

ROJAM ENTERTAINMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2006/2007

Stock Code: 8075



ROJAM

Entertainment Network Asia

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

RESULTS

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

		Unaudited Three months ended 30 June	
	<i>Note</i>	2006 HK\$'000	2005 HK\$'000
Turnover	2	65,108	118,892
Cost of sales		(38,376)	(75,118)
Gross profit		26,732	43,774
Selling and distribution expenses		(18,339)	(20,203)
Other operating expenses		(8,427)	(10,564)
Other loss, net		(29)	(72)
Operating (loss)/profit		(63)	12,935
Finance income		325	198
Profit before income tax		262	13,133
Income tax credit/(expenses)	3	243	(5,868)
Profit for the period and attributable to the equity holders of the Company		505	7,265
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK cent per share)			
– basic and diluted	4	0.03	0.47
Dividends	6	–	–

Notes:

1. Basis of preparation and accounting policies

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

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

The unaudited consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and methods of computation used in the preparation of the unaudited consolidated accounts are consistent with those used in the annual financial statements for the year ended 31 March 2006. The unaudited consolidated accounts have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

2. Turnover and revenue

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

	Unaudited	
	Three months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Record production and distribution income	56,844	113,276
Digital distribution income	4,929	137
Discotheque income	3,078	4,098
Others	257	1,381
	65,108	118,892

3. Income tax credit/expenses

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

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

The amount of income tax (credited)/charged to the consolidated income statement represents:

	Unaudited	
	Three months ended	
	30th June	
	2006	2005
	HK\$'000	HK\$'000
Current income tax		
– Japanese corporate income tax expenses	–	5,715
– PRC taxation	14	153
Under-provision in prior years		
– Japanese corporate income tax	297	–
Deferred income tax	(554)	–
Income tax (credit)/expenses	(243)	5,868

4. Earnings per share

Basic

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

	Unaudited	
	Three months ended	
	30 June	
	2006	2005
Profit attributable to the equity holders of the Company (HK\$'000)	505	7,265
Weighted average number of ordinary shares in issue (thousands)	1,701,624	1,554,684
Basic earnings per share (HK cent per share)	0.03	0.47

Diluted

	Unaudited	
	Three months ended	
	30 June	
	2006	2005
	<i>Note</i>	
Profit attributable to the equity holders of the Company (HK\$'000)	505	7,265
Weighted average number of ordinary shares in issue (thousands)	1,701,624	1,554,684
Adjustments for share options (thousands)	–	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,701,624	1,554,684
Diluted earnings per share (HK cent per share)	0.03	0.47

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

5. Reserves

	Share premium HK\$'000	Exchange reserve HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Total HK\$'000
Balance at 1 April 2005 (audited)	148,329	(8,302)	(7,335)	132,692
Exchange adjustment on translation of financial statements of overseas subsidiaries	–	(3,985)	–	(3,985)
Final dividend for the year ended 31 March 2005	–	–	(18,656)	(18,656)
Profit for the period	–	–	7,265	7,265
Balance at 30 June 2005 (unaudited)	<u>148,329</u>	<u>(12,287)</u>	<u>(18,726)</u>	<u>117,316</u>
Balance at 1 April 2006 (audited)	148,329	(18,212)	14,175	144,292
Premium on issue of shares	79,857	–	–	79,857
Share issue expenses	(908)	–	–	(908)
Exchange adjustment on translation of financial statements of overseas subsidiaries	–	3,969	–	3,969
Profit for the period	–	–	505	505
Balance at 30 June 2006 (unaudited)	<u>227,278</u>	<u>(14,243)</u>	<u>14,680</u>	<u>227,715</u>

6. Interim dividend

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

BUSINESS REVIEW AND PROSPECTS

Financial Highlights

	Current Quarter (Apr to Jun 2006) HK\$'M	Previous Quarter (Jan to Mar 2006) HK\$'M	First Quarter in 2005/2006 (Apr to Jun 2005) HK\$'M
Turnover	65.1	149.6	118.9
Cost of sales	(38.4)	(87.1)	(75.1)
Gross profit	26.7	62.5	43.8
Operating expenditures*	(26.8)	(34.6)	(30.8)
Profit before income tax	0.3	28.0	13.1
Income tax credit/(expenses)	0.2	(13.6)	(5.9)
Profit attributable to the equity holders	0.5	14.4	7.3

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

Sales by Business Segments

	Current Quarter (Apr to Jun 2006)		Previous Quarter (Jan to Mar 2006)		First Quarter in 2005/2006 (Apr to Jun 2005)	
	HK\$'M	%	HK\$'M	%	HK\$'M	%
Record production and distribution	56.8	87	143.3	96	113.3	95
Digital distribution	4.9	8	2.2	1	0.1	–
Discotheque operation	3.1	5	3.2	2	4.1	4
Others	0.3	–	0.9	1	1.4	1
Total	65.1	100	149.6	100	118.9	100

Financial Review

The Group recorded a turnover of approximately HK\$65.1 million in the first quarter of the financial year 2006/2007, representing a decrease of approximately 45% when compared with the first quarter of the financial year 2005/2006. Of the total turnover, approximately HK\$56.8 million or 87% was generated from the record production and distribution business, approximately HK\$4.9 million or 8% was generated from the digital content distribution business and approximately HK\$3.1 million or 5% was generated from the discotheque business.

The drop of the record production and distribution income was mainly due to the decrease in sales of record and audio-visual products. The first quarter has been always a challenge for the Group due to the seasonal characteristics of the music industry and this quarter was no exception. In the past years, number of products being released in the first quarter was comparatively fewer than that in other quarters among the year. Last year, the Group adjusted its release schedule to tie-in with the respective television programs. As compared to the first quarter of the financial year 2004/2005, the Group's record production and distribution income for this quarter has increased by approximately 60% from approximately HK\$35.4 million.

The Group's cost of sales decreased by approximately 49% from approximately HK\$75.1 million for the three months ended 30 June 2005 to approximately HK\$38.4 million for the three months ended 30 June 2006. The overall gross profit margin for the three months ended 30 June 2006 was approximately 41%, being a 4% increase from approximately 37% for the corresponding period in the previous financial year because more DVDs of a lower average selling price, resulting from the sales commissions for these DVDs were not included in their selling prices, were sold to the sales agents in the three months ended 30 June 2005 when compared to that in the three months ended 30 June 2006.

Selling and distribution expenses decreased by approximately 9% to approximately HK\$18.3 million for the three months ended 30 June 2006 from approximately HK\$20.2 million for the three months ended 30 June 2005. Selling and distribution expenses as a percentage of turnover has increased from approximately 17% for the three months ended 30 June 2005 to approximately 28% for the three months ended 30 June 2006. The increase was mainly due to the fact that more DVDs sold at prices in which sales commissions were not included during the three months ended 30 June 2005 as mentioned before, resulting in less selling and distribution expenses were incurred for the period ended 30 June 2005 when compared to that in the period ended 30 June 2006.

Other operating expenses decreased by approximately 20% to approximately HK\$8.4 million for the three months ended 30 June 2006 from approximately HK\$10.6 million for the three months ended 30 June 2005.

The Group's finance income has risen by approximately 64% to approximately HK\$0.3 million for the three months ended 30 June 2006. This was mainly caused by the surge in average cash balance during the quarter.

The profit before income tax for the first quarter amounted to HK\$0.3 million, representing approximately 98% decrease when compared to profit before income tax of approximately HK\$13.1 million for the first quarter of 2005/2006 respectively.

Income tax credit amounted to approximately HK\$0.2 million for the three months ended 30 June 2006, compared to income tax expenses of approximately HK\$5.9 million for the three months ended 30 June 2005.

For the three months ended 30 June 2006, profit attributable to the equity holders of the Company amounted to approximately HK\$0.5 million, being approximately 93% decrease from approximately HK\$7.3 million for the corresponding period in the last financial year. Earnings per share was approximately 0.03 HK cent, compared to approximately 0.47 HK cent in the corresponding period of last financial year.

The subscription of 371,430,000 new ordinary shares of the Company by Fandango in consideration for approximately HK\$117.0 million was completed on 25 May 2006. The net proceeds of approximately HK\$116.1 million were applied towards the Group's strategic investments and the general working capital. Fandango's (and Yoshimoto's indirect) interest in the issued share capital of the Company was increased from approximately 67.77% to 73.99% on completion.

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

At 30 June 2006, the Group had a cash balance of approximately HK\$92.2 million, representing approximately 18% decrease from approximately HK\$112.1 million at 31 March 2006. The decrease in cash during the first quarter was mainly attributed to the prepayments of producer fees, the acquisitions of the two new subsidiaries and the cash used in operating activities. The Group's trade receivables at 30 June 2006 decreased to approximately HK\$91.3 million from approximately HK\$100.4 million at 31 March 2006, primarily due to the settlement of trade receivables from customers. The Group has no long-term borrowing during the quarter and the gearing ratio is zero, the same as for the past years.

Operations Review

Record production and distribution

Turnover from the record production and distribution business for the three months ended 30 June 2006 amounted to approximately HK\$56.8 million, representing approximately 50% decrease from approximately HK\$113.3 million for the same period of last financial year. This business division accounted for approximately 87% of the total turnover of the Group in the first quarter.

The Group produced 20 music records and 15 DVDs under its own label during the first quarter, compared to 23 music records and 13 DVDs released in the corresponding quarter of last financial year. Due to the effect of seasonality, CD and DVD sales are in general lower in the first quarter than in other quarters of the financial year except in last year, the Group adjusted its release schedule and released some popular DVDs, including Downtown's DVD series “ガキの使いやあらへんで!!”, to tie-in with the television programs in Japan. The drop in the record production and distribution sales for the three months ended 30 June 2006 was mainly due to the lack of popular release during the quarter and Hitoshi Matsumoto's DVD “人志松本のすべらない話” was only released near the quarter end.

Digital distribution

Turnover from the digital distribution business for the three months ended 30 June 2006 amounted to approximately HK\$4.9 million, representing an increase of almost 35 times from approximately HK\$0.1 million for the three months ended 30 June 2005. The revenue from the digital content distribution business accounted for approximately 8% of the total turnover of the Group in the first quarter.

The Group continually to distribute its content through the mobile networks of Fandango and a number of online music stores on the Internet. Approximately 14% of the revenue was generated by using Fandango's network, while the remaining 86% was generated by using other third parties' networks.

Rojam Disco

Turnover from the discotheque business amounted to approximately HK\$3.1 million for the three months ended 30 June 2006, representing a decline of approximately 25% when compared to the corresponding quarter in the last financial year. This discotheque income accounted for approximately 5% of the total turnover of the Group in the first quarter. The decrease in revenue from the discotheque was mainly attributable to the reduction of admission during the quarter.

Prospects

The Group's performance will be improved in the next quarter. Key drivers will be the tight release schedule of the popular titles and the rapid growth in demand of digital music and content. The recent releases were performing well including Tetsuya Komuro's new DVD namely, ガチコラ. Growth in demand of digital music and content is expected to continue in 2006 and beyond. The management remains confident that digital content distribution business will drive the Group forward at an attractive growth rate in the current financial year and that it will become a significantly larger proportion of the Group's business in the near future. The management is also confident that the Group's core business can enable the Group to continue to strive for its profitability.

The Group celebrated its fifth anniversary as a GEM listed company on 31 May this year. To further enhance its public profile and recognition, the Company is preparing a listing of its shares on the Main Board of the Stock Exchange by way of introduction (the "Proposed Introduction"). On 16 June 2006, the Company submitted an advance booking form for the Proposed Introduction to the Stock Exchange. The Stock Exchange has also been notified of the Company's intention to implement the proposed voluntary withdrawal of the listing of its shares on GEM (the "Proposed Withdrawal"). Nonetheless, the Directors would like to advise the shareholders of the Company ("Shareholders") and potential investors that both the Proposed Introduction and the Proposed Withdrawal are at a preliminary stage and that the definitive timetable for the Proposed Introduction and the Proposed Withdrawal has yet to be finalised. Further announcements will be made by the Company to keep the Shareholders and potential investors informed on the latest progress of the Proposed Introduction and Proposed Withdrawal in accordance with the requirements of the GEM Listing Rules and the Rules Governing the Listing of Securities on the Stock Exchange. Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

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

At 30 June 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests in the shares of the Company

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

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

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

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

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2006, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital:

Interests in the shares of the Company

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

Notes:

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

Save as disclosed above, at 30 June 2006, the Directors or chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

AUDIT COMMITTEE

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 30 June 2006.

By Order of the Board
Takeyasu Hashizume
President

Hong Kong, 14 August 2006

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