004	10,680	12,103	1,317	1,919	2,351	203	28,573
Charge for the year	3,765	4,038	298	356	513	29	8,999
Disposals	–	–	(406)	(931)	–	–	(1,337)
Exchange differences	(144)	(163)	(11)	(12)	–	(3)	(333)
At 31st March 2005	<u>14,301</u>	<u>15,978</u>	<u>1,198</u>	<u>1,332</u>	<u>2,864</u>	<u>229</u>	<u>35,902</u>
Net book value							
<b>At 31st March 2005</b>	<b><u>4,328</u></b>	<b><u>13,798</u></b>	<b><u>595</u></b>	<b><u>629</u></b>	<b><u>2,770</u></b>	<b><u>–</u></b>	<b><u>22,120</u></b>
At 31st March 2004	<u>8,203</u>	<u>18,081</u>	<u>570</u>	<u>396</u>	<u>2,053</u>	<u>29</u>	<u>29,332</u>

**12. INVESTMENTS IN SUBSIDIARIES – COMPANY**

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Unlisted investments, at cost	<b>91,493</b>	56,162
Loan to a subsidiary	<b>–</b>	31,637
	<b>91,493</b>	87,799
Provision for diminution in value	<b>(155)</b>	(37,667)
	<b><u>91,338</u></b>	<u>50,132</u>

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



## 12. INVESTMENTS IN SUBSIDIARIES – COMPANY (Continued)

The following is a list of the subsidiaries as at 31st March 2005:

Name	Place of incorporation/ establishment and kind of legal entity	Issued and fully paid up share capital/ registered capital	Attributable equity interest	Principal activities and place of operation
Rojam Entertainment Limited	Hong Kong, limited liability company	100,000 ordinary shares of HK\$1 each	100%	Intellectual property holding, music and web content production, and provision of general administration and management services to group companies in Hong Kong
Rojam Management Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK\$1 each	100%	Inactive
R and C Ltd. ("R&C") (formerly known as R&C Japan Ltd.)	Japan, limited liability company	620 shares totalling ¥31,000,000	100%	Sales of records and audio and audio-visual products, master tape right licensing and music production in Japan
Rojam International Limited	British Virgin Islands ("BVI"), limited liability company	1 registered share of US\$1 each	100%	Inactive
Rojam Investment Limited	BVI, limited liability company	1 registered share of US\$1 each	100%	Investment holding in Hong Kong and PRC
Fandango U.S.A., Inc. (formerly known as Rojam U.S.A., Inc.)	USA, limited liability company	2 registered shares of US\$1 each	100%	Investment holding in the USA and Japan
Shanghai Rojam Entertainment Company Limited ("Shanghai Rojam") (Note below)	PRC, limited liability company	US\$1,000,000	90%	Operation of discotheque business in PRC

Note:

On 18th September 2002, the Group entered into a Chinese-foreign cooperative joint venture contract with the minority shareholder of Shanghai Rojam. By virtue of the said contract, this minority shareholder has agreed to accept a pre-fixed amount as its return on investment, whereas the Group will be entitled to/responsible for any or all operating profit/loss. The pre-fixed amount paid/payable to this minority shareholder is recognised as management fee payable to the minority shareholder in the consolidated profit and loss account.

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



### 13. DEPOSIT FOR PURCHASE OF INVESTMENT SECURITIES

During the year ended 31st March 2005, a subsidiary of the Company has paid a deposit of US\$3,000,000 (approximately HK\$23,400,000) to an independent third party company established in the USA (the "US Company") whose principal focus is to engage in the production and distribution of digital entertainment content through multi-media platforms such as the internet and mobile phones in Japan and the USA, to subscribe for 30,000 shares of Series A Convertible Preferred Stocks (the "Stocks") of the US Company. Up to the approval date of these accounts, the allotment of the Stocks has not been done as the Series A Convertible Preferred Stock Purchase Agreement has not been completed.

### 14. INVENTORIES

	2005 HK\$'000	2004 HK\$'000
Production-in-progress	12,450	10,891
Merchandise	7,521	2,034
	<b>19,971</b>	<b>12,925</b>

At 31st March 2005, the carrying amount of inventories that are carried at net realisable value is HK\$983,000 (2004: Nil).

### 15. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

### 16. TRADE RECEIVABLES

The majority of the Group's turnover is on credit terms of sixty to ninety days except for the royalty income, of which credit terms are normally negotiable between the Group and its customers. At 31st March 2005, the ageing analysis of the trade receivables, including trading balance due from a fellow subsidiary was as follows:

	2005 HK\$'000	2004 HK\$'000
Current	7,802	11,349
30-60 days	3,150	304
61-90 days	11	832
Over 90 days	726	2,444
	<b>11,689</b>	14,929
Provision for doubtful debts	<b>(1,495)</b>	(1,829)
	<b>10,194</b>	<b>13,100</b>
Trade receivables due from:		
Third parties	10,190	13,100
A fellow subsidiary	4	-
	<b>10,194</b>	<b>13,100</b>



## 17. CASH AND BANK BALANCES

Included in the balance is approximately HK\$11,933,000 (2004: HK\$8,119,000) denominated in Renminbi in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulation of foreign exchange control promulgated by the PRC government.

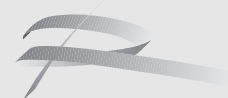
## 18. TRADE PAYABLES

At 31st March 2005, the ageing analysis of the trade payables, including trading balances due to the ultimate holding company and the immediate holding company was as follows:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Current	<b>81,720</b>	35,717
30-60 days	<b>5,007</b>	—
61-90 days	<b>31</b>	—
Over 90 days	<b>532</b>	—
	<b>87,290</b>	35,717
Trade payables due to:		
Third parties	<b>78,110</b>	35,717
The ultimate holding company	<b>9,094</b>	—
The immediate holding company	<b>86</b>	—
	<b>87,290</b>	35,717

## 19. SHARE CAPITAL

	<b>Authorised</b> <b>ordinary shares of HK\$0.1 each</b>	
	<b>Number of shares</b>	<b>HK\$'000</b>
At 1st April 2003, 31st March 2004 and 31st March 2005	<u>5,000,000,000</u>	<u>500,000</u>
	<b>Issued and fully paid ordinary</b> <b>shares of HK\$0.1 each</b>	
	<b>Number of shares</b>	<b>HK\$'000</b>
At 1st April 2003, 31st March 2004 and 31st March 2005	<u>1,554,684,403</u>	<u>155,468</u>

**19. SHARE CAPITAL** (Continued)

- (a) (i) Options to subscribe for up to an aggregate of 51,734,220 shares in the Company were granted on 21st May 2001 (the "Pre-IPO Grant of Options") to individual 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.
- (ii) Pursuant to a resolution passed by the shareholders of the Company on 21st May 2001, a share options scheme (the "Share Options Scheme") was adopted by the Company subject to the terms and conditions stipulated therein.
- (b) During the year, no options were granted or exercised under the Pre-IPO Grant of Options, and 51,734,220 options had been cancelled following the termination of producer service agreements of the relevant individuals with the Group.
- (c) On 23rd September 2004, the Company passed an ordinary resolution in respect of the termination of the Share Options Scheme. Details of the termination of the Share Options Scheme were disclosed in the circular issued by the Company on 1st September 2004.
- (d) Share options schemes
- (i) *Pre-IPO Grant of Options*  
Details of the outstanding share options granted pursuant to the Pre-IPO Grant of Options of the Company as at 31st March 2005 are as follows:

Date of grant	Exercise Price HK\$	Granted	As at 1st April 2004	Exercised	Lapsed	Cancelled	As at 31st March 2005	Exercise period
21st May 2001	0.1	41,387,376	41,387,376	-	-	(41,387,386)	-	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>(51,734,220)</u>	<u>-</u>	

- (ii) *Share Options Scheme*  
Details of the outstanding share options granted pursuant to the Share Options Scheme of the Company as at 31st March 2005 are as follows:

Date of grant	Exercise Price HK\$	Granted	As at 1st April 2004	Exercised	Lapsed	Cancelled	As at 31st March 2005	Exercise period
12th July 2001	0.47	52,240,000	20,200,000	-	-	(20,200,000)	-	12th July 2001 to 11th July 2011
		<u>52,240,000</u>	<u>20,200,000</u>	<u>-</u>	<u>-</u>	<u>(20,200,000)</u>	<u>-</u>	



**20. RESERVES****(a) Group**

	<b>Share premium</b> <i>HK\$'000</i>	<b>Exchange reserve</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1st April 2003	148,329	(6,312)	(72,451)	69,566
Profit for the year	–	–	7,292	7,292
Exchange adjustment on translation of accounts of overseas subsidiaries	–	(1,005)	–	(1,005)
At 31st March 2004	<u>148,329</u>	<u>(7,317)</u>	<u>(65,159)</u>	<u>75,853</u>
Representing:				
Reserves				75,853
Proposed dividend				–
At 31st March 2004				<u>75,853</u>
At 1st April 2004	<b>148,329</b>	<b>(7,317)</b>	<b>(65,159)</b>	<b>75,853</b>
Profit for the year	–	–	<b>57,824</b>	<b>57,824</b>
Exchange adjustment on translation of accounts of overseas subsidiaries	–	<b>(985)</b>	–	<b>(985)</b>
At 31st March 2005	<u><b>148,329</b></u>	<u><b>(8,302)</b></u>	<u><b>(7,335)</b></u>	<u><b>132,692</b></u>
Representing:				
Reserves				<b>114,036</b>
Proposed dividend				<b>18,656</b>
At 31st March 2005				<u><b>132,692</b></u>

**20. RESERVES** (Continued)**(b) Company**

	<b>Share premium</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1st April 2003	148,329	(118,070)	30,259
Loss for the year	—	(10,634)	(10,634)
At 31st March 2004	<u>148,329</u>	<u>(128,704)</u>	<u>19,625</u>
Representing:			
Reserves			19,625
Proposed dividend			—
At 31st March 2004			<u>19,625</u>
At 1st April 2004	<b>148,329</b>	<b>(128,704)</b>	<b>19,625</b>
Profit for the year	—	7,264	7,264
At 31st March 2005	<u><b>148,329</b></u>	<u><b>(121,440)</b></u>	<u><b>26,889</b></u>
Representing:			
Reserves			<b>8,233</b>
Proposed dividend			<b>18,656</b>
At 31st March 2005			<u><b>26,889</b></u>

**21. DEFERRED TAXATION**

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement on the deferred tax (assets)/liabilities account is as follows:

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
At the beginning of the year	<b>931</b>	—
Exchange differences	<b>(13)</b>	63
Deferred taxation (credited)/charged to profit and loss account (note 4)	<u><b>(4,974)</b></u>	868
At the end of the year	<u><b>(4,056)</b></u>	<u>931</u>

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$33,609,000 (2004: HK\$49,143,000) to carry forward against future taxable income. These tax losses have no expiry date.

**21. DEFERRED TAXATION** (Continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

**Deferred tax liabilities**

	Accelerated tax depreciation		Master tape		Total	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	–	–	8,492	1,097	8,492	1,097
Charged/(credited) to profit and loss account	1,058	–	(5,201)	6,754	(4,143)	6,754
Exchange differences	–	–	(115)	641	(115)	641
At the end of the year	<u>1,058</u>	<u>–</u>	<u>3,176</u>	<u>8,492</u>	<u>4,234</u>	<u>8,492</u>

**Deferred tax assets**

	Provisions		Tax losses		Others		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	(4,499)	–	(2,956)	(1,097)	(106)	–	(7,561)	(1,097)
(Credited)/charged to profit and loss account	(2,315)	(4,195)	2,916	(1,592)	(1,432)	(99)	(831)	(5,886)
Exchange differences	61	(304)	40	(267)	1	(7)	102	(578)
At the end of the year	<u>(6,753)</u>	<u>(4,499)</u>	<u>–</u>	<u>(2,956)</u>	<u>(1,537)</u>	<u>(106)</u>	<u>(8,290)</u>	<u>(7,561)</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2005 HK\$'000	2004 HK\$'000
Net deferred tax assets	(5,090)	–
Net deferred tax liabilities	1,034	931
	<u>(4,056)</u>	<u>931</u>



## 22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to net cash inflow from operations

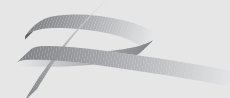
	2005 HK\$'000	2004 HK\$'000
Profit before taxation	70,815	11,146
Depreciation of fixed assets	8,999	9,544
Amortisation of goodwill	–	5,480
Amortisation of record masters	22,619	8,271
Impairment of record masters	1,664	3,816
Interest income	(405)	(297)
Gain on disposal of fixed assets	–	(43)
Operating profit before working capital changes	<b>103,692</b>	37,917
Increase in inventories	<b>(7,046)</b>	(6,159)
Decrease/(increase) in trade receivables, other receivables and prepayments	<b>21,740</b>	(17,617)
Increase in trade payables, accruals and other payables	<b>90,312</b>	31,279
Net cash inflow from operations	<b><u>208,698</u></b>	<b><u>45,420</u></b>

### (b) Analysis of changes in financing during the year

	2005 HK\$'000	2004 HK\$'000
At the beginning of the year	<b>1,884</b>	(484)
Minority interests' share of profits and exchange reserves	<b>1,077</b>	2,368
Decrease in minority interests resulting from acquisition of subsidiaries from minority shareholders	<b>(2,286)</b>	–
At the end of the year	<b><u>675</u></b>	<b><u>1,884</u></b>

- (c) On 28th September 2004, the Company acquired 20% of the issued share capital of Yoshimoto Music Holdings, Inc. ("Yoshimoto Music"), the then subsidiary of the Company, which holds the entire issued share capital of R&C, from Yoshimoto America, Inc. ("Yoshimoto America"), a shareholder of the Company, for a consideration of JPY400,000,000 (approximately HK\$28,400,000) and other directly attributable costs of HK\$2,041,000.

Balance of approximately HK\$28,155,000, which represents Yoshimoto America's minority interests on the gain on disposal of Yoshimoto Music and other directly attributable costs, was recognised as the goodwill on the acquisition.



### 23. COMMITMENTS UNDER OPERATING LEASES – LAND AND BUILDINGS

At 31st March 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Not later than one year	<b>3,965</b>	4,975
Later than one year and not later than five years	<b>599</b>	1,640
	<b><u>4,564</u></b>	<u>6,615</u>

### 24. CONTINGENT LIABILITIES

The Group and the Company had no material contingent liabilities at 31st March 2005 and 31st March 2004.

### 25. RELATED PARTY TRANSACTIONS

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

	Note	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Operating expenses paid and payable to related parties:			
– development cost to Fandango, Inc.	(a)	<b>978</b>	–
– master video production cost to:			
– Yes Visions Co., Ltd. and Y's Vision Co., Ltd.	(b)(i)	<b>104</b>	383
– International Television System, Inc.	(b)(ii)	<b>90</b>	–
– production costs to Yoshimoto Club Co., Ltd.	(c)	<b>1,895</b>	–
– rental payment and other charges to Yoshimoto Kogyo Co., Ltd.	(d)	<b>1,507</b>	1,249
– master royalties to Yoshimoto Kogyo Co., Ltd.	(e)	<b>12,483</b>	3,877
– promotion cost to Yoshimoto Kogyo Co., Ltd.	(f)	<b>1,879</b>	–
– homepage production service fee to Fandango, Inc.	(g)	<b>414</b>	547
Purchase of additional interests of subsidiaries from Yoshimoto America, Inc.	(h)	<b><u>30,441</u></b>	<u>–</u>

**25. RELATED PARTY TRANSACTIONS** (Continued)

- (a) Pursuant to a master digital distribution agreement dated 30th August 2004 and entered into between the Group and Fandango, Inc. ("Fandango"), a company beneficially owned as to 53.01% by Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"), Fandango will distribute the Group's audio and audio-visual recordings through the internet, mobile telephones, or other digital media on an order by order basis. Under this agreement, Fandango is liable to pay to the Group in connection with the distribution of the Group's content a commission of 50% of the revenue for distributing the Group's content after subtracting external cost. The Group will pay Fandango the development cost for the new digital content distribution system. The term of this agreement is from 30th August 2004 to 31st March 2007.
- (b) (i) Yes Visions Co., Ltd. ("Yes Visions") and Y's Vision Co., Ltd. ("Y's Vision") are beneficially owned as to 97% and 39%, respectively, by Yoshimoto. Pursuant to a master video production agreement dated 10th October 2002 and entered into between the Group and Yes Visions, and a master video production agreement dated 10th October 2002 and entered into between the Group and Y's Vision, the Group will engage Yes Visions and Y's Vision respectively to produce videos, containing visual or audio-visual recordings, to complement the Group's promotional activities in conjunction with its release of artists' music records and other products. Under these agreements, the Group is liable to pay Yes Visions and Y's Vision production costs of the videos, containing visual or audio-visual recordings, being Yes Visions' and Y's Vision's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses. The term of each of these agreements is from 10th October 2002 to 31st March 2005.
- (ii) Pursuant to a master video production agreement dated 30th August 2004 and entered into between the Group and International Television System, Inc. ("ITS"), a company beneficially owned as to 60% by Yoshimoto, the Group will engage ITS to produce videos, containing visual or audio-visual recordings in accordance with requirements and specifications of and in such form specified by the Group. Under this agreement, the Group is liable to pay ITS production costs of the videos, containing visual or audio-visual recordings, being ITS's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses. The term of this agreement is from 30th August 2004 to 31st March 2007.
- (c) Pursuant to a master consignment agreement dated 30th August 2004 and entered into between the Group and Yoshimoto Club Co., Ltd. ("Yoshimoto Club"), a company beneficially owned as to approximately 81.8% by Yoshimoto, the Group will engage Yoshimoto Club to produce and sell merchandise to the Group on an order by order basis. The term of this agreement is from 30th August 2004 to 31st March 2007. Under this agreement, the Group is liable to pay Yoshimoto Club production costs of the merchandise, being Yoshimoto Club's out-of-pocket expenses relating to the production plus administration cost which is fixed at 10% of such out-of-pocket expenses.
- (d) (i) Pursuant to sub-lease agreements dated 29th March 2002 and 10th October 2002 and entered into between the Group and Yoshimoto, the Group will sub-let office premises from Yoshimoto for an aggregate monthly rental payment of JPY1,430,000 (approximately HK\$104,000), and electricity and water charges, for a lease term up to 31st March 2005. On 19th July 2004, the Group had terminated the sub-lease agreements with Yoshimoto.
- (ii) Pursuant to a sub-lease agreement dated 20th July 2004 and entered into between the Group and Yoshimoto, the Group will sub-let office premises from Yoshimoto for an aggregate monthly rental payment of JPY1,687,618 (approximately HK\$123,000), and electricity, gas and water charges. The term of this agreement is from 20th July 2004 to 31st March 2006.

**25. RELATED PARTY TRANSACTIONS** (Continued)

- (e) (i) Pursuant to a master royalty agreement dated 10th October 2002 between the Group and Yoshimoto ("Master Royalty Agreement 2002"), Yoshimoto will procure artists or groups of 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. The terms of this agreement is from 10th October 2002 to 31st March 2005. On 30th August 2004, the Group and Yoshimoto entered into another master royalty agreement to extend the term of the Master Royalty Agreement 2002 to expire on 31st March 2007 and the scope of the agreement to include promotional activities and copyright licensing in addition to the artist performance arrangements. For further details, please refer to note 25 (e)(ii) below.
- (ii) Pursuant to a master royalty agreement dated 30th August 2004 and entered into between the Group and Yoshimoto, Yoshimoto will also include promotional activities and copyright licensing in addition to the artist performance arrangements. Yoshimoto will also include the Group's visual and audio-visual recordings in certain television programs produced by Yoshimoto for promotion purpose and grant the Group the right to manufacture and sell audio-visual products containing the content of the television programs for which Yoshimoto is the owner of the master rights. Master 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. The term of this agreement is from 30th August 2004 to 31st March 2007.
- (f) Pursuant to a master promotion agreement dated 30th August 2004 and entered into between the Group and Yoshimoto, Yoshimoto will promote the Group's audio and audio-visual recordings through television and radio programs, magazines, or any other advertisements produced by Yoshimoto and local television stations for the Group on an order by order basis. Under this agreement, the Group is liable to pay to Yoshimoto in connection with the promotion of the Group's contents a fee based on Yoshimoto's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses. The term of this agreement is from 30th August 2004 to 31st March 2007.
- (g) Pursuant to a web production agreements dated 1st April 2002 and 10th October 2002 between the Group and Fandango, Fandango will render production services for the homepages of the Group for an aggregate monthly fee of JPY900,000 (approximately HK\$66,000) for a contract term up to 31st March 2005.

In the opinion of the Directors of the Company, the above related party transactions were carried out in the ordinary and usual course of business and on terms mutually agreed between the Group and the respective related parties.

- (h) On 28th September 2004, the Company acquired 20% of the issued share capital of Yoshimoto Music, the then subsidiary of the Company, which holds the entire issued share capital of R&C, from Yoshimoto America, a shareholder of the Company, for a consideration of JPY400,000,000 (approximately HK\$28,400,000). Details of the acquisition are contained in the circular issued by the Company on 3rd September 2004.



**26. ULTIMATE HOLDING COMPANY**

The Directors regard Yoshimoto Kogyo Co., Ltd., a company incorporated in Japan, as being the ultimate holding company.

**27. APPROVAL OF ACCOUNTS**

The accounts were approved by the board of Directors on 27th May 2005.