

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2006/2007

Stock Code: 8075



ROJAM

Entertainment Network Asia

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

INTERIM RESULTS

The board of directors (the "Board") of Rojam Entertainment Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to present the unaudited consolidated results of the Group for the three months and six months ended 30 September 2006 together with the comparative unaudited figures for the corresponding periods in 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	2	126,849	169,304	191,957	288,196
Cost of sales	3	(78,042)	(98,138)	(116,418)	(173,256)
Gross Profit		48,807	71,166	75,539	114,940
Selling and distribution expenses	3	(29,235)	(27,783)	(47,574)	(47,986)
Other operating expenses	3	(10,455)	(9,855)	(18,882)	(20,419)
Other loss, net		(11)	(20)	(40)	(92)
Operating profit		9,106	33,508	9,043	46,443
Finance income		576	146	901	344
Profit before income tax		9,682	33,654	9,944	46,787
Income tax expenses	4	(3,877)	(15,431)	(3,634)	(21,299)
Profit for the period and attributable to the equity holders of the Company		5,805	18,223	6,310	25,488
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK cent) – basic and diluted	5	0.3 cent	1.2 cents	0.3 cent	1.6 cents
Dividends		-	-	-	-

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 September 2006	31 March 2006
		Unaudited	Audited
	Note	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Intangible assets	7	195,074	184,774
Property, plant and equipment	8	13,280	13,606
Available-for-sale financial asset		23,400	23,400
Deferred income tax assets		9,251	12,056
		241,005	233,836
Current assets			
Inventories		16,920	14,553
Trade receivables	9	95,544	100,367
Other receivables and prepayments		76,896	9,052
Cash and bank balances		131,016	112,068
		320,376	236,040
Total assets		561,381	469,876
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	10	192,611	155,468
Reserves		230,787	144,292
		423,398	299,760
Minority interests		675	675
Total equity		424,073	300,435

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 September 2006	31 March 2006
		Unaudited	Audited
	Note	HK\$'000	HK\$'000
LIABILITIES			
Current liabilities			
Trade payables	11	113,828	91,081
Accruals and other payables		23,245	24,912
Receipt in advance		226	19,975
Current income tax liabilities		9	33,473
		137,308	169,441
		137,308	169,441
Total liabilities		137,308	169,441
Total equity and liabilities		561,381	469,876
Net current assets		183,068	66,599
Total assets less current liabilities		424,073	300,435

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited

	Attributable to the equity holders of the Company					
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	(Accumulated losses)/ retained earnings <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 2005	155,468	148,329	(8,302)	(7,335)	675	288,835
Exchange adjustment on translation of financial statements of overseas subsidiaries	-	-	(7,104)	-	-	(7,104)
Final dividend for the year ended 31 March 2005	-	-	-	(18,656)	-	(18,656)
Profit for the six months ended 30 September 2005	-	-	-	25,488	-	25,488
Balance at 30 September 2005	155,468	148,329	(15,406)	(503)	675	288,563
Balance at 1 April 2006	155,468	148,329	(18,212)	14,175	675	300,435
Issue of shares	37,143	79,857	-	-	-	117,000
Share issue expenses	-	(903)	-	-	-	(903)
Exchange adjustment on translation of financial statements of overseas subsidiaries	-	-	1,231	-	-	1,231
Profit for the six months ended 30 September 2006	-	-	-	6,310	-	6,310
Balance at 30 September 2006	192,611	227,283	(16,981)	20,485	675	424,073

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(63,733)	(6,758)
Net cash used in investing activities	(34,551)	(24,940)
Net cash generated from/(used in) financing activities	116,097	(18,656)
Net increase/(decrease) in cash and cash equivalents	17,813	(50,354)
Cash and cash equivalents at 1 April	112,068	209,805
Exchange difference	1,135	(5,148)
Cash and cash equivalents at 30 September	131,016	154,303
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	131,016	154,303

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. Basis of preparation and accounting policies

The Company is a limited liability company incorporated in the Cayman Islands on 29 February 2000. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares were listed on GEM on 31 May 2001. The Group is principally engaged in record production and distribution, digital distribution and discotheque operation.

These unaudited consolidated results should be read in conjunction with the Company's 2005/2006 annual report.

The unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and applicable disclosure requirements of the GEM Listing Rules. The accounting policies and methods of computation used in the preparation of the unaudited consolidated accounts are consistent with those used in the annual financial statements for the year ended 31 March 2006. The unaudited condensed consolidated financial information has not been audited by the Company's auditors, but has been reviewed by the Company's audit committee.

2. Turnover, revenue and segment information

The amounts of each significant category of revenue recognised during the three months and six months ended 30 September 2006 are as follows:

	Three months ended		Six months ended	
	30 September 2006	2005	30 September 2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Record production and distribution income	121,651	164,695	178,495	277,971
Digital distribution income	1,325	448	6,254	585
Discotheque income	3,023	3,991	6,101	8,089
Others	850	170	1,107	1,551
	126,849	169,304	191,957	288,196

The Group is principally engaged in three main business segments:

- Record production and distribution – producing and distributing records and audio-visual products under the Group's own labels and records and audio-visual products containing master sound recordings which have been licensed from third parties
- Digital distribution – production and provision of digital entertainment content through multi-media platforms such as the internet, mobile phones and other digital media
- Discotheque – operations of discotheque

The Group's inter-segment transactions mainly consist of record production and distribution 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.

The segment results for the six months ended 30 September 2006 (primary reporting format) is as follows:

Six months ended 30 September 2006						
	Record production and distribution HK\$'000	Digital distribution HK\$'000	Discotheque HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Turnover						
External sales	178,495	6,254	6,101	1,107	-	191,957
Inter-segment sales	10	-	-	-	(10)	-
Total	<u>178,505</u>	<u>6,254</u>	<u>6,101</u>	<u>1,107</u>	<u>(10)</u>	<u>191,957</u>
Segment results	<u>10,437</u>	<u>366</u>	<u>31</u>	<u>772</u>	<u>-</u>	<u>11,606</u>
Finance income						901
Unallocated corporate costs						<u>(2,563)</u>
Profit before income tax						9,944
Income tax expenses						<u>(3,634)</u>
Profit for the period						<u>6,310</u>

Six months ended 30 September 2005						
	Record production and distribution HK\$'000	Digital distribution HK\$'000	Discotheque HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Turnover						
External sales	277,971	585	8,089	1,551	-	288,196
Inter-segment sales	10	-	-	-	(10)	-
Total	<u>277,981</u>	<u>585</u>	<u>8,089</u>	<u>1,551</u>	<u>(10)</u>	<u>288,196</u>
Segment results	<u>46,583</u>	<u>438</u>	<u>1,282</u>	<u>575</u>	<u>(10)</u>	<u>48,868</u>
Finance income						344
Unallocated corporate costs						<u>(2,425)</u>
Profit before income tax						46,787
Income tax expenses						<u>(21,299)</u>
Profit for the period						<u>25,488</u>

3. Expenses by nature

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

	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Cost of inventories sold	111,833	167,982
Depreciation of property, plant and equipment	3,083	4,307
Operating leases on land and buildings	1,662	1,478
Amortisation of record masters	21,427	14,847
Employee benefit expense (including Directors' emoluments)	14,500	14,609
Management fee paid to the minority shareholder of Shanghai Rojam Entertainment Company Limited	294	288
Others	30,075	38,150
	<hr/>	<hr/>
Total expenses	182,874	241,661
	<hr/>	<hr/>

4. Income tax expenses

No provisions for Hong Kong profits tax has been made as the Company and its subsidiaries in Hong Kong have no assessable profits for the current and prior period. No provision for United States income tax has been made as the subsidiary in the United States of America has no assessable profit for the current and prior period.

The Japanese corporate income tax has been provided on the assessable profit of the Group's subsidiaries in Japan and is calculated at the applicable rates, ranging from 6.2% to 30%. The People's Republic of China (the "PRC") taxation has been provided on the assessable profit of the Group's subsidiary in the PRC and calculated at the applicable rate of 15%.

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

	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Current income tax		
– Japanese corporate income tax expenses	772	22,265
– PRC taxation	14	289
Deferred income tax	2,848	(1,255)
	<hr/>	<hr/>
	3,634	21,299
	<hr/>	<hr/>

5. Earnings per share

Basic

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

	Three months ended 30 September 2006		Six months ended 30 September 2006	
		2005		2005
Profit attributable to the equity holders of the Company (HK\$'000)	<u>5,805</u>	18,223	<u>6,310</u>	25,488
Weighted average number of ordinary shares in issue (thousands)	<u>1,926,114</u>	1,554,684	<u>1,814,482</u>	1,554,684
Basic earnings per share (HK cent)	<u>0.3</u>	1.2	<u>0.3</u>	1.6

Diluted

	Three months ended 30 September 2006		Six months ended 30 September 2006	
		2005		2005
	Note		Note	
Profit attributable to the equity holders of the Company (HK\$'000)	<u>5,805</u>	18,223	<u>6,310</u>	25,488
Weighted average number of ordinary shares in issue (thousands)	<u>1,926,114</u>	1,554,684	<u>1,814,482</u>	1,554,684
Adjustments for share options (thousands)	<u>-</u>	-	<u>-</u>	-
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>1,926,114</u>	1,554,684	<u>1,814,482</u>	1,554,684
Diluted earnings per share (HK cent)	<u>0.3</u>	1.2	<u>0.3</u>	1.6

Note: There was no dilutive potential ordinary share during the period ended 30 September 2006.

6. Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2006 (2005: Nil).

7. Intangible assets

	Goodwill <i>HK\$'000</i>	Record masters <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 September 2006			
Opening net book amount	129,653	55,121	184,774
Additions	4,488	27,328	31,816
Amortisation expense	–	(21,427)	(21,427)
Exchange differences	–	(89)	(89)
	<u>134,141</u>	<u>60,933</u>	<u>195,074</u>
Year ended 31 March 2006			
Opening net book amount	129,653	41,635	171,288
Additions	–	50,870	50,870
Amortisation expense	–	(33,916)	(33,916)
Exchange differences	–	(3,468)	(3,468)
	<u>129,653</u>	<u>55,121</u>	<u>184,774</u>

8. Property, plant and equipment

	30 September 2006 <i>HK\$'000</i>	31 March 2006 <i>HK\$'000</i>
Opening net book amount	13,606	22,120
Exchange differences	99	(1,469)
Additions	2,523	805
Acquisition of subsidiaries	135	–
Depreciation	(3,083)	(7,850)
	<u>13,280</u>	<u>13,606</u>

9. Trade receivables

	30 September 2006 <i>HK\$'000</i>	31 March 2006 <i>HK\$'000</i>
Trade receivables due from:		
Third parties	92,001	94,120
The immediate holding company (Note 13)	1,269	749
A fellow subsidiary (Note 13)	45	18
A related party (Note 13)	2,229	5,480
	<u>95,544</u>	<u>100,367</u>

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 and 180 days on average. At 30 September 2006, 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:

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Current	32,007	99,842
30-60 days	10,615	1,516
61-90 days	1,034	29
Over 90 days	53,781	807
	<hr/>	<hr/>
	97,437	102,194
Provision for doubtful debts	(1,893)	(1,827)
	<hr/>	<hr/>
	95,544	100,367
	<hr/>	<hr/>

10. Share capital

	Authorised ordinary shares of HK\$0.1 each	
	Number of shares	HK\$'000
At 31 March 2006 and 30 September 2006	5,000,000,000	500,000
	<hr/>	<hr/>
	Issued and fully paid ordinary shares of HK\$0.1 each	
	Number of shares	HK\$'000
At 31 March 2006	1,554,684,403	155,468
Issue of new shares (<i>Note</i>)	371,430,000	37,143
	<hr/>	<hr/>
At 30 September 2006	1,926,114,403	192,611
	<hr/>	<hr/>

Note: On 18 April 2006, the Company entered into an 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 as at 31 March 2006 ("Subscription"). The aggregate subscription price for the Subscription Shares was approximately HK\$117.0 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 then existing issued shares. The net proceeds of the Subscription were applied towards the Group's investment in entertainment related projects and the general working capital of the Group. 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.

11. Trade payables

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Trade payables due to:		
Third parties	105,200	83,952
The ultimate holding company (<i>Note 13</i>)	8,628	7,129
	<hr/> 113,828 <hr/>	<hr/> 91,081 <hr/>

At 30 September 2006, the ageing analysis of the trade payables, including trading balances due to the ultimate holding company was as follow:

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Current	105,442	81,677
30-60 days	8,023	9,306
61-90 days	91	-
Over 90 days	272	98
	<hr/> 113,828 <hr/>	<hr/> 91,081 <hr/>

12. Contingent liabilities

The Group had no material contingent liabilities at 30 September 2006 and 31 March 2006.

13. 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 73.99% and 67.77% of the Company's shares as at 30 September 2006 and 31 March 2006 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) The Group has carried out the following material transactions with related parties during the period:

		Six months ended	
		30 September	
		2006	2005
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
The ultimate holding company:			
- Yoshimoto Kogyo Co., Ltd.			
- rental payment and other charges	<i>(a)</i>	(767)	(921)
- artistes royalties	<i>(b)</i>	(5,282)	(8,201)
- promotion costs	<i>(c)</i>	(334)	(1,183)
The immediate holding company:			
- Fandango, Inc.			
- digital distribution revenue, net	<i>(d)</i>	540	238
- production costs	<i>(e)</i>	-	(552)
- homepage production service fee	<i>(f)</i>	(189)	(224)
Other related parties:			
- Bellrock Media K.K.			
- sales of records and audio-visual products	<i>(e)</i>	107,885	-
- distribution costs	<i>(g)</i>	(19,500)	-
- Yoshimoto Club Co., Ltd			
- sales of records and audio visual product	<i>(e)</i>	177	-
- production costs	<i>(h)</i>	-	(336)
- Yes Visions Co., Ltd and Y's Vision Co., Ltd.			
- master video production costs	<i>(i)(i)</i>	-	(900)
- International Television System, Inc.			
- master video production costs	<i>(i)(ii)</i>	(20)	(166)

- (a) Pursuant to a sub-lease agreement dated 20 July 2004 and entered into between the Group and Yoshimoto, the Group will sub-let office premises from Yoshimoto for an aggregate monthly rental payment of JPY1,687,618 (approximately HK\$113,000), and electricity, gas and water charges. The term of this agreement is from 20 July 2004 to 31 March 2006. The Group has entered into a renewal agreement with Yoshimoto on 19 June 2006 to extend the term of this agreement for a period from 1 April 2006 to 31 March 2009.
- (b) Pursuant to a master royalty agreement dated 30 August 2004 and entered into between the Group and Yoshimoto, Yoshimoto will procure artistes or groups of artistes managed by Yoshimoto and nominated by the Group 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, minidisks, 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). 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 copyright owner. Artistes 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 respective agreements. The term of this agreement is from 30 August 2004 to 31 March 2007.

- (c) 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.
- (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 term of this agreement is from 30 August 2004 to 31 March 2007.
- (e) 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.
- (f) 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\$60,000) for a contract term up to 31 March 2005. Up to 30 September 2006, the term of each of these agreements has lapsed and remained in force as agreed by both parties.
- (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 Media, Inc., in which an approximately 23% interest was held by the Group, 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. The agreement was automatically extended by 1 year. A director of Fandango, is also a director of Bellrock Media Inc.
- (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, for a term 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) (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 artistes' 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. Upon the expiry of the terms of each of the master video production agreements, R&C continued to engage Yes Visions and Y's Visions for production of videos in the normal course of business of the Group at terms mutually agreed by the relevant 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.

- (ii) Balances at the end of the period/year arising from related party transactions as disclosed in note 13(i) above were as follows:

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Payable to the ultimate holding company		
– Yoshimoto (<i>Note 11</i>)	(8,628)	(7,129)
Receivable from the immediate holding company		
– Fandango (<i>Note 9</i>)	1,269	749
Balances with other related parties		
– Receivable from Bellrock Media K.K. (<i>Note 9</i>)	2,229	5,480
– Receivable from Yoshimoto Club (<i>Note 9</i>)	45	18
	—————	—————

- (iii) Key management compensation

	Six months ended 30 September 2006 HK\$'000	2005 HK\$'000
Fees, salaries and other short-term employee benefits	2,499	3,376
Pension costs-defined contribution plans	59	92
	—————	—————
	2,558	3,468
	—————	—————

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

	Second Quarter (Jul to Sep 2006)	First Quarter (Apr to Jun 2006)	Total
	HK\$'M	HK\$'M	HK\$'M
Turnover	126.8	65.1	191.9
Cost of sales	(78.0)	(38.4)	(116.4)
Gross profit	48.8	26.7	75.5
Operating expenditures*	(39.7)	(26.8)	(66.5)
Profit before income tax	9.7	0.3	10.0
Income tax (expenses)/credit	(3.9)	0.2	(3.7)
Profit attributable to the equity holders	5.8	0.5	6.3

* Selling & distribution expenses, other operating expenses and other loss, net

	Second Quarter (Jul to Sep 2005)	First Quarter (Apr to Jun 2005)	Total
	HK\$'M	HK\$'M	HK\$'M
Turnover	169.3	118.9	288.2
Cost of sales	(98.1)	(75.1)	(173.2)
Gross profit	71.2	43.8	115.0
Operating expenditures*	(37.6)	(30.8)	(68.4)
Profit before income tax	33.6	13.1	46.7
Income tax expenses	(15.4)	(5.9)	(21.3)
Profit attributable to the equity holders	18.2	7.3	25.5

* Selling & distribution expenses, other operating expenses and other loss, net

Sales by business segments

	Second Quarter (Jul to Sep 2006)		First Quarter (Apr to Jun 2006)		Total	
	HK\$'M	%	HK\$'M	%	HK\$'M	%
Record production and distribution	121.7	96	56.8	87	178.5	93
Digital distribution	1.3	1	4.9	8	6.2	3
Discotheque operation	3.0	2	3.1	5	6.1	3
Others	0.8	1	0.3	–	1.1	1
Total	126.8	100	65.1	100	191.9	100

	Second Quarter (Jul to Sep 2005)		First Quarter (Apr to Jun 2005)		Total	
	HK\$'M	%	HK\$'M	%	HK\$'M	%
Record production and distribution	164.7	97	113.3	95	278.0	96
Digital distribution	0.4	1	0.1	–	0.5	–
Discotheque operation	4.0	2	4.1	4	8.1	3
Others	0.2	–	1.4	1	1.6	1
Total	169.3	100	118.9	100	288.2	100

Financial Review

During the three-month period ended 30 September 2006, the Group recorded a turnover of approximately HK\$126.8 million, representing an increase of approximately 95% over the previous quarter. The profit attributable to the equity holders for the three months ended 30 September 2006 was approximately HK\$5.8 million, which is approximately eleven times of HK\$0.5 million recorded in the previous quarter. The record production and distribution revenue grew by approximately 114% quarter-to-quarter to approximately HK\$121.7 million, digital content distribution income decreased by approximately 73% quarter-to-quarter to approximately HK\$1.3 million and the discotheque revenue decreased by approximately 3% quarter-to-quarter to approximately HK\$3.0 million. Earnings per share was approximately 0.3 HK cent for the three months ended 30 September 2006, compared to approximately 1.2 HK cents for the corresponding period of last financial year.

Comparing overall financial performance to the same period of last year, turnover for the six months ended 30 September 2006 amounted to approximately HK\$192.0 million, an approximately 33% decrease from HK\$288.2 million in the corresponding period in 2005. The overall gross profit margin for the six months ended 30 September 2006 was approximately 39%, being a slight 1% decrease from approximately 40% for the corresponding period in last year. During the first six months of 2006/2007, the Group's cost of sales, selling and distribution expenses, and other operating expenses accounted for approximately 61%, 25% and 10% of the Group's turnover respectively, compared to approximately 60%, 17% and 7% for the corresponding period of 2005/2006 respectively. The increase of selling and distribution expenses as a percentage of turnover during the six months ended 30 September 2006 was due to the increase of total sales commissions paid to the sales agents, resulting from less DVDs were sold at prices in which sales commissions were not included during the six months ended 30 September 2006 when compared to that of the corresponding period of last year. Profit attributable to the equity holders of the Company in the first half of the financial year 2006/2007 was approximately HK\$6.3 million, representing a decrease of approximately 75% as compared to approximately HK\$25.5 million in the same period of last year. Earnings per share was approximately 0.3 HK cent for the six months ended 30 September 2006, compared to approximately 1.6 HK cents for the corresponding period of last financial year.

Operation Review

Record production and distribution

Turnover from the record production and distribution business for the six months ended 30 September 2006 amounted to approximately HK\$178.5 million, representing approximately 36% decrease from HK\$278.0 million for the same period of last year. The record production and distribution division accounted for approximately 93% of the total turnover of the Group for the six months ended 30 September 2006.

For the first six months of the financial year, the Group released a total of 41 music records and 31 DVDs under its own label, compared to 43 music records and 25 DVDs in last year. R&C continued to produce popular titles in Japan which are well received by the public and some of which have reached high ranking on the ORICON chart in Japan. The major-selling titles during the period included Hitoshi Matsumoto's DVD “人志松本のすべらない話” and the third single, namely “恋のPecori♥Lesson”, of the cross-dressing male comedian, Gorie. The drop in the record production and distribution income for the six months ended 30 September 2006 was mainly due to less popular titles were released during the first and second quarter, when compared with the same period in last financial year.

Digital distribution

Turnover from the digital distribution business for the six months ended 30 September 2006 amounted to approximately HK\$6.2 million, being approximately 969% increase when compared to approximately HK\$0.5 million for the corresponding period of last year. The revenue from the digital content distribution business accounted for approximately 3% of the total turnover of the Group for the six months ended 30 September 2006. The Group continues to distribute its content through the mobile networks of Fandango and a number of digital distribution agents in Japan. Approximately 9% of the revenue of this segment was generated by using Fandango's network, while the remaining 81% was generated by using other third parties' networks.

Rojam Disco

Turnover from the discotheque business amounted to approximately HK\$6.1 million for the six months ended 30 September 2006, representing a decline of approximately 25% when compared to approximately HK\$8.1 million in the corresponding period of last year. 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 discotheque income accounted for approximately 3% of the total turnover of the Group for the six months ended 30 September 2006.

Prospect

Plans are well underway for the expansion of the discotheque business. The Group has identified an appropriate location for the new branch. The new discotheque is located at a new entertainment complex in Suzhou, overlooking the centre of the city and close to the traffic hub. The new discotheque parlour is approximately 1,500 square metres and will include dining areas and bars. The launch of the new discotheque is expected in early 2007.

As stated in the Company's announcement dated 10 October 2006, the application for the Proposed Introduction was heard by the listing committee of the Stock Exchange ("Listing Committee") on 14 September 2006. The Listing Committee's principal comment about the Proposed Introduction relates to the Group's independence from its controlling shareholders which is of relevance for the Company to satisfy the requirement under paragraph 27A of Appendix 1A of the Main Board Listing Rules, whereby the Company is required to confirm that it is capable of carrying on its business independently of its controlling shareholders after the Main Board listing.

The Board and the Company's sponsor have reservations as to the basis of the Listing Committee's comments and noted that the Group may be required to change certain of its business arrangements, including those successful business collaborations with its controlling shareholders, in order to address the Listing Committee's comments. The Board considers that adopting operational changes at this time for the sole purpose of satisfying such regulatory requirements, delaying development activities, and further allocating resources to this exercise, may not, on balance, be in the best interests of the Company and its shareholders as a whole. Thus, the Company has chosen to discontinue with the migration exercise to the Main Board. The Listing Committee's comments relate only to the Main Board Listing Rules and do not affect the current listing status of the Company on GEM.

The Group has achieved profitability over the last few years through the successful development of its music and entertainment business. The Directors consider that the Proposed Introduction is only one of the Group's corporate development plans and the Group will continue to implement its other business plans and move towards its strategic objectives of expanding its business, in particular in the PRC market.

Liquidity and Financial Resources

The Group financed its operations with internally generated cash flows. At 30 September 2006, cash and bank balances amounted to HK\$131.0 million (2005: 154.3 million), which consists of approximately 7% in Hong Kong dollars, 51% in Japanese yen, 11% in Renminbi, and 31% 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 six months ended 30 September 2006, the Group has net cash outflow of approximately HK\$63.7 million for its operating activities and approximately HK\$34.6 million for investing activities, and net cash inflow of approximately HK\$116.1 million from its financing activities. At 30 September 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 30 September 2006, the Group has no outstanding foreign currency hedge contract.

Charge on Group Assets

At 30 September 2006, the Group did not have any charge on its assets.

Capital Structure

The subscription of 371,430,000 ordinary shares of the Company at HK\$0.315 per share by Fandango was completed on 25 May 2006. The net proceeds of approximately HK\$116.1 million were applied towards the Group's strategic investments and the general working capital. Fandango's (and Yoshimoto's indirect) interest in the issued share capital of the Company was increased from approximately 67.77% to 73.99% on completion.

Acquisition/Disposal and Significant Investments

In June 2006, the Group acquired the entire issued share capital of KARINTO FACTORY, INC. and Jacobetty, Inc. at an aggregate consideration of approximately HK\$6.1 million. The new subsidiaries are principally engaged in master-tape production and music copyright management, respectively, in Japan.

Save as disclosed, the Group had no material investment and acquisition or disposal of material capital assets at 30 September 2006.

Contingent Liabilities

The Group had no material contingent liabilities at 30 September 2006.

Employee Information

At 30 September 2006, the Group had 132 (2005: 116) full-time employees. Staff costs amounted to approximately HK\$14.5 million for the six months ended 30 September 2006 (2005: HK\$14.6 million). The Group's remuneration policy remained the same as detailed in the Annual Report for the year ended 31 March 2006.

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

At 30 September 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying share and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("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 in the shares of the Company

Name of Director	Capacity	Number of shares (Note)	Approximate percentage of the Company's total issued share capital
Mr. Takeyasu Hashizume	Beneficial owner	6,658,000 (L)	0.35%
Mr. Hiroshi Osaki	Beneficial owner	3,442,000 (L)	0.18%
Mr. Yukitsugu Shimizu	Beneficial owner	430,000 (L)	0.02%

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

Save as disclosed above, at 30 September 2006, none of the Directors, chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or which, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the six months ended 30 September 2006 was the Company, its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporation.

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 September 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:

Interests in the shares of the Company

Name of shareholder	Nature of interest	Number of shares (Note 1)	Approximate percentage of the Company's total issued share capital
Yoshimoto America, Inc.	Beneficial owner	450,000,000 (L)	23.36%
Fandango, Inc. (Note 2)	Beneficial owner and interest of a controlled corporation	1,425,096,167 (L)	73.99%
Yoshimoto Kogyo Co., Ltd. (Note 3)	Interest of a controlled corporation	1,425,096,167 (L)	73.99%

Notes:

1. The letter "L" denotes the shareholder's long position in the shares of the Company.
2. Yoshimoto America, Inc. is a wholly-owned subsidiary of Fandango, Fandango is deemed to have interest in the 450,000,000 shares in the Company held by Yoshimoto America, Inc. in addition to 975,096,167 shares in the Company directly held by itself.
3. Fandango is controlled as to approximately 55.53% by Yoshimoto. Accordingly, Yoshimoto is interested in 1,425,096,167 shares in the Company by attribution.

Save as disclosed above, at 30 September 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.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki, executive Directors, are directors of Yoshimoto, a substantial shareholder of the Company, and certain of its associates (as defined in the GEM Listing Rules). Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki beneficially own approximately 0.03% and 0.02% interests in Yoshimoto, respectively. Pursuant to two deeds of non-competition undertakings, both dated 10 October 2002, as each amended by supplemental deeds dated 28 September 2004 and 28 June 2006 respectively, and entered into between Yoshimoto and each of (i) the Company and (ii) R and C Ltd. ("R&C"), Yoshimoto irrevocably and unconditionally undertakes to each of the Company and R&C that, unless with the written consent of the Company or R&C (as the case may be) or except for certain circumstances, it will not and will procure that its subsidiaries and associates will not, carry on or be engaged, concerned or interested directly or indirectly in the production of master tapes and licensing of such master tape rights.

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

AUDIT COMMITTEE

The Company established an audit committee on 21 May 2001 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee has three members comprising the three independent non-executive Directors, namely Mr. Seiichi Nakaoda, Mr. Kwong Pui Kei and Mr. Law Kar Ping. The audit committee has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial information for the six months ended 30 September 2006.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 23 October 2006 with written terms of reference which deal clearly with its authority and duties, in accordance with the requirement of the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules. The remuneration committee has three members comprising the three independent non-executive Directors, namely Mr. Seiichi Nakaoda, Mr. Kwong Pui Kei and Mr. Law Kar Ping. The principal responsibilities of the remuneration committee include formulating, reviewing and considering the remuneration policy and proposal prepared by the management of the Company and/or the remuneration arrangement implemented by the Company.



REPORT ON CORPORATE GOVERNANCE

The Company applied the principles and complied with all the code provisions set out in the Code throughout the six months ended 30 September 2006, except the following deviations:

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 Group's business. Mr. Hashizume has been the President of the Company since 2003. In view of the current operation of the Group, the management considers that the current structure is conducive to strong and consistent leadership enabling the Group to make and implement decisions promptly and efficiently and therefore, there is no imminent need to change the arrangement.

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. Tetsuo Mori, an executive Director, attended the 2006 annual general meeting and answered questions raised at the meeting.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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 six months ended 30 September 2006.

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 six months ended 30 September 2006.

By Order of the Board
Takeyasu Hashizume
President

Hong Kong, 14 November 2006

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