



KXD DIGITAL ENTERTAINMENT LIMITED

37/38F, Development Centre Building,
Renmin Nan Road, Shenzhen, 518001
The People's Republic of China

Tel : (86) 755 25165555
Fax : (86) 755 25157305

www.kxddigital.com



INNOVATING PRODUCTS FOR THE 21ST CENTURY



KXD DIGITAL ENTERTAINMENT LIMITED
ANNUAL REPORT 2003





CONTENTS

1 Corporate Profile	2 CEO and Managing Director’s Message	5 Financial Highlights
6 Board of Directors	7 Key Management Staff	8 Corporate Information
9 Corporate Governance		
17 Financial Pages		

ESTABLISHED
SINCE
1997



INNOVATING PRODUCTS FOR THE 21st CENTURY

Established in 1997, KXD Digital Entertainment Limited is a leading original design manufacturer ("ODM") of digital video and acoustic products. We provide innovative digital entertainment products for brand owners and are supported by distribution networks spanning North America, Europe, Asia and other regions.

Starting out as a manufacturer of VCD players and amplifiers, we have grown into an ODM responding promptly to changes in customers and industry requirements by producing innovative products. Today, our product range includes DVD players, digital home theatre systems, amplifiers, DVD recorders, TFT systems and other related products.

To anticipate and meet the needs of our customers, we have placed strong emphasis on our R&D capabilities, enabling us to stay in the forefront of new designs and technology. Our R&D team is capable of designing approximately 70 designs each year.

Our integrated original design manufacturing capabilities enable us to customize, design and manufacture designs that meet the needs of our customers and we have the capabilities to provide a short turnaround time for our customers.

With our strong fundamentals and entrenched market position, coupled with a committed and experienced management team, we are poised to scale greater heights to become a leading manufacturer of digital video and acoustic products in the global market.





CEO AND MANAGING DIRECTOR’S MESSAGE

Dear Valued Shareholders,

On behalf of the Board of Directors, I am pleased to present KXD Digital Entertainment Limited’s maiden annual report and share with you the Group’s performance for the financial year ended 31 December 2003 ("FY2003").

FY2003 – A MILESTONE YEAR

FY2003 was an important and exciting year for KXD Digital Entertainment. One of the key milestones was our Initial Public Offer on the MainBoard of the Singapore Stock Exchange in October which was 242 times oversubscribed. Our successful listing is a sure sign of investors’ confidence in our business model and our future prospects. The proceeds raised will enable us to strengthen our R&D capabilities and expand our markets both in the PRC and overseas, enabling us to forge ahead with our growth plans and strategies.

In preparation for our listing, we restructured the company and incorporated a wholly-owned subsidiary, Shenzhen KXD Multimedia Co., Ltd ("Shenzhen KXD"), which in turn, acquired Shenzhen Kaixinda Electronics Co., Ltd ("Shenzhen Kaixinda Electronics") in April 2003. Shenzhen KXD commenced operations on 12 April 2003.

PERFORMANCE REVIEW

For the year in review, the Group turned in a turnover and net profit of RMB794 million and RMB56 million respectively. Combined with the revenue contribution from Shenzhen Kaixinda Electronics for the period 1 January 2003 to 11 April 2003, the Group’s total turnover for FY2003 amounted to RMB1.06 billion. This represents a 107% leap from RMB512.6 million in FY2002¹. Thanks to higher production capacity at our new manufacturing facility and intensified marketing efforts, we were able to boost our topline despite the weak business sentiment caused by the SARS outbreak and the Iraq war.

Likewise, the Group’s net profit for FY2003 (including Shenzhen Kaixinda Electronics) climbed 45% to RMB84 million, compared to the RMB58 million in the previous corresponding period.

During the year in review, we continued to channel additional resources to strengthen our R&D capabilities, and also expanded our production capacity. This is in line with our long term strategy of continuously developing and introducing new and innovative products to the market, thereby driving our growth in the years to come. As a result, we reported higher staff costs, increased spending on R&D and investments in technologically advanced machineries and equipment for our new production facility.

Coupled with rising cost of raw materials, the rise in operating overheads has also affected our margins. However, our commitment to R&D efforts and our focus on innovation have resulted in the constant introduction of new higher margin products to the market. This has in part, helped to cushion these adverse impacts. In FY2003, our net profit margin from operations declined from 12.8% in FY2002 to 8.5% in FY2003 (including those of Shenzhen Kaixinda Electronics).

Our balance sheet has remained strong with significant cash and bank balance amounting to RMB241.3 million as at the end of the financial year.

EXPANSION OF PRODUCTION FACILITIES AND PRODUCT RANGE

To meet the anticipated demand for our products, we relocated to a new manufacturing facility in Shenzhen in August 2003. This new facility is more than three times as large as our previous premises, and we now have 12 main multi-functional production lines with a manufacturing capacity of approximately 5 million units per year. In addition, we have also acquired new machines and equipment and also hired additional skilled personnel.

Operating in an industry characterized by rapid and continual introduction of new products, our R&D capabilities remain a crucial part of our business. We have identified the next wave of new products to be driven by the demand for DVD recorders, TFT and PDP systems and committed our R&D resources to developing and producing our own systems.

With our increased manufacturing capacity, we were able to tap on the greater acceptance for DVD recorders and commenced mass production of our DVD recorders in late 2003, in addition to producing TFT systems. Our

¹ Proforma financials for FY2002



GROWING CUSTOMER BASE

With the introduction of our new products and our strong marketing efforts, we have also expanded our customer base in overseas markets.

During the year in review, we secured over 20 additional overseas customers, including major players such as Coby Electronics Corp, Admea France and Kirschenhofer GmbH. Two new customers also ranked amongst our five largest customers for the year - a reflection of their confidence in the quality of our digital video and acoustic products.

We now have over 60 customers located in more than 30 countries across the Europe, North America, South America, Asia and Middle East regions.

LOOKING AHEAD

We believe the home entertainment market will continue to grow, especially with the increased pace of economic development in the PRC, rising consumer spending and greater demand for home entertainment products.

With our established track record in R&D and strong original design manufacturing capabilities, we are poised to tap on the strong growth potential of the home entertainment market. In particular, we are confident that our R&D efforts in DVD-related and other home entertainment products will pay off and we will continue to enjoy a strong growth in demand for DVD-related products and other home entertainment equipment.

Going forward, we believe that digital entertainment products such as DVD recorders, PDP and TFT systems will dominate the next wave of innovation. With the funds raised from the IPO, we intend to continue to strengthen our R&D capabilities by investing in advanced development software, hardware and test equipment to facilitate the development of new and innovative products.

We intend to capitalize on this trend and increase the marketing of our products to the PRC market by participating in relevant industry events and trade shows. We are also planning to establish branches and sales offices in the PRC to be able to provide more efficient pre-sales and after sales services to our customers.

We will also continue to develop our overseas markets. By setting up service and distribution centers in North America and Western Europe, we will be able to respond speedily to our customers' needs and keep abreast with the latest industry developments.

Our new Shenzhen premises and its additional production space and production lines will allow us to increase our manufacturing capacity and capabilities substantially to meet the anticipated growth in demand from overseas customers and the domestic PRC market.

Based on the current outlook, barring unforeseen circumstances, we are confident that our sales will continue to grow in the next financial year.

APPRECIATION

On behalf of the Board of Directors, I wish to take this opportunity to extend my sincere thanks and appreciation to our shareholders, the management team, business associates and all our employees for their support and contributions to the Group. Our management team will continue to work hard to deliver the best services to our customers and create superior returns to our shareholders.

Liu Fusheng
CEO and Managing Director



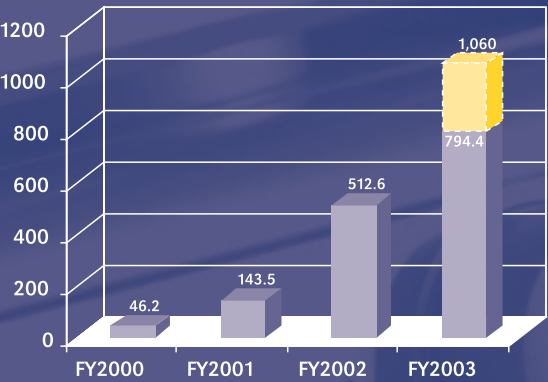


70
NEW DESIGNS
EACH YEAR

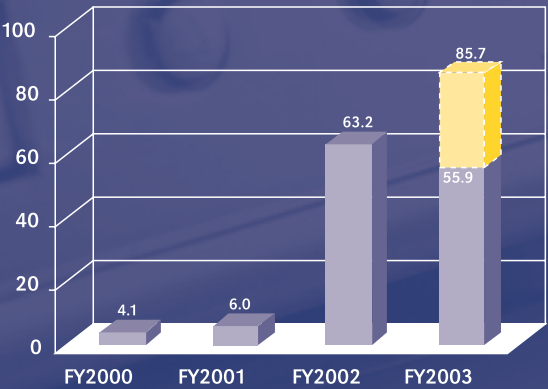


FINANCIAL HIGHLIGHTS

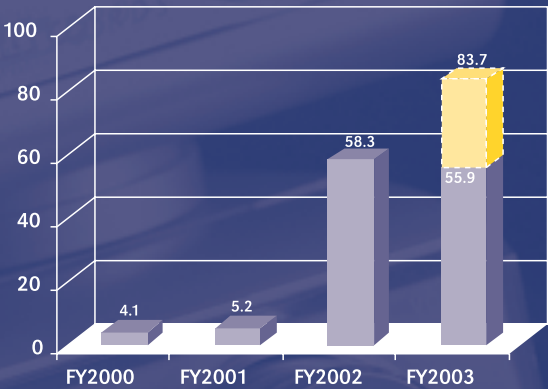
SALES (RMB'million)



PROFIT BEFORE TAX (RMB'million)



NET PROFIT (RMB'million)



FY : Financial Year ended December 31

	PROFORMA			ACTUAL ¹	TOTAL ²
(RMB'million)	2000	2001	2002	2003	2003
Sales	46.2	143.5	512.6	794.4	1,060
Profit before tax	4.1	6.0	63.2	55.9	85.7
Net Profit	4.1	5.2	58.3	55.9	83.7

¹ Actual financials for the period from 30 January 2003 to 31 December 2003 for KXD Digital Entertainment Limited
² Includes the financials of Shenzhen Kaixinda for the period from 1 January 2003 to 11 April 2003



BOARD OF DIRECTORS

MR LIU FUSHENG *CEO and Managing Director*

Liu Fusheng is our CEO and Managing Director. Mr Liu has been a director of Shenzhen Kaixinda Electronics since March 1999, and is responsible for setting strategic directions for the Company. Prior to joining Shenzhen Kaixinda Electronics, Mr Liu was employed at both private and state-owned organisations in numerous management capacities. Mr Liu was a manager at the Jiangxi Shipping Transportation Authority, a PRC government administrative department, for a period of three years from 1983 to 1986. Mr Liu was also a manager at the China Overseas Shipping, Jiangxi Branch, a PRC state-owned foreign trade company, for a period of two years from 1990 to 1992. From 1992 to 1997, Mr Liu was with Jiangxi Xing Zhen Xing Industrial Group Co., Ltd, a general trading company and is currently its non-executive chairman. Mr Liu received his diploma from Nanchang City Gong Ren University, where he majored in industrial electrical automation from 1986 to 1990.

Age:42

MR GU WEI *COO and Executive Director*

Gu Wei is our COO and Executive Director. Mr Gu has been a director and the General Manager of Shenzhen Kaixinda Electronics since September 1997. As our COO, Mr Gu is responsible for the day-to-day management of the Company, including the management and coordination between the R&D, Sales and Operations functions of the Company. Prior to joining our Company, Mr Gu was involved in operations and management capacities in companies related to the electronics industry and international trade. From 1984 to 1987, Mr Gu was with the Jiangxi Nanchang Ba Yi Wireless Electronics Factory before joining Jiangxi Foreign Trade Packaging Import and Export Company from 1988 to 1996.

Age:39

MR HU XIAOMING *Executive Director*

Hu Xiaoming was appointed as an Executive Director for our Company on 15 July 2003. Mr Hu has been our Deputy General Manager and Manufacturing Manager since 1997 and is responsible for overseeing the operations of our manufacturing facilities. Prior to joining Shenzhen Kaixinda Electronics in September 1997, Mr Hu accumulated his experience in the field of electronics as an electrical engineer in Jiangxi Commercial Science and Technology Research Institute from July 1984 to September 1997. In 1984, he graduated from the Hangzhou Institute of Commerce and obtained a Bachelor Degree in Electronics.

Age:43

MR LAI GUANGLIN *Non-Executive Director*

Lai Guanglin was appointed as a Non-Executive Director of our Company on 29 May 2003. Mr Lai is currently the sole shareholder and managing consultant of Zhongxin Investment Management (Shenzhen) Co., Ltd which specialises in promoting trade and investment activities between Singapore and the PRC. Prior to setting up Zhongxin Investment Management (Shenzhen) Co., Ltd, Mr Lai was a supervisor with PricewaterhouseCoopers Singapore and an audit manager with PricewaterhouseCoopers in the PRC from August 1994 to July 1996 and from August 1996 to January 1999 respectively. From February 1999 to October 2000, Mr Lai was the Financial Controller of an electronics company before joining Shenzhen Keding Venture Capital Co., Ltd. as a general manager. Mr Lai holds a Bachelor of Business (Accounting) with Monash University and is a Certified Public Accountant of Australia.

Age:40

MR LEE JOO HAI *Independent Director*

Lee Joo Hai was appointed as an Independent Director of our Company on 5 September 2003. He is currently a partner in BDO International, a public accounting firm. Mr Lee has 23 years of experience in accounting and auditing. Mr Lee is a Certified Public Accountant of Singapore and also holds memberships in the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants and the Singapore Institute of Directors. Mr Lee also holds independent directorships in a number of companies listed on the SGX-ST. Mr Lee completed a foundation course in accountancy with Northeast London Polytechnic and passed the Professional Examinations of the Institute of Chartered Accountants in England and Wales.

Age:48

MR ZHU KAIYANG *Independent Director*

Zhu Kaiyang was appointed as an Independent Director of our Company on 5 September 2003. Mr Zhu is currently the general manager of Shanghai Pujiang Smartcard System Co., Ltd. Mr Zhu started his career with Shanghai Wireless Second Factory. Mr Zhu had more than 19 years' experience in the sales and operation of manufacturing facilities before he joined Shanghai Hongdeng Electronics Sales Company as manager in 1994. He was subsequently promoted to assistant general manager before joining Shanghai Pujiang Smartcard System Co., Ltd in 1997. Mr Zhu majored in electronics at the Shanghai College of Electronic Technology and obtained a business administration degree from the PRC Administration Correspondence University and an Executive Masters in Business Administration from Shanghai Fudan University. He is also a member of a number of electronics industry-related committees, namely, the China Information Industry Association Smartcard Professional Committee, the Shanghai Integrated Circuit Industry Association Smartcard Professional Committee and the PRC Electronic Acoustics Industrial Committee.

Age:50



KEY MANAGEMENT STAFF

MS PAN CHUNHONG *Finance Manager*

Pan Chunhong is our Finance Manager and is responsible for the Company's financial, accounting and tax matters with respect to the Singapore laws and regulations and the requirements of the SGX-ST. Ms Pan holds a Bachelor Degree in Financial Management from Jiaying University.
Age:37

MR LIU JUN *Legal and Administration Manager*

Liu Jun is our Legal and Administration Manager. Mr Liu holds a Bachelor Degree in Law and a Master Degree in international economic law from Fudan University.
Age:40

MR YANG LEI *Sales and Marketing Manager*

Yang Lei was appointed as our Sales and Marketing Manager. Mr Yang holds a Bachelor Degree in Engineering from the Hangzhou Institute of Electronic Engineering.
Age:36

MR KANG JIAN *Engineering and R&D Manager*

Kang Jian is our Engineering and R&D Manager. Mr Kang holds a Bachelor Degree in Engineering from the Northwest Textile Industrial Institute.
Age:30





CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive:
Liu Fusheng (Chairman)
Gu Wei
Hu Xiaoming

Non-Executive:
Lee Joo Hai (Independent)
Zhu Kaiyang (Independent)
Lai Guanglin (Non-Independent)

AUDIT COMMITTEE

Lee Joo Hai (Independent) (Chairman)
Zhu Kaiyang (Independent)
Lai Guanglin (Non-Independent)

SECRETARIES

Raymond Tong Wei Min, L.L.B.
Chong Hong Chiang, L.L.B.

REGISTERED OFFICE

80 Raffles Place
#58-01, UOB Plaza 1
Singapore 048624
Tel: (65) 64168000
Fax: (65) 65325711
Email add: kxd@kxddigital.com

BUSINESS OFFICE

37-38/F, Development Centre Building,
Renmin Nan Road,
Shenzhen, 518001,
The People's Republic of China
Tel: (86) 755 25165555
Tel: (86) 755 25157305
Email add: kxd@kxddigital.com

SHARE REGISTRAR

Lim Associates (Pte) Ltd
10, Collyer Quay #19-08
Ocean Building
Singapore 049315

AUDITORS

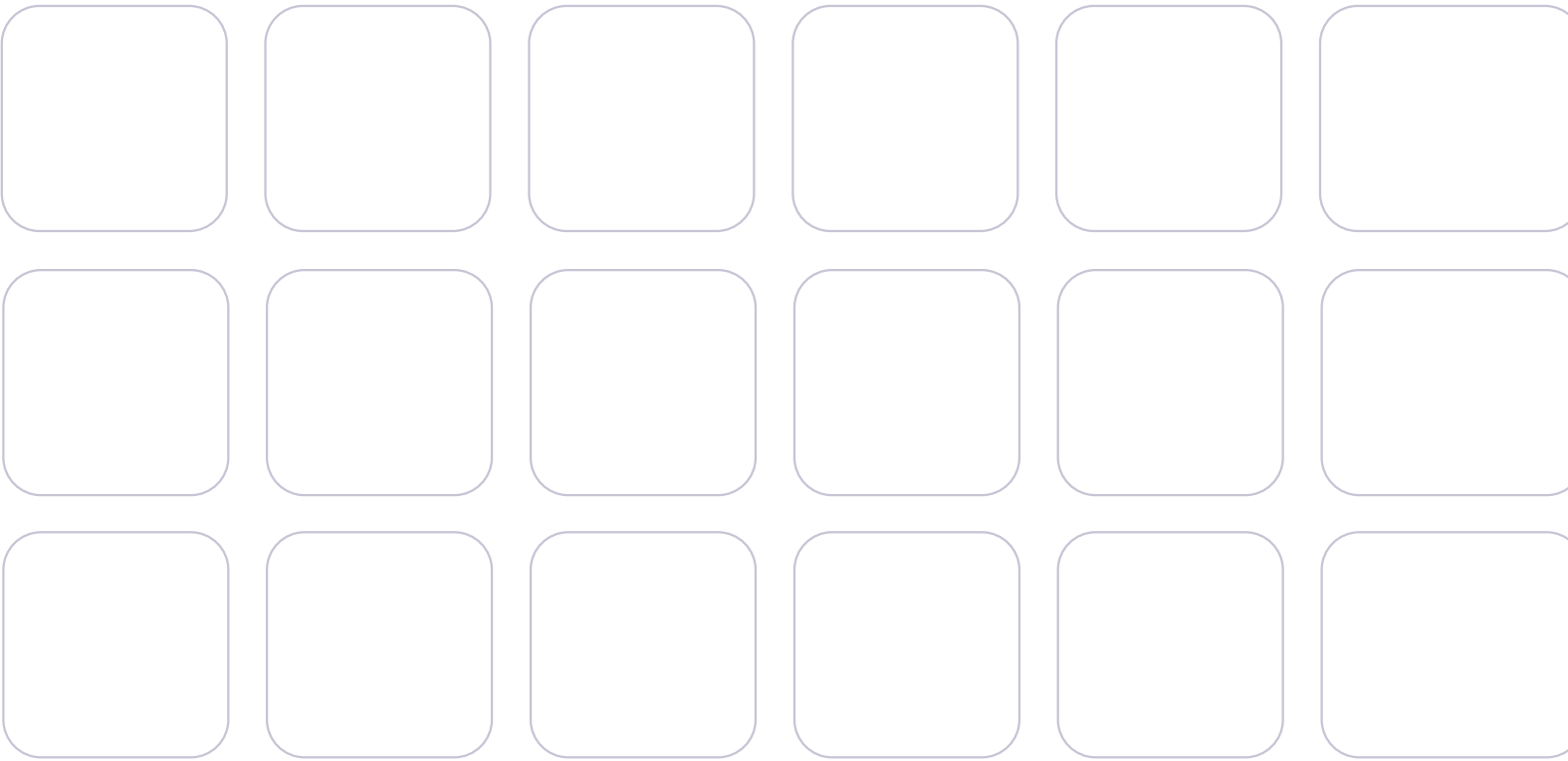
PricewaterhouseCoopers
8 Cross Street #17-00
PWC Building
Singapore 048424

AUDIT PARTNER- IN-CHARGE

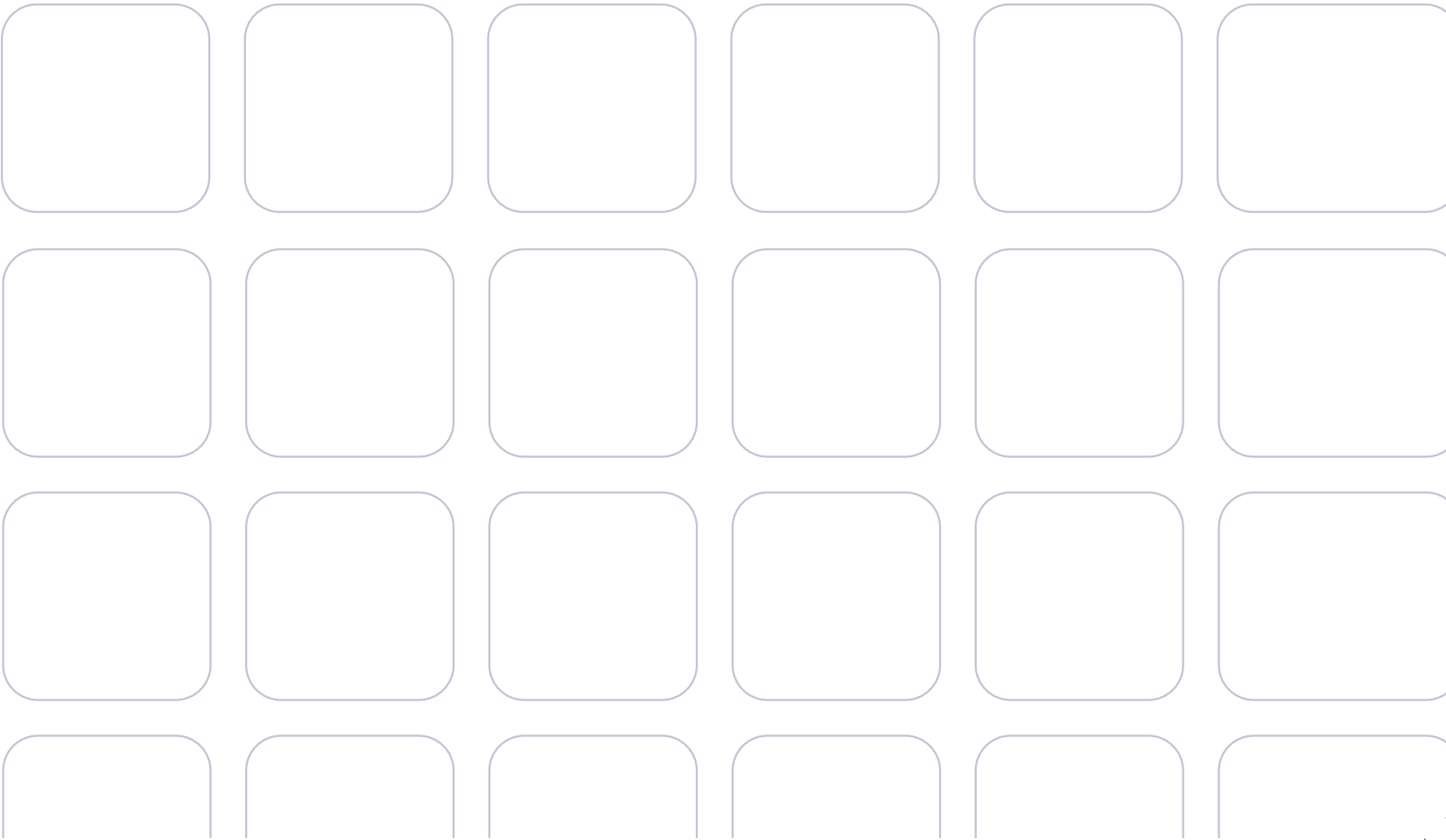
Tan Khiaw Ngoh
Date of appointment:
1 December 2003

深圳發展中心

SHEN ZHEN



KXD DIGITAL ENTERTAINMENT LIMITED
ANNUAL REPORT 2003



CORPORATE GOVERNANCE REPORT

KXD DIGITAL ENTERTAINMENT LIMITED

December 31, 2003

KXD Digital Entertainment Limited (the "Company") is committed to maintaining a high standard of corporate governance and has put in place self-regulatory corporate practices to protect the interests of its shareholders and enhance long-term shareholder value.

The Board of Directors (the "Board") is pleased to report compliance of the Company with the Code of Corporate Governance (the "Code"), except where otherwise stated.

BOARD MATTERS

Principle 1: Board's Conduct of its Affairs

Apart from its statutory duties and responsibilities, the Board oversees the management and affairs of the Group. It focuses on strategies and policies, with particular attention paid to growth and financial performance. It delegates the formulation of business policies and day-to-day management to the Executive Directors.

The principal functions of the Board are:

- a. to approve the Group's key business strategies and financial objectives;
- b. to approve the annual budget, major investments and divestments, and funding proposals;
- c. to oversee the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance; and
- d. to assume responsibility for corporate governance.

The Board discharges its responsibilities either directly or indirectly through various committees comprising members of the Board.

Every Executive Director receives appropriate training to develop individual skills in order to discharge his duties. The Group also provides extensive information about its history, mission and values to the Directors. There are also sessions to update and inform the Directors regarding new legislation and/or regulations which are relevant to the Group.

The Board holds at least four scheduled meetings each year to review and deliberate on the key activities and business strategies of the Group, including reviewing and approving internal guidelines on materiality of transactions, acquisitions, financial performance, and to endorse the release of the interim and annual results. Where necessary, additional meetings may be held to address significant transactions or issues. The Company's Articles of Association permits a Board meeting to be conducted by way of tele-conference and video-conference.

Since the Initial Public Offering (IPO) of the Company in October 2003, the Board meet once in FY2003 and the attendance of each member of the Board is as follows:-

Name of Director	Attendance at Meeting
Liu Fusheng	0
Gu Wei	1
Hu Xiaoming	1
Lai Guanglin	1
Lee Joo Hai	1
Zhu Kaiyang	1

CORPORATE GOVERNANCE REPORT

KXD DIGITAL ENTERTAINMENT LIMITED

Principle 2: Board Composition and Balance

The Board comprises:

Executive Directors:

Liu Fusheng	<i>(Chief Executive Officer and Managing Director)</i>
Gu Wei	<i>(Executive Director and Chief Operating Officer)</i>
Hu Xiaoming	<i>(Executive Director and Deputy General Manager)</i>

Non-Executive Directors:

Lai Guanglin	<i>(Non-executive Director)</i>
Lee Joo Hai	<i>(Independent Director)</i>
Zhu Kaiyang	<i>(Independent Director)</i>

The Directors appointed are qualified professionals who possess a diverse range of expertise to provide a balanced view within the Board. Key information regarding the Directors' academic and professional qualifications and other appointments is set out on pages 6 to 7 of the Annual Report.

The independence of each Director is reviewed by the Nominating Committee. The Nominating Committee adopts the definition of what constitutes an Independent Director from the Code. The Nominating Committee is of the view that Mr Lee Joo Hai and Mr Zhu Kaiyang are independent.

The Board has examined its size and is of the view that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Company.

Principle 3: Role of Chairman and Chief Executive Officer

It is the view of the Board that it is in the best interests of the Group to adopt a single leadership structure, i.e. where the CEO and the Chairman of the Board is the same person, so as to ensure that the decision-making process of the Group would not be unnecessarily hindered.

The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions without any individual exercising any considerable concentration of power or influence. Further, all the Board committees are chaired by Independent Directors.

The Group's Chairman and CEO is Mr Liu Fusheng, who is responsible for the day-to-day operations of the Group, as well as monitoring the quality, quantity and timeliness of information flow between the Board and the management. He is also responsible for scheduling and chairing of Board meetings. Mr Liu is the founder of the Group and has played a key role in developing the Group's business. Through the Group's successful development over the years, Mr Liu has demonstrated his vision, strong leadership and enthusiasm in this business.

CORPORATE GOVERNANCE REPORT

KXD DIGITAL ENTERTAINMENT LIMITED

Principle 6: Access to Information

To assist the Board in fulfilling its responsibilities, the Board is provided with management reports containing complete, adequate and timely information, and papers containing relevant background or explanatory information required to support the decision-making process. The Board is also provided with updates on the relevant new laws, regulations and changing commercial risks in the Company's operating environment through regular presentations and meetings. Orientation to the Company's business strategies and operations is conducted as and when required.

All Directors have separate and independent access to senior management and to the Company Secretaries. The Company Secretaries administer, attend and prepare minutes of Board meetings, and assist the Chairman in ensuring that Board procedures are followed and reviewed so that the Board functions effectively, and the Company's Articles of Association and relevant rules and regulations, including requirements of the Companies Act and the Singapore Exchange Securities Trading Limited (SGX-ST), are complied with.

In the event that the Directors, whether as a group or individually, require independent professional advice in the furtherance of their duties, the cost of such professional advice will be borne by the Company.

BOARD COMMITTEE

Nominating Committee ("NC")

Principle 4: Board Membership

The NC comprises Mr Lee Joo Hai as Chairman, Mr Lai Guanglin and Mr Zhu Kaiyang as members.

The Board has approved written terms of reference of the NC. The NC is responsible for:-

- a. reviewing and making recommendations to the Board on all candidates nominated for appointment to the Board;
- b. reviewing all candidates nominated for appointment as senior management staff;
- c. reviewing and recommending to the Board on an annual basis, the Board structure, size and composition, taking into account the balance between Executive and Non-Executive, Independent and Non-Independent Directors and having regard at all times to the principles of corporate governance and the Code;
- d. procuring that at least one-third of the Board shall comprise Independent Directors;
- e. making recommendations to the Board on the continuation of the services of any Director who has reached the age of 70;
- f. identifying and making recommendations to the Board as to which Directors are to retire by rotation and to be put forward for re-election at each Annual General Meeting ("AGM") of the Company, having regard to the Directors' contribution and performance, including Independent Directors;
- g. determining whether a Director is independent (taking into account the circumstances set out in the Code and other salient factors); and
- h. proposing a set of objective performance criteria to the Board for approval and implementation, to evaluate the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

All Directors are subject to the provisions of the Company's Articles of Association whereby one-third of the Directors are required to retire and subject themselves to re-election by shareholders at every AGM.

A newly-appointed Director will have to submit himself for re-election at the AGM immediately following his appointment

CORPORATE GOVERNANCE REPORT

KXD DIGITAL ENTERTAINMENT LIMITED

and, thereafter, be subjected to the one-third-rotation rule.

The NC recommended to the Board that Mr Lee Joo Hai, Mr Liu Fusheng, Mr Gu Wei, Mr Hu Xiaoming and Mr Lai Guanglin be nominated for re-appointment at the forthcoming AGM.

In making the recommendation, the NC had considered the Directors' overall contribution and performance.

Principle 5: Board Performance

The NC will assess the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. In drawing up the objective performance criteria for such evaluation and determination, the NC considers a number of factors, including achieving financial targets, performance of the Board, performance of individual Director's vis-à-vis attendance and contributions during Board meetings.

The NC will be initiating Board performance evaluation to assess the effectiveness of the Board as a whole in FY2004.

Remuneration Committee ("RC")

Principle 7: Procedures for Developing Remuneration Policies

The RC comprises Mr Zhu Kaiyang as Chairman and Mr Liu Fusheng and Mr Lee Joo Hai as members.

The Board has approved written terms of reference of the RC. The RC is responsible for :-

- recommending to the Board a framework of remuneration for the Board and the key executives of the Group covering all aspects of remuneration such as Director's fees, salaries, allowances, bonuses, options and benefits-in-kind;
- proposing to the Board, appropriate and meaningful measures for assessing the performance of the Executive Directors;
- determining the specific remuneration package for each Executive Director;
- considering the eligibility of Directors for benefits under long-term incentive schemes; and
- considering and recommending to the Board the disclosure of details of the Company's remuneration policy, level and mix of remuneration and procedure for setting remuneration and details of the specific remuneration packages of the Directors and key executives of the Company to those required by law or by the Code.

The members of the RC do not participate in any decisions concerning their own remuneration.

Principle 8: Level and Mix of Remuneration

The Company sets remuneration packages to ensure that it is competitive and sufficient to attract, retain and motivate Directors and senior management of the required experience and expertise to run the Company successfully. The following tables show a breakdown of the remuneration of Directors and four key executives for FY2003.

CORPORATE GOVERNANCE REPORT

KXD DIGITAL ENTERTAINMENT LIMITED

Remuneration band & name of Director	Salary	Bonus	Directors' Fees	Incentive and other benefits	Total
	%	%	%	%	%
\$250,000 to below \$500,000					
Liu Fusheng	10.4	89.6	-	-	100
Gu Wei	13.17	86.83	-	-	100
Below \$250,000					
Hu Xiaoming	100	-	-	-	100
Lai Guanglin	-	-	100	-	100
Lee Joo Hai	-	-	100	-	100
Zhu Kaiyang	-	-	100	-	100

Remuneration band & name of key executive	Salary	Bonus	Incentive and other benefits	Total
	%	%	%	%
Below \$250,000				
Zheng Feng	100	-	-	100
Liu Jun	100	-	-	100
Yang Lei	100	-	-	100
Kang Jian	100	-	-	100

The Company does not have any employees who are immediate family members of a Director or the Chief Executive Officer.

The remuneration of the Non-Executive and Independent Directors is in the form of a fixed fee. The remuneration of the Directors will be subject to approval at the AGM.

Mr Liu Fusheng and Mr Gu Wei have entered into separate service agreements with the Company which are renewable every three years. The service agreements cover the terms of employment, specifically salaries and bonuses.

The Group has also entered into various letters of employment with all of the executive officers. Their compensation consist of salary, bonus, performance awards that are dependent on the performance of the Group.

The Company does not have any employee share option schemes.

CORPORATE GOVERNANCE REPORT

KXD DIGITAL ENTERTAINMENT LIMITED

AUDIT COMMITTEE (“AC”)

Principle 11: Audit Committee

The AC comprises Mr Lee Joo Hai, Mr Lai Guanglin and Mr Zhu Kaiyang. The Chairman of the AC is Mr Lee Joo Hai. The AC held its first meeting with full attendance on 22 November 2003.

The Board has approved the written terms of reference of the AC. Its functions are as follows:-

- a. review and evaluate financial and operating results and accounting policies;
- b. review audit plan of external auditors, their evaluation of the system of internal accounting controls and their audit report;
- c. review the Group's financial results and the announcements before submission to the Board for approval;
- d. review the assistance given by the management to external auditors;
- e. consider the appointment/ re-appointment of external auditors;
- f. review interested person transactions; and
- g. other functions as required by law or the Code.

The AC meets regularly and also holds informal meetings and discussions with the management from time to time. The AC has full discretion to invite any Director or executive officer to attend its meetings. The AC has been given full access to and obtained the co-operation of the Company's management. The AC has reasonable resources to enable it to discharge its functions properly.

The AC has met with the external auditors without the presence of the management. The AC also met with the external auditors to discuss the results of their examinations and their evaluations of the systems of internal accounting controls.

The AC has reviewed the volume of non-audit services to the Group by the external auditors, and being satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors, is pleased to recommend their re-appointment.

Principle 12: Internal Controls

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board regularly reviews the effectiveness of all internal controls, including operational controls.

Principle 13: Internal Audit

The Board recognizes and is responsible for maintaining a system of internal control processes to safeguard shareholders' investments and the Group's business and assets. The Internal Audit Department is independent of the activities it audits. The Head of Internal Audit's primary line of reporting is to CEO, who then reports to the AC on any material non-compliance and internal control weaknesses and the AC will oversee and monitor the implementation of any improvements thereto.

CORPORATE GOVERNANCE REPORT

KXD DIGITAL ENTERTAINMENT LIMITED

COMMUNICATION WITH SHAREHOLDERS

Principle 10: Accountability

The Board provides the shareholders with a detailed and balanced explanation and analysis of the Company's performance, position and prospects on a quarterly basis.

The management provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a quarterly basis.

Principles 14 and 15: Communications with Shareholders

The Company does not practise selective disclosure. Information on any new initiatives is disseminated via MASNET, news releases and the Company's website. Price-sensitive information is publicly released, and is announced within the mandatory period and is available on the Company's website.

In addition, shareholders are encouraged to attend the AGM to ensure a greater level of shareholder participation and for them to be kept up to date as to the Group's strategies and goals. The notice of the AGM is despatched to shareholders, together with explanatory notes or a circular on items of special business, at least 14 days before the meeting. Each item of special business included in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution. The Board views the AGM as the principal forum for dialogue with shareholders, being an opportunity for shareholders to raise issues and ask the Directors or management questions regarding the Company and its operations.

The Board supports the Code's principle to encourage shareholder participation. The Articles allow a shareholder of the Company to appoint one or two proxies to attend the AGM and vote in place of the shareholder. Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the identity of shareholders through the web is not compromised.

The Chairmen of the Audit, Remuneration and Nominating Committees are available at the AGM to answer those questions relating to the work of these Committees. The external auditors are also present to assist the Directors in addressing any relevant queries by the shareholders.

RISK MANAGEMENT

(Listing Manual Rule 1207(4)(d))

The Group is continually reviewing and improving the business and operational activities to take into account the risk management perspective. This includes reviewing management and manpower resources, updating work flows, processes and procedures to meet the current and future market conditions.

CORPORATE GOVERNANCE REPORT

KXD DIGITAL ENTERTAINMENT LIMITED

SECURITIES TRANSACTIONS

(Listing Manual Rule 710(2)(b))

The Group has adopted the SGX-ST's Best Practices Guide with respect to dealings in securities by the Directors and its executive officers. Directors, management and officers of the Group who have access to price-sensitive, financial or confidential information are not permitted to deal in the Company's shares during the periods commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year, or one month before financial year, as the case may be, and ending on the date of announcements of relevant results, or when they are in possession of unpublished price-sensitive information on the Group. To provide further guidance to employees on dealings in the Company's shares, the Company has adopted a code of conduct on transactions in the Company's shares. The code of conduct is modeled after the Best Practices Guide with some modifications.

MATERIAL CONTRACTS

(Listing Manual Rule 1207(8))

Save for the service agreements between the two Executive Directors and the Company, there were no material contracts of the Company or its subsidiaries involving the interest of any Director or controlling shareholders subsisting as at the financial year ended 31 December 2003.

INTERESTED PARTY TRANSACTIONS

(Listing Manual Rule 907)

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the AC and that the transactions are on an arm's length basis.

The aggregate value of interested person transactions entered during the financial year under review is as follows:

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and under review under shareholders' mandate)	Aggregate value of all interested person transactions during the financial year under review under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
	\$'000	\$'000
Shenzhen Kaixinda Electronics Company Limited	16,448	N.A.
Shenzhen Changrui Industrial Development Co.,Ltd	175	N.A.
Zhongxin Investment Consultants(shenzhen)Co.,Ltd	1,472	N.A.

FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

CONTENTS

	PAGE
Directors' Report	18
Statement by Directors	20
Auditors' Report	21
Consolidated Income Statement	22
Balance Sheets	23
Consolidated Statement of Changes in Equity	24
Consolidated Cash Flow Statement	25
Notes to the Financial Statements	27

DIRECTORS' REPORT

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

The directors present their report to the members together with the audited financial statements of the Group for the financial period from 30 January 2003 (date of incorporation) to 31 December 2003 and the balance sheet of the Company at 31 December 2003.

Directors

The directors of the Company in office at the date of this report are :

Liu Fusheng	(appointed on 17 February 2003)
Gu Wei	(appointed on 17 February 2003)
Lai Guanglin	(appointed on 29 May 2003)
Hu Xiaoming	(appointed on 15 July 2003)
Lee Joo Hai	(appointed on 5 September 2003)
Zhu Kaiyang	(appointed on 5 September 2003)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

- (a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the share capital of the Company and related corporations, except as follows:

Holdings registered in name of director or nominee

	At 31.12.2003	At 30.1.2003 or date of appointment, if later
The Company (Ordinary shares of S\$0.045 each)		
Liu Fusheng	261,831,179	-
Gu Wei	74,278,400	-

- (b) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had interests in the options to subscribe for ordinary shares of the Company.
- (c) The directors' interests in the shares of the Company at 21 January 2004 were the same at 31 December 2003.

DIRECTORS' REPORT

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the financial statements and in this report.

Share options

There were no options granted during the financial year to subscribe for unissued shares of the Company.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to accept re-appointment.

On behalf of the directors

LIU FUSHENG Director

GU WEI Director

25 March 2004

STATEMENT BY DIRECTOR

In the opinion of the directors,

- (a) the balance sheet of the Company and the financial statements of the Group as set out on pages 22 to 42 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2003 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

LIU FUSHENG Director

GU WEI Director

25 March 2004

AUDITORS' REPORT TO THE MEMBERS OF KXD DIGITAL ENTERTAINMENT LIMITED

We have audited the balance sheet of KXD Digital Entertainment Limited and the consolidated financial statements of the Group for the financial year ended 31 December 2003 set out on pages 22 to 42. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the accompanying balance sheet of the Company and consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Companies Act, Cap 50 ("the Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2003, and of the results, changes in equity and cash flows of the Group for the financial year ended on that date, and
- (b) the accounting and other records (excluding registers) required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and auditor's report of the subsidiary of which we have not acted as auditors, being financial statements included in the consolidated financial statements. The name of the subsidiary is stated in note 12 to the financial statements.

We are satisfied that the financial statements of the subsidiary that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations as required by us for those purposes.

The auditor's report on the financial statements of the subsidiary was not subject to any qualification.

PricewaterhouseCoopers
Certified Public Accountants

Singapore, 25 March 2004

CONSOLIDATED INCOME STATEMENT

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

	Notes	Period from 30 January 2003 to 31 December 2003 RMB
Sales		794,358,910
Cost of sales		(688,377,223)
Gross profit		105,981,687
Distribution costs		(19,213,431)
Administrative expenses		(26,826,099)
Other operating income		478,999
Profit from operations	3	60,421,156
Finance costs – net	4	(4,483,666)
Profit before tax		55,937,490
Income tax expense	6	-
Net profit		55,937,490
Earnings per share	7	
- Basic		1.38
- Diluted		1.38

The accompanying notes form an integral part of these financial statements.

Auditors' report – page 21.

KXD DIGITAL ENTERTAINMENT LIMITED (Formerly known as KX Electronics Pte Ltd) (Incorporated in Singapore) **AND ITS SUBSIDIARY**

BALANCE SHEETS

as at 31 December 2003

	Notes	The Group 2003 RMB	The Company 2003 RMB
ASSETS			
Current assets			
Cash and bank balances	8	241,285,676	2,425,843
Trade and notes receivables	9	160,774,320	-
Due from a subsidiary (non-trade)	12	-	184,407,988
Inventories	10	133,477,859	-
Other receivables and prepayments	11	127,182,714	-
		662,720,569	186,833,831
Non-current assets			
Investment in a subsidiary	12	-	49,536,000
Property, plant and equipment	13	31,236,780	-
Construction in progress	14	8,666,234	-
		39,903,014	49,536,000
Total assets		702,623,583	236,369,831
Current liabilities			
Trade and notes payables		382,431,421	-
Other payables	15	29,393,920	3,895,151
Total liabilities		411,825,341	3,895,151
Net assets		290,798,242	232,474,680
SHAREHOLDERS' EQUITY			
Capital and reserves			
Share capital	16	114,780,629	114,780,629
Share premium		122,014,462	122,014,462
Foreign currency translation reserve		(1,934,339)	-
Retained earnings/(accumulated losses)	17	55,937,490	(4,320,411)
Total shareholders' equity		290,798,242	232,474,680

The accompanying notes form an integral part of these financial statements.

Auditors' report – page 21.

KXD DIGITAL ENTERTAINMENT LIMITED (Formerly known as KX Electronics Pte Ltd) (Incorporated in Singapore) AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

	Notes	Share capital RMB	Share premium RMB	Foreign currency translation reserve RMB	Retained earnings RMB	Total RMB
Balance at 30 January 2003 (date of incorporation)	16(b)(i)	10	-	-	-	10
Net profit for the period		-	-	-	55,937,490	55,937,490
Foreign currency translation		-	-	(1,934,339)	-	(1,934,339)
Total recognised gains for the financial period		-	-	(1,934,339)	55,937,490	54,003,151
Issue of ordinary shares	16(b) (ii)&(iii)	80,220,619	-	-	-	80,220,619
Issue of shares pursuant to the initial public offering of the Company	16(b)(v)	34,560,000	142,080,000	-	-	176,640,000
Share issuance expenses		-	(20,065,538)	-	-	(20,065,538)
Balance at 31 December 2003		114,780,629	122,014,462	(1,934,339)	55,937,490	290,798,242

The accompanying notes form an integral part of these financial statements.

Auditors' report – page 21.

KXD DIGITAL ENTERTAINMENT LIMITED (Formerly known as KX Electronics Pte Ltd) (Incorporated in Singapore) **AND ITS SUBSIDIARY**

CONSOLIDATED CASH FLOW STATEMENT

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

	Note	Period from 30 January 2003 to 31 December 2003 RMB
Cash flows from operating activities		
Profit before tax		55,937,490
Adjustments for:		
Depreciation		2,631,221
Loss on disposal of property, plant and equipment		52,494
Interest income		(855,525)
Interest expense		4,540,796
Operating cash flow before working capital changes		62,306,476
Changes in operating assets and liabilities		
Trade and notes receivables		(160,774,320)
Inventories		(133,477,859)
Other receivables and prepayments		(127,182,714)
Trade and notes payables		382,431,421
Other payables		29,393,920
Net cash generated from operating activities		52,696,924
Cash flows from investing activities		
Purchase of property, plant and equipment		(15,519,345)
Payments for construction in progress		(27,741,165)
Proceeds from disposal of property, plant and equipment		673,781
Interest received		855,525
Net cash used in investing activities		(41,731,204)
Cash flows from financing activities		
Proceeds from issuance of shares		80,220,619
Proceeds from issue of shares pursuant to initial public offering of the Company, net of expenses incurred		156,574,462
Foreign currency translation reserve		(1,934,339)
Interest paid		(4,540,796)

KXD DIGITAL ENTERTAINMENT LIMITED (Formerly known as KX Electronics Pte Ltd) (Incorporated in Singapore) AND ITS SUBSIDIARY

CONSOLIDATED CASH FLOW STATEMENT *continued*

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

	Note	Period from 30 January 2003 to 31 December 2003 RMB
Net cash generated from financing activities		230,319,946
Net increase in cash and cash equivalents		241,285,666
Cash and cash equivalents at date of incorporation		10
Cash and cash equivalents at end of period	8	241,285,676

The accompanying notes form an integral part of these financial statements.

Auditors' report – page 21.

KXD DIGITAL ENTERTAINMENT LIMITED (Formerly known as KX Electronics Pte Ltd) (Incorporated in Singapore) **AND ITS SUBSIDIARY**

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL

The Company was incorporated in Singapore on 30 January 2003 under the Companies Act as a private company limited by shares under the name of KX Electronics Pte Ltd. The Company is domiciled in Singapore and is listed on the Singapore Exchange. The address of its registered office is as follows: 80 Raffles Place, #58-01, UOB Plaza 1, Singapore 048624.

On 8 July 2003, the Company changed its name to KXD Digital Entertainment Pte. Ltd. The Company was converted to a public company on 9 September 2003.

The principal activity of the Company is that of an investment holding company. The principal activities of the Group consist of the manufacturing and sales of audiovisual entertainment appliances and devices.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with the Singapore Financial Reporting Standard ("FRS"). The preparation of financial statements in conformity with the Singapore FRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current event and actions, actual results may ultimately differ from those estimates.

(b) Revenue recognition

Revenue comprises the invoiced value for the sale of goods net of value added tax, rebates and discounts. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

(c) Subsidiaries

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

KXD DIGITAL ENTERTAINMENT LIMITED (Formerly known as KX Electronics Pte Ltd) (Incorporated in Singapore) AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

2. PRINCIPAL ACCOUNTING POLICIES *continued*

(c) Subsidiaries *continued*

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

(d) Goodwill

Goodwill is amortised using the straight-line method over its estimated useful life of a maximum of 10 years. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their estimated residual values over their estimated useful lives as follows:

	Estimated useful lives	Estimated residual values
Machinery and equipment	3-5 years	5%
Office equipment	3 years	5%
Motor vehicles	5 years	5%
Electronic equipment	3 years	5%

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

2. PRINCIPAL ACCOUNTING POLICIES *continued*

(e) Property, plant and equipment *continued*

No depreciation is provided for construction in progress. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

(f) Impairment of long lived assets

Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(g) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(h) Trade receivables

Trade receivables are carried at original invoiced amounts less allowance made for doubtful debts. An allowance for doubtful debts is made when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(i) 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 other short-term highly liquid investments with original maturities of three months or less.

KXD DIGITAL ENTERTAINMENT LIMITED (Formerly known as KX Electronics Pte Ltd) (Incorporated in Singapore) AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

2. PRINCIPAL ACCOUNTING POLICIES *continued*

(j) Research costs

Research costs are recognised as an expense as incurred.

(k) Taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

(l) Employee social insurance schemes

The Group participates in the retirement insurance and medical insurance scheme organised by the People's Republic of China's local social security bureau pursuant to the relevant provisions. The Group is required to make monthly contribution in respect of the above insurance scheme to the local social security bureau based on the monthly salaries of its employees. The Group has no further liabilities other than the above defined contribution. The Group's contributions under the scheme are charged to the income statement as incurred.

(m) Operating leases

Leases where substantially all of the risks and rewards of the assets remain with the lessor are accounted for as operating leases. Operating lease expenses are charged to the income statement on a straight-line basis over the period of the lease.

(n) Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

2. PRINCIPAL ACCOUNTING POLICIES *continued*

(o) Foreign currency translation

Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements of the Group and balance sheet of the Company are presented in Chinese Renminbi ("RMB").

Transactions and balances

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

Foreign currency monetary assets and liabilities are translated into RMB at the rates of exchange prevailing at the balance sheet. Exchange differences arising are taken to the income statement.

(p) Segment reporting

Business segments provide products and services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

3. PROFIT FROM OPERATIONS

The following items have been included in arriving at profit from operations:

	The Group Period from 30 January to 31 December 2003 RMB
Auditors' remuneration paid/payable to:	
- auditors of the Company	350,000
- other auditors*	450,000
Depreciation of property, plant and equipment	
machinery and equipment	1,868,682
- office equipment	121,363
- motor vehicles	292,247
- electronic equipment	348,929
Directors' remuneration	
- directors of the Company	3,596,026
Loss on disposal of property, plant and equipment	52,494
Inventories:	
- cost of inventories recognized as an expense (included in cost of sales)	682,712,513
- write-down of inventories	1,998,850
Repairs and maintenance expenditure on property, plant and equipment	61,557
Research costs	8,233,591
Operating lease rentals on property	6,445,217

* Includes PricewaterhouseCoopers firm outside Singapore.

4. FINANCE COSTS – NET

	The Group Period from 30 January to 31 December 2003 RMB
Interest expense – bank borrowings	4,540,796
Interest income – bank deposits	(855,525)
Net foreign exchange loss	80,497
Bank charges	717,898
	4,483,666

KXD DIGITAL ENTERTAINMENT LIMITED (Formerly known as KX Electronics Pte Ltd) (Incorporated in Singapore) AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

4. FINANCE COSTS – NET *continued*

The bank borrowings were short-term in nature and guaranteed by letter of credits, which were fully repaid before the period end. The bank borrowings bore interest rates ranging from 4.53% to 5.04% per annum.

5. STAFF COSTS

	The Group Period from 30 January to 31 December 2003 RMB
Wages and salaries	17,790,496
Staff welfare	1,192,318
	<hr/> 18,982,814

The average number of employees during the period was 2,193. All of them were full-time employees.

6. INCOME TAX EXPENSE

	The Group Period from 30 January to 31 December 2003 RMB
Current tax	<hr/> -

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

6. INCOME TAX EXPENSE *continued*

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

	The Group Period from 30 January to 31 December 2003 RMB
Profit before tax	55,937,490
Tax calculated at a tax rate of 22%	12,306,248
Effect of different tax rate in PRC (i)	(3,973,053)
Exempt income in PRC (ii)	(8,513,685)
Expenses not deductible for tax purposes	180,490
	-

- (i) The subsidiary was incorporated in a special economic zone in the People's Republic of China ("PRC") and qualifies as a foreign investment production enterprise. Accordingly, the applicable enterprise income tax rate for the subsidiary is 15%.
- (ii) In accordance with the PRC tax regulations, the subsidiary is entitled to full exemption from income taxes for the two financial years starting from its first profit-making year (net of tax losses carried forward) and a 50% tax reduction for the following three financial years. 2003 was the subsidiary's first profit-making year and no income tax has been provided accordingly.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to members of KXD Digital Entertainment Limited by the weighted average number of ordinary shares in issue during the financial period.

	The Group Period from 30 January 2003 to 31 December 2003 RMB
Net profit attributable to members of KXD Digital Entertainment Limited	55,937,490
Weighted average number of ordinary shares in issue for basic earnings per share	40,633,215
Basic earnings per share	1.38
Diluted earnings per share	1.38

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. As the Group has no dilutive potential ordinary shares, the diluted earnings per share are equivalent to basic earnings per share.

8. CASH AND BANK BALANCES

	The Group 2003 RMB	The Company 2003 RMB
Cash on hand	891,507	-
Current deposits at banks	240,394,169	2,425,843
	241,285,676	2,425,843

Included in cash and bank balances were bank deposits of RMB20,072,710 which are pledged to the bank for certain trade finance facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

9. TRADE AND NOTES RECEIVABLES

	The Group 2003 RMB
Trade receivables	161,783,318
Less: Allowance for doubtful trade debts	(2,364,510)
	159,418,808
Notes receivables	1,355,512
	160,774,320

10. INVENTORIES

	The Group 2003 RMB
Raw materials (at cost)	66,770,278
Work in progress (at cost)	37,662,053
Finished goods (at net realisable value)	29,045,528
	133,477,859

11. OTHER RECEIVABLES AND PREPAYMENTS

	The Group 2003 RMB
Due from a related party (non-trade)	50,735,274
Other receivables	32,804,338
Prepayments	43,643,102
	127,182,714

The related party refers to a company in the PRC which is owned by certain directors of the Company. Subsequent to the financial year, an amount of RMB23,731,635 was repaid by the related party.

The amount due from the related party is unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

12. INVESTMENT IN A SUBSIDIARY

The Company
2003
RMB

Investments at cost **49,536,000**

Details of subsidiary held by the Company:

Name of company	Principal activities	Country of incorporation	Equity holding
			2003
Shenzhen KXD Multi-media Company Limited*	Manufacturing and sales of audiovisual entertainment appliances and devices	The People's Republic of China ("PRC")	100%

* Audited by PricewaterhouseCoopers firm outside Singapore

The non-trade amount due from the subsidiary is unsecured, interest free and repayable on demand.

13. PROPERTY, PLANT AND EQUIPMENT

The Group	Machinery and equipment RMB	Office equipment RMB	Motor vehicles RMB	Electronic equipment RMB	Total RMB
Cost					
30 January 2003 (date of incorporation)	-	-	-	-	-
Additions	7,838,028	3,496,614	2,717,727	1,466,976	15,519,345
Disposals	(336,051)	-	(454,497)	(22,596)	(813,144)
Transfer from construction in progress (note 14)	18,455,876	-	-	619,055	19,074,931
31 December 2003	25,957,853	3,496,614	2,263,230	2,063,435	33,781,132
Accumulated depreciation					
30 January 2003 (date of incorporation)	-	-	-	-	-
Depreciation charge	1,868,682	121,363	292,247	348,929	2,631,221
Disposals	(45,340)	-	(34,246)	(7,283)	(86,869)
31 December 2003	1,823,342	121,363	258,001	341,646	2,544,352
Net book value					
At 31 December 2003	24,134,511	3,375,251	2,005,229	1,721,789	31,236,780

KXD DIGITAL ENTERTAINMENT LIMITED (Formerly known as KX Electronics Pte Ltd) (Incorporated in Singapore) AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

14. CONSTRUCTION IN PROGRESS

The Group	Machinery and equipment RMB	Electronic equipment RMB	Total RMB
Cost			
At 30 January 2003 (date of incorporation)	-	-	-
Additions	26,534,839	1,206,326	27,741,165
Transfer to property, plant and equipment (note 13)	(18,455,876)	(619,055)	(19,074,931)
At 31 December 2003	8,078,963	587,271	8,666,234

15. OTHER PAYABLES

	The Group 2003 RMB	The Company 2003 RMB
Advances from customers	5,828,680	-
Accruals and other payables	23,410,089	3,740,000
Due to a shareholder (non-trade)	155,151	155,151
	29,393,920	3,895,151

The amount due to a shareholder is unsecured, interest free and repayable on demand.

16. SHARE CAPITAL OF KXD DIGITAL ENTERTAINMENT LIMITED

(a) Authorised ordinary share capital

The total authorised number of ordinary shares is 1,000,000,000 shares with a par value of S\$0.045 (RMB0.22) per share as at 31 December 2003.

(b) Issued and fully paid ordinary share capital

	2003 Shares	2003 RMB
At 30 January 2003 (date of incorporation) (i)	2	10
Issue of 10,374,015 ordinary shares (ii)	10,374,015	49,795,272
Loan Conversion (iii)	6,338,614	30,425,347
Share Consolidation (iv)	(14,855,672)	-
Share Split (iv)	369,534,841	-
Issue of 160,000,000 ordinary shares pursuant to the initial public offering of the Company (v)	160,000,000	34,560,000
At 31 December 2003	531,391,800	114,780,629

KXD DIGITAL ENTERTAINMENT LIMITED (Formerly known as KX Electronics Pte Ltd) (Incorporated in Singapore) AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

16. SHARE CAPITAL OF KXD DIGITAL ENTERTAINMENT LIMITED *continued*

(b) Issued and fully paid ordinary share capital *continued*

- (i) The Company issued 2 ordinary shares of S\$1 (RMB4.80) each at par for cash for purposes of incorporation on 30 January 2003.
- (ii) The Company issued a total of 10,374,015 ordinary shares of S\$1 (RMB4.80) each at par for cash for purposes of working capital.
- (iii) The Company issued 6,338,614 ordinary shares of S\$1 (RMB4.80) each at par upon the capitalization of a loan from a shareholder of the Company ("Loan Conversion").
- (iv) The Company consolidated ("Share Consolidation") 9 ordinary shares of S\$1 (RMB4.80) each into 1 ordinary share of S\$9 (RMB43.20) each and subsequently sub-divided ("Share Split") 1 ordinary share of S\$9 (RMB43.20) each into 200 ordinary shares of S\$0.045 (RMB0.22) each.
- (v) The Company issued 160,000,000 ordinary shares of S\$0.045 (RMB0.22) each at a premium of S\$0.185 (RMB0.89) per share for cash pursuant to its initial public offering.

The newly issued shares rank *pari passu* in all respects with the previously issued shares.

The movements in the share premium account are set out in the Consolidated Statement of Changes in Equity.

(c) Statutory fund

In accordance with the subsidiary's Articles of Association, appropriations from its net profits should be made to the Reserve Fund and the Staff and Workers' Bonus and Welfare Fund, before profit distributions to the holding corporation. The appropriation to the Reserve Fund should be no less than 10% of the subsidiary's net profits, and this appropriation is optional once the accumulated appropriation exceeds 50% of the registered capital. The percentages for appropriation to the Reserve Fund and the Staff and Workers' Bonus and Welfare Fund are to be determined by the Board of Directors.

Upon approval from the Board of Directors, the Reserve Fund can be used to offset accumulated losses or to increase registered capital of the subsidiary. The Staff and Workers' Bonus and Welfare Fund can be used to make payments for special bonuses to staff and collective welfare benefits.

The appropriation of profits for the current period will be determined in the Board of Directors' meeting to be held subsequent to the date of the auditors' report of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

17. RETAINED EARNINGS (ACCUMULATED LOSSES)

Movement in accumulated losses for the Company are as follows:

	The Company 2003 RMB
Balance at 30 January 2003 (date of incorporation)	-
Net loss during the period	(4,320,411)
Balance at 31 December 2003	(4,320,411)

Movement in retained earnings for the Group is shown in the Consolidated Statement of Changes in Equity.

18. RELATED PARTY TRANSACTIONS

In addition to the related party information shown elsewhere in the consolidated financial statements, the following significant transactions took place between the Group and related parties during the financial year on terms agreed by the parties concerned:

	The Group Period from 30 January 2003 to 31 December 2003 RMB
Purchase of business, assets and undertakings from a related party (i)&(ii)	74,590,000
Operating lease rental paid to related parties (i)	5,203,891
Consultancy fees paid to a related party (i)	7,065,600

- (i) Related parties refer to companies in the PRC which are owned by certain directors of the Company.
- (ii) In accordance with a sales and purchase agreement dated 11 April 2003 between the subsidiary and the related party, the subsidiary acquired the business, assets and undertakings of the related party relating to the manufacturing and sales of digital video and acoustic products for customers and subsystems for electronic manufacturers which were located in Shenzhen, for a total consideration of RMB74,590,000.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

19. FINANCIAL INSTRUMENTS

(a) Fair values

The carrying amounts of the Group's cash and bank balances, trade and notes receivables, other receivables and prepayments, due from a subsidiary, trade and notes payables, and other payables approximate their fair values.

(b) Credit risk

Trade receivables are spread among a number of customers and substantial amounts of cash are deposited with registered financial institutions in the PRC. The directors are of the opinion that the Group has no significant concentration of credit risk.

(c) Interest rate risk

The interest rates and terms of repayment of bank borrowings are disclosed in note 4. Other financial assets and liabilities do not have material interest rate risk.

(d) Foreign currency risk

Most of the transactions of the Group were settled in RMB and United States dollar. In the opinion of the directors, the Group would not have significant foreign currency risk exposure.

20. OPERATING LEASE COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases at 31 December 2003 were as follows:

	The Group 2003 RMB
Not later than 1 year	14,089,774
Later than 1 year and not later than 5 years	22,975,656
	<hr/> 37,065,430

NOTES TO THE FINANCIAL STATEMENTS

For the period from 30 January 2003 (date of incorporation) to 31 December 2003

21. SEGMENT INFORMATION

(a) Business segment

The Group is engaged in only one business segment, the manufacture and sale of audiovisual entertainment appliances and devices, including televisions, digital video cameras, digital recorders, DVD players, TFT and LCD display devices, DVD home theatre systems, amplifiers and other related products.

(b) Geographical segment

All assets and operations of the Group are located in the PRC.

22. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of KXD Digital Entertainment Limited on 25 March 2004.

STATISTICS OF SHAREHOLDINGS AS AT 18 MARCH 2004

KXD DIGITAL ENTERTAINMENT LIMITED

KXD DIGITAL ENTERTAINMENT LIMITED

Authorised share capital	:	S\$45,000,000.00
Issued and fully paid-up capital	:	S\$23,912,631.00
Number of shares	:	531,391,800
Class of shares	:	Ordinary shares of S\$0.045 each
Voting rights	:	One vote per share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	0	0.00	0	0.00
1,000 - 10,000	1,992	47.14	14,536,000	2.74
10,001 - 1,000,000	2,214	52.39	101,729,000	19.14
1,000,001 and above	20	0.47	415,126,800	78.12
Total :	4,226	100.00	531,391,800	100.00

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as at 18 March 2004.

	NO. OF ORDINARY SHARES OF S\$0.045 EACH			
NAME	DIRECT INTEREST	%	INDIRECT	%
Liu Fusheng	261,831,179	49.27	-	-
Gu Wei	74,278,400	13.98	-	-
Fulfil Investments Limited	29,711,344	5.59	-	-

STATISTICS OF SHAREHOLDINGS AS AT 18 MARCH 2004

KXD DIGITAL ENTERTAINMENT LIMITED

TWENTY LARGEST SHAREHOLDERS

NAME	NO. OF SHARES	%
1. Liu Fusheng	261,831,179	49.27
2. Gu Wei	74,278,400	13.98
3. Citibank Nominess Singapore Pte Ltd	31,222,344	5.88
4. UOB Kay Hian Pte Ltd	9,627,877	1.81
5. OCBC Securities Private Ltd	5,382,000	1.01
6. United Overseas Bank Nominees Pte Ltd	4,745,000	0.89
7. Phillip Securities Pte Ltd	4,572,000	0.86
8. The Asia Life Assurance Society Ltd-S'pore Life Fund	3,434,000	0.65
9. Kim Eng Securities Pte. Ltd.	2,745,000	0.52
10. G K Goh Stockbrokers Pte Ltd	2,269,000	0.43
11. Amex Nominees (S) Pte Ltd	2,250,000	0.42
12. Lim & Tan Securities Pte Ltd	1,871,000	0.35
13. Goh Boon Chye	1,800,000	0.34
14. DBS Nominees Pte Ltd	1,773,000	0.33
15. Hong Leong Finance Nominees Pte Ltd	1,408,000	0.26
16. DBS Vickers Securities (S) Pte Ltd	1,235,000	0.23
17. Singapore Nominees Pte Ltd	1,207,000	0.23
18. HSBC (Singapore) Nominees Pte Ltd	1,200,000	0.23
19. Quek Peng Hock Henry	1,190,000	0.22
20. Mayban Nominees (S) Pte Ltd	1,086,000	0.20
Total:	415,126,800	78.11

FREE FLOAT

As at 18 March 2004, approximately 31.16% of the issued share capital of the Company was held in the hands of the public (on the basis of information available to the Company).

Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

KXD DIGITAL ENTERTAINMENT LIMITED

NOTICE IS HEREBY GIVEN that the Annual General Meeting of KXD Digital Entertainment Limited (the "Company") will be held at TDB Room, The Fullerton Hotel, 1 Fullerton Square, Singapore 049178, on Thursday, 29 April 2004 at 10:00 a.m. for the following purposes:

Ordinary Business

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the year ended 31 December 2003 together with the Auditors' Report thereon.

(Resolution 1)

2. To re-elect the following Directors retiring pursuant to Articles 91 and 97 of the Company's Articles of Association:

Mr Lee Joo Hai	[Article 91]	(Resolution 2)
Mr Liu Fusheng	[Article 97]	(Resolution 3)
Mr Gu Wei	[Article 97]	(Resolution 4)
Mr Hu Xiaoming	[Article 97]	(Resolution 5)
Mr Lai Guanglin	[Article 97]	(Resolution 6)

Mr Lee Joo Hai will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Mr Lai Guanglin will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and will be considered non-independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

3. To approve the payment of Directors' fees of S\$43,000 for the year ended 31 December 2003.

(Resolution 7)

4. To re-appoint Messrs PricewaterhouseCoopers as the Company's Auditors and to authorise the Directors to fix their remuneration.

(Resolution 8)

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

NOTICE OF ANNUAL GENERAL MEETING

KXD DIGITAL ENTERTAINMENT LIMITED

Special Business

To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution, with or without any modifications:

6. Authority to allot and issue shares up to fifty per cent. (50%) of issued capital

"That, pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual"), authority be and is hereby given to the Directors to:-

- a. allot and issue shares in the Company; and
- b. issue convertible securities and any shares in the Company pursuant to convertible securities

(whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors shall in their absolute discretion deem fit, provided that the aggregate number of shares (including any shares to be issued pursuant to the convertible securities) in the Company to be issued pursuant to such authority shall not exceed fifty per cent. (50%) of the issued share capital of the Company for the time being and that the aggregate number of shares in the Company to be issued other than on a pro-rata basis to the then existing shareholders of the Company shall not exceed twenty per cent. (20%) of the issued share capital of the Company for the time being. Unless revoked or varied by the Company in general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting is required by law to be held, whichever is earlier, except that the Directors shall be authorised to allot and issue new shares pursuant to the convertible securities notwithstanding that such authority has ceased.

For the purposes of this Resolution and Rule 806(3) of the Listing Manual, the percentage of issued share capital is based on the issued share capital of the Company at the time this Resolution is passed after adjusting for:-

- (i) new shares arising from the conversion or exercise of convertible securities;
- (ii) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the rules of the Listing Manual; and
- (iii) any subsequent consolidation or subdivision of shares." [See Explanatory Note (i)]

(Resolution 9)

By Order of the Board

Raymond Tong Wei Min

Chong Hong Chiang

Joint Company Secretaries

Singapore, 12 April 2004

NOTICE OF ANNUAL GENERAL MEETING

KXD DIGITAL ENTERTAINMENT LIMITED

Explanatory Note:

- (i) The Ordinary Resolution 9 proposed in item 6 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue shares and convertible securities in the Company. The aggregate number of shares (including any shares issued pursuant to the convertible securities) which the Directors may allot and issue under this Resolution will not exceed fifty per cent. (50%) of the issued share capital (as defined in Resolution 9) of the Company. For issues of shares other than on a pro rata basis to all shareholders, the aggregate number of shares to be issued shall not exceed twenty per cent. (20%) of the issued share capital (as defined in Resolution 9) of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier. However, notwithstanding the cessation of this authority, the Directors are empowered to issue shares pursuant to any convertible securities issued under this authority.

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
3. The instrument appointing a proxy must be deposited at the registered office of the Company at 80 Raffles Place #58-01 UOB Plaza 1 Singapore 048624 not less than forty-eight (48) hours before the time for holding the Meeting.



This page has been intentionally left blank

PROXY FORM

KXD DIGITAL ENTERTAINMENT LIMITED
(Incorporated in the Republic of Singapore)

I/We _____ (Name)

of _____ (Address)

being a member/members of **KXD DIGITAL ENTERTAINMENT LIMITED** (the “Company”) hereby appoint:

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

as my/our proxy/proxies to vote for me/us on my/our behalf, at the Annual General Meeting of the Company (the “Meeting”) to be held at **TDB Room, The Fullerton Hotel, 1 Fullerton Square, Singapore 049178**, on **Thursday, 29 April 2004**, at **10:00 a.m.** and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any matter arising at the Meeting.

No.	Resolutions Relating to:	For	Against
1.	Directors' Report and Accounts for the year ended 31 December 2003		
2.	Re-election of Mr Lee Joo Hai		
3.	Re-election of Mr Liu Fusheng		
4.	Re-election of Mr Gu Wei		
5.	Re-election of Mr Hu Xiaoming		
6.	Re-election of Mr Lai Guanglin		
7.	Approval of Directors' fees		
8.	Re-appointment of Messrs PricewaterhouseCoopers as Auditors		
9.	Authority to issue and allot shares pursuant to Section 161 of the Companies Act, Cap. 50		

Dated this _____ day of _____ 2004.

Total No. of Shares	No. of Shares
In CDP Register	
In Register of Members	

IMPORTANT: PLEASE READ NOTES OVERLEAF

Signature(s) of Member(s) or, Common Seal of Corporate Member

PROXY FORM

KXD DIGITAL ENTERTAINMENT LIMITED

(Incorporated in the Republic of Singapore)

NOTES

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or two proxies to attend and vote in his stead.
2. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.
3. A proxy need not be a member of the Company.
4. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all shares held by the member.
5. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 80 Raffles Place #58-01 UOB Plaza 1 Singapore 048624, not less than 48 hours before the time set for the Meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
7. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

GENERAL:

The Company shall be entitled to reject a proxy form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the proxy form. In addition, in the case of shares entered in the Depository Register, the Company may reject a proxy form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

folding line

Affix
Stamp

**The Company Secretary
KXD Digital Entertainment Ltd**

80 Raffles Place
#58-01 UOB Plaza 1
Singapore 048624