

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2005/2006



ROJAM

Entertainment Network Asia

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

RESULTS

The board of directors (the "Board") of Rojam Entertainment Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to present the unaudited consolidated results of the Group for the three months ended 30th June 2005 together with the comparative unaudited figures for the corresponding period in 2004.

		Unaudited	
		Three months ended	
		30th June	
		2005	2004
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	118,892	40,064
Other revenue	2	198	89
Total revenues		119,090	40,153
Cost of sales		(75,118)	(22,302)
Selling and distribution expenses		(20,203)	(11,009)
Other operating expenses		(10,636)	(7,902)
Amortisation of goodwill		-	(1,370)
Profit/(loss) before taxation		13,133	(2,430)
Taxation	3	(5,868)	(435)
Profit/(loss) for the period		7,265	(2,865)
Profit/(loss) attributable to:			
Equity holders of the Company		7,265	(2,954)
Minority interests		-	89
		7,265	(2,865)
Earnings/(loss) per share for profit/loss attributable to the equity holders of the Company during the period			
- basic	4	0.5 cent	(0.2 cent)

Notes:

1. Basis of preparation and accounting policies

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

The unaudited consolidated 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. They have been prepared under the historical cost convention. The unaudited consolidated accounts have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

The accounting policies and methods of computation used in the preparation of the unaudited consolidated accounts are consistent with those used in the annual financial statements for the year ended 31st March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred as "new HKFRSs") which are effective for accounting periods commencing 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 details of the accounting policies have been disclosed in the annual financial statements for the year ended 31st March 2005.

With effect from 1st April 2005, the Group adopted other new HKFRSs which are relevant to its operations. The adoption of these new HKFRSs did not result in substantial changes to the Group's accounting policies. No prior period adjustment has been made.

2. Turnover and revenue

The amounts of each significant category of revenue recognised during the three months ended 30th June 2005 are as follows:

	Unaudited	
	Three months ended	
	30th June	
	2005	2004
	HK\$'000	HK\$'000
Turnover		
Record distribution income	113,276	35,322
Music production income	1,139	428
Music publishing royalty	11	5
Digital distribution income	137	–
Discotheque income	4,098	4,132
Event management income	229	–
Merchandise sales	2	3
Banner advertising income	–	174
	118,892	40,064
Other revenue		
Bank interest income	198	89
Total revenues	119,090	40,153

3. 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 subsidiary in the United States of America has no assessable profit for the current and prior year.

The Japanese corporate income tax has been provided on the profit of the Group's subsidiary 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.

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

	Unaudited Three months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Current taxation		
– Japanese corporate income tax	5,715	–
– PRC taxation	153	129
Deferred taxation	–	306
Taxation charge	5,868	435

4. Earnings/loss per share

The calculation of the basic earnings/loss per share is based on the Group's profit attributable to shareholders of HK\$7,265,000 (2004: loss of HK\$2,954,000) and 1,554,684,403 (2004: 1,554,684,403) ordinary shares in issue during the period.

Diluted earnings per share has not been presented for the three months ended 30th June 2005 as there was no dilutive event during the period. Diluted loss per share has not been presented for the three months ended 30th June 2004 as the conversion of the potential ordinary shares would have anti-dilutive effect to the basic loss per share.

5. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months ended 30th June 2005 (2004: Nil).

6. Reserves

	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2004	148,329	(7,317)	(65,159)	75,853
Loss for the period	–	–	(2,954)	(2,954)
Exchange adjustment on translation of the accounts of overseas subsidiaries	–	(2,124)	–	(2,124)
	<u>148,329</u>	<u>(9,441)</u>	<u>(68,113)</u>	<u>70,775</u>
At 30th June 2004 (unaudited)				
At 1st April 2005	148,329	(8,302)	(7,335)	132,692
Profit for the period	–	–	7,265	7,265
Final dividend for the year ended 31st March 2005	–	–	(18,656)	(18,656)
Exchange adjustment on translation of the accounts of overseas subsidiaries	–	(3,985)	–	(3,985)
	<u>–</u>	<u>(3,985)</u>	<u>–</u>	<u>(3,985)</u>
At 30th June 2005 (unaudited)	<u>148,329</u>	<u>(12,287)</u>	<u>(18,726)</u>	<u>117,316</u>

BUSINESS REVIEW AND PROSPECTS

Financial Highlights

	Current Quarter (Apr to Jun 2005) <i>HK\$'M</i>	Previous Quarter (Jan to Mar 2005) <i>HK\$'M</i>	First Quarter in 2004/2005 (Apr to Jun 2004) <i>HK\$'M</i>
Turnover	118.9	61.1	40.1
Operating expenditures*	106.0	78.6	41.2
Profit/(loss) from operations	13.1	(17.5)	(2.4)
Profit/(loss) attributable to shareholders	7.3	(22.6)	(3.0)

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

Sales by Business Segments

	Current Quarter (Apr to Jun 2005)		Previous Quarter (Jan to Mar 2005)		First Quarter in 2004/2005 (Apr to Jun 2004)	
	HK\$'M	%	HK\$'M	%	HK\$'M	%
Record distribution	113.3	95	56.5	93	35.4	88
Music production	1.1	1	0.3	–	0.4	1
Discotheque	4.1	4	4.3	7	4.1	10
Others	0.4	–	–	–	0.2	1
Group Total	118.9	100	61.1	100	40.1	100

Financial Review

The first quarter has been always a challenge for the Group due to the seasonal characteristics of the music industry. In the past years, number of products being released in the first quarter was comparatively fewer than that in other quarters among the year. This year, the Group has adjusted its release schedule. It released the best-selling DVD in this quarter. The Group recorded a turnover of HK\$118.9 million in the first quarter of the financial year 2005/2006, representing an increase of 95% and 197% when compared with the fourth quarter and the first quarter of 2004/2005 respectively.

The profit attributable to shareholders for the first quarter amounted to HK\$7.3 million, representing a significant improvement compared with the loss of HK\$22.6 million and HK\$3.0 million for the fourth quarter and the first quarter of 2004/2005 respectively. Earnings per share was 0.5 HK cent, compared to loss per share of 1.5 HK cents and 0.2 HK cent in the previous quarter and the corresponding period of last year respectively.

The main growth driver of the Group remains within the record distribution business. Of the total turnover, HK\$113.3 million or 95% was generated from the record distribution business, HK\$1.1 million or 1% was generated from the music production business and HK\$4.1 million or 4% was generated from the discotheque business.

The operating expenditures including the cost of sales and selling and distribution expenses increased by 35% and 157% when compared to the fourth quarter and the first quarter of 2004/2005 respectively, which was due to the increase of the turnover. In view of the Group's small size, it can manage its operation more effectively and efficiently.

At 30th June 2005, the Group had a cash balance of approximately HK\$90.1 million, representing 57% decrease from HK\$209.8 million at 31st March 2005. The decrease in cash during the first quarter is attributed to the payment of the final dividend, and increased working capital requirements and trade receivables. The Group's trade receivables at 30th June 2005 increased to HK\$56.1 million from HK\$10.2 million at 31st March 2005, primarily due to the release of popular products near the end of the first quarter and most of the trade receivables were not due. The Group has no long-term borrowing during the quarter, the same as for the past years.

Operations Review

Record distribution

Turnover from the record distribution business for the first quarter of the financial year 2005/2006 amounted to HK\$113.3 million, representing twofold of HK\$56.5 million in the previous quarter and threefold of HK\$35.4 million in the same period of last year. This business division accounted for approximately 95% of the total turnover of the Group in the first quarter.

Due to the effect of seasonality, record and DVD sales are in general lower in the first quarter than in other quarters of the financial year. This year, the Group has adjusted its release schedule. It released the popular DVD namely “ダウントアウンのガキの使いやあらへんで!!幻の傑作 DVD永久保存版(5(罰))” in late June of this quarter. Based on historical records, the Downtown’s DVD series “ガキの使いやあらへんで!!” is one of the best sellers of the Group. The change of release date of this major DVD from the last financial year to the current financial year had a significant impact on the operating results.

During the first quarter, the Group’s own label produced 23 music records and 13 DVDs. The products released in the corresponding quarter of last year were 7 music records, 7 video tapes and 11 DVDs. The more recent releases were also performing well including music records from Kingkong Kajiwara, Kinya, Hound Dog and Fayray as well as DVDs titled “M-1グランプリ 2004” and “あるある探検隊”.

Digital distribution

In the past months, the Group has been at the forefront of the digital market in the telecommunication sector in Japan. The Group has entered into digital partnerships, in cooperation with Fandango, Inc. (“Fandango”), with major mobile phone carriers in Japan, namely KDDI, NTT DoCoMo and Vodafone. The Group’s full-length music tracks can be downloaded to subscribers’ mobile phones. The basic download rate ranges from 100 Yen (HK\$7) to 360 Yen (HK\$25) per song.

Turnover from the digital distribution business is the net revenue received from Fandango after deducting all external costs. The net revenue recognised to the accounts was HK\$137,000 for the first quarter. Although the digital distribution business has yet to bring to the Group significant sales and profit contribution, the Group will further develop this business.

Rojam Disco

Turnover from the discotheque business amounted to HK\$4.1 million for the first quarter, representing a slight decline of 5% and 1% when compared to the previous quarter and the corresponding quarter in last year. The decrease in turnover was mainly attributable to the reduction of admission under the current competitive market. However, the successful international DJ parties held every weekend helped compensating for most of the patrons loss due to the intense competition.

The lease of the discotheque premises in Shanghai was renewed during the first quarter. As the rents of the premises were approximately 25% of the total expenses of the discotheque on average, the operating results of the discotheque were typically impacted by higher rents. In view of this, Rojam Disco has successfully secured reasonable rental rates for each of the five years to reduce exposure to substantial increase in rents in the next five years.

New investment

The subscription of 30,000 shares of Series A Convertible Preferred Stocks of Bellrock Media, Inc. ("Bellrock") at an aggregate cash consideration of US\$3,000,000 (equivalent to approximately HK\$23,400,000) was completed during the first quarter.

Bellrock was established in Delaware, the United States on 26th January 2005. The principal focus of Bellrock is to engage in the development, production and distribution of digital entertainment content through multi-media platforms such as the mobile and internet markets in the United States and throughout Asia. In addition, Bellrock will pursue strategic investment opportunities within the emerging mobile and internet markets through an affiliated investment fund in Japan. Other investors in Bellrock include Intel Corporation, a well-known leader in semiconductor manufacturing and technology, and Faith, Inc., a Japan-based mobile industry leader of enabling software and ringtone technology.

The investment in Bellrock is in line with the Group's objective to grow through strategic partnerships with technology companies providing music and entertainment content in the digital distribution sector, in particular companies with expertise in mobile and internet-related technologies. The investment also presents an excellent opportunity for the Group to establish itself as a leader in the music and entertainment content distribution business and will complement and enhance the existing business of the Group.

Prospects

The current financial year has got off to a good start. The Group's performance in the first quarter is keeping the Group on track to achieve its full-year financial targets of achieving double-digit growth in both revenue and net profit, and maximising growth in earnings per share.

The Group's performance will continue to improve. A key driver will be the very rapid growth in digital music and content. With the proliferation of increasingly more sophisticated handsets, mobile phones are moving closer to become true mobile audio and visual machines. While the audio and video quality possible on handsets is yet to be improved, the commercial success of ringtones and music download show that there is promise for driving music and content sales and the potential for better applications as the technology allows it. Digital content over mobile is increasingly being driven by improvements in handsets as well as in 3G (third-generation) mobile phone networks.

The Group aims to enable its exclusive entertainment content to be downloaded to mobile phones or through the broadband based internet soon. The management remains confident that digital distribution business will drive the Group forward at attractive growth rates in the current financial year and that it will become a significantly larger proportion of the Group's business in the near future.

The recent revaluation of the Chinese currency will have little impact on the Group's results because only approximately 4% of the Group's revenues currently come from its mainland operation, Rojam Disco. However, the appreciation is certain to increase the exchange rate used to translate the results of Rojam Disco from Renminbi into the Group's presentation currency for reporting purpose.

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

At 30th June 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company and the Stock Exchange were as follows:

Ordinary shares of HK\$0.10 each in the Company

Name of Director	Capacity in which the shares are held	Personal interests	Approximate shareholding in the Company
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 30th June 2005, none of the Directors, chief executive or their respective associates (as defined in the GEM Listing Rules) was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or which, pursuant to Rules 5.46 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 above, at no time during the three months ended 30th June 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 30th June 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. (<i>Note 1</i>)	1,053,666,167	67.77%
Yoshimoto Kogyo Co., Ltd. (<i>Note 2</i>)	1,053,666,167	67.77%
CS Loginet Inc.	91,750,000	5.90%

Notes:

1. Yoshimoto America, Inc. is a wholly-owned subsidiary of Fandango, Inc. ("Fandango"), Fandango is deemed to have interest in the 450,000,000 shares in the Company held by Yoshimoto America, Inc. in addition to 603,666,167 shares in the Company directly held by itself.
2. Fandango controlled as to 63.5% by Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"). Accordingly, Yoshimoto was interested in 1,053,666,167 shares in the Company by attribution.

Save as disclosed above, at 30th June 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.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki, executive Directors of the Company, are directors of Yoshimoto, a substantial shareholder of the Company, and certain of its associates (as defined in the GEM Listing Rules). Pursuant to two deeds of non-competition undertakings, both dated 10th October 2002, as each amended by a supplemental deed dated 28th September 2004, and entered into between Yoshimoto and each of (i) the Company and (ii) R and C Ltd. ("R&C"), Yoshimoto irrevocably and unconditionally undertakes to each of the Company and R&C that, unless with the written consent of the Company or R&C (as the case may be) or except for certain circumstances, it will not and will procure that its subsidiaries and associates will not, carry on or be engaged, concerned or interested directly or indirectly in the production of master tapes and licensing of such master tape rights. Details of the deeds of non-competition undertakings are set out in the circulars issued by the Company dated 31st July 2002 and 3rd September 2004.

Save as disclosed above, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company have any interest in a business, which competed or may compete with the business of the Group or have any other conflict of interests with the Group.

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 three months ended 30th June 2005.

By Order of the Board

Takeyasu Hashizume

President

Hong Kong, 11th August 2005

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