

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Third 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 and nine months ended 31st December 2005 together with the comparative unaudited figures for the corresponding periods in 2004.

		Unaudited Three months ended 31st December		Unaudited Nine months ended 31st December	
		2005	2004	2005	2004
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	67,631	254,636	355,827	474,594
Other revenue	2	164	49	508	242
Total revenues		67,795	254,685	356,335	474,836
Cost of sales		(43,016)	(106,106)	(216,272)	(221,832)
Selling and distribution expenses		(16,796)	(60,370)	(64,782)	(113,653)
Other operating expenses		(8,761)	(25,674)	(29,272)	(51,142)
Amortisation of goodwill		-	2,748	-	-
(Loss)/profit before income tax		(778)	65,283	46,009	88,209
Income tax expense	3	1,097	11,439	(20,202)	(5,151)
Profit for the period		319	76,722	25,807	83,058
Attributable to:					
Equity holders of the Company		319	76,722	25,807	80,443
Minority interests		-	-	-	2,615
		319	76,722	25,807	83,058
Earnings per share for profit attributable to the equity holders of the Company during the period					
- basic	4	-	4.9 cents	1.7 cents	5.2 cents

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. The Company's shares were listed on GEM on 31st May 2001.

These unaudited accounts have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants and applicable disclosure requirements of the GEM Listing Rules. The unaudited 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 these condensed consolidated financial information 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 HKASs (collectively referred as "new HKFRS") 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 HKFRS which are relevant to its operations. Except for the following, the adoption of these new HKFRS did not result in substantial changes to the Group's accounting policies, financial statement disclosures or presentation as compared to that used in the preparation of the annual financial statements as of and for the year ended 31st March 2005.

- HKAS 1 Presentation of Financial Statements has impacted the presentation of the following notable elements in the Group's accounts:
 - minority interests are presented within equity on the face of the consolidated balance sheet while it was presented outside of equity previously;
 - movement of minority interests is included in the consolidated statement of changes in equity while this was not required previously; and
 - allocation of profit attributable to minority interests and equity holders of the Company are disclosed on the face of the consolidated income statement after profit for the period while the allocation to minority interests was previously disclosed as separate line item before arriving at profit attributable to the equity holders of the Company.
- HKAS 24 Related Party Disclosures has affected the identification of related parties and some other related-party disclosures.

The comparative consolidated accounts for 2004 have incorporated the effect of adjustments, where applicable, resulting from the adoption of the new HKFRS above.

2. Turnover and revenue

The amounts of each significant category of revenue recognised during the three months and nine months ended 31st December 2005 are as follows:

	Unaudited Three months ended 31st December		Unaudited Nine months ended 31st December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover				
Record distribution income	63,059	248,395	341,030	458,329
Music production income	344	1,198	1,516	2,299
Music publishing royalty	2	12	13	33
Digital distribution income	372	–	957	–
Discotheque income	3,766	5,028	11,855	13,746
Event management income	88	–	454	–
Merchandise sales	–	3	2	13
Banner advertising income	–	–	–	174
	67,631	254,636	355,827	474,594
Other revenue				
Bank interest income	164	49	508	242
Total revenues	67,795	254,685	356,335	474,836

3. Income tax expense

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

The Japanese corporate income tax and the People's Republic of China (the "PRC") enterprise income tax have been calculated on the estimated assessable profits of the Group's subsidiaries in Japan and the PRC respectively at the rates of taxation prevailing in the countries in which the companies operate.

	Unaudited Three months ended 31st December		Unaudited Nine months ended 31st December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Current income tax				
– Japanese corporate income tax	(1,284)	(16,324)	20,981	–
– PRC enterprise income tax	152	362	441	628
Deferred income tax	35	4,523	(1,220)	4,523
	(1,097)	(11,439)	20,202	5,151

4. Earnings per share

Basic earnings per share for the three months and nine months ended 31st December 2005 are calculated by dividing the profit attributable to equity holders of the Company of approximately HK\$319,000 and HK\$25,807,000 respectively (three months and nine months ended 31st December 2004: HK\$76,722,000 and HK\$80,443,000 respectively) by 1,554,684,403 (2004: 1,554,684,403) ordinary shares in issue during the periods.

Diluted earnings per share have not been presented for the three months and nine months ended 31st December 2005 as there was no dilutive event during the periods. Diluted earnings per share have not been presented for the three months and nine months ended 31st December 2004 as there was no dilutive effect at 31st December 2004.

5. Interim dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December 2005 (2004: Nil).

6. Reserves

	Unaudited			
	Attributable to equity holders of the Company			
	Share premium	Exchange reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April 2004	148,329	(7,317)	(65,159)	75,853
Exchange adjustment on translation of accounts of overseas subsidiaries	–	4,663	–	4,663
Profit for the nine months ended 31st December 2004	–	–	80,443	80,443
	<u>148,329</u>	<u>(2,654)</u>	<u>15,284</u>	<u>160,959</u>
At 31st December 2004	148,329	(8,302)	(7,335)	132,692
Exchange adjustment on translation of accounts of overseas subsidiaries	–	(9,599)	–	(9,599)
Final dividend for the year ended 31st March 2005	–	–	(18,656)	(18,656)
Profit for the nine months ended 31st December 2005	–	–	25,807	25,807
	<u>148,329</u>	<u>(17,901)</u>	<u>(184)</u>	<u>130,244</u>
At 31st December 2005	148,329	(17,901)	(184)	130,244

BUSINESS REVIEW AND PROSPECT

Financial Highlights

	Third Quarter (Oct to Dec 2005) HK\$'M	Second Quarter (Jul to Sep 2005) HK\$'M	First Quarter (Apr to Jun 2005) HK\$'M	Third Quarter in 2004/2005 (Oct to Dec 2004) HK\$'M
Turnover	67.6	169.3	118.9	254.6
Operating expenditures*	68.6	135.8	106.0	192.1
(Loss)/profit from operations	(0.8)	33.7	13.1	65.3
Profit attributable to equity holders	0.3	18.2	7.3	76.7

* Cost of sales, selling & other operating expenses

Sales by Business Segments

	Third Quarter (Oct to Dec 2005)		Second Quarter (Jul to Sep 2005)		First Quarter (Apr to Jun 2005)		Third Quarter in 2004/2005 (Oct to Dec 2004)	
	HK\$'M	%	HK\$'M	%	HK\$'M	%	HK\$'M	%
Record Distribution	63.1	93	164.7	97	113.3	95	248.4	98
Music Production	0.3	-	-	-	1.1	1	1.2	-
Digital Distribution	0.4	1	0.4	1	0.1	-	-	-
Discotheque	3.8	6	4.0	2	4.1	4	5.0	2
Others	-	-	0.2	-	0.3	-	-	-
Group Total	67.6	100	169.3	100	118.9	100	254.6	100

Financial Review

Turnover in the third quarter of the financial year 2005/2006 was HK\$67.6 million, being 60% and 73% lower than the second quarter of the financial year and the third quarter of last year respectively. Turnover for the nine months ended 31st December 2005 amounted to HK\$355.8 million, being 25% lower than the corresponding period of last year. The primary reason for the decrease in turnover was because of the decline in sales of audio and visual products and, in particular, the lack of new releases from popular artists.

The Group achieved an operating profit before taxation of approximately HK\$46.0 million for the nine months ended 31st December 2005, being 48% decrease from HK\$88.2 million for the nine months ended 31st December 2004. The profit attributable to the equity holders for the nine months ended 31st December 2005 amounted to HK\$25.8 million, representing a decrease of 69% from HK\$83.1 million when compared with the corresponding period of last year.

The income tax expense increased to HK\$20.2 million in the nine months ended 31st December 2005 from HK\$5.2 million in the corresponding period of last year regardless of higher assessable profits being recorded in last year. Lower income tax expense in last year was the consequence of the utilisation of the available deferred tax assets in prior years.

Given the nature of the Group's business, the exchange rate movements in Japanese Yen also have an impact on the reported results. With Japanese Yen's weakening against the US Dollar in comparison with last year, the Group's turnover and the total operating profit were reduced by 5% on average.

At 31st December 2005, the Group had a cash balance of approximately HK\$109.7 million, a 29% decline compared to HK\$154.3 million at 30th September 2005 as a result of the cash used in operating activities.

Operation Review

Record Distribution

Record distribution reported revenue of HK\$63.1 million for the third quarter, a decrease of 62% and 75% from the previous quarter and the corresponding period of last year respectively. Turnover from the record distribution represented 93% of the total turnover for the third quarter.

R&C released a total of 19 music records and 26 DVDs during the third quarter, compared to 20 music records and 12 DVDs and video tapes during the third quarter in the last year. The decrease in revenue in the record distribution segment reflected the slippage of products from popular artists including HG, Gorie, Kuzu, Downtown, and etc. out of the quarter and also, a number of releases from new developing artists selling less than anticipated. In particular, the Group scheduled to release certain major products in the fourth quarter for tie-up with the television programmes being broadcasted in Japan instead of the holiday season. Yoshimoto's original television programmes continued to have huge influence on consumers in Japan. With the tie-up in the television programmes, the Group could pay relatively lower promotional costs in marketing its products but maximise their sales volumes and revenues, even if the change would suppress the earnings in the interim period. These titles were expected to be major sellers in the fourth quarter.

Digital Distribution

The revenue recognised from the digital distribution business to the accounts was HK\$0.4 million for the third quarter. The digital distribution segment continued to strengthen its role as a strategic foundation for the Group. Apart from music tracks, the successful launch of video download services provided a new revenue stream for the Group. Although the digital distribution business is yet to contribute significant profitability to the Group, the Group's digital content in the third quarter continued to gain acceptance with a broad range of service providers and individual consumers in Japan.

Rojam Disco

The discotheque business reported revenue of HK\$3.8 million for the third quarter, representing a decrease of 5% and 24% compared to the previous quarter and the corresponding period of last year respectively. Turnover from the discotheque operation represented 6% of the total turnover for the third quarter.

The discotheque business in Shanghai continued to be very competitive in the third quarter primarily as a result of the increased supply of new entertainment parlours in the city. In this context, Rojam Disco maintained its profitability by increasing its customer patronage and sustaining its customers' average spending through introducing attractive new events and continuously revitalising the shop environment and brand image.

Prospect

The revenue from the record distribution business was impacted by the change in release timings of popular titles. The competition in the entertainment markets in Shanghai has grown more intense as more players emerged, while the patronage has been declining. On the other hand, the Group's content digital distribution business is still in its nurturing stage and has not yet developed into new impetus of growth. These are the reasons attributable to the failure of the Group in meeting its targeted growth in the third quarter.

The management understands the elements of the Group's business that impacted the third quarter results and believes this to be a temporary set-back. In the fourth quarter, the Group continues to take various actions to improve its financial performance including:

- producing high quality music and visual content;
- strengthening the release schedule;
- upgrading the facilities and equipments in Rojam Disco;
- embarking on a more aggressive business development program in mainland China;
- improving the operational structure, broadening the partnership base and strengthening the deployment of production in the digital content distribution sector;
- forming strategic alliance with entertainment companies and
- identifying commercially viable investment opportunities.

While the management looks forward to an improved outlook for the fourth quarter and beyond, the third quarter results dragged down the Group's overall performance in the financial year. The management estimates that the Group might not be able to achieve its full-year financial targets, of achieving double-digit growth in both revenue and net profit, being set out at the beginning of the financial year. However, the Group is assured that it will continue to strive for profitability in the remaining period and at least, maintain its full-year profitability at the same level as last financial 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 December 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 of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company and the Stock Exchange were as follows:

Ordinary shares of HK\$0.10 each in the Company

Name of Director	Capacity in which the shares are held	Total 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 31st December 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 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 nine months ended 31st December 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 OR UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 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 31st December 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, during the nine months ended 31st December 2005, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business, which competed or might compete with the business of the Group or had any other conflict of interests with the Group.

AUDIT COMMITTEE

The Company established an audit committee on 21st May 2001 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising the three independent non-executive Directors of the Company, namely Mr. Seiichi Nakaoda, Mr. Kwong Pui Kei and Mr. Law Kar Ping. The audit committee has reviewed the accounting principles and practices adopted by the Group and the unaudited accounts for the nine months ended 31st December 2005.

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 nine months ended 31st December 2005.

By Order of the Board
Takeyasu Hashizume
President

Hong Kong, 14th February 2006

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.