ROJAM ENTERTAINMENT HOLDINGS LIMITED

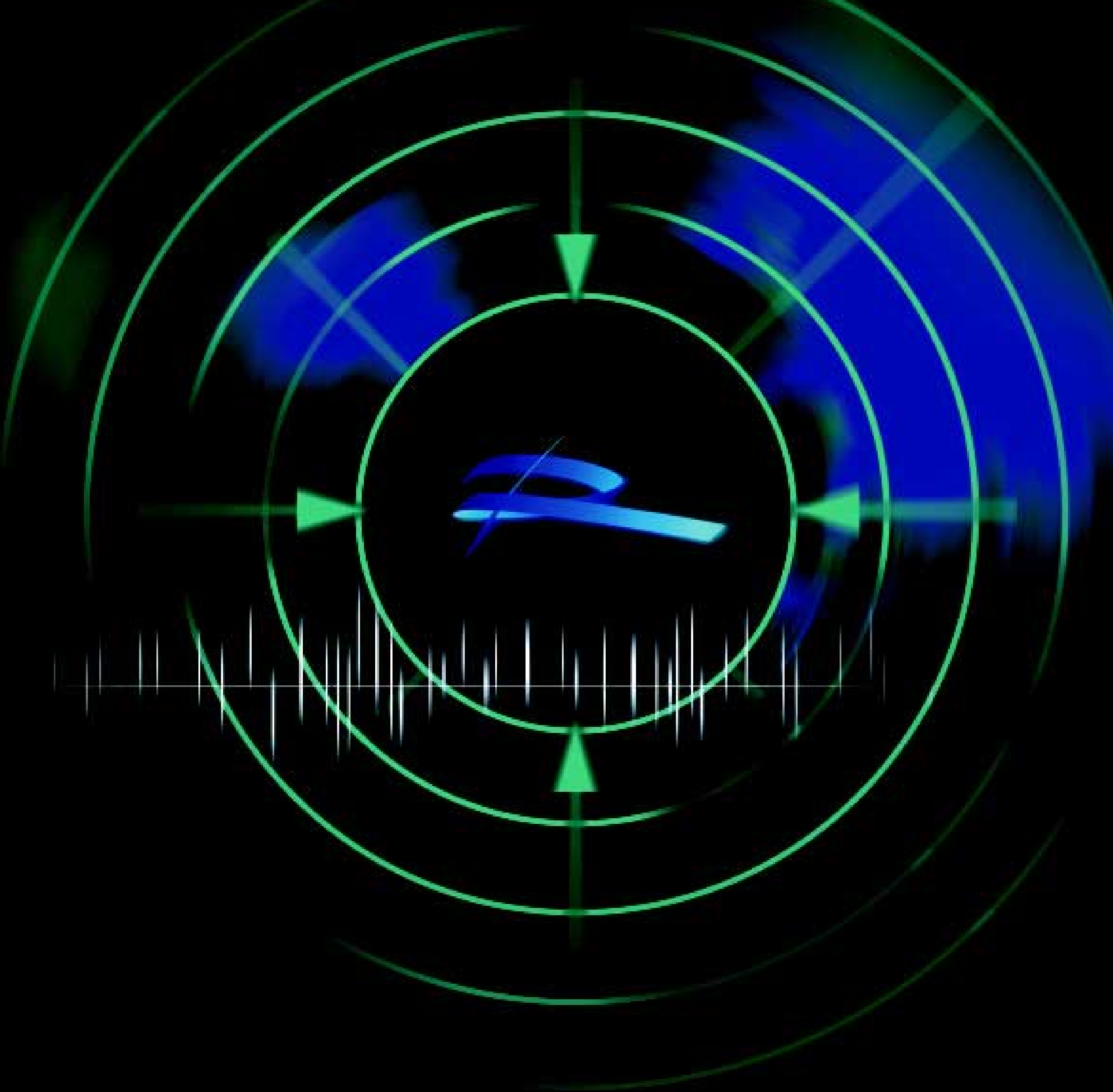
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8075

2005/2006 Annual Report

ROJAM

Entertainment Network Asia



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

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

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.

Contents

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

Butterfield Fund Services (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

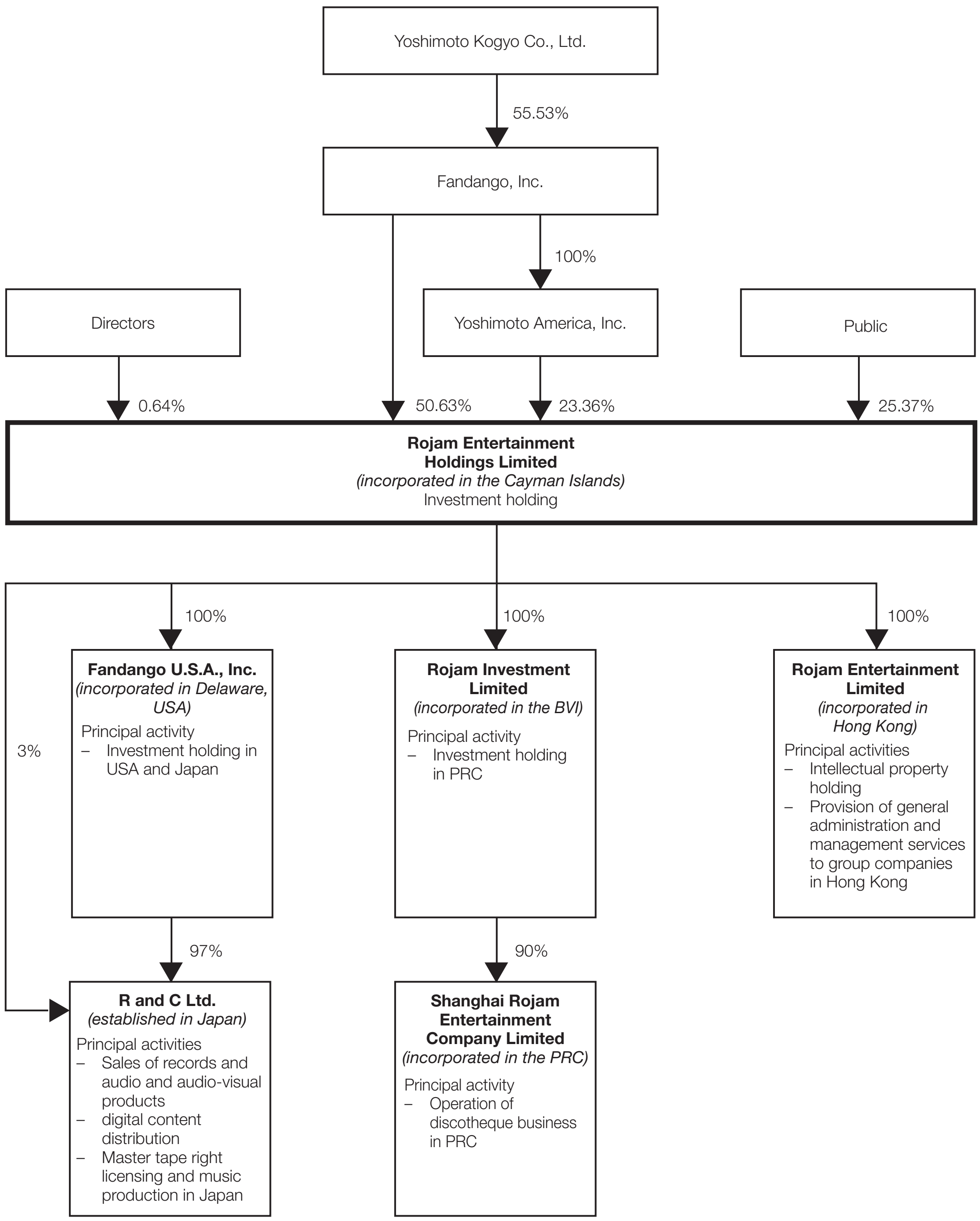
Mizuho Corporate Bank, Ltd

The Hong Kong and Shanghai Banking Corporation Limited

Corporate Chart

The Rojam Entertainment Holdings Limited ("Company") was incorporated in the Cayman Islands on 29 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 31 May 2001.

The following is a corporate chart of the Company and its subsidiaries (collectively known as the "Group") up to the date of this report.



Financial Summary

	2006 HK$'000	Restated 2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000
Results for the year ended 31 March					
Turnover	**505,417**	535,716	249,349	129,491	48,756
Profit/(loss) before income tax	**73,992**	70,815	11,146	10,571	(82,933)
Attributable to equity holders of the Company and minority interest	**40,166**	58,990	9,984	10,189	(82,933)
Assets and liabilities					
Total assets	**469,876**	460,454	298,383	259,138	187,383
Total liabilities	**(169,441)**	(171,619)	(65,178)	(34,588)	(9,281)
Total equity	**300,435**	288,835	233,205	224,550	178,102

The figures for the 2002 to 2005 have been restated pursuant to the adoption of Hong Kong Financial Reporting Standards (HKFRSs). Please refer to note 2.1 to the financial statements for change to the Group's accounting policies.

This year, 2006, represents the fifth anniversary of the Group as a GEM listed company. I am pleased to announce that the Group achieved its fourth consecutive year of profit, generating a net profit of HK$40.2 million in the financial year 2005/2006.

FINANCIAL RESULTS

Turnover was HK$505.4 million in the financial year of 2005/2006, a slight 6% decline from HK$535.7 million in the previous financial year. Factors behind the drop included lower revenues recorded from the Group's record production and distribution business, resulting from the change in sales commission arrangement with the distributors and fluctuation of exchange rate, and discotheque operation business, resulting from the intense competition. Profit before income tax for the financial year amounted to HK$74.0 million, representing an increase of 4% from HK$70.8 million of the last financial year. The Group's income tax returned to normal in this financial year, the effective tax rate changed from 17% to 46%. Lower effective tax rate in the previous financial year is primarily the consequence of the utilisation of the available deferred tax assets of HK$21.9 million in prior financial years. Profit attributable to equity holders was HK$40.2 million, being a 31% decrease from HK$57.8 million for the previous financial year. Basic earnings per share were 2.6 HK cents, a decrease of 30% compared to 3.7 HK cents of last financial year.

The board of Directors currently anticipates that the Company should retain certain portion of its distributable profit for future business expansion plan and thus, does not recommend the payment of a dividend for the financial year 2005/2006.

BUSINESS REVIEW

The Group's businesses continued to develop well in the financial year 2005/2006. The Group maintained its focus on its core record production and distribution business, implemented brand enhancement and continued to expand its sales network. The record production and distribution business reported another strong performance for the year. It generated 96% of our Group's total revenues. The change in sales commission arrangement and the effect of the exchange rate fluctuation made the turnover from record production and distribution business drop by 6% to HK$484.4 million from HK$514.8 million. Eliminating these two factors, the revenue from this business has a 6% growth as compared to last year.

Revenue from the new digital distribution business amounted to HK$3.1 million. We will continue to demonstrate our commitment to the rapidly growing digital distribution market and formulate our strategy to further develop our digital distribution business.

Results from Rojam Disco were affected by the keen competition in the domestic market. Revenue declined by 16% to HK$15.1 million from HK$18.1 million. The Group has taken a number of steps to consolidate its revenue base by introducing attractive new events and continuously revitalising the shop environment and brand image, and has planned to develop a discotheque chain to serve as a platform to replicate the Group's business model to mainland China.

OUTLOOK

Content is and will continue to be the king of entertainment in future. Securing rights over the content will decide the strength of the players across all segments. The Group will capitalise on its established businesses in Japan and mainland China to strengthen its profitability and business growth. The Group will continue its strategic direction in increasing content sales in Japan while maintaining a diversified recurrent income base from its packaged distribution business and discotheque business. The Group is also investigating opportunities to expand its businesses in mainland China and other Asian region.

Going forward, the Group will further capitalise on the operational synergies between Yoshimoto, Fandango and the Group. The collaboration continues to allow the Group to leverage on the Yoshimoto's extensive pool of artists and Fandango's mobile distribution network. The Group's record production and distribution business, digital distribution business and discotheque business are also complimentary to the activities of both Yoshimoto and Fandango. On 25 May 2006, the subscription of 371,430,000 new shares by Fandango was completed, this fund raising exercise strengthened the Group's capital base and financial position, which could facilitate the Group's ongoing business development.

I am also pleased to report that as announced in April 2006, the Group has started to explore the possibility of migrating the existing listing of the shares of the Company on GEM to a listing of the shares of the Company on the Main Board. Depending on the outcome, the Group may or may not proceed with the migration to the Main Board. The Company will make further announcements on any material developments in relation to the possible alternative listing.

On behalf of the board of Directors, I would like to express my sincere appreciation to the management and every member of our staff for their diligence, loyalty, dedication and continuing support. We are also grateful to our investors and business partners for their support and confidence. I look forward to another exhilarating financial year in 2006/2007.

Takeyasu Hashizume
President

Hong Kong, 26 May 2006

FINANCIAL REVIEW

	Fourth Quarter (Jan to Mar 2006) HK$'M	Third Quarter (Oct to Dec 2005) HK$'M	Second Quarter (Jul to Sept 2005) HK$'M	First Quarter (Apr to Jun 2005) HK$'M	Total HK$'M
Turnover	149.6	67.6	169.3	118.9	505.4
Operating expenditures*	121.7	68.6	135.8	106.0	432.1
Profit/(loss) before income tax	28.0	(0.8)	33.7	13.1	74.0
Income tax expense/(credit)	13.6	(1.1)	15.4	5.9	33.8
Profit attributable to equity holders	14.4	0.3	18.2	7.3	40.2

* *Cost of sales, selling, other operating expenses and other loss, net*

Sales by business segments

	Fourth Quarter (Jan to Mar 2006) HK$'M	%	Third Quarter (Oct to Dec 2005) HK$'M	%	Second Quarter (Jul to Sept 2005) HK$'M	%	First Quarter (Apr to Jun 2005) HK$'M	%	Total HK$'M	%
Record production and distribution	143.3	96	63.1	93	164.7	97	113.3	95	484.4	96
Music production	0.6	1	0.3	–	–	–	1.1	1	2.0	–
Digital distribution	2.2	1	0.4	1	0.4	1	0.1	–	3.1	1
Discotheque	3.2	2	3.8	6	4.0	2	4.1	4	15.1	3
Others	0.3	–	–	–	0.2	–	0.3	–	0.8	–
Group Total	149.6	100	67.6	100	169.3	100	118.9	100	505.4	100

Overall performance

The Group has recorded turnover of HK$505.4 million, a slight 6% decrease from that of HK$535.7 million in the previous financial year. The Group recorded a profit before income tax of HK$74.0 million for the year ended 31 March 2006, a 4% increase from HK$70.8 million for the year ended 31 March 2005. Profit attributable to equity holders for the year was HK$40.2 million, being 31% decrease from HK$57.8 million in the previous financial year.

FINANCIAL REVIEW *(Continued)*

Turnover and other revenue

The group recorded a total turnover and other revenue of approximately HK$506.1 million for the year ended 31 March 2006, representing a slight drop of 6% from HK$536.1 million in the previous financial year. The record production and distribution business was the largest revenue contributor at 96% (2005: 96%), with discotheque business and digital distribution business each contributing 3% (2005: 3%) and 1% (2005: Nil) respectively. Revenue generated in Japan represented 97% (2005: 97%) of total revenue, while operations in mainland China contributed 3% (2005: 3%).

The change in the sales commission arrangement with the distributors has resulted in a decrease in the Group's record production and distribution income by HK$32.0 million for the year ended 31 March 2006.

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

Excluding the effect of the change in sales commission arrangement and the drop in exchange rate, the Group's record production and distribution income increased by 6%.

Segment results

Turnover from the record production and distribution business amounted to HK$484.4 million, a 6% decrease from HK$514.8 million of the last financial year. Segment profit amounted to HK$76.2 million, being a 14% decrease from HK$88.4 million. The decrease in the segment profit was due to the increase in staff costs attributed to the production and the depreciation of Japanese Yen during the financial year. The music production income was HK$2.0 million, a 23% decrease from HK$2.6 million in the last financial year. Segment profit of HK$0.3 million was recorded, compared to a loss of HK$12.2 million in last financial year. The digital distribution income was HK$3.1 million and segment profit was HK$0.5 million. The revenue generated from the discotheque business was HK$15.1 million, being a 16% decline from HK$18.1 million of the last financial year. Segment profit amounted to HK$1.8 million, a 38% increase from HK$1.3 million in the last financial year.

Cost of sales and operating expenses

Cost of sales increased by 3% to HK$303.3 million from HK$293.2 million. Selling and distribution expenses decreased by 34% to HK$87.7 million from HK$133.5 million as a result of the change in sales commission arrangement for certain of its audio-visual products. The other operating expenses increased by 5% to HK$40.3 million from HK$38.4 million as a result of the increase in staff costs as a result of corporate expansion.

The Group's operating expenses as a percentage of revenue was slightly increased from 7% to 8%, reflecting the Group's continuous efforts in cost rationalisation. A well-managed and competitive cost base has been established to promote further revenue growth.

FINANCIAL REVIEW *(Continued)*

Income tax expense

The income tax expense increased to HK$33.8 million for the year ended 31 March 2006, being an increase of 186% from HK$11.8 million for the previous financial year. The effective tax rate for the year ended 31 March 2006 and 2005 was 46% and 17% respectively. Lower effective tax rate in the previous financial year is primarily the consequence of the utilisation of the available deferred tax assets of HK$21.9 million in prior financial years.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 March 2006, the Group's shareholders' funds increased 4% to approximately HK$299.8 million as compared to HK$288.2 million as at 31 March 2005. Total assets amounted to approximately HK$469.9 million (2005: HK$460.5 million), of which current assets amounted to HK$236.0 million (2005: HK$238.6 million). At 31 March 2006, the Group had current liabilities, non-current liabilities and minority interests of approximately HK$169.4 million (2005: HK$170.6 million), nil (2005: HK$1.0 million) and HK$0.7 million (2005: HK$0.7 million) respectively. Net asset value per share was HK$0.19 (2005: HK$0.19). Current ratio was 1.4 (2005: 1.4).

The Group financed its operations with internally generated cash flows. At 31 March 2006, cash and bank balances amounted to HK$112.1 million (2005: HK$209.8 million), which consists of 8% in Hong Kong dollars, 72% in Japanese Yen ("JPY"), 12% in Renminbi and 8% held in US dollars. The Renminbi denominated balances were placed with licensed banks in the 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 31 March 2006, the Group used HK$23.8 million in its operating activities, HK$51.0 million in its investing activities and HK$18.7 million for payment of the final dividend for the last financial year.

At 31 March 2006, the Group has no long-term borrowing, the same as for the past years. The gearing ratio of the Group, calculated as total borrowings 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 31 March 2006, the Group has no outstanding foreign currency hedge contracts (2005: Nil).

CHARGE ON GROUP ASSETS

At 31 March 2006, the Group did not have any charge on its assets (2005: Nil).

MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS

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

The Group did not have any other plan for material investment, acquisition or disposal of material capital assets at 31 March 2006.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities at 31 March 2006 (2005: Nil).

EMPLOYEE INFORMATION

At 31 March 2006, the Group had 120 (2005: 100) full-time employees in Hong Kong, Japan and Shanghai. Staff costs, excluding Directors' emoluments, totalled HK$25.7 million (2005: HK$18.9 million). The Group's remuneration policy is basically determined by the performance of individual employees. In general, salary review is conducted annually. Staff benefits, including medical coverage and provident funds, are also provided to employees.

OPERATIONS REVIEW

Record production and distribution

The record production and distribution business reported revenue of HK$484.4 million, a slight 6% decrease from the turnover of HK$514.8 million recorded in last year. The decrease was attributable to the change in sales commission arrangement and exchange rate fluctuations. Excluding these changes, the record production and distribution income increased by 6%. The record production and distribution business contributed 96% of the total revenue, being the largest revenue generator of the Group. Segment profit was HK$76.2 million, being a 14% decrease from HK$88.4 million in last year.

For the financial year under review, the Group's own label released a total of 83 music records and 71 audio-visual products, compared to 55 music records and 54 audio-visual products in the last financial year.

The second and fourth quarter recorded the highest sales in the financial year 2005/2006. Television is a very effective and powerful promotional channel. The original television programmes of Yoshimoto Kogyo Co., Ltd. ("Yoshimoto") continued to have huge influence on consumers in Japan. Yoshimoto arranges those artists and comedians who also work for the Group to produce recordings to perform in Yoshimoto's programs broadcasted in Japan to boost the popularity of those artists and comedians. The Group schedules the date of release of the recordings of these artists and comedians subsequent to the broadcast of such television programs to achieve better promotional effect on its products. The Group will continue to release its audio and audio-visual products which tie-in with the television programmes so that the Group could pay relatively lower promotional costs in marketing its products but maximise their sales volumes and revenues. During the financial year, the Group also started to sell its audio-visual products to rental shops through its sales agents.

OPERATIONS REVIEW *(Continued)*

Record production and distribution *(Continued)*

The popular dual men group, Downtown, released 3 sequels (volume 5 to volume 7) to their popular "ダウンタウンのガキの使いやあらへんで!!" DVD series during the financial year 2005/2006. 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. All ranked number 1 on the ORICON chart immediately after their releases. The cross-dressing male comedian, Gorie, released his second single and DVD namely "PECORI♥NIGHT" in the second quarter of the financial year. The single was a hit in Japan and was also number 1 on the ORICON chart. Other major-selling titles in the financial year included Kuzu's single "その手で夢をつかみとれ!", Muga Tsukaji, Atsushi Tsutsumishita and Yuuta Kajiwara's debut single and DVD "言いたいことも言えずに", Robert's DVD "ロバート LIVE! DVD 2005", Razor Ramon HG's single and DVD "Young Man", and Blackmore's Night's DVD "Castles&Dreams".

Digital distribution

Revenue from the digital distribution business amounted to HK$3.1 million and segment profit amounted to HK$0.5 million for the year ended 31 March 2006. Although the digital distribution business has yet to bring to the Group significant sales and profit contribution, the Group will further develop this business.

During the year ended 31 March 2006, 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, with major mobile phone carriers in Japan, namely KDDI, NTT DoCoMo and Vodafone. The Group's full-length music tracks and promotional video can be downloaded to subscribers' mobile phones. The basic download rate ranges from JPY 100 (HK$7) to JPY 360 (HK$25) per song and JPY 400 (HK$28) to JPY 450 (HK$32) per video. In addition, the successful launch of music download services with iTunes through the internet in the third quarter provided a new revenue stream for the Group.

Music production

Music production business is referred to the services encompassing producer services, master tape recording, mixing services, re-mixing services, arranging services and advisory services offered by the Group to other record companies. Revenue from the music production business dropped by 23% from HK$2.6 million to HK$2.0 million. Segment profit was HK$0.3 million, compared to loss of HK$12.2 million in last year.

Rojam Disco

The discotheque business reported revenue of HK$15.1 million with a segment profit of HK$1.8 million, representing a 16% decrease and 38% increase in turnover and segment profit respectively, when compared to revenue of HK$18.1 million and a segment profit of HK$1.3 million in previous year.

The average daily customer flow for the financial year at Rojam Disco was around 600, a drop of 18% from 730 as recorded in the previous financial year. The average spending level was however at the same level of that of the previous year. The primary reason for the decrease in turnover was because of the drop of admission income, which in part reflects the intense competition in the entertainment industry in Shanghai. The international DJ parties and hip-hop dancing parties continued to receive well response from the customers. Rojam Disco has also organised various new events, namely Japanese comedian – Fujii Takashi's show, and froth parties during the financial year. This was the first year the discotheque organised froth parties and they were successful in terms of revenue and gimmicks.

OPERATIONS REVIEW *(Continued)*

Rojam Disco *(Continued)*

The lease of the discotheque premises in Shanghai was renewed in the first quarter of the financial year 2005/2006. As the rents of the premises were approximately 25% of the total expenses of the discotheque on average over the previous years, the operating results of the discotheque were typically impacted by higher rentals. 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.

PROSPECTS

Moving forward, the Group will continue to produce high quality music and visual content to secure profitability and business growth and develop its digital distribution business in Asia. The Group will also expand the discotheque business and employ Rojam Disco as a platform to replicate the Group's successful business model in mainland China.

EXECUTIVE DIRECTORS

Mr. Takeyasu Hashizume, aged 58, 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. In 1972, Mr. Hashizume joined Sony Music Entertainment (Japan) Inc. (formerly known as CBS/Sony), where he was responsible for production and marketing, then he became President of Eastwest Japan, Inc. (currently known as Warner Entertainment Japan, Inc.) in 1996. Mr. Hashizume joined R and C Ltd. ("R&C"), as its President in May 2001. Mr. Hashizume was appointed as President of Fandango, Inc. ("Fandango") in December 2004.

Mr. Tetsuo Mori, aged 56, 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 Group's 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 in December 2004.

Mr. Osamu Nagashima, aged 50, 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 49, 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.), where he was involved in the promotion of a number of popular artists and marketing. Prior to joining the Group, he was a marketing director of For Life Music Entertainment Inc. Mr. Sakauchi was appointed as a director of Fandango in December 2004.

Mr. Arihito Yamada, aged 43, Executive Vice President (Finance) and the Compliance Officer, 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 in December 2004.

EXECUTIVE DIRECTORS *(Continued)*

Mr. Yukitsugu Shimizu, aged 64, 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 as a general manager of its accounting department and was appointed as a director in the same year. In 2003, Mr. Shimizu was appointed as a managing director of Yoshimoto. Since 2005, Mr. Shimizu has been an executive director of Yoshimoto.

Mr. Hiroshi Osaki, aged 52, 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 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 director of Fandango in 2000 and appointed as a director and general manager of Yoshimoto in 2001. Since 2005, Mr. Osaki has been an executive director of Yoshimoto.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Seiichi Nakaoda, aged 41, was appointed as an Independent Non-executive Director in February 2001. He is a member of the Institute of Certified Public Accountants in Japan 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 44, 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 51, 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 34, Financial Controller and the Qualified Accountant, 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 34, 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 44, 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.

The board of directors (the "Board") of Rojam Entertainment Holdings Limited (the "Company") is pleased to present this Corporate Governance Report in the annual report for the year ended 31 March 2006.

The Company wishes to highlight the importance of its Board in ensuring high standards of corporate governance in the interests of its shareholders and has devoted considerable effort to identifying and formalising best practices appropriate to the needs of the Company.

The Company applied the principles and complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 March 2006.

The Board will explain in this Corporate Governance Report where the Company's approach deviates from the Code.

DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provisions

Under the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Deviation and its Reasons

Mr. Takeyasu Hashizume is the President of the Company who is responsible for managing the Board and the businesses of the Company and its subsidiaries (collectively, the "Group"). Mr. Hashizume has been the President of the Company since 2003 and is very experienced in the music industry. In view of the current operation of the Group, the management considered that there is no imminent need to change the arrangement.

REMUNERATION COMMITTEE

Code Provisions

Under the Code, issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

Deviation and its Reasons

The Company is in the progress of forming a remuneration committee, which is expected to be established by the end of this year.

APPOINTMENTS, RE-ELECTION AND REMOVAL

Code Provisions

Under the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

APPOINTMENTS, RE-ELECTION AND REMOVAL *(Continued)*

Deviation and its Reasons

All the directors of the Company (the "Directors") are currently appointed with specific terms. According to the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation, but the chairman of the Board and/or the managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. As such, with the exception of the chairman, all Directors are subject to retirement by rotation. The management considers that there is no imminent need to amend the articles of association of the Company.

COMMUNICATION WITH SHAREHOLDERS

Code Provisions

Under the Code, the chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Deviation and its Reasons

Whilst the Company endeavours to maintain an on-going dialogue with its shareholders, the President may not always be able to attend the annual general meeting due to other important business engagement. Mr. Arihito Yamada, an executive Director, attended the 2005 annual general meeting on 20 June 2005 and answered questions raised at the meeting.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by Directors during the year ended 31 March 2006.

THE BOARD

The Board is responsible for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All Directors should take decisions objectively in the interests of the Company.

The Board currently comprises ten members, consisting of seven executive Directors and three independent non-executive Directors. Their brief biographical details are described in the annual report.

The Company has received written annual confirmation from each of the independent non-executive Directors of his independence pursuant to the rules 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors to be independent.

The Board meets at least four times a year to review the financial and operating performance of the Group.

THE BOARD *(Continued)*

There were thirteen Board meetings held in the financial year ended 31 March 2006. Individual attendance of each Board member at these meetings is as follows:

Name of Director	Attended/ Eligible to attend
Executive Directors	
Takeyasu Hashizume (President)	12/13
Tetsuo Mori	12/13
Osamu Nagashima	11/13
Mitsuo Sakauchi	11/13
Arihito Yamada	13/13
Yukitsugu Shimizu	11/13
Hiroshi Osaki	11/13
Independent Non-executive Directors	
Seiichi Nakaoda	2/2
Kwong Pui Kei	2/2
Law Kar Ping	2/2

During the regular meetings of the Board, the Directors discuss and formulate the overall strategies of the Group, review and monitor the business and financial performances and discuss the quarterly, half-yearly and annual results, as well as discuss and decide on other significant matters.

The management is responsible for the day-to-day operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

AUDIT COMMITTEE

The Company established an audit committee on 21 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 primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly report and quarterly reports and to provide advices and comments thereon to the Board. The audit committee meets at least four times a year with management to review the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters. The audit committee met four times during the year ended 31 March 2006. Individual attendance of each committee member at these meetings is as follows:

Name of Director	Attended/ Eligible to attend
Independent Non-executive Directors	
Seiichi Nakaoda	4/4
Kwong Pui Kei	4/4
Law Kar Ping	4/4

The audit committee reviewed the Group's audited results for the year ended 31 March 2006 with the Company's management and recommended its adoption by the Board.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

The auditors' responsibilities are set out in the Auditors' Report.

INTERNAL CONTROL

The Board has overall responsibility for the establishment, maintenance and review of the Group's system of internal control. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal control of the Group.

EXTERNAL AUDITORS

PricewaterhouseCoopers ("PwC") has been appointed as the external auditors of the Company by shareholders at the annual general meeting. The remuneration in respect of services provided by PwC for the Group for the year ended 31 March 2006 and 2005 is analysed as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Auditors' remuneration	**1,986**	1,307

CONCLUSION

The Board believes that good corporate governance can safeguard the effective allocation of resources and protect shareholders' interest. The management will try to maintain, strengthen and improve the standard and quality of the Group's corporate governance.

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 March 2006.

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 15 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 34.

The Directors do not recommend the payment of a dividend for the year ended 31 March 2006 (2005: a final dividend of 1.2 HK cents per share, totalling HK$18,656,000).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2006, the Company had distributable reserves of approximately HK$7.5 million (2005: HK$8.2 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 31 March 2006.

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

Independent non-executive Directors

Mr. Seiichi Nakaoda
Mr. Kwong Pui Kei
Mr. Law Kar Ping

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Messrs. Tetsuo Mori, Yukitsugu Shimizu and Hiroshi Osaki 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 27 February 2003; in the case of Mr. Tetsuo Mori, his service agreement commenced on 7 January 2002; in the case of Mr. Osamu Nagashima, his service agreement commenced on 27 February 2003; in the case of Mr. Mitsuo Sakauchi, his service agreement commenced on 12 November 2003; in the case of Mr. Arihito Yamada, his service agreement commenced on 1 July 2000; in the case of Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki, their service agreements commenced on 10 October 2002; in the case of Mr. Seiichi Nakaoda, his service agreement commenced on 6 February 2001; in the cases of Mr. Kwong Pui Kei and Mr. Law Kar Ping, their service agreements commenced on 14 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 28 to the consolidated financial statements. Certain of the transactions disclosed in note 28 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 royalty agreements

Pursuant to a master royalty agreement (the "Master Royalty Agreement 2002") dated 10 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). The Master Royalty Agreement 2002 and the cap of HK$2,000,000 for the period from 10 October 2002 to 31 March 2003 and HK$4,000,000 for each of the two years ended 31 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 7 October 2002 (the "EGM 2002").

On 30 August 2004, R&C and Yoshimoto entered into a master royalty agreement ("Master Royalty Agreement 2004") superseded the Master Royalty Agreement 2002.

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 also 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. The Master Royalty Agreement 2004 and the annual caps of HK$20,000,000, HK$22,000,000 and HK$26,000,000 for each of the two years ended 31 March 2006 and the year ending 31 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 27 September 2004 (the "EGM 2004"). The term of the Master Royalty Agreement 2004 is from 30 August 2004 to 31 March 2007, and thereafter renewable by mutual agreement for consecutive three-year periods.

Under the Master Royalty Agreement 2004, R&C is 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 the Master Royalty Agreement 2004 continue on a perpetual basis, even in the event that the Master Royalty Agreement 2004 expires or is terminated.

The aggregate amount of artist royalties paid to Yoshimoto under the master royalty agreements for the year ended 31 March 2006 was approximately HK$14,489,000 (2005: HK$12,483,000).

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

(b) Sub-lease agreement

R&C has entered into a sub-lease agreement with Yoshimoto on 20 July 2004 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 20 July 2004 to 31 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 ended 31 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 31 March 2006 was approximately HK$1,752,000 (2005: HK$1,507,000).

(c) Music studio sub-lease agreement

Pursuant to a lease agreement dated 30 August 2004 and entered into between R&C Asia and 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 30 August 2004 to 31 March 2007, subject to termination by R&C Asia giving a 1-month prior notice to Fandango in the event of termination of the head lease entered into between R&C Asia and a third party for use of the Warehouse Building. Under this agreement, Fandango is liable to pay R&C Asia rent of the actual operating costs of the sub-let property and the Facilities, which will be R&C Asia'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$1,311,000). This agreement and the annual cap of HK$17,000,000 for the two years ended 31 March 2006 and the year ending 31 March 2007, have been approved by the independent shareholders of the Company by way of poll at the EGM 2004.

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

Fandango did not sub-let the premises for the two years ended 31 March 2006. Accordingly, no rental has been received from Fandango for the year ended 31 March 2006 (2005: Nil).

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

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

Pursuant to a master video production agreement dated 10 October 2002 and entered into between R&C and Yes Visions Co., Ltd. ("Yes Visions"), and a master video production agreement dated 10 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. The term of each of these agreements is from 10 October 2002 to 31 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 31 March 2005, have been approved by the independent shareholders of the Company by way of poll at the EGM 2002. Upon the expiry of these agreements, the Group did not renew their terms. No production cost was paid to Yes Visions and Y's Vision under these agreements for the year ended 31 March 2006 (2005: HK$104,000).

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

Pursuant to a master video production agreement dated 30 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 30 August 2004 to 31 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 two years ended 31 March 2006 and the year ending 31 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 31 March 2006 was approximately HK$166,000 (2005: HK$90,000).

(e) Master consignment agreement

Pursuant to a master consignment agreement dated 30 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 30 August 2004 to 31 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.

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

(e) Master consignment agreement *(Continued)*

The annual cap for the production costs plus administration costs under this agreement is HK$3,500,000 for the two years ended 31 March 2006 and the financial year ending 31 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 31 March 2006 was approximately HK$717,000 (2005: HK$1,895,000).

(f) Master merchandise royalty agreements

Pursuant to a master merchandise royalty agreement dated 30 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 30 August 2004 to 31 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 the two years ended 31 March 2006 and the financial year ending 31 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 have been received from Fandango and Yoshimoto Club (2005: Nil).

(g) Master digital distribution agreement

Pursuant to a master digital distribution agreement dated 30 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 30 August 2004 to 31 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 paid 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 two years ended 31 March 2006 and the financial year ending 31 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, the commission received from Fandango under this agreement was approximately HK$695,000 (2005: Nil). No development cost was paid to Fandango under this agreement for the year ended 31 March 2006 (2005: HK$978,000).

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

(h) Master promotion agreement

Pursuant to a master promotion agreement dated 30 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 30 August 2004 to 31 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 the two years ended 31 March 2006 and the financial year ending 31 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 31 March 2006 was approximately HK$1,813,000 (2005: HK$1,879,000).

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

(i) have been entered into in the ordinary and usual course of the business of the Group;
(ii) have been entered into either on normal commercial terms; or
(iii) have been entered into 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; and
(iv) have not exceeded their respective caps.

Based on the work performed, the auditors of the Company have confirmed that the connected transactions from notes (a) to (h):

(i) have been approved by the board of Directors of the Company;
(ii) are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
(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 31 March 2006, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests and short positions in the shares of the Company

Name of Director	Capacity in which the shares are held	Number of shares	Approximate shareholding in the Company
Mr. Takeyasu Hashizume	Beneficial owner	1,730,000 (L)	0.11%
Mr. Arihito Yamada	Beneficial owner	8,913,600 (L)	0.57%
Mr. Yukitsugu Shimizu	Beneficial owner	430,000 (L)	0.03%
Mr. Hiroshi Osaki	Beneficial owner	1,300,000 (L)	0.08%

Note: The letter "L" denotes the Directors' long position in the shares of the Company.

Save as disclosed above, at 31 March 2006, none of the Directors, chief executives or their respective associates (as defined in the GEM Listing Rules) had or 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) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the year ended 31 March 2006 was the Company, its holding company 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 31 March 2006, 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	Number of 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)*	1,053,666,167	67.77%
Yoshimoto Kogyo Co., Ltd. *(Note 2)*	1,053,666,167	67.77%
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 of the Company held by Yoshimoto America in addition to the 603,666,167 shares of the Company directly held by itself. In addition to its interest in 1,053,666,167 shares of the Company, pursuant to a subscription agreement dated 18 April 2006, Fandango was deemed to be interested in 371,430,000 shares of the Company by virtue of the SFO, representing approximately 23.89% of the existing issued share capital of the Company as at 31 March 2006.

2. Fandango controlled as to 55.53% by Yoshimoto. Accordingly, Yoshimoto was interested in 1,053,666,167 shares in the Company by attribution.

Save as disclosed above, at 31 March 2006, 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	29%
– five largest suppliers combined	76%
Sales	
– the largest customer	29%
– five largest customers combined	93%

Director, Mr. Yukitsugu Shimizu held an approximately 0.03% interest in the issued share capital of the Group's one of the five largest suppliers.

Director, Mr. Hiroshi Osaki held approximately 0.02% and 0.15% interest, respectively, in the issued share capital of the Group's two of the five largest suppliers and approximately 0.15% interest in the issued share capital of the Group's one of the five largest customers.

Yoshimoto is one of the five largest suppliers to the Group during the current year.

Save as disclosed above, 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 Group's five largest 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 31 March 2006.

AUDIT COMMITTEE

The Company established an audit committee on 21 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. Four 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 10 October 2002, as each amended by a supplemental deed dated 28 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.

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) (i) Options to subscribe for up to an aggregate of 51,734,220 shares in the Company were granted on 21 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 21 May 2001, a share options scheme (the "Share Options Scheme") was adopted by the Company subject to the terms and conditions stipulated therein. Options to subscribe for up to an aggregate of 52,240,000 shares in the Company were granted on 12 July 2001 to the then executive Directors and full-time employees of the Group pursuant to the Share Options Scheme and the terms and conditions contained in the offer letter dated 12 July 2001 from the Company.

(b) During the year ended 31 March 2005, 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. As at 31 March 2005 and 2006, there are no outstanding options under the Pre-IPO Grant of Options.

(c) On 23 September 2004, the Company passed an ordinary resolution in respect of the termination of the Share Options Scheme. As at 31 March 2005 and 2006, there are no outstanding options under the Share Options Scheme.

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 subsidiary operating in Japan is 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 approximately 7% of the basic salary of their employees up to a monthly maximum of JPY 635,000 (approximately HK$43,800) 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% to 22% of the basic salary of their employees.

AUDITORS

The financial statements 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, 26 May 2006

PRICEWATERHOUSECOOPERS

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 financial statements on pages 34 to 84 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 Hong Kong Standards on Auditing 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 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, 26 May 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	As restated 2005 HK$'000
Turnover	5	**505,417**	535,716
Cost of sales	6	**(303,326)**	(293,168)
Gross profit		**202,091**	242,548
Selling and distribution expenses	6	**(87,722)**	(133,491)
Other operating expenses	6	**(40,340)**	(38,448)
Other loss, net	7	**(709)**	(199)
Operating profit		**73,320**	70,410
Finance income		**672**	405
Profit before income tax		**73,992**	70,815
Income tax expense	8	**(33,826)**	(11,825)
Profit for the year		**40,166**	58,990
Attributable to:			
Equity holders of the Company		**40,166**	57,824
Minority interests		**–**	1,166
		40,166	58,990
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– basic and diluted	10	**2.6**	3.7
Dividends	11	**–**	18,656

The notes on pages 40 to 84 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 March 2006

	Note	2006 HK$'000	As restated 2005 HK$'000
ASSETS			
Non-current assets			
Intangible assets	13	**184,774**	171,288
Property, plant and equipment	14	**13,606**	22,120
Deposit for purchase of financial asset	16	**–**	23,400
Available-for-sale financial asset	16	**23,400**	–
Deferred income tax assets	17	**12,056**	5,090
		233,836	221,898
Current assets			
Inventories	18	**14,553**	7,521
Trade receivables	20	**100,367**	10,194
Other receivables and prepayments		**9,052**	11,036
Cash and cash equivalents	21	**112,068**	209,805
		236,040	238,556
Total assets		**469,876**	460,454
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	**155,468**	155,468
Reserves	23(a)	**144,292**	114,036
Proposed dividends	23(a)	**–**	18,656
		299,760	288,160
Minority interests		**675**	675
Total equity		**300,435**	288,835

Consolidated Balance Sheet

(Continued)

As at 31 March 2006

	Note	2006 HK$'000	As restated 2005 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	17	–	1,034
Current liabilities			
Trade payables	24	**91,081**	87,290
Accruals and other payables		**24,912**	21,649
Receipt in advance		**19,975**	45,473
Current income tax liabilities		**33,473**	16,173
		169,441	170,585
Total liabilities		**169,441**	171,619
Total equity and liabilities		**469,876**	460,454
Net current assets		**66,599**	67,971
Total assets less current liabilities		**300,435**	289,869

On behalf of the Board

Takeyasu Hashizume
Director

Arihito Yamada
Director

The notes on pages 40 to 84 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current asset			
Investments in subsidiaries	15	**91,338**	91,338
Current assets			
Amounts due from subsidiaries	19	**58,325**	57,973
Other receivables and prepayments		**139**	178
Cash and cash equivalents	21	**13,804**	33,439
		72,268	91,590
Total assets		**163,606**	182,928
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	**155,468**	155,468
Reserves	23(b)	**7,543**	8,233
Proposed dividends	23(b)	**–**	18,656
Total equity		**163,011**	182,357
LIABILITIES			
Current liabilities			
Accruals and other payables		**595**	571
Total liabilities		**595**	571
Total equity and liabilities		**163,606**	182,928
Net current assets		**71,673**	91,019
Total assets less current liabilities		**163,011**	182,357

On behalf of the Board

Takeyasu Hashizume
Director

Arihito Yamada
Director

The notes on pages 40 to 84 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Attributable to equity holders of the Company					
	Share capital	Share premium	Exchange reserve	(Accumulated losses)/ retained earnings	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 April 2004, as previously reported as equity	155,468	148,329	(7,317)	(65,159)	–	231,321
Balance at 1 April 2004, as previously separately reported as minority interests	–	–	–	–	1,884	1,884
Balance at 1 April 2004, as restated	155,468	148,329	(7,317)	(65,159)	1,884	233,205
Exchange adjustment on translation of financial statements of overseas subsidiaries	–	–	(985)	–	(89)	(1,074)
Acquisition of subsidiaries from minority shareholders	–	–	–	–	(2,286)	(2,286)
Profit for the year ended 31 March 2005	–	–	–	57,824	1,166	58,990
Balance at 31 March 2005, as restated	155,468	148,329	(8,302)	(7,335)	675	288,835
Balance at 1 April 2005, as previously reported as equity	155,468	148,329	(8,302)	(7,335)	–	288,160
Balance at 1 April 2005, as previously separately reported as minority interests	–	–	–	–	675	675
Balance at 1 April 2005, as restated	155,468	148,329	(8,302)	(7,335)	675	288,835
Exchange adjustment on translation of financial statements of overseas subsidiaries	–	–	(9,910)	–	–	(9,910)
Final dividend for the year ended 31 March 2005	–	–	–	(18,656)	–	(18,656)
Profit for the year ended 31 March 2006	–	–	–	40,166	–	40,166
Balance at 31 March 2006, as restated	155,468	148,329	(18,212)	14,175	675	300,435

The notes on pages 40 to 84 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	As restated 2005 HK$'000
Cash flows from operating activities			
Cash generated from operations	25(a)	**1,421**	210,257
Overseas tax paid		**(25,244)**	(773)
Net cash (used in)/generated from operating activities		**(23,823)**	209,484
Cash flows from investing activities			
Purchase of property, plant and equipment	14	**(805)**	(2,153)
Purchase of record masters	13	**(50,870)**	(33,797)
Purchase of additional interests of subsidiaries	25(b)	**–**	(30,441)
Deposit for purchase of investment securities	16, 25(c)	**–**	(23,400)
Interest received		**672**	405
Net cash used in investing activities		**(51,003)**	(89,386)
Cash flows from financing activities			
Dividends paid to Company's shareholders		**(18,656)**	–
Net cash used in financing activities		**(18,656)**	–
Net (decrease)/increase in cash and cash equivalents		**(93,482)**	120,098
Cash and cash equivalents at the beginning of the year		**209,805**	90,428
Effect of foreign exchange rate change		**(4,255)**	(721)
Cash and cash equivalents at the end of the year	21	**112,068**	209,805

The notes on pages 40 to 84 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies. The Group is principally engaged in record production and distribution, music production, digital distribution and discotheque operation.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset, which is carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The adoption of new/revised HKFRS

In the year ended 31 March 2006, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives for the year ended 31 March 2005 have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Translation and Initial Recognition of Financial Assets and Financial Liabilities
HKAS Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 24, 27, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKASs 2, 7, 8, 10, 16, 17, 27, 33, and HKAS-Int 15 had no material effect on the Group's policies.

– The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised HKAS 21. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 March 2005, the provision of share options to employees did not result in the expense in the income statement. Under the transitional provision of the new accounting standard, the costs of share options granted after 7 November 2002 and had not yet vested on 1 April 2005 should be expensed retrospectively in the income statement. However, since all share options have been cancelled during the year ended 31 March 2005 and there are no outstanding options as at 31 March 2005 and 2006, the adoption of HKFRS 2 has no impact to the Group (Note 22(b) and (c)).

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification and measurement of available-for-sale financial asset.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 April 2005;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 April 2005; and

– HKFRS 3 – prospectively after 1 April 2004.

The adoption of the above new/revised accounting standards has no material impact to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are applicable and mandatory for the Group's accounting periods beginning on or after 1 April 2006 or later periods but which the Group has not early adopted, as follows:

HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 April 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 April 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 April 2007.

HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 April 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 March.

(a) Subsidiaries

Subsidiaries are those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (See Note 2.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. This has been applied prospectively from 1 April 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives. 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 asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by company proceeds with carrying amount and are included in the income statement.

2.6 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 identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. 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. The allocation is made to those cash-generated units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Record masters

Record masters are stated at accumulated costs incurred in the production, less amortisation and impairment loses, of master tapes of the audio and audio-visual products. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

From 1 April 2005 onwards:

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classifications of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified in trade and other receivables in the balance sheet (Note 2.10).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories of financial assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for available-for-sale financial assets and loans and receivables. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains or losses from investment securities. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

Since the available-for-sale financial assets are unlisted equity securities, the Group establishes fair value by using valuation techniques, including the use of recent arm's length transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade and other receivables is described in Note 2.10.

2.9 Inventories

Inventories comprise merchandise and records and audio-visual products and are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods comprises purchase cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payment are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Prior to 1 April 2005, provision was made against trade and receivables to the extent they were considered to be doubtful. Trade and other receivables in the balance sheet were stated at cost net of such provision.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 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) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Pension Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the Pension Scheme. The assets of the Pension Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed to the Pension Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to vesting fully in the contributions, in accordance with the rules of the Pension Scheme.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Employee benefits *(Continued)*

(ii) Pension obligations *(Continued)*

In addition, pursuant to the government regulations in the People's Republic of China (the "PRC") and Japan, the Group is required to contribute an amount to certain retirement benefit schemes based on approximately 7% to 22% and 7% of the wages for the year of those workers in the PRC and Japan, respectively. The local municipal government of PRC and Japan undertake to assume the retirement benefits obligations of those workers of the Group. Contributions to these retirement benefits schemes are charged to the consolidated income statement as incurred.

2.15 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Revenue from record production and distribution and digital distribution is recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivable is reasonably assured.

(ii) Revenue from music production services is recognised when the production is completed.

(iii) Revenue from operation of discotheque, including sales of food and beverages, is recognised when the service is rendered.

(iv) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Operating leases

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

Risk management is carried out by the Group's Treasury function. The Group adopts a conservative and balanced treasury policy which focuses on the financial risks factor as below and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group's major operations are in Japan and the People's Republic of China ("PRC"). The net assets are exposed to foreign currency translation risk. The Group has an economic hedge in terms of transactional currency risk to the extent that nearly all of the Group's sales, purchases and operating expenses are denominated in local currencies of foreign operations.

(ii) Price risk

The Group is exposed to equity securities price risk because investment held by the Group is classified on the consolidated balance sheet as available-for-sale financial asset. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group's sales are made to several major customers. The majority of the Group's trade receivables relate to the record production and distribution, music production and digital distribution. To minimise the concentration of credit risk, the Group has policies in place to ensure that sales are made to reputable and creditworthy customers. The Group also performs ongoing credit evaluations of its customers' financial conditions. In addition, deposits are also received in advance for certain major customers.

(c) Interest rate risk

The Group is not significantly exposed to fair value interest rate risks as the Group has no significant interest-bearing assets, except cash and cash equivalents of short maturity, and has no borrowings. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

(d) Liquidity risk

The Group adopts a prudent liquidity risk management policy to maintain sufficient cash to fund its operations.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The key assumptions used are summarized below:

	2006		
	Gross margin[1]	**Growth rate[2]**	**Discount rate[3]**
Japan			
– Record production and distribution and music production	41%	3%	4.5%
PRC			
– Discotheque operation	13%	3%	6.4%

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.

Details of the assumptions are disclosed in Note 13.

5. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2006	2005
	HK$'000	*HK$'000*
Turnover		
Record production and distribution income	**484,383**	514,785
Music production income	**2,040**	2,636
Digital distribution income	**3,053**	–
Discotheque income	**15,105**	18,070
Others	**836**	225
	505,417	535,716

Primary reporting format – business segments

The Group is principally engaged in four main business segments:

Record production and distribution	–	producing and distributing records and audio-visual products under its own labels, and records and audio-visual products 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
Digital distribution	–	production and provision of digital entertainment content through multi-media platforms such as internet, mobile phones and other digital media
Discotheque	–	operations of discotheque

The Group's inter-segment transactions mainly consist of record production and 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 represent corporate expenses.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash. They exclude deferred taxation and investments.

Segment liabilities comprise operating liabilities and exclude items such as taxation.

Capital expenditure comprises additions to property, plant and equipment (Note 14) and intangible assets (Note 13).

5. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

The segment results for the year ended 31 March 2006 and segment assets and liabilities at 31 March 2006 and capital expenditure for the year then ended are as follows:

	2006						
	Record production and distribution *HK$'000*	Digital distribution *HK$'000*	Music production *HK$'000*	Discotheque *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Turnover							
External sales	484,383	3,053	2,040	15,105	836	–	505,417
Inter-segment sales	19	–	–	–	–	(19)	–
Total	484,402	3,053	2,040	15,105	836	(19)	505,417
Segment results	76,168	480	322	1,810	836	–	79,616
Finance income							672
Unallocated corporate costs							(6,296)
Profit before income tax							73,992
Income tax expense							(33,826)
Profit for the year							40,166
Segment assets	372,851	–	961	40,674	–	–	414,486
Unallocated corporate assets							55,390
Total assets							469,876
Segment liabilities	(125,152)	–	(497)	(8,931)	–	–	(134,580)
Unallocated corporate liabilities							(34,861)
Total liabilities							(169,441)
Capital expenditure	51,256	–	–	419	–	–	51,675
Amortisation of intangible assets	33,916	–	–	–	–	–	33,916
Write down of inventories	642	–	–	–	–	–	642
Impairment of trade receivables	498	–	–	–	–	–	498
Depreciation	7,334	–	–	496	–	–	7,830
Unallocated corporate depreciation							20
							7,850

5. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

The segment results for the year ended 31 March 2005 and segment assets and liabilities at 31 March 2005 and capital expenditure for the year then ended are as follows:

	2005					
	Record production and distribution *HK$'000*	Music production *HK$'000*	Discotheque *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Turnover						
External sales	514,785	2,636	18,070	225	–	535,716
Inter-segment sales	65	4,607	–	–	(4,672)	–
Total	514,850	7,243	18,070	225	(4,672)	535,716
Segment results	88,409	(12,154)	1,296	35	–	77,586
Finance income						405
Unallocated corporate costs						(7,176)
Profit before income tax						70,815
Income tax expense						(11,825)
Profit for the year						58,990
Segment assets	353,453	1,133	38,557	1	–	393,144
Unallocated corporate assets						67,310
Total assets						460,454
Segment liabilities	(148,156)	(712)	(4,394)	–	–	(153,262)
Unallocated corporate liabilities						(18,357)
Total liabilities						(171,619)
Capital expenditure	34,714	–	1,230	–	–	35,944
Unallocated corporate capital expenditure						6
						35,950
Amortisation of intangible assets	22,619	–	–	–	–	22,619
Impairment charge on intangible assets	1,664	–	–	–	–	1,664
Write down of inventories	4,991	–	–	–	–	4,991
Impairment of trade receivables	1,751	–	–	–	–	1,751
Recovery of bad debts previously written off	334	–	–	–	–	334
Depreciation	8,347	40	513	1	–	8,901
Unallocated corporate depreciation						98
						8,999

5. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

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

Japan	–	record production and distribution, digital distribution and music production
Mainland China	–	operations of discotheque

There are no sales or other transactions between the geographical segments.

	Turnover 2006 *HK$'000*	Segment results 2006 *HK$'000*	Segment assets 2006 *HK$'000*	Capital expenditure 2006 *HK$'000*
Japan	**490,312**	**77,806**	**373,812**	**51,256**
Mainland China	**15,105**	**1,810**	**40,674**	**419**
	505,417	**79,616**	**414,486**	**51,675**
Finance income		**672**		
Unallocated corporate costs		**(6,296)**		
Profit before income tax		**73,992**		
Unallocated corporate assets			**55,390**	
Total assets			**469,876**	

5. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments *(Continued)*

	Turnover 2005 *HK$'000*	Segment results 2005 *HK$'000*	Segment assets 2005 *HK$'000*	Capital expenditure 2005 *HK$'000*
Japan	517,646	76,290	354,587	34,714
Mainland China	18,070	1,296	38,557	1,230
	535,716	77,586	393,144	35,944
Finance income		405		
Unallocated corporate costs		(7,176)		
Profit before income tax		70,815		
Unallocated corporate assets			67,310	
Total assets			460,454	
Unallocated corporate capital expenditure				6
Total capital expenditure				35,950

6. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and other operating expenses are analysed as follows:

	2006 **HK$'000**	2005 HK$'000
Auditors' remuneration	**1,986**	1,307
Cost of inventories sold	**251,045**	237,006
Depreciation of property, plant and equipment *(Note 14)*	**7,850**	8,999
Operating leases on land and buildings	**5,813**	5,562
Record masters *(Note 13)*		
– Amortisation	**33,916**	22,619
– Impairment charges	**–**	1,664
Write down of inventories	**642**	4,991
Impairment of trade receivables	**498**	1,751
Employee benefit expense (including Directors' emoluments) *(Note 12)*	**31,194**	28,261
Management fee paid to the minority shareholder *(Note 15)*	**480**	470
Others	**97,964**	152,477
Total expenses	**431,388**	465,107

7. OTHER LOSS, NET

	2006 **HK$'000**	2005 HK$'000
Recovery of bad debts previously written off	**–**	(334)
Net foreign exchange loss	**709**	533
	709	199

8. INCOME TAX EXPENSE

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 is calculated at the applicable rates, ranging from 6.2% to 30%.

The PRC taxation has been provided on the profit of the Group's subsidiary in the PRC and is calculated at the applicable rates.

The amount of income tax charged to the consolidated income statement represents:

	2006 **HK$'000**	2005 *HK$'000*
Current income tax:		
– Japanese corporate income tax	**42,615**	16,815
– PRC taxation	**481**	–
Over-provision in prior years:		
– Japanese corporate income tax	**(552)**	–
– PRC taxation	**–**	(16)
Deferred income tax *(Note 17)*	**(8,718)**	(4,974)
Income tax expense	**33,826**	11,825

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

	2006 **HK$'000**	2005 *HK$'000*
Profit before income tax	**73,992**	70,815
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**12,949**	12,393
Effect of different taxation rates in other countries	**19,038**	22,048
Income not subject to taxation	**(96)**	(5,970)
Expenses not deductible for taxation purposes	**2,487**	4,982
Utilisation of unrecognised tax losses	**–**	(21,854)
Tax losses unrecognised	**–**	242
Over-provision in prior years	**(552)**	(16)
Income tax expense	**33,826**	11,825

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a loss of HK$690,000 for the year ended 31 March 2006 (2005: profit of HK$7,264,000).

10. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Profit attributable to equity holders of the Company *(HK$'000)*	**40,166**	57,824
Weighted average number of ordinary shares in issue *(thousands)*	**1,554,684**	1,554,684
Basic earnings per share *(HK cents per share)*	**2.6**	3.7

Diluted

	2006 *(Note below)*	2005
Profit attributable to equity holders of the Company *(HK$'000)*	**40,166**	57,824
Weighted average number of ordinary shares in issued *(thousands)*	**1,554,684**	1,554,684
Adjustment for share options *(thousands)*	**–**	3,354
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**1,554,684**	1,558,038
Diluted earnings per shares *(HK cents per share)*	**2.6**	3.7

Note: There were no dilutive potential ordinary shares during the year ended 31 March 2006 (Note 22(b) and (c)).

11. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
2005 Final, proposed, of 1.2 HK cents per share	**–**	18,656

The Directors do not recommend the payment of a dividend for the year ended 31 March 2006.

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	**28,516**	26,572
Social security costs	**1,337**	624
Pension costs-defined contribution plans	**1,341**	1,065
	31,194	28,261

Note:

	2006	2005
	HK$'000	*HK$'000*
Contributions paid and payable to defined contribution retirement schemes in respect of:		
– Hong Kong	**75**	80
– Japan	**1,153**	822
– PRC	**113**	163
	1,341	1,065

(a) Pensions – defined contribution plans

Contributions totalling HK$94,000 (2005: HK$74,000) were payable to the defined contribution retirement schemes at the year-end. No contribution was forfeited during the year (2005: Nil).

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

(Continued)

(b) Directors' emoluments

There was no arrangement under which a director waived or agreed to waive any emolument during the year (2005: Nil).

The remuneration of every director for the year ended 31 March 2006, is set out below:

Name of Director	Fees	Salary	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Takeyasu Hashizume	–	1,405	21	1,426
Tetsuo Mori	–	609	21	630
Osamu Nagashima	–	1,144	36	1,180
Mitsuo Sakauchi	–	583	21	604
Arihito Yamada	–	1,202	21	1,223
Hiroshi Osaki	–	83	–	83
Yukitsugu Shimizu	–	–	–	–
	–	5,026	120	5,146
Independent Non-Executive Directors				
Seiichi Nakaoda	120	–	–	120
Kwong Pui Kei	120	–	–	120
Law Kar Ping	120	–	–	120
	360	–	–	360
	360	5,026	120	5,506

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

(Continued)

(b) Directors' emoluments *(Continued)*

The remuneration of every director for the year ended 31 March 2005, is set out below:

Name of Director	Fees	Salary	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors				
Takeyasu Hashizume	–	2,465	38	2,503
Tetsuo Mori	–	1,111	37	1,148
Osamu Nagashima	–	1,209	37	1,246
Mitsuo Sakauchi	–	1,220	37	1,257
Arihito Yamada	–	2,385	37	2,422
Hiroshi Osaki	–	416	–	416
Yukitsugu Shimizu	–	–	–	–
Tetsuya Komuro *(Note (i))*	–	–	–	–
	–	8,806	186	8,992
Independent Non-Executive Directors				
Seiichi Nakaoda	170	–	–	170
Kwong Pui Kei *(Note (ii))*	66	–	–	66
Law Kar Ping *(Note (ii))*	66	–	–	66
Yeung Mui Kwan, David *(Note (iii))*	113	–	–	113
	415	–	–	415
	415	8,806	186	9,407

Note (i) Mr. Tetsuya Komuro resigned as Director of the Company on 21 May 2004.
Note (ii) Mr. Kwong Pui Kei and Mr. Law Kar Ping were appointed as Directors of the Company on 14 September 2004.
Note (iii) Mr. Yeung Mui Kwan, David resigned as Director of the Company on 20 September 2004.

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

(Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years include:

	2006	2005
Number of Directors	**3**	5
Number of other individuals	**2**	–
	5	5

The emoluments of the concerned Directors are reflected in the analysis presented above. Details of the emoluments of the remaining individuals are as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Salaries, allowances and benefits in kind	**2,047**	–
Pension costs-defined contribution plans	**72**	–
	2,119	–

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
Nil – HK$1,000,000	**1**	–
HK$1,000,001 – HK$1,500,000	**1**	–

13. INTANGIBLE ASSETS – GROUP

	Goodwill *HK$'000*	Record masters *HK$'000*	Total *HK$'000*
At 1 April 2004			
Cost	109,605	47,057	156,662
Accumulated amortisation and impairment	–	(14,936)	(14,936)
Effect of elimination of accumulated amortisation upon the adoption of HKFRS 3	(8,107)	–	(8,107)
Net book amount	101,498	32,121	133,619
Year ended 31 March 2005			
Opening net book amount	101,498	32,121	133,619
Additions	28,155	33,797	61,952
Impairment expense *(Note (a))*	–	(1,664)	(1,664)
Amortisation expense *(Note (b))*	–	(22,619)	(22,619)
Closing net book amount	129,653	41,635	171,288
At 31 March 2005			
Cost	129,653	80,854	210,507
Accumulated amortisation and impairment	–	(39,219)	(39,219)
Net book amount	129,653	41,635	171,288
Year ended 31 March 2006			
Opening net book amount	129,653	41,635	171,288
Additions	–	50,870	50,870
Amortisation expense *(Note (b))*	–	(33,916)	(33,916)
Exchange differences	–	(3,468)	(3,468)
Closing net book amount	129,653	55,121	184,774
At 31 March 2006			
Cost	129,653	123,021	252,674
Accumulated amortisation and impairment	–	(67,900)	(67,900)
Net book amount	129,653	55,121	184,774

13. INTANGIBLE ASSETS – GROUP *(Continued)*

Note:

(a) Based on the future sales plans, the Directors consider there is an impairment loss on the record masters for the year ended 31 March 2005. As a result, the carrying amount of the record masters has been reduced to its recoverable amount. The impairment loss has been included in cost of sales in the consolidated income statement.

(b) Amortisation of HK$33,916,000 (2005: HK$22,619,000) is included in the cost of sales.

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:

	2006	2005
	HK$'000	*HK$'000*
Japan		
– Record production and distribution and music production	**106,134**	106,134
PRC		
– Discotheque operation	**23,519**	23,519
	129,653	129,653

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.

13. INTANGIBLE ASSETS – GROUP *(Continued)*

Impairment test for goodwill *(Continued)*

Key assumptions used for value-in-use calculations:

	2006		
	Gross margin[1]	**Growth rate[2]**	**Discount rate[3]**
Japan			
– Record production and distribution and music production	41%	3%	4.5%
PRC			
– Discotheque operation	13%	3%	6.4%

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 based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the sales forecasts. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

14. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold improvements HK$'000	Studio equipment HK$'000	Office equipment, furniture and fixtures HK$'000	Computer equipment HK$'000	Discotheque equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
At 1 April 2004							
Cost	18,883	30,184	1,887	2,315	4,404	232	57,905
Accumulated depreciation	(10,680)	(12,103)	(1,317)	(1,919)	(2,351)	(203)	(28,573)
Net book amount	8,203	18,081	570	396	2,053	29	29,332
Year ended 31 March 2005							
Opening net book amount	8,203	18,081	570	396	2,053	29	29,332
Exchange differences	(110)	(245)	(5)	(6)	–	–	(366)
Additions	–	–	328	595	1,230	–	2,153
Depreciation	(3,765)	(4,038)	(298)	(356)	(513)	(29)	(8,999)
Closing net book amount	4,328	13,798	595	629	2,770	–	22,120
At 31 March 2005							
Cost	18,629	29,776	1,793	1,961	5,634	229	58,022
Accumulated depreciation	(14,301)	(15,978)	(1,198)	(1,332)	(2,864)	(229)	(35,902)
Net book amount	4,328	13,798	595	629	2,770	–	22,120
Year ended 31 March 2006							
Opening net book amount	4,328	13,798	595	629	2,770	–	22,120
Exchange differences	(279)	(1,163)	(38)	(50)	61	–	(1,469)
Additions	42	–	184	160	419	–	805
Depreciation	(3,117)	(3,696)	(301)	(240)	(496)	–	(7,850)
Closing net book amount	974	8,939	440	499	2,754	–	13,606
At 31 March 2006							
Cost	16,896	26,922	1,827	1,953	6,302	–	53,900
Accumulated depreciation	(15,922)	(17,983)	(1,387)	(1,454)	(3,548)	–	(40,294)
Net book amount	974	8,939	440	499	2,754	–	13,606

14. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

Depreciation expenses have been included in:

	2006	2005
	HK$'000	*HK$'000*
– Cost of sales	**7,406**	8,362
– Other operating expenses	**444**	637
	7,850	8,999

15. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2006	2005
	HK$'000	*HK$'000*
Unlisted investments, at cost	**91,483**	91,493
Provision for impairment	**(145)**	(155)
	91,338	91,338

At 31 March 2006, the Company had interests in the following principal subsidiaries all of which are companies with limited liabilities:

Name	**Country/place and date 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, 5 November 1997, limited liability company	100,000 ordinary shares of HK$1 each	100%	Intellectual property holding and provision of general administration and management services to group companies in Hong Kong

15. INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Country/place and date 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
R and C Ltd. ("R&C")	Japan, 24 May 2001, limited liability company	620 shares totalling ¥31,000,000	100% *(Note 25(b))*	Sales of records and audio-visual products, master tape right licensing, music production and digital distribution in Japan
Rojam Investment Limited	BVI, 15 November 2000, limited liability company	1 registered share of US$1 each	100%	Investment holding in PRC
Fandango U.S.A., Inc.	Delaware, the USA, 24 April 2002, limited liability company	3 registered shares of US$1 each	100%	Investment holding in the USA and Japan
Shanghai Rojam Entertainment Company Limited ("Shanghai Rojam") *(Note)*	PRC, 13 November 1993, limited liability company	Registered capital of US$1,000,000	90%	Operation of discotheque business in PRC

Note:

On 18 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 income statement.

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 31 December 2002, and of RMB500,000 per annum from the year beginning 1 January 2003. Such amount is subject to further negotiation should the business encounter significant changes.

16. AVAILABLE-FOR-SALE FINANCIAL ASSET – GROUP

During the year ended 31 March 2005, a subsidiary of the Company (the "Subsidiary") has paid a deposit of US$3,000,000 (approximately HK$23,400,000) to Bellrock Media, Inc. ("Bellrock"), an independent third party company established in 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 Series A Convertible Preferred Stocks (the "Stocks") of Bellrock.

The Series A Convertible Preferred Stock Purchase Agreement was dated on 31 May 2005 and the Stocks were issued to the Subsidiary on the same date. As at 31 March 2006, the Subsidiary held approximately 22.52% of the Stocks of Bellrock. Management considered that the Subsidiary has no significant influence in Bellrock as the Subsidiary has no voting rights in Bellrock and the Stocks do not have presently exercisable conversion rights to convert to common shares. The Subsidiary also has no representative on the board of directors and does not participate in the financial and operating policy decisions of Bellrock. However, the Stocks are entitled to discretionary profit distributions from Bellrock and would be automatically converted to common stocks contingent upon certain future events. The investment is classified as available-for-sale financial asset as follows:

	2006 ***HK$'000***
Unlisted equity securities – USA	**23,400**

At 31 March 2006, the carrying amount of interest in the following company exceeded 10% of total assets of the Company.

Name	**Place of incorporation**	**Principal activities**	**Particulars of issued shares held**	**Interest Held**
Bellrock Media, Inc.	Delaware, the USA	Production and distribution of digital entertainment content through multi-media platforms in the USA and Japan	30,000 Series A Convertible Preferred Stocks	22.52%

17. DEFERRED INCOME TAX – GROUP

Deferred income 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 offset amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2006	2005
	HK$'000	*HK$'000*
Deferred income tax assets to be recovered after more than 12 months	**12,056**	5,090
Deferred income tax liabilities to be paid after more than 12 months	**–**	(1,034)
	12,056	4,056

The gross movement on the deferred income tax account is as follows:

	2006	2005
	HK$'000	*HK$'000*
At the beginning of the year	**4,056**	(931)
Exchange differences	**(718)**	13
Recognised in the consolidated income statement *(Note 8)*	**8,718**	4,974
At the end of the year	**12,056**	4,056

17. DEFERRED INCOME TAX – GROUP *(Continued)*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same taxation jurisdiction, is as follows:

Deferred income tax assets/(liabilities)

	Provisions		Tax losses		Accelerated tax depreciation		Master tape		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At the beginning of the year	**6,753**	4,499	**-**	2,956	**(1,058)**	–	**(3,176)**	(8,492)	**1,537**	106	**4,056**	(931)
Credited/(charged) to consolidated income statement	**2,194**	2,315	**-**	(2,916)	**1,495**	(1,058)	**3,283**	5,201	**1,746**	1,432	**8,718**	4,974
Exchange differences	**(693)**	(61)	**-**	(40)	**37**	–	**161**	115	**(223)**	(1)	**(718)**	13
At the end of the year	**8,254**	6,753	**-**	–	**474**	(1,058)	**268**	(3,176)	**3,060**	1,537	**12,056**	4,056

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$3,364,000 (2005: HK$5,882,000) in respect of losses amounting to HK$15,679,000 (2005: HK$33,609,000) that can be carried forward against future taxable income. These tax losses have no expiry date.

18. INVENTORIES – GROUP

	2006	2005
	HK$'000	*HK$'000*
Merchandise	**14,553**	7,521

The cost of inventories recognised as expense and included in cost of sales amounted to HK$251,045,000 (2005: HK$237,006,000).

19. AMOUNTS DUE FROM SUBSIDIARIES

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

20. TRADE RECEIVABLES – GROUP

	2006	2005
	HK$'000	*HK$'000*
Trade receivables due from:		
Third parties	**94,120**	10,190
The immediate holding company *(Note 28)*	**749**	–
A fellow subsidiary *(Note 28)*	**18**	4
A related party *(Note 28)*	**5,480**	–
	100,367	10,194

The carrying amount of the trade receivables approximates its fair value. All trade receivables are denominated in Japanese Yen.

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 31 March 2006 and 2005, the ageing analysis of the trade receivables, including trading balances due from the immediate holding company, a fellow subsidiary and a related party was as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**99,842**	7,802
30-60 days	**1,516**	3,150
61-90 days	**29**	11
Over 90 days	**807**	726
	102,194	11,689
Provision for impairment	**(1,827)**	(1,495)
	100,367	10,194

The Group's sales are made to several major customers. To minimise credit risks, collection of outstanding receivables is closely monitored on an ongoing basis and deposits are also received in advance for sales made to certain customers.

The Group has recognised a loss of HK$498,000 for the impairment of its trade receivables during the year ended 31 March 2006 (2005: HK$1,751,000). The loss has been included in other operating expenses in the consolidated income statement.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**99,885**	177,907	**1,621**	1,541
Short-term bank deposits	**12,183**	31,898	**12,183**	31,898
	112,068	209,805	**13,804**	33,439

The effective interest rates and average maturity of short-term bank deposits are as follows:

	Group		Company	
	2006	2005	**2006**	2005
Effective interest rates (% per annum)	**4.16**	1.7	**4.16**	1.7
Average maturity (days)	**8**	31	**8**	31

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollar	**8,953**	29,594	**4,629**	25,260
US dollar	**8,255**	7,967	**8,186**	7,898
Japanese Yen	**81,187**	160,311	**989**	281
Renminbi	**13,673**	11,933	**–**	–
	112,068	209,805	**13,804**	33,439

Funds of the Group amounting to HK$13,673,000 and HK$11,933,000 as at 31 March 2006 and 2005 respectively are kept in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange controls.

22. SHARE CAPITAL

	Authorised ordinary shares of HK$0.1 each	
	Number of shares	*HK$'000*
At 1 April 2004, 31 March 2005 and 31 March 2006	5,000,000,000	500,000

	Issued and fully paid ordinary shares of HK$0.1 each	
	Number of shares	*HK$'000*
At 1 April 2004, 31 March 2005 and 31 March 2006	1,554,684,403	155,468

(a) (i) Options to subscribe for up to an aggregate of 51,734,220 shares in the Company were granted on 21 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 21 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 ended 31 March 2005, 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. As at 31 March 2005 and 2006, there are no outstanding options under the Pre-IPO Grant of Options.

(c) On 23 September 2004, the Company passed an ordinary resolution in respect of the termination of the Share Options Scheme. As at 31 March 2005 and 2006, there are no outstanding options under the Share Options Scheme.

(d) On 18 April 2006, the Company entered into an agreement ("Subscription Agreement") with Fandango, Inc. ("Fandango"), the immediate holding company, whereby Fandango subscribed for 371,430,000 new shares ("Subscription Shares") of the Company at HK$0.315 per share, representing approximately 23.89% of the existing issued share capital of the Company ("Subscription") as at 31 March 2006. The aggregate subscription price for the Subscription Shares was approximately HK$117 million, which was settled in cash upon completion of the Subscription. The Subscription Shares ranked, when fully paid and issued, pari passu in all respects with the existing issued shares. The net proceeds of the Subscription would applied towards the Group's future investment in entertainment related projects, other potential investments and the general working capital of the Group as thought fit by the Directors for such purposes. The ordinary resolution in relation to the Subscription was passed by the independent shareholders on 22 May 2006 and the Subscription was completed on 25 May 2006.

23. RESERVES

(a) Group

	Share premium HK$'000	Exchange reserve HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
At 1 April 2004	148,329	(7,317)	(65,159)	75,853
Profit for the year	–	–	57,824	57,824
Exchange adjustment on translation of financial statements of overseas subsidiaries	–	(985)	–	(985)
At 31 March 2005	148,329	(8,302)	(7,335)	132,692
Representing:				
Reserves				114,036
Proposed dividends				18,656
At 31 March 2005				132,692
At 1 April 2005	148,329	(8,302)	(7,335)	132,692
Profit for the year	–	–	40,166	40,166
Exchange adjustment on translation of financial statements of overseas subsidiaries	–	(9,910)	–	(9,910)
Final dividend for the year ended 31 March 2005	–	–	(18,656)	(18,656)
At 31 March 2006	148,329	(18,212)	14,175	144,292
Representing:				
Reserves				144,292
Proposed dividends				–
At 31 March 2006				144,292

23. RESERVES *(Continued)*

(b) Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2004	148,329	(128,704)	19,625
Profit for the year	–	7,264	7,264
At 31 March 2005	148,329	(121,440)	26,889
Representing:			
Reserves			8,233
Proposed dividends			18,656
At 31 March 2005			26,889
At 1 April 2005	148,329	(121,440)	26,889
Loss for the year	–	(690)	(690)
Final dividend for the year ended 31 March 2005	–	(18,656)	(18,656)
At 31 March 2006	148,329	(140,786)	7,543
Representing:			
Reserves			7,543
Proposed dividends			–
At 31 March 2006			7,543

24. TRADE PAYABLES – GROUP

	2006 HK$'000	2005 HK$'000
Trade payables due to:		
Third parties	**83,952**	78,110
The ultimate holding company *(Note 28)*	**7,129**	9,094
The immediate holding company *(Note 28)*	**–**	86
	91,081	87,290

At 31 March 2006 and 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:

	2006 HK$'000	2005 HK$'000
Current	**81,677**	81,720
30-60 days	**9,306**	5,007
61-90 days	**–**	31
Over 90 days	**98**	532
	91,081	87,290

Trade payables are denominated in the following currencies:

	2006 HK$'000	2005 HK$'000
Japanese Yen	**90,869**	86,838
Renminbi	**212**	452
	91,081	87,290

25. CASH GENERATED FROM OPERATIONS – GROUP

(a) Reconciliation of profit before income tax to cash generated from operations:

	2006	2005
	HK$'000	*HK$'000*
Profit before income tax	**73,992**	70,815
Depreciation of property, plant and equipment	**7,850**	8,999
Amortisation of record masters	**33,916**	22,619
Impairment of record masters	**–**	1,664
Interest income	**(672)**	(405)
Operating profit before working capital changes	**115,086**	103,692
Increase in inventories	**(7,032)**	(5,487)
(Increase)/decrease in trade receivables, other receivables and prepayments	**(88,189)**	21,740
(Decrease)/increase in trade payables, accruals, other payables and receipt in advance	**(18,444)**	90,312
Cash generated from operations	**1,421**	210,257

(b) On 28 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.

(c) On 31 May 2005, a subsidiary of the Company subscribed for 30,000 Series A Convertible Preferred Stocks from Bellrock at a consideration of US$3,000,000 (approximately HK$23,400,000) (Note 16).

26. COMMITMENTS UNDER OPERATING LEASES – LAND AND BUILDINGS – GROUP

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2006	2005
	HK$'000	*HK$'000*
Not later than one year	**5,088**	3,965
Later than one year and not later than five years	**6,110**	599
	11,198	4,564

27. CONTINGENT LIABILITIES

The Group and the Company had no material contingent liabilities at 31 March 2006 (2005: Nil).

28. RELATED PARTY TRANSACTIONS

The Group is controlled by Fandango, a company incorporated in Japan and the shares of which are listed on the Osaka Securities Exchange Co., Ltd., which owns approximately 67.77% and 66.57% of the Company's shares, as at 31 March 2006 and 2005 respectively. The ultimate holding company of the Group is Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"), a company incorporated in Japan and the shares of which are listed on the Tokyo Stock Exchange, Inc. and the Osaka Securities Exchange Co., Ltd..

(i) Save as disclosed in other notes to the financial statements, the Group has carried out the following material transactions with related parties during the year:

	Note	**2006 HK$'000**	2005 HK$'000
The ultimate holding company:			
– Yoshimoto Kogyo Co., Ltd.			
– sales of records and audio-visual products	(a)	**69**	–
– rental payment and other charges	(b)	**(1,752)**	(1,507)
– master royalties	(c)	**(14,489)**	(12,483)
The immediate holding company:			
– Fandango, Inc.			
– sales of records and audio-visual products	(a)	**109**	–
– digital distribution revenue, net	(d)	**695**	–
– development costs	(d)	**–**	(978)
– production costs	(a)	**(635)**	–
– homepage production service fee	(e)	**(418)**	(414)
– reimbursement of operating expenses	(f)	**(55)**	–
Other related parties:			
– Bellrock Media K.K.			
– sales of records and audio-visual products	(a)	**111,350**	–
– distribution costs	(g)	**(21,629)**	–
– Yoshimoto Club Co., Ltd			
– sales of records and audio-visual products	(a)	**230**	–
– production costs	(h)	**(717)**	(1,895)
– promotion costs	(i)	**(1,813)**	(1,879)
– Yes Visions Co., Ltd and Y's Vision Co., Ltd.			
– master video production costs	(j)(i)	**(1,383)**	(104)
– International Television System, Inc.			
– master video production costs	(j)(ii)	**(166)**	(90)

28. RELATED PARTY TRANSACTIONS *(Continued)*

(i) *(Continued)*

(a) Sales of records and audio-visual products and production costs paid to related parties were entered in the normal course of business of the Group at terms mutually agreed by relevant parties.

(b) Pursuant to the sub-lease agreements dated 29 March 2002 and 10 October 2002 and entered into between the Group and Yoshimoto, the Group sub-let office premises from Yoshimoto for an aggregate monthly rental payment of JPY1,430,000 (approximately HK$100,000), and electricity and water charges, for a lease term up to 31 March 2005. On 19 July 2004, the Group had terminated the sub-lease agreements with Yoshimoto.

Pursuant to a sub-lease agreement dated 20 July 2004 and entered into between the Group and Yoshimoto, the Group 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 20 July 2004 to 31 March 2006.

(c) (i) Pursuant to a master royalty agreement dated 10 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 10 October 2002 to 31 March 2005. On 30 August 2004, the Group and Yoshimoto entered into another master royalty agreement (see below) to supersede the Master Royalty Agreement 2002.

(ii) Pursuant to a master royalty agreement dated 30 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 30 August 2004 to 31 March 2007.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(i) *(Continued)*

(d) Pursuant to a master digital distribution agreement dated 30 August 2004 and entered into between the Group and Fandango, 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 30 August 2004 to 31 March 2007.

(e) Pursuant to web production agreements dated 1 April 2002 and 10 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 31 March 2005. Up to 31 March 2006, the term of each of these agreements has lapsed and remained in force as agreed by both parties.

(f) Reimbursement of operating expenses is recharged on an actual basis.

(g) Pursuant to a sales consignment agreement dated 24 June 2005 between the Group and Bellrock Media K.K., a wholly owned subsidiary of Bellrock, Bellrock Media K.K. will render distribution services to the Group at a percentage of the selling price of the records and audio-visual products for a contract term from 1 July 2005 to 31 March 2006. A director of Fandango, the immediate holding company, is also a director of Bellrock.

(h) Pursuant to a master consignment agreement dated 30 August 2004 and entered into between the Group and Yoshimoto Club Co., Ltd. ("Yoshimoto Club"), a fellow subsidiary to the Group, 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 30 August 2004 to 31 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.

(i) Pursuant to a master promotion agreement dated 30 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 30 August 2004 to 31 March 2007.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(i) *(Continued)*

(j) (i) Yes Visions Co., Ltd. ("Yes Visions") and Y's Vision Co., Ltd. ("Y's Vision") are fellow subsidiaries to the Group. Pursuant to a master video production agreement dated 10 October 2002 and entered into between the Group and Yes Visions, and a master video production agreement dated 10 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 10 October 2002 to 31 March 2005. During the year ended 31 March 2006, master video production costs paid to Yes Visions and Y's Vision were entered in the normal course of business of the Group at terms mutually agreed by the three parties.

(ii) Pursuant to a master video production agreement dated 30 August 2004 and entered into between the Group and International Television System, Inc. ("ITS"), a fellow subsidiary to the Group, 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 30 August 2004 to 31 March 2007.

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.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Balances at the end of the year arising from related party transactions as disclosed in Note 28 (i) above were as follows:

	2006	2005
	HK$'000	*HK$'000*
Balance with the ultimate holding company – Yoshimoto		
– Payable *(Note 24)*	**(7,129)**	(9,094)
Balances with the immediate holding company – Fandango		
– Receivable *(Note 20)*	**749**	–
– Payable *(Note 24)*	**–**	(86)
Balances with other related parties		
– Receivable from Bellrock Media K.K. *(Note 20)*	**5,480**	–
– Receivable from Yoshimoto Club *(Note 20)*	**18**	4

(iii) Key management compensation

	2006	2005
	HK$'000	*HK$'000*
Fees, salaries and other short-term employee benefits	**7,433**	9,221
Pension costs-defined contribution plans	**192**	186
	7,625	9,407

29. SUBSEQUENT EVENT

On 18 April 2006, the Company has entered into an agreement with Fandango, the immediate holding company, whereby Fandango will subscribe for 371,430,000 new shares of the Company at HK$0.315 per share, representing approximately 23.89% of the existing issued share capital of the Company as at 31 March 2006 (Note 22(d)).

30. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current year's presentation.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 26 May 2006.