

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

2001/2002 Annual Report



ROJAM

Entertainment Network Asia

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This annual report, for which the directors of Rojam Entertainment Holdings Limited 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 for the purpose of giving information with regard to Rojam Entertainment Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Tetsuya Komuro (*Chairman*)
Tomohiko Domen (*Vice-Chairman*)
Tetsuo Mori (*Chief Executive Officer*)
Arihito Yamada (*Chief Financial Officer*)

Independent Non-executive Directors

Seiichi Nakaoda
Yeung Mui Kwan, David

COMPLIANCE OFFICER

Arihito Yamada

COMPANY SECRETARY

Etsuko Hoshiyama, *AICPA, AHKSA*

QUALIFIED ACCOUNTANT

Cheng Kit Sum, *ACCA, AHKSA*

AUDIT COMMITTEE

Seiichi Nakaoda
Yeung Mui Kwan, David

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

Suite 1502, 15th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

WEBSITE

<http://www.rojam.com>

STOCK CODE

8075

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

Corporate Information *(Continued)*

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited
Rooms 1901-5, 19/F
Hopewell Centre
183 Queen's Road East
Hong Kong

SPONSOR

Core Pacific – Yamaichi Capital Limited
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Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law:

Deacons
Alexandra House
3rd to 7th and 18th Floors
Central
Hong Kong

As to Cayman Islands Law:

Conyers Dill & Pearman
Century Yard, Cricket Square
Hutchins Drive
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George Town
Grand Cayman
British West Indies

As to Japanese Law:

Naito & Shimizu
Aoyama East & West
1st Floor
5-46-2, Jingumae
Shibuya-ku
Tokyo 150-0001
Japan

Anderson Mori
AIG Bldg., 1-3
Maranouchi 1-chome
Chiyoda-ku
Tokyo 100-0005
Japan

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

Credit Suisse First Boston
Hong Kong Branch
23rd Floor, Three Exchange Square
8 Connaught Place Central
Hong Kong

Financial Summary

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Results for the year ended 31st March				
Turnover	<u>48,756</u>	<u>134,925</u>	<u>1,506</u>	<u>4,662</u>
(Loss)/profit before taxation	<u>(82,933)</u>	<u>19,722</u>	<u>(916)</u>	<u>(1,302)</u>
(Loss)/profit attributable to shareholders	<u>(82,929)</u>	<u>19,723</u>	<u>(916)</u>	<u>(1,302)</u>
Assets and liabilities				
Total assets	<u>187,383</u>	<u>234,022</u>	<u>23,005</u>	<u>21,608</u>
Total liabilities	<u>(9,281)</u>	<u>(23,235)</u>	<u>(25,123)</u>	<u>(22,811)</u>
Net assets/(liabilities)	<u>178,102</u>	<u>210,787</u>	<u>(2,118)</u>	<u>(1,203)</u>

The Reorganisation referred to in note 1 to the accounts has been reflected in the financial summary for each of the three years ended 31st March 2001 by regarding the Company as having been the holding company of the Group from the earliest period presented.

Chairman's Statement

I am pleased to present the results of Rojam Entertainment Holdings Limited ("Rojam" or the "Company") and its subsidiaries (together, the "Group") for the financial year ended 31st March 2002.

FINANCIAL RESULTS

The crawling recovery of the Asian, in particular the Japanese economy, following the global economic downturn resulted in depressed market sentiments and activities, and hence lower revenue for the Group as reflected in the financial results. The Group recorded a total revenue, attributable mainly to the provision of music production services, of around HK\$48.8 million for the year ended 31st March 2002.

Largely as a result of heavy start-up costs, adjustments of depreciation charges and other one-off charges, loss attributable to shareholders was approximately HK\$82.9 million as against profit of approximately HK\$19.7 million for the last financial year.

The directors do not recommend the payment of any dividend for the year ended 31st March 2002.

BUSINESS REVIEW

The Company's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") by way of placing ("Placing") on 31st May 2001. During the first year of listing, Rojam has made remarkable achievement in terms of the variety of projects undertaken and the building up of strong ties with major players in the music and entertainment industry.

In the music production business, we take pride in our record of delivering music projects to prestigious customers including record companies, movie production houses, TV stations, advertising agencies, mobile phone service operators, Internet content providers, entertainment software companies and PC companies. Unlike other production houses that contract out their music production activities, we served our customers with comprehensive, integrated music production services boasting consistency and quality.

In July 2001, the structural extension, and hardware and software enhancement project at the Group's Tokyo studio ("Rojam Studio") was completed. The Rojam Studio is situated in a warehouse district in Tokyo. It has a gross floor area of about 1,320 square metres and is made up of two-storey quality equipment rooms, sound proof studio rooms, and other supporting amenities and peripherals. The new Rojam Studio strengthens our music production capacity.

To leverage our skill base and enhance our revenue, we continued to look for new producer service contracts. We also endeavoured to strengthen the quality and capacity of our music production team by recruiting new producers and music talents with a view to providing the best quality music content to our customers.

With our versatile in-house music production team and state-of-the-art music production facilities, we are well equipped to address the needs of every client. Complementing to the core music production services, an array of music-related supplementary services added both depth and diversity to our business portfolio. This gives us the capability to provide our business customers with seamless, global and end-to-end music production services.

We have made significant progress in the development of the music entertainment portal at our corporate website – www.rojam.com. The new design, launched in April 2002, increased the depth of content and variety of features.

We are always mindful of business opportunities in mainland China. In January 2002, the Group entered into a sale and purchase agreement to acquire 90% of the registered share capital of Shanghai Chikou Entertainment Co. Limited, the principal business of which was the operation of the Rojam Disco. The acquisition would give Rojam an initial presence in mainland China's key economic city – Shanghai.

OUTLOOK

In the 21st century, we have adopted the vision, "Major Entertainment Network in Asia" to capture our aspirations and outline the focus of our business activities. We will extend our services to cover a wider scope of content with musical requirements, including movies, games and multi-media advertisements, striving to realise our aspirations.

This dedication is shared not only among the Group's producers, employees, but also our artistes, business partners and associates. This enables us to remain steadfast to our goals and continue to produce creative work of uncompromising quality even when the music industry goes through the most turbulent of times. With the talent of our producers, the support of shareholders, the diversity of our customers and the vision of our management, we believe we are well on our way to building a sound and successful future.

Chairman's Statement *(Continued)*

Finally, I acknowledge with a deep sense of gratitude the hard work and commitment of my fellow board members, the management team, all employees, and our team of producers and music talents. The Group's achievements would not have been possible without their efforts, and I thank them most sincerely. I would like to further thank our strategic partners, shareholders and customers for their continued support throughout the year.

Tetsuya Komuro
Chairman

21st June 2002

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover and other revenue

The Group recorded total turnover and other revenue of approximately HK\$48.8 million and approximately HK\$2.7 million respectively for the year ended 31st March 2002, representing a 64% and 29% reduction from the corresponding period in 2001 respectively.

It is important to note that the Group achieved steady growth in the turnover during the year under review. In the fourth quarter, total turnover was HK\$18.0 million, an increase of 87% from HK\$9.6 million, 96% from HK\$9.2 million and 51% from HK\$11.9 million as compared with the first, second and third quarters respectively, a growth trend was maintained.

The Group generated an aggregate turnover of approximately HK\$33.2 million from its music production segment for the year ended 31st March 2002, representing 68% of the total turnover and a reduction of 69% as compared to the corresponding period in 2001. The decline in turnover is mainly owing to the poor market conditions, and that no signing bonus was derived from the signing of producer service contracts.

Excluding the non-recurrent signing bonus received last year, the turnover from the music production segment was around HK\$23.0 million in 2001. Compared to the turnover of current year, a growth of 45% would be recorded. Such growth is mainly due to the expansion of business volume with increases in both the number of the music projects undertaken and the project values. Despite the growth of turnover, profit contribution had suffered from increasing studio maintenance cost and depreciation charge.

The turnover from the record distribution segment amounted to approximately HK\$4.0 million, representing a setback in performance by about 74% over the same period of last year. The decrease in turnover is mainly attributed to the decrease in number of records from 12 to 5 released under the Group's label during the year under review.

Management Discussion and Analysis *(Continued)*

FINANCIAL REVIEW *(Continued)*

Cost of sales and other operating expenses

Cost of sales increased from HK\$28.7 million for the year ended 31st March 2001 to HK\$41.4 million for the year ended 31st March 2002 or by 44% is mainly attributed to the increase of music projects and the escalation of the fixed cost in the music production. As at 31st March 2002, the Group has written off certain music projects that were expected not profitable in the future. These projects amounted to HK\$4.2 million.

Other operating expenses increased by 14% to HK\$90.1 million for the year ended 31st March 2002 as compared to HK\$79.0 million for the year ended 31st March 2001. The increase is primarily due to the increase in staff costs of HK\$3.9 million and the depreciation charge of HK\$13.7 million, the incurrence of legal and professional fee of HK\$2.2 million relating to the Shanghai Chikou Acquisition and the full provisions made against trade debtors' balance of HK\$2.1 million during the year under review.

As at 31st March 2002, the Group performed a reassessment on the estimated useful lives of its fixed assets. The assessment was based on the current business environment and conditions, and the expected pattern of economic benefits from the respective assets. The revised accounting estimates have increased the depreciation charge for the year by around HK\$9.3 million.

Throughout the year under review, the Group exercised a prudent financial management approach and took proactive steps to better manage the operating costs. These included the staff retrenchments and the deferment of capital expenditure on a need-to-spend basis.

Loss attributable to shareholders

Loss attributable to shareholders for the year ended 31st March 2002 was approximately HK\$82.9 million.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31st March 2002, the Group's net tangible assets amounted to approximately HK\$178.1 million. Current assets amounted to approximately HK\$114.5 million, of which approximately HK\$70.3 million were cash and bank balances. Approximately HK\$1.6 million of such cash and bank balances were placed in a term deposit account with a bank in Hong Kong to secure a corporate card facility granted by the bank. As at 31st March 2002, the Group had current liabilities of approximately HK\$9.3 million, of which approximately HK\$0.1 million were obligations under finance lease and hire purchase.

The Group had a net cash outflow from operating activities during the year ended 31st March 2002 of HK\$57.8 million. Interest received during the year was HK\$2.4 million and dividends paid were HK\$10.3 million. Net cash outflow from investing activities amounted to HK\$47.9 million, which were mainly related to the purchase of fixed assets in the Rojam Studio, the deposit paid for the acquisition of Shanghai Chikou and other capital projects. Net cash inflow from financing amounted HK\$52.1 million in relation to the net proceeds from issue of shares.

FOREIGN EXCHANGE EXPOSURE

Since over 90% of the Group's revenue was derived from Japan operation, the Group is exposed to foreign currency risk for the Japanese currency. Management's attitude is risk adverse and is prepared to put hedging measures in place should the market situation turn volatile.

CAPITAL STRUCTURE

During the year, the Company issued 70,000,000 new ordinary shares of par value of HK\$0.1 each, at an issue price of HK\$1 per share.

CHARGES ON GROUP ASSETS

The Group did not have any charge on its assets during the year except for certain cash and bank balances were pledged to a bank in Hong Kong to secure a corporate card facility as disclosed in the section headed "FINANCIAL RESOURCES AND LIQUIDITY" above.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st March 2002 and 31st March 2001.

Management Discussion and Analysis *(Continued)*

EMPLOYEE INFORMATION

As at 31st March 2002, the Group had 23 full-time employees spreading from Hong Kong to Japan. Staff costs, excluding directors' emoluments, totalled HK\$15.0 million (2001: HK\$11.6 million). The Group's remuneration policy is basically determined by the performance of individual employees. Staff benefits, including medical coverage and provident funds are also provided to employees. In addition, training and development programmes are provided on an ongoing basis throughout the Group. The Group has also adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares in the Company.

OPERATIONS REVIEW

The Group was proactive in reflecting the changes and demands of the market whilst maintaining a prudent management approach as is reflected in the actual business progress during the year ended 31st March 2002.

Music production

The music production services cover the production of the master tape recording and the planning and management of the entire production process. This includes sourcing and selecting materials, identifying talented recording artistes, composing music, writing lyrics, advising on technical and studio requirements, supervising performances, vocal recordings and musical arrangements, mixing and remixing of music.

As mentioned in the Chairman's Statement, the structural extension, and hardware and software enhancement project at the Rojam Studio was completed in July 2001. The full operation of the Rojam Studio enhanced the music production business of the Group.

The Group continues to procure more music production businesses. During the year under review, the Group entered into producer service contracts with Waseda Jitsugyo School, Sony Music Entertainment Limited and R&C Japan Limited.

OPERATIONS REVIEW (Continued)

Music production (Continued)

The Group's music production team, led by Mr. Tetsuya Komuro, currently comprises nine experienced and reputable producers.

Chief Executive Producer: Mr. Tetsuya Komuro

Producers: Mr. Daisuke Asakura

Mr. Takeshi Hayama

Mr. Naoto Kine

Mr. Koji Kubo
(professional name known as Cozy Kubo)

Mr. Takashi Utsunomiya

Mr. Tatsushi Hashimoto
(professional name known as DJ Dragon)

Mr. Tetsuya Katsuragi

Mr. Jin Nyeong Jang
(professional name known as JiN)

Management Discussion and Analysis *(Continued)*

OPERATIONS REVIEW *(Continued)*

Music production *(Continued)*

During the year under review, the Group has extended its music production services to cover a wider scope of content with musical requirements such as drama, movie, animation and games software. The table below sets out the major projects undertaken by the Group during the year ended 31st March 2002.

Month of the release	Record company/Customer	Name of project	Project type	Artiste
2001				
June	Pony Canyon Inc	Amaretto	CD, album	Kiss Destination
	Pony Canyon Inc	DEAR MY CLOSE FRIEND	CD, single	Kiss Destination
July	Avex Inc	Try this shoot	CD, single	globe
	Sony Music Entertainment Limited	01717	CD, single	Ken
	Sony Music Entertainment Limited	Shiina Hekiru for live	CD, single	Shiina Hekiru
	Waseda Jitsugyo School	Waseda Kagayaku	Music	
August	CAPCON	Clock Tower	Music content for a game software	
	Sony Music Entertainment Limited	Jungle Life	CD, single	Shiina Hekiru
September	Avex Inc	global trance	CD, album	globe
	R & C Japan Ltd.	REPRESENT_01	CD, album	GABALL
October	FOA Records	BLUE FANTASY	CD, single	Tetsuya Komuro
	Sony Music Entertainment Limited	Nemureru Mori	CD, single	Shiina Hekiru
	Toshiba EMI	SPEED TK RE-MIX	CD, single	Tetsuya Komuro
November	Avex Inc	Stop! In the name of love	CD, single	globe
	Pony Canyon Inc	LIVE TOUR Major Turn-Round	DVD	TM Network
	Pony Canyon Inc	LIVE TOUR Major Turn-Round	VHS	TM Network
	Sony Music Entertainment Limited	Arashi nochi hare	CD, single	Shiina Hekiru
	Sony Music Entertainment Limited	Ashita wa Kienai	CD, single	Shiina Hekiru
December	Avex Inc	NHK BS Eien No Syonen	Theme song for the TV programme	globe
	Avex Inc	genesis of next	CD, single	globe
	Avex Inc	a song is born	CD, single	Ayumi Hamasaki & Keiko
	Avex Inc	the meaning of peace	CD, single	Kumi Koda & BoA
	Avex Inc	lovin' it	CD, single	Namie Amuro & Verbal
	Zetima	Kataomoi ha Hot Milk	Music arranging	Country Musume

OPERATIONS REVIEW (Continued)

Music production (Continued)

Month of the release	Record company/Customer	Name of project	Project type	Artiste
2002				
January	Avex Inc	VARIOUS ARTISTS FEATURING song+nation	CD, album	Various artists
	Avex Inc	CYBORG 009	CD, soundtrack	globe
	R & C Japan Ltd.	tr_Ast	CD, single	R9
	R & C Japan Ltd.	FREEZE	CD, single	Female non Fiction
	R & C Japan Ltd.	KEEP ON YOUR SIDE	CD, single	Aiko Katsumata
	Yoshimoto Kogyo Co., Ltd.	Bourbon "MUSIC FACTORY" series	Mini CD & ring tone	R9/Female non Fiction
February	Avex Inc	Many Classic Moments	CD, single	globe
	Avex Inc	Lights	CD, album	globe
March	Avex Inc	songnation2 trance	CD, album	Various artists
	Avex Inc	Many Classic Moments (remix)	CD, single	globe
	Sony Music Records Inc.	Sadistic Pink	CD, album	Shiina Hekiru
	Universal Music (Co. Ltd)	get back	CD, single	Licca

Record distribution

During the year under review, the Group distributed a total of 5 titles of music records of its talents in Japan. A summary of the music records is set out below.

Month of the release	Name of record	Artistes	Type of record
2001			
August	Running to Horizon	Takashi Utsunomiya	CD, single
September	Ukigumo	Naoto Kine	CD, mini album
	LOVE – iCE	Takashi Utsunomiya	CD, single
October	LOVE – iCE	Takashi Utsunomiya	CD, album
	Tsurezure	Naoto Kine	CD, mini album

Management Discussion and Analysis *(Continued)*

OPERATIONS REVIEW *(Continued)*

Artiste and event management

During the year under review, the Group arranged its artistes to perform in concerts, advertisement and other promotional activities.

The Group's artiste, Zoie Tam engaged in 2 Hong Kong movies "Troublesome Night 13" and "Chinese Orthopedist and Spice Girls".

In the first quarter, the Group undertook an event management project for the provision of event management services to a music production company in Japan. The project has generated turnover of approximately HK\$3.6 million.

In the second quarter, the Group organised the "Namie Amuro 2001 Concert Tour in Taiwan" which was planned to be held in Taipei. However, due to the threat of typhoon and bad weather, the concert was cancelled.

In October and December 2001, the Group organised 2 live talk shows for Naoto Kine.

Merchandise sales

During the year under review, the Group continued to release its feature products to be sold via the Group's music entertainment portal, "Rojam Popshop".

In May and July 2001, the Group released "Second Impression" and "Third Impression" respectively, photo books featuring TM Network's "Major-Turn-Round" concert tour held across Japan from December 2000 to January 2001.

In December 2001, Naoto Kine's photo book "Kayou Kyoku" was released.

Music entertainment portal

The Group continued to enrich and upgrade the content and functionality of our website to provide updated news and better service to its customers. The Group's music entertainment portal at the website – www.rojam.com features music download, news on the Group's products, artistes and producers as well as various forms of entertainment. The launch of the new design of the website in April 2002 also provides easy access to our unique "Click Audition" system for sourcing young musical talent for future development.

OPERATIONS REVIEW (Continued)

Promotional activities

In the first and second quarters, the Group sponsored two television programmes, namely "club TK" on BS Fuji, and "radio TK" on Fuji Television Network, and a radio programme named "mix in KD ~ produced by Rojam" and incurred expenses amounting to approximately HK\$9.3 million on such promotional activities.

"club TK" is an artiste audition programme for teenagers of around 10 to 13 years of age, and is packed with music, entertainment and fun; while "radio TK" is a talk show hosted by Mr. Tetsuya Komuro and Mr. Naoto Kine, both being producers of the Group, and is targeted at a more mature audience. "Mix in KD ~ produced by Rojam" is a promotion medium for the music of the Group on radio. All such television and radio programmes provide excellent platforms for the Group to promote its music, producers and artistes to audiences of all ages.

In September 2001, the Group was the tie-up sponsor in the function of World PC Expo 2001 which was a large-scale exhibition for computer products organised by SOTEC, a reputable personal computer manufacture in Japan. By participating in such event, the Group has promoted the new GABALL's album, "REPRESENT_01".

Rojam Disco

Rojam Disco is a popular disco and karaoke venue in downtown Shanghai, the People's Republic of China ("PRC"). It occupies a floor area of around 1,900 square metres, with a capacity of 1,800 patrons. It has two dance floors, and several karaoke rooms, bars and lounges. Rojam Disco has established itself as a popular venue for young adults aged from 18 to 25. These young patrons are potential customers of the Group's music and music related products and services. The Group believes that the Shanghai Chikou Acquisition will provide the Group with important competitive advantages in establishing an initial foothold and increasing the Group's current level of recognition and publicity in mainland China.

Management Discussion and Analysis *(Continued)*

PROSPECT

The year ahead will continue to be challenging given the economic uncertainties, especially over the economic reforms in Japan and the economic performance of mainland China. Despite the challenging business environment, the Group is actively identifying new opportunities to provide the Group with a platform to build a sustainable and high growth business.

To complement the core music production services, the Group will introduce new music-related products and services in order to broaden its revenue base. To cope with the changing operating environment, the Group will continue to review its operations critically and adjust its business objectives, focusing principally on revenue growth and operating efficiency.

The Group will further expand its core operations over which it has specialties by way of mergers and acquisition and restructurings, after conducting risk assessments. Looking forward, the Group will continue to build on its dynamic and unique business model and pursue its mission of being one of premier integrated music production house in Asia and being the partner of choice for the entertainment companies in the region.

Comparison of Business Objectives with Actual Business Progress

Business objective as stated in the Prospectus	Actual business progress for the period from 21st May 2001 to 31st March 2002
1. Expand the Group's customer base and enhance its core business operations of music production by building up its business alliance with major players in the entertainment industry	
Enter into not less than 2 producer service contracts	Entered into new producer service contracts with Waseda Jitsugyo School, Sony Music Entertainment Limited and R & C Japan Ltd.
Enter into not less than 3 contracts with software companies, computer and games companies, etc. for the provision of music content production services	In view of the current market condition, the Group took a more prudent approach towards selecting business partners. The Group has entered into a service contract with CAPCON, a games software provider in Japan, for the production of music content to a game software called "Clock Tower"; and a master tape agreement with Toshiba EMI.
Introduce not less than 1 artiste selected from the Group's audition system to contracted record companies	Due to the delay of the Click Audition system, the Group alternatively introduced the artiste, Aiko Katsumata being selected from ASAYAN, a Japanese TV programme, to the contracted record company.

Comparison of Business Objectives with Actual Business Progress *(Continued)*

Business objective as stated in the Prospectus	Actual business progress for the period from 21st May 2001 to 31st March 2002
2. Strengthen the Group's music production capacity through the sourcing of new talents	
Produce not less than 21 records for contracted record companies	Produced over 30 records for the contracted record companies.
Release not less than 7 records under the Group's label	Released 2 singles, 2 mini albums and 1 album under the Group's label.
Recruit not less than 1 producer	Entered into a producer contract with JiN, a reputable Korean music producer for the provision of producer services.
3. Geographical expansion in Asia	
Taiwan	
Participate in artiste auditions organised by the Group's local representative	Completed.
Enter into a producer service contract with a Taiwan based record company	Continued to search for potential partners.
Explore business opportunities in licensing the Group's trademark rights to entertainment companies, for example, discotheques	Continued to assess opportunities that fulfill the Group's strategic needs.
Enter into a trademark licensing agreement with an entertainment company	Continued to assess opportunities that fulfill the Group's strategic needs.

Comparison of Business Objectives with Actual Business Progress

(Continued)

Business objective as stated in the Prospectus	Actual business progress for the period from 21st May 2001 to 31st March 2002
3. Geographical expansion in Asia <i>(Continued)</i>	
South Korea	
Co-operate with the Group's strategic partner to establish music production and record distribution operations	Took the first step in establishing the presence of the Group in South Korea by entering into a producer contract with JiN.
Release not less than 2 records under the Group's label	The Group has not yet released any records in South Korea.
PRC	
Explore music related business opportunities	Entered into a sale and purchase agreement to acquire Shanghai Chikou Entertainment Company Limited, the principal business of which was the operation of the Rojam Disco in Shanghai.
4. Increase the Group's current level of recognition and publicity by investing in business development and marketing	
Sponsor television programs in Japan, Taiwan and South Korea with a view to promoting the Group's contracted artistes and producers	Sponsored, in Japan, 2 television programs, namely "club TK" on BS Fuji and "radio TK" on Fuji Television Network, and a radio program named "mix in KD – produced by Rojam".
Self-organise or participate in not less than 1 concert to promote the Group's music	Organised 2 live shows for Naoto Kine.

Comparison of Business Objectives with Actual Business Progress *(Continued)*

Business objective as stated in the Prospectus	Actual business progress for the period from 21st May 2001 to 31st March 2002
5. Exploitation of the Internet media	
Audition	
Conduct audition for artistes and producers	Owing to delays in system upgrade and maintenance, the Group expects that the next round of "Click Audition" may be launched in late 2002.
Merchandise sales	
Release not less than 2 major feature products to be sold via the Group's music entertainment portal	Released 2 photo books featuring TM Network's "Major-Turn-Round" concert tour and 1 photo book for Naoto Kine.
Music learning center	
Conduct market research and plan the operation of a music learning center on both conventional and Internet platforms in languages other than Japanese	Identified mainland China to be the potential market for the establishment of a music learning center and commenced market research.
Launch music learning center on both conventional and Internet platforms targeting 1 Asian market other than Japan	The market research has not been completed and therefore, the Group did not launch any music learning center.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Tetsuya Komuro, aged 43, is the Chairman of the Board and the Chief Executive Producer of the Group's music production team. Mr. Komuro co-founded the Group in January 1998 and is responsible for formulating the overall business strategies and development of the Group. He is also the mentor of the Group's production team providing vision and guidance in music production. Mr. Komuro is an international renowned music composer, arranger and producer and a member of several pop groups, namely globe, Kiss Destination and TM Network. Mr. Komuro has produced for a number of well-known artistes in Japan, such as Namie Amuro, Ami Suzuki and TRF and has made his name in the international arena on a number of occasions. In 1997, Mr. Komuro held a series of concerts in Beijing, Shanghai and Hong Kong as part of the celebrations for the 25th Anniversary of the Normalisation of China-Japan Relations. In April 1998, Mr. Komuro co-produced the official album for the 1998 World Cup Soccer in France. In early 2000, he was appointed by the former Prime Minister of Japan, Mr. Keizo Obuchi, to be the producer of the theme music for the G8 Kyushu-Okinawa Summit Meeting 2000.

Mr. Tomohiko Domen, aged 47, joined the Group in April 2000 is the Vice-Chairman of the Board. He is responsible for the Group's overall music production and entertainment operations and business development. Mr. Domen joined Yamaha Co. Ltd in Tokyo, Japan in 1977 after he graduated from Sophia University, Japan with a Bachelor of Arts degree. He has over 20 years' experience in music production and has extensive connections in the music industry in the United States, Japan and other parts of Asia. Since joining the Group in April 2000, Mr. Domen has successfully expanded the Group's music production operations and other ancillary businesses.

Mr. Tetsuo Mori, aged 52, the Chief Executive Officer of the Group, has joined the Group since November 2001. He is responsible for the Group's overall public relations and marketing, entertainment operations and business development of the Group in the Greater China region. He has over 20 years' experience in the music and entertainment industry. Mr. Mori joined Sony Music Entertainment (Japan) Inc. in 1978. He was the Director of Sony Music Entertainment (Hong Kong) Limited from 1991 to 1995. He was also the first Chief Representative of Sony Music Entertainment (Japan) Hong Kong office from 1992 to 1996, and was responsible for the marketing plan and promotion of Japanese artistes, such as Mika Chiba, Mayumi Itsuwa and "D-Project", in the Asian countries.

Directors and Senior Management Profile *(Continued)*

EXECUTIVE DIRECTORS *(Continued)*

Mr. Arihito Yamada, aged 39, is the Chief Financial Officer of the Group. 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 15 years' experience in accounting and tax planning in PricewaterhouseCoopers including 3 years in Los Angeles office, specialising in the area of mergers and acquisitions, finance and tax planning of the entertainment industry. Prior to joining the Group in July 2000, Mr. Yamada was a partner of PricewaterhouseCoopers Tokyo office and the Chief Executive Officer of PricewaterhouseCoopers Entertainment Ltd.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Seiichi Nakaoda, aged 37, was appointed as an independent non-executive Director in February 2001. He is a member of The Japanese Institute of Certified Public Accountants and has over 12 years' experience in finance and accounting practice. Mr. Nakaoda is the managing director of an accounting consultancy firm in Hong Kong.

Mr. Yeung Mui Kwan, David, aged 46, was appointed as an independent non-executive Director in April 2001. He is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants and has over 20 years' experience in finance and accounting practice. Mr. Yeung is now practising in his own accounting consultancy firm.

SENIOR MANAGEMENT

Mr. Osamu Nagashima, aged 46, Director of Rojam Japan Limited, a wholly owned subsidiary of the Company, has joined the Group since November 2001. He is responsible for the Group's music production, studio management and marketing in Japan. Prior to joining the Group, Mr. Nagashima was the Executive Vice President of Eastwest Japan, Inc., one of the companies of Warner Music Japan Group. Mr. Nagashima has more than 20 years' experience in international and domestic music. He obtained a bachelor degree in Political Science and Economics from Meiji University in 1980.

SENIOR MANAGEMENT (Continued)

Ms. Hung Shi Wei, Halina, aged 30, Legal and Special Project Advisor, has joined the Group since November 2000. She is a barrister and solicitor admitted to practise in Victoria, Australia, and is responsible for the Group's legal matters and corporate development projects. Ms. Hung graduated from Monash University, Australia with a Bachelor of Economics Degree and a Bachelor of Laws Degree. She holds a Graduate Diploma in Applied Finance and Investments, and has over 6 years of experience in legal compliance, business development and corporate finance.

Ms. Cheng Kit Sum, aged 30, Financial Controller, has joined the Group since May 2000. She is responsible for managing the Group's finance and accounting processes, maintaining finance control and performing statutory financial reporting. Ms. Cheng holds a Bachelor of Arts Degree in Accountancy from the Hong Kong Polytechnic University. She is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group, Ms. Cheng worked for PricewaterhouseCoopers in Hong Kong and has over 7 years' experience in auditing and accounting.

Mr. Keiichi Uezumi, aged 32, General Manager of Business Planning, has joined the Group since July 2000. He was qualified as a Japanese Certified Public Accountant (CPA) in 1996, and passed the US CPA Examination in 2000. He holds a Bachelor Degree of Economics from Seikei University. Mr. Uezumi has over 9 years, of experience in accounting and tax planning, in PricewaterhouseCoopers including 5 years in Tokyo office and 3 years in Los Angeles office. He is a specialist in finance and international tax planning in the entertainment industry and Internet business. Prior to joining the Group, Mr. Uezumi was a manager of PricewaterhouseCoopers' Tokyo office.

COMPANY SECRETARY

Ms. Etsuko Hoshiyama, aged 40, has joined the Group since March 2000. She holds a Bachelor Degree of Law in Japan and a Master Degree of Laws in Taxation from University of Denver, USA. She is an associate member of the American Institute of Certified Public Accountants and the Hong Kong Society of Accountants. Before joining the Group, Ms. Hoshiyama was a tax manager of PricewaterhouseCoopers in Hong Kong. She has over 10 years of experiences in tax, business consulting, and business development.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st March 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

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

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 49.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the accounts.

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 21 to the accounts.

DISTRIBUTABLE RESERVES

As at 31st March 2002, the Company had distributable reserves of approximately HK\$56.7 million (2001: HK\$101.5 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, subject to solvency tests.

FOUR YEAR FINANCIAL SUMMARY

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March 2002.

DIRECTORS

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

Executive directors

Mr. Tetsuya Komuro

Mr. Tomohiko Domen

Mr. Tetsuo Mori (appointed on 7th January 2002)

Mr. Arihito Yamada

Mr. Kebo Wu (resigned on 12th January 2002)

Mr. Wong Ho Yan, Daniel (resigned on 12th January 2002)

Independent non-executive directors

Mr. Seiichi Nakaoda

Mr. Yeung Mui Kwan, David (appointed on 1st April 2001)

Mr. Lai Sau Cheong, Simon (resigned on 1st April 2001)

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Mr. Arihito Yamada retires and, being eligible, offers himself 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 service agreement with Mr. Tomohiko Domen, Mr. Tetsuo Mori, Mr Arihito Yamada, Mr. Seiichi Nakaoda and Mr. Yeung Mui Kwan, David is of two years' duration. In the case of Mr. Tomohiko Domen, his service agreement commenced on 7th April 2000; in the case of Mr. Tetsuo Mori, his service agreement commenced on 7th January 2002; and in the case of Mr. Arihito Yamada, his service agreement commenced on 1st July 2000. In the case of Mr. Seiichi Nakaoda, his service agreement commenced on 6th February 2001, and in the case of Mr. Yeung Mui Kwan, David, his service agreement commenced on 1st April 2001. It is provided in each of these agreements that their terms of service shall continue after their respective commencement dates until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after their respective initial terms of service.

The service agreement with Mr. Tetsuya Komuro is of three years' duration commencing on 21st May 2001 and shall continue for successive three year periods until terminated by either party giving to the other not less than six months' prior written notice, such notice to expire upon or after the initial term of three years.

In addition to providing the services as an executive director, Mr. Tetsuya Komuro has also been engaged by the Company to provide services to Rojam International Limited, a wholly-owned subsidiary of the Company, in the capacity of a chief executive producer and will be further remunerated with the grant of options in respect of the shares of the Company pursuant to the Pre-IPO Grant of Options (as more particularly described in the section headed "Directors' interests in equity or debt securities" of this report) and a discretionary bonus to be paid at the absolute discretion of the board of directors of the Company.

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).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 23 to 25.

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 26 to the accounts. Certain of the transactions disclosed in note 26 also constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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) Video production agreement

Rojam Entertainment Limited ("REL") has, in the past, engaged Malibu Pictures, Inc. (formerly known as Rojam Pictures, Inc.), a company wholly and beneficially owned by Mr. Tetsuya Komuro to provide video production services on an order by order basis. The fees payable to Malibu Pictures, Inc. are computed as the actual production cost to Malibu Pictures, Inc. of producing the videos to be used for promotion purposes and an additional 15% of the actual production cost charged as administrative fee. During the year ended 31st March 2002, the Group has, instead of arranging for its own promotion videos, sponsored certain television and radio programs in Japan with a view to promoting the Group's talents. As a result, the Group did not engage Malibu Pictures, Inc. for the video production services during the year (2001: HK\$1,410,000).

Report of the Directors *(Continued)*

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

(b) Licence agreement

- 1 Pursuant to a licence agreement dated 5th July 2000 (as amended by a supplementary agreement dated 17th May 2001) entered into by REL and Shanghai Chikou Entertainment Co., Ltd. ("SCE"), which is owned as to 90% by Chikou Co., Ltd., a company wholly and beneficially owned by Mr. Kebo Wu, a former executive director who resigned with effect from 12th January 2002, and as to 10% by Shanghai Huanyu Import and Export Company Limited, a company incorporated in the People's Republic of China ("PRC") and is independent of the Group, REL agreed to grant a non-exclusive sub-licence to SCE to use the trademark of Rojam International Limited, "Rojam.com" in a discotheque in the premises situate at 4th Floor, HK Plaza, 283 Huai Hai Zhong Road, Shanghai, 20021, PRC (the "Services"). The term of the licence agreement is for an initial four year period from 1st April 2000 to 31st March 2004 and thereafter renewable at the option of REL for consecutive three year periods until 31st March 2010. The licence fee payable to REL is in the form of royalty computed as 5% of gross revenue attributable to SCE in the provision of the Services.
- 2 Pursuant to a licence agreement dated 5th July 2000 (as amended by a supplementary agreement dated 17th May 2001) entered into by REL and SCE, REL agreed to grant a non-exclusive sub-licence to SCE to use the logo  of Rojam International Limited, in providing the Services. The term of the licence agreement is for an initial four year period from 1st April 2000 to 31st March 2004 and thereafter renewable at the option of REL for consecutive three year periods until 31st March 2010. The licence fee payable to REL is in the form of royalty computed as 5% of gross revenue attributable to SCE in the provision of the Services.

The amount paid to REL under the above two licence agreements for the year ended 31st March 2002 was approximately HK\$1,845,000 (2001: HK\$1,658,000).

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

(b) Licence agreement (Continued)

As more detailed in note (d) of this section, on 11th January 2002 Rojam Investment Limited entered into a sale and purchase agreement with Chikou Co., Ltd. to purchase from Chikou Co., Ltd. 90% of the registered share capital of SCE (the "Shanghai Chikou Acquisition").

(c) Studio rental

- 1 Pursuant to an agreement dated 19th May 2001 made between SK Planning KK ("SK Planning") and REL, REL has since 1st April 2000 rented from SK Planning the music studio situate at 377 Keahole St. D-03, Honolulu, Hawaii 96825, USA for the use by the Group to be confirmed on an order by order basis. The term of the agreement is from 1st April 2000 to 31st March 2004. SK Planning is ultimately 100% held by Mr. Tetsuya Komuro. The fees payable for the use of the said studio are computed as studio charges and an additional 15% of the studio charges as administration fee.
- 2 Pursuant to an agreement dated 19th May 2001 made between PT. TK Disc Bali and REL, REL has since 1st April 2000 rented from PT. TK Disc Bali, a company beneficially owned by Mr. Tetsuya Komuro, the music studio situate at Jalan Raya Seminyak, Gang Plawa No. 566, Kuta-Bali 80361, Indonesia to be confirmed on an order by order basis. The term of the agreement is from 1st April 2000 to 31st March 2004. The fees payable for the use of the said studio are computed as studio charges and an additional 15% of the studio charges as administration fee.

The aggregate amount paid for the rental of the studios as described above for the year ended 31st March 2002 was approximately HK\$246,000 (2001: HK\$2,449,000).

Report of the Directors *(Continued)*

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

The independent non-executive Directors have reviewed the above non-exempt continuing connected transactions from notes (a) to (c) and confirmed that the non-exempt continuing connected transactions (page 96 of the Prospectus):

- (i) have been entered into in the ordinary and usual course of the business of the Group;
- (ii) have been entered into on normal commercial terms;
- (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.

(d) Shanghai Chikou Acquisition

On 11th January 2002, the Group entered into a sale and purchase agreement with Chikou Co. Ltd. to acquire 90% of the registered share capital of Shanghai Chikou Entertainment Co. Ltd. ("Shanghai Chikou") at a total consideration of HK\$31.5 million (the "Shanghai Chikou Acquisition"). Shanghai Chikou is a Sino-foreign equity joint venture principally engaged in entertainment businesses and operations in Shanghai. The discotheque business operation is conducted under the name "Rojam Disco". Other than the discotheque business, Shanghai Chikou has entertainment related non-discotheque businesses such as karaoke parlors and game centers operating in Shanghai, which are to be demerged from Shanghai Chikou and excluded from the Shanghai Chikou Acquisition. Rojam Disco has established itself a popular venue in downtown Shanghai for young adults aged from 18 to 25. These young patrons are potential customers of the Group's music and music related products and services. The Directors believe that the Shanghai Chikou Acquisition will provide the Group with important competitive advantages in establishing an initial foothold and increasing the Group's current level of recognition and publicity in mainland China. Details of the Shanghai Chikou Acquisition are contained in the Company's circular dated 8th February 2002.

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

(d) Shanghai Chikou Acquisition (Continued)

The Shanghai Chikou Acquisition has been approved by the independent shareholders of the Company by way of poll at the extraordinary general meeting of the Company held on 25th February 2002 and is pending completion. A refundable deposit of HK\$31.5 million has been paid by the Group, of which HK\$14 million has been paid to Chikou Co. Ltd and HK\$17.5 million has been paid to an escrow account.

As per the audited financial statements, prepared by the auditor of SCE, of Rojam Disco, a division established by SCE to operate a disco complex and related entertainment facilities commencing in February 1999 in Shanghai, People's Republic of China for the year ended 31st December 2001, Rojam Disco recorded turnover and net profit of RMB16,219,000 and RMB2,211,000 (which is in excess of the guaranteed profit of RMB2,166,000 by approximately RMB45,000) respectively for the year ended 31st December 2001, and a net asset value of approximately RMB9,369,000 (which is in excess of the acceptable net asset value of RMB7,677,000 by approximately RMB1,692,000) as at 31st December 2001.

The independent non-executive Directors have reviewed the audited financial statements of Rojam Disco for the year ended 31st December 2001 and formed the opinion that (i) Chikou Co., Ltd has fulfilled its obligations under the guaranteed profit of RMB2,166,000; and (ii) as that the date of this report, there has not been a fall in the net asset value of Rojam Disco to below 70% of the acceptable net asset value of RMB7,677,000, a material deterioration in the financial position, prospects or turnover of Rojam Disco or a breach of any material provision of the sale and purchase agreement by Chikou Co., Ltd since 31st December 2000 or 11th January 2002, as the case may be.

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

(e) Financial assistance to Billion Moment Limited

The Company's shares were listed on GEM on 31st May 2001 by way of placing of 70 million new shares and 20 million existing shares held by Billion Moment Limited, a company owned as to 90% by Mr. Kebo Wu and 10% by Ms. Cheng Wing Ki, Aouda, the spouse of Mr. Wong Ho Yan, Daniel, an ex-director of the Company whose resignation became effective on 12th January 2002. Pursuant to the underwriting agreement dated 23rd May 2001 and entered into between the Company, Billion Moment Limited and the underwriters, the Company and Billion Moment Limited had to bear their respective share of underwriting commission, and listing fees and related expenses. The Company has paid on behalf of Billion Moment Limited the latter's share of underwriting commission, and listing fees and related expenses of approximately HK\$5,128,000. Billion Moment Limited has agreed to repay the Company on demand in full the said principal sum with interest thereon at the prime rate prevailing in Hong Kong from the date of listing to the actual date of repayment.

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' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st March 2002, the interests of the directors and chief executives in the shares and options of the Company, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

(a) Ordinary shares of HK\$0.10 each in the Company

Name of directors	Personal interests
Mr. Tetsuya Komuro	472,830,667
Mr. Tomohiko Domen	27,022,000
Mr. Arihito Yamada	8,913,600

(b) Share options of the Company

Pre-IPO Grant of Options

Mr. Tetsuya Komuro has been granted an option entitling him to subscribe for up to a maximum of 41,387,376 shares at an exercise price of HK\$0.10 pursuant to a service agreement dated 21st May 2001 as consideration given by the Company to engage Mr. Tetsuya Komuro for the provision of music producer services to Rojam International Limited. Details in relation to the grant and exercise of such option together with the period of exercise are briefly summarised in the section headed "Outstanding Share Options of the Company" of this report.

Share Option Scheme

Pursuant to the share option scheme adopted by the Company on 21st May 2001 (the "Share Option Scheme") and the terms and conditions contained in the offer letter dated 12th July 2001 from the Company, on 12th July 2001, Mr. Tomohiko Domen and Mr. Arihito Yamada were granted options to subscribe for up to a maximum of 8,800,000 shares and 6,600,000 shares of the Company respectively at an exercise price of HK\$0.47 per share. Details in relation to the grant and exercise of such option together with the period of exercise are briefly summarised in the section headed "Outstanding share options of the Company" of this report.

Report of the Directors *(Continued)*

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(Continued)*

Save as disclosed above, as at 31st March 2002 none of the directors or their associates (as defined in the GEM Listing Rules) had any personal, family, corporate or other interests in the securities of the Company and its associated corporations (as defined in the SDI Ordinance) as recorded in the register required to be maintained under Section 29 of the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the year ended 31st March 2002 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDER

As at 31st March 2002, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholders' interests, being 10% or more the Company's issued share capital.

Name of shareholder	Number of ordinary shares
Mr. Tetsuya Komuro	472,830,667

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.

USE OF PROCEEDS FROM THE PLACING OF SHARES

The net proceeds to the Group from the Placing, after deduction of underwriting fees and related expenses payable by the Company in relation to the Placing, were approximately HK\$52.1 million.

USE OF PROCEEDS FROM THE PLACING OF SHARES (Continued)

During the period from 31st May 2001 (date of listing) to 31st March 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

	As stated in the Prospectus <i>HK\$ million</i>	Actual <i>HK\$ million</i>
– For the acquisition of hardware and software for its Tokyo studio to enhance the production of master tapes so as to enable the Group to capitalise on its strength in music production to expand its customer base and enhance its core business operations;	2.5	6.2
– For the recruitment of producers mainly to strengthen its music production capacity;	6.0	0.7
– For engaging in sponsorship and artiste promotional activities in different countries in Asia mainly to achieve the Group's geographic expansion plan and increase its brand recognition and publicity;	9.0	9.3
– For training and development of artistes in different Asian countries to achieve geographic expansion;	0.5	0.3
– For establishing an online and offline music learning centre mainly to strengthen the Group's music production capacity and to exploit the Internet media for the Group's business; and	0.5	–
– For general working capital purposes.	1.0	1.0
	<u>19.5</u>	<u>17.5</u>

The remaining net proceeds of approximately HK\$34.6 million were placed on short term deposits with licensed banks in Hong Kong for future use as identified by the Group's business plans.

Report of the Directors *(Continued)*

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers.

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

Sales

- | | |
|---------------------------------------|-----|
| – the largest customer | 50% |
| – the five largest customers combined | 64% |

None of the directors, their respective associates and shareholders who own more than 5% of the issued share capital of the Company had a beneficial interest in the five largest customers of the Group for the year ended 31st March 2002.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 21st May 2001 with written terms of reference in compliance with Rules 5.23 and 5.24 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 two members comprising the two independent non-executive directors of the Company, namely Mr. Seiichi Nakaoda and Mr. Yeung Mui Kwan, David.

During the year, the audit committee reviewed and commented on the Group's draft annual report, interim report and quarterly reports and provided advice and comments thereon to the Board.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31st March 2002, Mr. Tetsuya Komuro, an executive director and the controlling shareholder of the Company, is interested in approximately 24% of M-Tres Ltd. ("M-Tres") which is the management company of Mr. Takashi Utsunomiya, a producer of the Group. Under the management of M-Tres, Mr. Takashi Utsunomiya (together with M-Tres) and Rojam Entertainment Limited ("REL"), a wholly-owned subsidiary of the Company, have entered into an executive recording artiste agreement in July 2000 whereby REL became the record company for Mr. Takashi Utsunomiya. The principal business of M-Tres is event production and management business. Mr. Tetsuya Komuro has confirmed that he has not taken any management role in M-Tres and he is solely a passive investor. He has also confirmed that he has verbally undertaken to the other shareholders of M-Tres that he will not dispose of his interests in M-Tres and there may be adverse impact on the business of M-Tres if he does so. Given the scope and nature of business of M-Tres and the passive nature of Mr. Tetsuya Komuro's involvement in it and further that event production and management is not the core business of the Group, the directors consider that Mr. Tetsuya Komuro's retention of his interests in M-Tres will not have any significant adverse impact on the business of the Group.

Mr. Tetsuya Komuro has unconditionally and irrevocably undertaken to the Company that (i) he will not, and will procure that none of his associates (as defined in the GEM Listing Rules) will directly or indirectly, carry on or engage or be engaged in any business which shall compete or may compete, with the provision of producer services, music publishing, trademark licensing, artiste and event management, record distribution, and music learning center (the "Restricted Business") whether directly or indirectly with effect from six months after the commencement date of dealings in the shares of the Company on GEM and (iii) he will not, and will procure that none of his associates (as defined in the GEM Listing Rules) will, directly or indirectly, own more than 5% of the equity interest in any company whose business includes the Restricted Business, save for the 24% equity interest in M-Tres as described above. The above undertaking will cease to have effect on the earliest of the date on which (i) Mr. Tetsuya Komuro and/or his associates (as defined in the GEM Listing Rules) cease to be shareholder(s) who is/are together entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of the Company; (ii) the shares of the Company cease to be listed and traded on GEM; or (iii) the principal business of the Group ceases to be the Restricted Business.

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.

Report of the Directors *(Continued)*

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 pro-rata basis to existing shareholders.

SUBSEQUENT EVENTS

The significant subsequent event is as follows:

Acquisition of R&C Japan Ltd.

On 20th June 2002, the Board announced that the Company had entered into a sale and purchase agreement with Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"), one of the major entertainment companies in Japan, to purchase from Yoshimoto 80% effective interest in R&C Japan Ltd., a company incorporated in Japan and principally engaged in the production of music master-tapes and licensing of master-tape rights. The total consideration, amounting to HK\$67.5 million, will be satisfied by the issue and allotment of 450,000,000 new shares in the Company, representing approximately 40.74% and 28.94% of the existing and enlarged share capital of the Company respectively.

The Group believes that the acquisition of shares in R&C Japan Ltd presents an important strategic milestone of the Company to enhance the Group's existing capabilities in strategising and organising mater-tape recordings and overseeing all aspects in the production of the master-tapes for the subsequent production and distribution of albums, single compact discs, DVDs and video tapes, and will provide the Group with important competitive advantages in pursuing the Group's business objectives. Besides, by introducing Yoshimoto as a strategic and business partner, the Group is expected to be able to leverage Yoshimoto's brandname, considerable talent and resources in the entertainment industry.

SPONSOR'S INTERESTS

As notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY"), as at 31st March 2002, Core Pacific-Yamaichi International (H.K.) Limited, an associate (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of CPY, held 1,032,000 shares in the Company. Save as disclosed herein, neither CPY nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31st March 2002.

Pursuant to the sponsor agreement dated 31st May 2001 made between CPY as sponsor and the Company, CPY received, and will receive, fees for acting as the Company's retained sponsor for the period from 31st May 2001 to 31st March 2004.

OUTSTANDING SHARE OPTIONS OF THE COMPANY

(a) Pre-IPO Grant of Option

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

Name	Date of grant	Exercise price (HK\$)	Granted	Exercised	Lapsed	As at 31st March 2002
Mr. Tetsuya Komuro	21st May 2001	0.1	41,387,376	-	-	41,387,376
Mr. Naoto Kine	21st May 2001	0.8	5,173,422	-	-	5,173,422
Mr. Koji Kubo	21st May 2001	0.8	5,173,422	-	-	5,173,422
Total			<u>51,734,220</u>	<u>-</u>	<u>-</u>	<u>51,734,220</u>

Option period commences on the date of listing (i.e. 31st May 2001) and expires 10 years thereafter. As at 31st March 2002, all such options granted were outstanding. A brief summary of the other principal terms of the Pre-IPO Grant of Options is set out in the Prospectus.

Report of the Directors *(Continued)*

OUTSTANDING SHARE OPTIONS OF THE COMPANY *(Continued)*

(b) Share Option Scheme

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

Name	Date of grant	Exercise	Granted	Exercised	Lapsed	As at 31st
		price (HK\$)				March 2002
Mr. Tomohiko Domen	12th July 2001	0.47	8,800,000 ¹	-	-	8,800,000
Mr. Arihito Yamada	12th July 2001	0.47	8,800,000 ¹	-	-	8,800,000
Mr. Wong Ho Yan, Daniel	12th July 2001	0.47	6,600,000 ¹	-	-	6,600,000
41 employees	12th July 2001	0.47	28,040,000 ¹	-	11,940,000	16,100,000
Total			<u>52,240,000</u>	<u>-</u>	<u>11,940,000</u>	<u>40,300,000</u>

Option period commences on the date of grant and expires 10 years thereafter. As at 31st March 2002, options comprising a total of 11,940,000 underlying shares granted to certain full time employees of the Group had lapsed, but not yet cancelled, following the cessation of their employment. Save as aforesaid, all such options granted were outstanding as at 31st March 2002. A brief summary of the other principal terms of the Share Option Scheme is set out in the Prospectus.

Notes:

- (1) At the date immediately before the options were granted on 12th July 2001, the closing price per share was HK\$0.405.

OUTSTANDING SHARE OPTIONS OF THE COMPANY (Continued)

(b) Share Option Scheme (Continued)

Notes: (Continued)

- (2) Options granted are vested as follows:

Pre-IPO Grant of Options:

On the date of the Company's shares were listed on GEM	Zero
On 1st anniversary of the date of the Company's shares were listed on GEM	Up to 30% vested
On 2nd anniversary of the date of the Company's shares were listed on GEM	Up to 60% vested
On 3rd anniversary of the date of the Company's shares were listed on GEM	Up to 100% vested

Share Option Scheme:

On 1st anniversary of the date of commencement of the grantee's employment with the Group	Up to 50% vested
On 2nd anniversary of the date of commencement of the grantee's employment with the Group	Up to 100% vested

- (3) In assessing the value of the share options granted during the year ended 31st March 2002, the Black-Scholes option pricing model (the "Black-Scholes Model") has been used. The Black-Scholes Model is one of the most generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models as set out in Chapter 23 of the GEM Listing Rules. The variables of the Black-Scholes Model include, underlying price, expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

Report of the Directors *(Continued)*

OUTSTANDING SHARE OPTIONS OF THE COMPANY *(Continued)*

(b) Share Option Scheme *(Continued)*

Notes: (Continued)

The following variables have been applied to the Black-Scholes Model:

Variable	Measurement Date	
	21st May 2001	12th July 2001
Underlying price	0.633	0.405
Expected life	5 years	5 years
Risk-free rate	5.580%	5.584%
Expected volatility	104.76%	104.76%
Expected dividend yield	0%	0%

The above variables were determined as follows:

- (a) The underlying price represents the price of the Company's shares on the date of option grant (the "Measurement Date"). For options granted on the date prior to the date of listing (i.e. 21st May 2001), the underlying price is estimated to be the average of the daily closing prices of the Company's shares from the date of listing to the date of the second option grant (i.e. 12th July 2001).
- (b) The expected life is estimated to be 5 years from the date of grant.
- (c) The risk-free rate represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.
- (d) The expected volatility represents the standard deviation of the daily closing prices of the Company's shares from the date of listing to the Measurement Date of the options granted after the date of listing.
- (e) Based on historic pattern, it is assumed that no dividend would be paid out during the expected life of the options.

OUTSTANDING SHARE OPTIONS OF THE COMPANY (Continued)

(b) Share Option Scheme (Continued)

Notes: (Continued)

Using the Black-Scholes Model in assessing the value of share options granted during the year, the options would have an aggregate value of approximately HK\$45,579,437 represented as follows:

	Number of share options granted during the year	Estimated value per option HK\$	Estimated value of options granted during the year HK\$
Directors			
Mr. Tetsuya Komuro	41,387,376	0.59	24,418,552
Mr. Tomohiko Domen	8,800,000	0.31	2,728,000
Mr. Akihito Yamada	8,800,000	0.31	2,728,000
Mr. Wong Ho Yan, Daniel	6,600,000	0.31	2,046,000
		Sub-total	<u>31,920,552</u>
Employees	28,040,000	0.31	8,692,400
Other participants	10,346,844	0.48	<u>4,966,485</u>
		Total	<u>45,579,437</u>

In assessing the aggregate value of the share options, no adjustment has been made for possible future forfeiture of the options. No charge is recognised in the profit and loss account in respect of the value of options granted during the year. The share options granted will be recognised in the balance sheet at the time when the share options are exercised. Share capital will be credited at par for each share issued upon the exercise of share options, with share premium credited at the excess of net proceeds received over total share capital credited.

It should be noted that the value of options calculated using the Black-Scholes Model is based on different variables of various subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. It is also possible that the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

Report of the Directors *(Continued)*

OUTSTANDING SHARE OPTIONS OF THE COMPANY *(Continued)*

A summary of the Share Option Scheme (the "Scheme") adopted on 21st May 2001 is as follows:

- | | |
|--|---|
| 1. Purpose of the Scheme | As an incentive to employees and executive directors |
| 2. Participants of the Scheme | Eligible full-time employees including executive directors of any company in the Group |
| 3. Total number of shares available for issue under the Scheme and % of issued share capital represented by such number as at 31st March 2002 | 110,468,440 shares (10%) |
| 4. Maximum entitlement of each participant under the Scheme | 25% of the aggregate of all shares subject to the Scheme |
| 5. The period within which the shares must be taken up under an option | Not less than 3 years commencing from the date of grant and not more than 10 years from the date of grant |
| 6. The minimum period for which an option must be held before it can be exercised | Refer to note (2) |
| 7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid | HK\$1.00 on acceptance of the offer of an option |

OUTSTANDING SHARE OPTIONS OF THE COMPANY (Continued)

- | | | |
|----|---|--|
| 8. | The basis of determining the exercise price | The exercise price is determined by the directors and being not less than the higher of: <ul style="list-style-type: none">(a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day;(b) an amount equals to the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and(c) the nominal value thereof |
| 9. | The remaining life of the Scheme | The Scheme will end on 20th May 2010 |

AUDITORS

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

On behalf of the Board
Tetsuya Komuro
Chairman

Hong Kong, 21st June 2002

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF ROJAM ENTERTAINMENT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 49 to 86 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2002 and of the loss and cash flows of the Group 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, 21st June 2002

Consolidated Profit and Loss Account

For the year ended 31st March 2002

	<i>Note</i>	2002 HK\$'000	2001 HK\$'000
Turnover	3	48,756	134,925
Other revenue	3	2,671	3,762
Total revenues		51,427	138,687
Less: overseas withholding taxation	5	(2,839)	(11,213)
		48,588	127,474
Cost of sales		(41,377)	(28,747)
Selling and distribution expenses		(13,842)	(13,568)
Other operating expenses		(76,302)	(65,437)
(Loss)/profit before taxation	4	(82,933)	19,722
Taxation	5	–	–
(Loss)/profit after taxation		(82,933)	19,722
Minority interests		4	1
(Loss)/profit attributable to shareholders		(82,929)	19,723
Basic (loss)/earnings per share	8	(7.6 cents)	2.4 cents

Consolidated Balance Sheet

As at 31st March 2002

	Note	2002 HK\$'000	2001 HK\$'000
Fixed assets	11	41,418	50,580
Deposit for investment in subsidiaries	13	31,500	–
Current assets			
Inventories	14	4,749	2,351
Amount due from a shareholder	15	5,373	–
Amounts due from related companies	16	1,637	485
Trade receivables	18	17,957	13,004
Other receivables and prepayments		14,406	35,190
Cash and bank balances	19	70,343	132,412
		<u>114,465</u>	<u>183,442</u>
Current liabilities			
Amounts due to related companies	16	–	270
Trade payables	20	2,851	3,122
Accruals and other payables		6,430	9,395
Dividends payable		–	10,347
		<u>9,281</u>	<u>23,134</u>
Net current assets		<u>105,184</u>	<u>160,308</u>
Total assets less current liabilities		<u>178,102</u>	<u>210,888</u>
Financed by:			
Share capital	21	110,468	103,468
Reserves	22(a)	67,634	107,319
Shareholders' funds		178,102	210,787
Minority interests		–	101
		<u>178,102</u>	<u>210,888</u>

On behalf of the Board

Tetsuo Mori
Director

Arihito Yamada
Director

Balance Sheet

As at 31st March 2002

	<i>Note</i>	2002 HK\$'000	2001 <i>HK\$'000</i>
Investments in subsidiaries	12	–	32,083
Current assets			
Amount due from a shareholder	15	5,373	–
Amounts due from subsidiaries	17	169,595	113,678
Other receivables and prepayments		5,165	15,566
Cash and bank balances		26,249	99,682
		206,382	228,926
Current liabilities			
Amount due to subsidiaries	17	37,931	41,946
Accruals and other payables		1,240	3,736
Dividends payable		–	10,347
		39,171	56,029
Net current assets		167,211	172,897
Total assets less current liabilities		167,211	204,980
Financed by:			
Share capital	21	110,468	103,468
Reserves	22(b)	56,743	101,512
Shareholders' funds		167,211	204,980

On behalf of the Board

Tetsuo Mori

Director

Arihito Yamada

Director

Consolidated Cash Flow Statement

For the year ended 31st March 2002

	Note	2002 HK\$'000	2001 HK\$'000
Net cash outflow from operating activities	23(a)	<u>(57,834)</u>	<u>(16,341)</u>
Returns on investments and servicing of finance			
Interest received		2,426	3,762
Dividends paid		<u>(10,347)</u>	<u>–</u>
Net cash (outflow)/inflow from returns on investments and servicing of finance		<u>(7,921)</u>	<u>3,762</u>
Investing activities			
Purchase of fixed assets		(16,976)	(57,791)
Sale of fixed assets		659	–
Sale of a subsidiary	23(c) & (d)	(92)	–
Deposit for investment in subsidiaries		<u>(31,500)</u>	<u>–</u>
Net cash outflow from investing activities		<u>(47,909)</u>	<u>(57,791)</u>
Net cash outflow before financing		<u>(113,664)</u>	<u>(70,370)</u>
Financing	23(b)		
Proceeds from issue of shares		70,000	206,647
Share issue expenses		(17,950)	–
Decrease in amount due to shareholders		<u>–</u>	<u>(2,657)</u>
Net cash inflow from financing		<u>52,050</u>	<u>203,990</u>
(Decrease)/increase in cash and cash equivalents		(61,614)	133,620
Exchange difference		(455)	(1,181)
Cash and cash equivalents at the beginning of the year		<u>132,412</u>	<u>(27)</u>
Cash and cash equivalents at the end of the year		<u><u>70,343</u></u>	<u><u>132,412</u></u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances		<u><u>70,343</u></u>	<u><u>132,412</u></u>

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st March 2002

	<i>Note</i>	2002 HK\$'000	2001 HK\$'000
Exchange differences arising on translation of overseas subsidiaries	22(a)	<u>(1,839)</u>	<u>(3,118)</u>
Net losses not recognised in the profit and loss account		(1,839)	(3,118)
(Loss)/profit attributable to shareholders		(82,929)	19,723
Realisation of exchange reserve upon disposal of a subsidiary		<u>33</u>	<u>–</u>
Total recognised (losses)/gains		<u>(84,735)</u>	<u>16,605</u>

Notes to the Accounts

1. Group reorganisation and basis of preparation

- (a) The Company was incorporated in the Cayman Islands on 29th February 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands.
- (b) Pursuant to a Group reorganisation (the "Reorganisation"), which was completed on 19th September 2000, to rationalise the structure of the Company and its subsidiaries (the "Group") in the preparation for the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM"), the Company became the holding company of the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 24th May 2001 (the "Prospectus").
- (c) The Company's shares were listed on GEM on 31st May 2001.
- (d) The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statements of Standard Accounting Practice 2.127 "Accounting for group restructuring". The consolidation accounts of the Group for the year ended 31st March 2001, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.
- (e) The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the principal accounting policies below.

2. Principal accounting policies

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Apart from the Reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

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

(b) Revenue recognition

- (i) Revenue from record distribution and merchandise sales are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.
- (ii) Signing bonus, which represents fee receivable by the Group as an inducement for entering into an agreement, is non-refundable and non-recoupable and is recognised when the agreement is signed.
- (iii) Royalty income and trademark licensing income are recognised on an accrual basis.
- (iv) Revenue from production services is recognised when the production is completed.

Notes to the Accounts *(Continued)*

2. Principal accounting policies *(Continued)*

(b) Revenue recognition *(Continued)*

- (v) Revenue from event management is recognised when the events are completed.
- (vi) Revenue from artiste management is recognised when the services are rendered.
- (vii) Advertising revenues from banner advertisements are recognised over the period in which the advertisements are displayed, provided that no significant obligations remain and collection of the receivable is reasonably assured.
- (viii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(c) Fixed assets

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

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

	2002	2001
Computer equipment	30% – 50%	30%
Studio equipment	10% – 20%	10% – 20%
Leasehold improvements	20% – 50%	20% – 25%
Office equipment, furniture and fixtures	20% – 50%	20%
Motor vehicles	30%	30%

In current year, the directors, taking current business environment and conditions, and the expected pattern of economic benefits from the respective assets into consideration, have reassessed the assets' estimated useful lives and have revised the accounting estimates as above. The aggregate effect of the changes is that depreciation charge for the year has increased by HK\$9,295,000.

2. Principal accounting policies (Continued)

(c) Fixed assets (Continued)

Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction, other properties and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(d) Inventories

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

(e) Trade receivables

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

Notes to the Accounts *(Continued)*

2. Principal accounting policies *(Continued)*

(f) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(g) Contingent liabilities and contingent assets

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

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

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

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

(h) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

2. Principal accounting policies (Continued)

(i) Translation of foreign currencies

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

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(j) Related companies

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

(k) Operating leases

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

In note 24 to the accounts the Group has disclosed operating lease commitment under the revised SSAP 14 which requires the disclosure of the aggregate future minimum lease payments. This is a change from the previous SSAP 14 which only required disclosure of the minimum lease payments payable in the next twelve months.

(l) Retirement benefit costs

The Group's contribution to the defined contribution retirement schemes are expensed as incurred. The assets of the schemes are held separately from the those of the Group in independently administered funds.

Notes to the Accounts *(Continued)*

2. Principal accounting policies *(Continued)*

(m) Segment reporting

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

Unallocated costs represents corporate expenses. Segment assets consist primarily of fixed assets, inventories and receivables. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to fixed assets (note 11).

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

(n) Dividends

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date.

3. Turnover, revenue and segment information

The Group is principally engaged in music production, music publishing, record distribution, artiste management, event management, trademark licensing, merchandise sales and banner advertising. The amounts of each significant category of revenue recognised during the year are as follows:

	2002	2001
	HK\$'000	HK\$'000
Turnover		
Music production income		
– Production service fees	20,598	14,356
– Royalty income	12,600	8,610
– Signing bonus	–	84,167
Music publishing fee		
– Royalty income	174	42
Record distribution income	3,979	15,087
Artiste management fees	874	516
Event management income	5,162	83
Trademark licensing income	1,846	1,658
Merchandise sales	2,425	7,723
Banner advertising income	1,098	2,683
	48,756	134,925
Other revenue		
Interest income	2,426	3,762
Interest income arising from amount due from a shareholder (notes 15 and 26(k))	245	–
	2,671	3,762
Total revenues	51,427	138,687

Notes to the Accounts *(Continued)*

3. Turnover, revenue and segment information *(Continued)*

Primary reporting format – business segments

	2002						Total HK\$'000
	Music production HK\$'000	Music publishing HK\$'000	Record distribution HK\$'000	Event management HK\$'000	Merchandise sales HK\$'000	Others HK\$'000	
Turnover	33,198	174	3,979	5,162	2,425	3,818	48,756
Segment results	(49)	174	120	915	858	5,179	7,197
Unallocated cost							(90,130)
Loss before taxation							(82,933)
Taxation							-
Loss after taxation							(82,933)
Minority interest							4
Loss attributable to shareholders							(82,929)
Segment assets	30,794	57	1,339	4,371	89	1,688	38,338
Unallocated assets							149,045
Total assets							187,383
Segment liabilities	(1,841)	-	(11)	(1,378)	-	-	(3,230)
Unallocated liabilities							(6,051)
Total liabilities							(9,281)
Capital expenditure	7,420	39	889	-	-	-	8,348
Unallocated capital expenditure							8,628
							16,976
Depreciation	1,950	10	234	-	-	-	2,194
Unallocated depreciation							20,031
							22,225

3. Turnover, revenue and segment information (Continued)

Primary reporting format – business segments (Continued)

	2001					
	Music production HK\$'000	Music publishing HK\$'000	Record distribution HK\$'000	Merchandise sales HK\$'000	Others HK\$'000	Total HK\$'000
Turnover	<u>107,133</u>	<u>42</u>	<u>15,087</u>	<u>7,723</u>	<u>4,940</u>	<u>134,925</u>
Segment results	<u>85,373</u>	<u>42</u>	<u>4</u>	<u>3,234</u>	<u>7,983</u>	<u>96,636</u>
Unallocated cost						<u>(76,914)</u>
Profit before taxation						19,722
Taxation						<u>-</u>
Profit after taxation						19,722
Minority interest						<u>1</u>
Profit attributable to shareholders						<u>19,723</u>
Segment assets	<u>31,759</u>	<u>7</u>	<u>3,360</u>	<u>-</u>	<u>906</u>	<u>36,032</u>
Unallocated assets						<u>197,990</u>
Total assets						<u>234,022</u>
Segment liabilities	<u>(1,836)</u>	<u>-</u>	<u>(1,213)</u>	<u>-</u>	<u>(72)</u>	<u>(3,121)</u>
Unallocated liabilities						<u>(20,114)</u>
Total liabilities						<u>(23,235)</u>
Capital expenditure	<u>6,857</u>	<u>3</u>	<u>965</u>	<u>-</u>	<u>-</u>	<u>7,825</u>
Unallocated capital expenditure						<u>49,966</u>
						<u>57,791</u>
Depreciation	<u>310</u>	<u>-</u>	<u>44</u>	<u>-</u>	<u>-</u>	<u>354</u>
Unallocated depreciation						<u>3,847</u>
						<u>4,201</u>

Notes to the Accounts *(Continued)*

3. Turnover, revenue and segment information *(Continued)*

Secondary reporting format – geographical segments

	Turnover 2002 HK\$'000	Segment results 2002 HK\$'000	Total assets 2002 HK\$'000	Capital expenditure 2002 HK\$'000
Hong Kong	2,392	395	62,485	1,000
Japan	44,518	(27,246)	85,271	15,976
Other countries	1,846	1,476	39,627	–
	<u>48,756</u>	<u>(25,375)</u>	<u>187,383</u>	<u>16,976</u>
Unallocated costs		<u>(57,558)</u>		
Loss before taxation		<u>(82,933)</u>		
	Turnover 2001 HK\$'000	Segment results 2001 HK\$'000	Total assets 2001 HK\$'000	Capital expenditure 2001 HK\$'000
Hong Kong	2,087	1,734	155,733	25,578
Japan	130,706	81,417	62,391	32,213
Other countries	2,132	1,162	15,898	–
	<u>134,925</u>	<u>84,313</u>	<u>234,022</u>	<u>57,791</u>
Unallocated costs		<u>(64,591)</u>		
Profit before taxation		<u>19,722</u>		

4. (Loss)/profit before taxation

(Loss)/profit before taxation is stated after crediting and charging the following:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Crediting		
Gain on disposal of a subsidiary	<u>5</u>	<u>–</u>
Charging		
Auditors' remuneration	598	400
Cost of inventories sold	40,693	26,524
Depreciation of fixed assets	22,225	4,201
Exchange losses	2,440	13,733
Loss on disposal of fixed assets	1,898	–
Operating leases rental on land and buildings	10,667	9,117
Provision for inventories	684	595
Provision for bad and doubtful debts	2,121	65
Staff costs	<u>15,050</u>	<u>11,634</u>

5. Taxation and overseas withholding taxation

No provision for Hong Kong profits tax and Japanese corporate income tax have been made as the companies comprising the Group have no assessable profits for the years ended 31st March 2002 and 2001.

Overseas withholding taxation represents Japan and the People's Republic of China (the "PRC") withholding taxes on the income subject to withholding taxes and calculated at the rates applicable thereto.

Notes to the Accounts *(Continued)*

5. Taxation and overseas withholding taxation *(Continued)*

No provision has been made in the accounts for deferred taxation. The unprovided deferred taxation assets/(liabilities) as at 31st March 2002 are analysed below:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Potential tax losses	4,462	3,028
Accumulated depreciation allowance	2,116	(387)
	<u>6,578</u>	<u>2,641</u>

6. (Loss)/profit attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$89,819,000 (2001: profit of HK\$8,580,000).

7. Dividends

	2002 HK\$'000	Group 2001 <i>HK\$'000</i>
Interim declared of HK\$Nil (2001: 1 cent) per ordinary share	<u>-</u>	<u>10,347</u>

8. (Loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK\$82,929,000 (2001: profit of HK\$19,723,000) and the weighted average number of ordinary shares for the year of 1,093,177,554 (2001: 834,940,467) shares.

Diluted loss per share has not been presented for the year ended 31st March 2002 as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share. No diluted earnings per share for the year ended 31st March 2001 is presented as there were no dilutive instruments at 31st March 2001.

9. Directors' and senior management's emoluments

- (a) Emoluments paid and payable to the directors for the year ended 31st March 2002 are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	473	30
Basic salaries, allowances and benefits in kind	7,887	8,239
Pension contribution	13	4
Compensation for loss of office	–	567
	<u>8,373</u>	<u>8,840</u>

Directors' fees disclosed above include approximately HK\$473,000 (2001: HK\$30,000) paid to independent non-executive directors.

Four executive directors of the Company received emoluments for the year ended 31st March 2002 of approximately HK\$2,655,000 (2001: HK\$2,689,000), HK\$1,875,000 (2001: HK\$2,016,000), HK\$2,869,000 (2001: HK\$1,941,000) and HK\$501,000 (2001: Nil) respectively.

During the year, 41,387,376 options and 24,200,000 options were granted to the directors pursuant to the pre-IPO grant of options and the share option scheme respectively. Each of the options entitles the holders to subscribe for one ordinary share at HK\$0.10 each from 31st May 2001 to 31st May 2011, and at HK\$0.47 each from 12th July 2001 to 12th July 2011 respectively. No options had been exercised by the directors during the year.

Notes to the Accounts *(Continued)*

9. Directors' and senior management's emoluments *(Continued)*

- (b) The five individuals whose emoluments were the highest in the Group for the year ended 31st March 2002 include three (2001: five) directors whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining two highest paid employees for the year ended 31st March 2002 is as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries and allowances	2,095	–
Pension contribution	12	–
	<u>2,107</u>	<u>–</u>

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

	2002	2001
HK\$1,000,001 – HK\$1,500,000	<u>2</u>	<u>–</u>

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

10. Retirement benefit costs

From 1st December 2000, the subsidiaries operating in Hong Kong are required to participate in defined contribution retirement scheme of the Group set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance. Prior to that date, the subsidiaries operating in Hong Kong did not have a provident fund scheme for its directors and employees. Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity. The subsidiaries operating in Japan are required to participate in defined contribution retirement schemes organised by the relevant local government authorities since incorporation. They are required to make contributions to the retirement schemes at a rate of 8.675% of the basic salary of their employees up to a maximum of Yen 605,000 (approximately HK\$41,000) per employee per annum.

Retirement benefit costs for the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Contributions paid and payable to defined contribution retirement schemes in respect of:		
Hong Kong	393	124
Japan	914	157
	<u>1,307</u>	<u>281</u>

Notes to the Accounts *(Continued)*

11. Fixed assets – Group

	Leasehold improve- ments <i>HK\$'000</i>	Studio equipment <i>HK\$'000</i>	Office equipment, furniture and fixtures <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
At 1st April 2001	26,245	20,869	5,905	1,385	424	54,828
Additions	8,896	6,240	582	932	326	16,976
Disposals	(338)	(2,144)	(192)	(326)	(565)	(3,565)
Exchange differences	(342)	(1,010)	(41)	(16)	–	(1,409)
At 31st March 2002	34,461	23,955	6,254	1,975	185	66,830
Accumulated depreciation						
At 1st April 2001	2,627	634	555	315	117	4,248
Charge for the year	14,511	3,103	3,527	893	191	22,225
Disposals	(36)	(536)	(58)	(121)	(257)	(1,008)
Exchange differences	(17)	(31)	(3)	(2)	–	(53)
At 31st March 2002	17,085	3,170	4,021	1,085	51	25,412
Net book value						
At 31st March 2002	17,376	20,785	2,233	890	134	41,418
At 31st March 2001	23,618	20,235	5,350	1,070	307	50,580

12. Investment in subsidiaries – Company

	2002 HK\$'000	2001 <i>HK\$'000</i>
Unlisted investments, at cost	5,985	446
Loan to a subsidiary	31,637	31,637
	37,622	32,083
Provisions for diminution in value	(37,622)	–
	–	32,083

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

The following is a list of the subsidiaries as at 31st March 2002:

Name	Country/place of incorporation	Issued and fully paid up share capital	Attributable equity interest	Principal activities/ place of operation
Rojam Entertainment Limited	Hong Kong	HK\$100,000 100,000 ordinary shares of HK\$1 each	100%	Sale of records and other audio- visual products, artiste management and provision of marketing and promotion activities/ Hong Kong
Rojam International Limited	British Virgin Islands	US\$1 1 registered share of US\$1 each	100%	Intellectual property holding, music and web content production/ British Virgin Islands

Notes to the Accounts *(Continued)*

12. Investment in subsidiaries – Company *(Continued)*

Name	Country/place of incorporation	Issued and fully paid up share capital	Attributable equity interest	Principal activities/ place of operation
Rojam Management Limited	Hong Kong	HK\$10,000 10,000 ordinary shares of HK\$1 each	100%	Provision of general administration and management services to group companies/ Hong Kong
Rojam Japan Limited (formerly known as Rojam Technology Japan Limited)	Japan	¥90,000,000 1,800 shares of ¥50,000 each	100%	Administration of online record sales, sales and promotion coordination, music production and management of Tokyo studio/Japan
Rojam.com Limited	Hong Kong	HK\$1,000 1,000 ordinary shares of HK\$1 each	100%	Inactive
Rojam Investment Limited	British Virgin Islands	US\$1 1 registered share of US\$1 each	100%	Investment holding/ British Virgin Islands

13. Deposits for investment in subsidiaries

Pursuant to a sale and purchase agreement entered into between the Group and Chikou Co. Ltd., a company incorporated in Japan which is wholly owned by Mr. Kebo Wu, the former director of the Company, the Group will procure the purchase of the 90% equity interest of Shanghai Chikou Entertainment Co., Ltd. ("SCE"), a 90% beneficially owned company of Mr. Kebo Wu which is principally engaged in entertainment businesses and operations in Shanghai (the "Shanghai Chikou Acquisition"), at a cash consideration of HK\$31.5 million which was determined on an arm's length basis. The completion is conditional upon the completion of demerger of the entertainment related non-discotheque businesses from SCE prior to the purchase of its shares by the Group, and the necessary approvals obtained from relevant authorities for the share transfer.

13. Deposits for investment in subsidiaries (Continued)

A refundable deposit of HK\$14 million has been paid to Chikou Co. Ltd. and HK\$17.5 million has been paid to an escrow account. Up to the approval date of these accounts, the conditions have yet to be satisfied and, therefore, the transaction is still pending completion.

14. Inventories

	2002 HK\$'000	2001 <i>HK\$'000</i>
Finished goods	67	81
Production-in-progress	4,660	2,000
Merchandise	22	270
	<u>4,749</u>	<u>2,351</u>

At 31st March 2002, the carrying amounts of inventories that are carried at net realisable value amounted to HK\$502,000 (2001: HK\$Nil).

15. Amount due from a shareholder

The amount due from a shareholder is unsecured, interest bearing at prime rate prevailing in Hong Kong and repayable on demand. Details of the balance are as follows:

Name	Maximum amount outstanding during the year HK\$'000	Amount outstanding at 31st March 2002 HK\$'000	Amount outstanding at 31st March 2001 HK\$'000
Billion Moment Limited (a company owned as to 90% by Mr. Kebo Wu, and 10% by Ms. Cheng Wing Ki, Aouda, the spouse of Mr. Wong Ho Yan, Daniel, the former director of the Company)	<u>5,373</u>	<u>5,373</u>	<u>-</u>

As at 31st March 2002, no provision is made for the amount due from a shareholder.

Notes to the Accounts *(Continued)*

16. Amounts due from/to related companies

The amounts represent trade receivables from/trade payable to related companies and are unsecured, interest-free and have no fixed terms of repayment. Included in the balance is the trademark licence fees receivable from Shanghai Chikou Entertainment Co. Ltd. of HK\$1,476,000 (note 26(b)).

17. Amounts due from/to subsidiaries

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

18. Trade receivables

The majority of the Group's turnover is on credit terms of sixty to ninety days. At 31st March 2002, the ageing analysis of the trade receivables was as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current	5,055	10,497
30-60 days	3,854	147
61-90 days	2,806	403
Over 90 days	6,242	1,957
	<hr/> 17,957 <hr/>	<hr/> 13,004 <hr/>

19. Cash and bank balances

Included in the balance is approximately HK\$1,600,000 (2001: HK\$3,080,000) of time deposits pledged as security for a corporate credit cards facility of the same amount granted to the Group.

20. Trade payables

At 31st March 2002 and 31st March 2001, the ageing of the trade payables was current.

21. Share capital

	Ordinary shares of US\$1 each		Ordinary shares of HK\$0.1 each		Total HK\$'000
	Number of shares	HK\$'000	Number of shares	HK\$'000	
At 1st April 2000	50,000	390	-	-	390
Re-denominate during the year	(50,000)	(390)	50,000	390	-
Sub-division of shares	-	-	3,850,000	-	-
Increase during the year	-	-	49,996,100,000	4,999,610	4,999,610
Cancel during the year	-	-	(45,000,000,000)	(4,500,000)	(4,500,000)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31st March 2001 and 31st March 2002	<u>-</u>	<u>-</u>	<u>5,000,000,000</u>	<u>500,000</u>	<u>500,000</u>
	Ordinary shares of US\$1 each		Ordinary shares of HK\$0.1 each		Total HK\$'000
	Number of shares	HK\$'000	Number of shares	HK\$'000	
At 1st April 2000	1	-	-	-	-
Re-denominate during the year	(1)	-	1	-	-
Sub-division of shares	-	-	77	-	-
Issue during the year	-	-	1,034,684,325	103,468	103,468
	<u>-</u>	<u>-</u>	<u>1,034,684,325</u>	<u>103,468</u>	<u>103,468</u>
At 31st March 2001 and 1st April 2001	-	-	1,034,684,403	103,468	103,468
Issue during the year (note (a))	-	-	70,000,000	7,000	7,000
	<u>-</u>	<u>-</u>	<u>70,000,000</u>	<u>7,000</u>	<u>7,000</u>
At 31st March 2002	<u>-</u>	<u>-</u>	<u>1,104,684,403</u>	<u>110,468</u>	<u>110,468</u>

Notes to the Accounts *(Continued)*

21. Share capital *(Continued)*

- (a) On 31st May 2001, the Company's shares were listed on GEM by way of placing of 70 million new shares and 20 million existing shares at an issue price of HK\$1.00 per share. All new shares issued rank pari passu with the then existing shares in all respects. The excess of issue price over the par value of the shares issued, net of share issue expenses incurred, has been credited to the share premium account of the Company. The Company raised net proceeds of approximately HK\$52.1 million out of the 70 million new shares issued.
- (b) Pursuant to resolutions passed by the shareholders of the Company at an extraordinary general meeting held on 21st May 2001 and the terms and conditions contained in the offer letter dated 12th July 2001 from the Company, share options entitling their holders to subscribe for in aggregate, up to a maximum of 51,734,220 and 52,240,000 ordinary shares in the Company of HK\$0.10 each, pursuant to the pre-IPO grant of options and share options scheme respectively, were granted to certain music producers, directors and employees of the Group.
- (c) During the year, no options were exercised and 11,940,000 options were lapsed upon the cessation of the relevant employment with the Group.
- (d) Details of outstanding share options granted pursuant to the pre-IPO grant of options and share options scheme of the Company as at 31st March 2002 are as follows:

Date of grant	Exercise Price <i>HK\$</i>	Granted	Lapsed	As at 31st March 2002	Exercise period
21st May 2001	0.10	41,387,376	-	41,387,376	31st May 2001 to 31st May 2011
21st May 2001	0.80	10,346,844	-	10,346,844	31st May 2001 to 31st May 2011
12th July 2001	0.47	52,240,000	11,940,000	40,300,000	12th July 2001 to 12th July 2011
		<u>103,974,220</u>	<u>11,940,000</u>	<u>92,034,220</u>	

22. Reserves

(a) Group

	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	(Accumulated losses)/ retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2000	–	–	(2,218)	(2,218)
Issue of shares	103,279	–	–	103,279
Profit for the year	–	–	19,723	19,723
Dividends	–	–	(10,347)	(10,347)
Exchange adjustments on the translation of accounts of overseas subsidiaries	–	(3,118)	–	(3,118)
At 31st March 2001	<u>103,279</u>	<u>(3,118)</u>	<u>7,158</u>	<u>107,319</u>
At 1st April 2001	103,279	(3,118)	7,158	107,319
Loss for the year	–	–	(82,929)	(82,929)
Premium on issue of shares (<i>note 21(a)</i>)	63,000	–	–	63,000
Share issue expenses (<i>note 21(a)</i>)	(17,950)	–	–	(17,950)
Reserve realised upon disposal of a subsidiary	–	33	–	33
Exchange adjustment on the translation of accounts of overseas subsidiaries	–	(1,839)	–	(1,839)
At 31st March 2002	<u>148,329</u>	<u>(4,924)</u>	<u>(75,771)</u>	<u>67,634</u>

Notes to the Accounts *(Continued)*

22. Reserves *(Continued)*

(b) Company

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2000	–	–	–
Issue of shares	103,279	–	103,279
Profit for the year	–	8,580	8,580
Dividends	–	(10,347)	(10,347)
	<hr/>	<hr/>	<hr/>
At 31st March 2001	<u>103,279</u>	<u>(1,767)</u>	<u>101,512</u>
At 1st April 2001	103,279	(1,767)	101,512
Issue of shares	63,000	–	63,000
Share issue expenses	(17,950)	–	(17,950)
Loss for the year	–	(89,819)	(89,819)
	<hr/>	<hr/>	<hr/>
At 31st March 2002	<u>148,329</u>	<u>(91,586)</u>	<u>56,743</u>

23. Notes to the consolidated cash flow statement

- (a) Reconciliation of (loss)/profit before taxation to net cash outflow from operating activities

	2002 HK\$'000	2001 HK\$'000
(Loss)/profit before taxation	(82,933)	19,722
Depreciation of fixed assets	22,225	4,201
Increase in inventories	(2,398)	(2,351)
Decrease/(increase) in trade receivables, other receivables and prepayments	15,831	(47,440)
(Increase)/decrease in amounts due from related companies	(1,152)	336
Increase in amount due from a shareholder	(5,128)	–
(Decrease)/increase in trade payables, accruals and other payables	(3,236)	12,324
(Decrease)/increase in amounts due to related companies	(270)	629
Interest income	(2,671)	(3,762)
Loss on disposal of fixed assets	1,898	–
Net cash outflow from operating activities	<u>(57,834)</u>	<u>(16,341)</u>

Notes to the Accounts *(Continued)*

23. Notes to the consolidated cash flow statement *(Continued)*

(b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Amounts due to shareholders	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at the beginning of the year	206,747	100	101	-	-	23,908
Cash inflow/(outflow) from financing activities	52,050	206,647	-	-	-	(2,657)
Assignment of receivable	-	-	-	-	-	(21,251)
Acquisition of a subsidiary	-	-	-	102	-	-
Sale of a subsidiary	-	-	(97)	-	-	-
Minority interests in share of loss	-	-	(4)	(1)	-	-
Balance at the end of the year	<u>258,797</u>	<u>206,747</u>	<u>-</u>	<u>101</u>	<u>-</u>	<u>-</u>

23. Notes to the consolidated cash flow statement (Continued)

(c) Sale of a subsidiary

	2002 HK\$'000	2001 <i>HK\$'000</i>
Net assets disposed of:		
Cash and bank balances	<u>209</u>	—
	209	—
Minority shareholders' interests	<u>(97)</u>	—
	112	—
Gain on disposal	<u>5</u>	—
	<u>117</u>	<u>—</u>
Satisfied by:		
Cash	<u>117</u>	<u>—</u>

(d) Analysis of the net outflow in respect of sale of a subsidiary:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Cash consideration	117	—
Cash and bank balances sold	<u>(209)</u>	—
Net outflow in respect of sale of a subsidiary	<u>(92)</u>	<u>—</u>

Notes to the Accounts *(Continued)*

24. Commitments under operating leases – land and building

At 31st March 2002, the Group had future aggregate minimum lease payments under operating leases as follows:

	2002 HK\$'000	Restated 2001 HK\$'000
Within one year	8,101	9,428
In the second to fifth year inclusive	11,772	20,298
	<u>19,873</u>	<u>29,726</u>

25. Contingent liabilities

The Group and the Company had no material contingent liabilities at 31st March 2002 and 2001.

26. Related party transactions

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

	Note	2002 HK\$'000	2001 HK\$'000
Purchase of fixed assets from SK Kikaku Ltd.	(a)	–	35,339
Revenues received and receivables from related parties:			
– trademark licence fees from Shanghai Chikou Entertainment Co. Ltd.	(b)	1,845	1,658
Operating expenses paid and payable to related parties:			
– music production service fee paid to Malibu Pictures, Inc. (formerly known as Rojam Pictures, Inc.)	(c)	–	1,410
– music production service fee paid to Iroas Corporation Ltd. *	(c)	–	17
– studio charges paid to Shu Corporation Ltd. and SK Planning:	(d)		
– Tokyo studio *		–	635
– Hawaii studio		224	2,327
– studio charges paid to PT.TK Disc Bali	(d)	22	122
– music production service fee paid to Shu Corporation Ltd. and SK Planning *	(d)	–	6,210
– reimbursement of expenses to Shu Corporation Ltd.	(e)	–	2,994
– website set up fee to Omnicourt Limited *	(f)	–	405
– website maintenance fee to Omnicourt Limited	(e)	–	471
– art direction fee paid to HAL Communications, Inc.*	(f)	–	790
– producer and performance fee to:			
– TK Networks Inc. (formerly known as Rojam, Inc.)		note (g)	note (g)
– Mr. Tetsuya Komuro		note (h)	note (h)
– artiste management fee paid to Iroas Corporation Limited *	(i)	–	254
– assignment of receivable from Shanghai Chikou Entertainment Co. Ltd *	(j)	–	21,251
Payment of share of listing expenses on behalf of Billion Moment Limited	(k)	5,128	–

Notes to the Accounts *(Continued)*

26. Related party transactions *(Continued)*

- (a) Pursuant to a sale and purchase agreement dated 28th December 2000, the Group purchased certain music equipment and instruments and music studio fixtures from SK Kikaku Ltd., a company wholly and beneficially owned by Mr. Tetsuya Komuro, a director and shareholder of the Company.
- (b) The trademark licence fees are charged for the use of various trademarks by SCE in accordance with the terms of agreements.
- (c) Malibu Pictures, Inc. (formerly known as Rojam Pictures, Inc.) and Iroas Corporation Limited are companies wholly and beneficially owned by Mr. Tetsuya Komuro.
- (d) Shu Corporation Ltd. is beneficially owned by Mr. Tetsuya Komuro and Mr. Kebo Wu to the extent of 50% and 12.5% respectively. SK Planning and PT.TK Disc Bali are wholly and beneficially owned by Mr. Tetsuya Komuro.
- (e) The reimbursement of expenses to the respective related parties is at cost.
- (f) HAL Communications, Inc. ("Hal") and Omnicourt Limited are 100% beneficially owned companies of Mr. Hiroshi Ozawa, a former director of the Company, and his spouse. Hal and Omnicourt Limited became unrelated parties of the Group since the resignation of Mr. Hiroshi Ozawa as director of the Company on 20th December 2000.
- (g) Pursuant to a service agreement dated 2nd January 2001 between the Group and TK Networks Inc. (formerly known as Rojam, Inc.), a company wholly-owned by Mr. Tetsuya Komuro, TK Networks Inc. has, since 20th January 1998 procured and caused Mr. Tetsuya Komuro to provide producer services of music records to REL. In consideration, REL may at its entire discretion give TK Networks Inc. a bonus payment. No bonus has been paid or is payable during the years ended 31st March 2002 and 2001.

26. Related party transactions (Continued)

- (h) Pursuant to a service agreement dated 21st May 2001 between Mr. Tetsuya Komuro and the Company, Mr. Tetsuya Komuro is remunerated, in the capacity of a chief executive producer, with the grant of share options entitling him to subscribe for up to a maximum of 41,387,376 ordinary shares in the Company of HK\$0.1 each at an exercise price of HK\$0.1, subject to terms and conditions attached thereto.
- (i) The artiste management fee is charged at 3% to 8% of the net sales of products that involve the artiste's performance under the agreement.
- (j) Pursuant to an agreement between REL, Singing Mermaid Limited ("SML", a shareholder of the Company at the time of such agreement), and SCE dated 29th December 2000, receivables of HK\$21,251,000 due from SCE to REL was assigned to SML as settlement of debts due by the Group to SML for the same amount.

In the opinion of the directors of the Company, the above related party transactions were carried out in the normal course of business and at terms mutually agreed between the Group and the respective related parties. Except for the reimbursement of expenses and the producer fee as set out in notes (e), (g) and (h) above, the Group charged and/or paid the above related parties at market prices or, where no market price was available, at cost plus a percentage mark-up in the range of 5% to 15%.

The directors also confirm all transactions marked with an asterisk have been discontinued after the listing of the shares of the Company on GEM.

- (k) Pursuant to an underwriting agreement dated 23rd May 2001 and entered into between the Company, Billion Moment Limited and the underwriter, the Company and Billion Moment Limited had to bear their respective share of underwriting commission, listing fee and related expenses in connection with the placing of 70 million new shares of the Company and 20 million existing shares held by Billion Moment Limited. The Company has paid on behalf of Billion Moment Limited the latter's share of underwriting commission, listing fee and related expenses totalling approximately HK\$5,128,000. Billion Moment Limited has agreed to repay the Company on demand in full the said principal sum with interest thereon at the prime rate prevailing in Hong Kong from the date of listing to the actual date of repayment.

Notes to the Accounts *(Continued)*

27. Significant subsequent events

Pursuant to a sale and purchase agreement (the "Agreement") entered into on 20th June 2002 between the Group and Yoshimoto Koygo Ltd. ("Yoshimoto"), a company incorporated in Japan, the Group will procure the purchase of the 80% equity interest in R&C Japan Limited, an indirectly wholly owned subsidiary of Yoshimoto incorporated in Japan which is principally engaged in record distribution business, at a consideration of HK\$67.5 million which was determined by directors on an arm's length basis. The consideration will be satisfied by the issue and allotment of 450 million new shares of the Company of HK\$0.10 each at HK\$0.15 per share. The completion is conditional upon certain conditions as stipulated in the Agreement on or before 16th August 2002 (or such later date as the parties otherwise agree). Up to the approval date of these accounts, the conditions have yet to be satisfied and, therefore, the transaction is still pending completion.

Save as disclosed above, no significant events have occurred subsequent to 31st March 2002.

28. Approval of accounts

The accounts were approved by the board of directors on 21st June 2002.