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**U.S. Securities and Exchange Commission**

Washington, D.C. 20549

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**FORM 10-QSB**

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**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT**  
OF 1934 for the quarterly period ended June 30, 2005

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE**  
ACT OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

**CHINA DIGITAL MEDIA CORPORATION**

(Exact name of small business issuer as specified in its charter)

**HAIRMAX INTERNATIONAL CORP.**

(Former name of registrant)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**13-3422912**  
(IRS Employer Identification No.)

**2505-06, 25/F, Stelux House, 698 Prince Edward Road E. Kowloon, Hong Kong**  
(Address of principal executive offices)

**(011) 852-2390-8600**  
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Number of shares of common stock outstanding as of June 30, 2005: 30,087,468

Number of shares of preferred stock outstanding as of June 30, 2005: 1,875,000

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**ITEM 1.**

CHINA DIGITAL MEDIA CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET  
AT JUNE 30, 2005  
(UNAUDITED)

**ASSETS****CURRENT ASSETS**

Cash and cash equivalents	\$	66,551
Accounts receivable, net of allowances		1,952,868
Inventories		924,690
Other receivables and prepaid expenses		105,661
Total Current Assets		<u>3,049,770</u>

**PROPERTY AND EQUIPMENT, NET**

6,117,767

**TOTAL ASSETS**

\$ 9,167,537

**LIABILITIES AND STOCKHOLDERS' EQUITY****CURRENT LIABILITIES**

Accounts payable	\$	3,862,791
Other payables and accrued liabilities		9,344
Due to a director		138,923
Due to a related company		310,328
Value added taxes payable		17,103
Income taxes payable		314,719
Total Current Liabilities		<u>4,653,208</u>

**COMMITMENTS AND CONTINGENCIES****STOCKHOLDERS' EQUITY**

Common stock (\$.001 par value, 100,000,000 shares authorized, 30,087,468 shares issued and outstanding at June 30, 2005)	30,087
Series A convertible preferred stock (\$.001 par value, 40,000,000 shares authorized, 1,875,000 shares issued and outstanding at June 30, 2005)	1,875
Series B 2% convertible preferred stock (\$.001 par value, 1,000 shares authorized, -0- shares issued and outstanding at June 30, 2005)	-
Additional paid in capital	3,595,490
Retained earnings	2,833,389
Common stock subscription receivables	(1,946,512)
Total Stockholders' Equity	<u>4,514,329</u>

**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY**

\$ 9,167,537

CHINA DIGITAL MEDIA CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004  
 (UNAUDITED)

	For the three months ended June 30, 2005	2004	For the six months ended June 30, 2005	2004
<b>NET SALES</b>				
Revenue from digitalization of television signals	\$ 1,008,441	\$ 519,840	\$ 1,699,542	\$ 876,778
Government grant	302,370	302,370	604,741	604,741
	<u>1,310,811</u>	<u>822,210</u>	<u>2,304,283</u>	<u>1,481,519</u>
<b>COST OF SALES</b>				
	(79,639)	(180,348)	(200,664)	(285,751)
<b>GROSS PROFIT</b>				
	<u>1,231,172</u>	<u>641,862</u>	<u>2,103,619</u>	<u>1,195,768</u>
<b>OPERATING EXPENSES</b>				
Selling, general and administrative expenses	234,197	87,139	405,853	244,426
Depreciation and amortization	291,075	43,264	554,211	68,567
Total Operating Expenses	<u>525,272</u>	<u>130,403</u>	<u>960,064</u>	<u>312,993</u>
<b>INCOME FROM OPERATIONS</b>				
	705,900	511,459	1,143,555	882,775
<b>OTHER INCOME (EXPENSES)</b>				
Interest income, net	(249)	(48)	(51)	479
Total Other (Expenses) Income	<u>(249)</u>	<u>(48)</u>	<u>(51)</u>	<u>479</u>
<b>NET INCOME</b>				
	<u>\$ 705,651</u>	<u>\$ 511,411</u>	<u>\$ 1,143,504</u>	<u>\$ 883,254</u>
Net income per share - basic	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ 0.04</u>	<u>\$ 0.07</u>
Net income per share - fully diluted	<u>\$ **</u>	<u>\$ 0.03</u>	<u>\$ **</u>	<u>\$ 0.07</u>
Weighted average shares outstanding - basic	<u>29,579,968</u>	<u>16,090,906</u>	<u>26,315,543</u>	<u>13,265,101</u>
Weighted average shares outstanding - fully diluted	<u>404,579,968</u>	<u>16,090,906</u>	<u>402,982,209</u>	<u>13,265,101</u>

\*\* Less than \$.01

CHINA DIGITAL MEDIA CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004  
(UNAUDITED)

	Six months ended June 30, 2005	Six months ended June 30, 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,143,504	\$ 883,254
Adjusted to reconcile net income to cash provided by (used in) operating activities:		
Depreciation	554,211	68,567
Changes in operating assets and liabilities		
Increase in accounts receivable	(1,641,458)	(1,367,829)
(Increase) decrease in other receivable and prepaid expenses	(69,622)	60,350
Increase in inventories	(305,057)	(80,497)
Increase in accounts payable	950,686	1,576,563
Increase (decrease) in other payables and accrued liabilities	8,650	(89,528)
(Decrease) increase in value added tax payables	(6,425)	20,891
Net cash provided by operating activities	<u>634,489</u>	<u>1,071,771</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(1,237,040)	(1,474,089)
Net cash used in investing activities	<u>(1,237,040)</u>	<u>(1,474,089)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock	375,763	-
Due from directors - net	75,923	-
Due to a related company	57,239	36,000
Due to a stockholder	-	936,370
Net cash provided by financing activities	<u>508,925</u>	<u>972,370</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(93,626)</u>	<u>570,052</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>160,177</u>	<u>2,074</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$ 66,551</u>	<u>\$ 572,126</u>

**CHINA DIGITAL MEDIA CORPORATION & SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2005 (UNAUDITED)**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company's financial position at June 30, 2005, the results of operations for the three-month and six-month periods ended June 30, 2005 and 2004, and cash flows for the six months ended June 30, 2005 and 2004. The results for the period ended June 30, 2005 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2005. These financial statement should be read in conjunction with the financial statements and notes for the year ended December 31, 2005 appearing in the Company's annual report on Form 10-KSB as filed with the Securities and Exchange Commission.

Revenue Recognition - The Company generates two revenue streams: software development and digitalization of television signals.

Software development

We provide various information technology professional services to our customers based on a negotiated fixed-price time and materials contracts. We recognize services-based revenue from all of our contracts when the service has been performed, the customer has approved the completion of services and an invoice has been issued and collectibility is reasonably assured.

Digitalization of television signals

We entered into an agreement with Nanhai Network Company to assist the conversion of television signal from analog into digital by providing set-top-boxes ("STB") and smart cards to the subscribers in Nanhai City on a loan basis. We are entitled to a portion of fees payable by the existing subscribers under a subscription agreement between the subscribers and the Nanhai Network Company. Revenue is recognized on a straight line basis in accordance with the terms of the subscription agreement. We also charge installation fees and sell STB and smart cards to new subscribers. Revenue arising from these services is recognized when the subscriber is invoiced for the STB and smart cards upon the completion of installation works.

The local government of Nanhai City also approved a grant of \$1,209,482 each year for five years to finance the purchase of STB and smart cards for sale and loan to subscribers. The grant is recognized as revenue on receipt from the local government.

Management's Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Per Share - Basic income (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding during the periods. Diluted income per share is computed similar to basic income (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There only potentially dilutive securities for the six months ended June 30, 2005 and 2004 were the 1,875,000 convertible preferred shares outstanding at June 30, 2005.

Property and equipment - Property and equipment are stated at cost, less accumulated depreciation. Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is provided on a straight-line basis, less estimated residual value over the assets' estimated useful lives. The estimated useful lives are as follows:

STB and smart cards 5 Years

Motor vehicles 10 Years

Furniture, fixtures and equipment 5 Years

Long-lived assets - In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the impairment or disposal of Long-Lived Assets", long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets. The Company reviews long-lived assets to determine that carrying values are not impaired.

Fair value of financial instruments - Statement of Financial Accounting Standards No. 107, "Disclosure About Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. Trade accounts receivable, accounts payable, and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of the instruments.

Foreign currency translation - The functional currency of China Digimedia Holdings Limited ("CDHL") is Hong Kong Dollars and Arcotect (Guangzhou) Technology Limited ("AGTL") is the Chinese Renminbi ("RMB"). Transactions denominated in Hong Kong Dollars and RMB are translated into United States dollars using year end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. Capital accounts are translated at their historical exchange rates when the capital transaction occurred. Net gains and losses resulting from foreign exchange translations are included in the statements of operations and stockholder's equity as other comprehensive income (loss). No translation differences were recorded for the six months ended June 30, 2005 and 2004.

## NOTE 2 - SEGMENT INFORMATION

We operate in three reportable segments, Digitalization of Television Signals, Software Development and Investment Holding. The accounting policies of the segments are the same as described in the summary of significant accounting policies. We evaluate segment performance based on income from operations. All inter-company transactions between segments have been eliminated. As a result, the components of operating income for one segment may not be comparable to another segment. The following is a summary of our segment information for the six months ended June 30, 2005 and 2004:

	Digitalization of Television Signals	Software Development	Investment Holding	Total
<b>2005</b>				
Revenues	\$ 2,273,243	\$ 7,782	\$ 23,258	\$ 2,304,283
Gross profit	2,072,945	7,417	23,257	2,103,619
Total assets	8,998,598	122,795	46,144	9,167,537
Capital expenditure	1,230,959	0	6,081	1,237,040
Depreciation and amortization	546,180	5,579	2,452	554,211
<b>2004</b>				
Revenues	\$ 1,434,697	\$ 13,932	\$ 32,890	\$ 1,481,519
Gross profit	1,149,643	13,235	32,890	1,195,768
Total assets	2,563,471	775,251	61,134	3,399,856
Capital expenditure	1,430,572	27,697	15,820	1,474,089
Depreciation and amortization	64,604	3,963	-	68,567

### NOTE 3 - COMMITMENTS AND CONTINGENCIES

#### Employee benefits

Our full time employees in China are entitled to employee benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a Chinese government mandated multi-employer defined contribution plan. We are required to accrue for those benefits based on certain percentages of the employees' salaries and make contributions to the plans out of the amounts accrued for medical and pension benefits. The total provision and contributions made for such employee benefits was \$11,644 and \$7,390 for the six months ended June 30, 2005 and 2004, respectively. The Chinese government is responsible for the medical benefits and the pension liability to be paid to these employees.

We also operate a Mandatory Provident Fund plan ("the plan") which is available to all employees in Hong Kong. Both of us and the employees are required to contribute 5% (subject to an aggregate amount of \$256) per month of the employees' relevant income. Our contributions are 100% vested in the employees as soon as they are paid to the plan. Contributions to the plan are expensed as they become payable in accordance with the rules of the plan and amounted to \$770 and \$770 for the six months ended June 30, 2005 and 2004, respectively. The assets of the plan are held separately from those of ours and are managed by independent professional fund managers.

#### Operating leases commitments

We lease office space from third parties under two operating leases which expire on May 31, 2005 and March 16, 2006 at monthly rental of \$290 and \$1,734. We also lease spaces for staff quarters from third parties under six operating leases which expire from May 1, 2005 to March 16, 2006 with total monthly rental of \$1,076. Accordingly, for the six months ended June 30, 2005 and 2004, we recognized rental expense for these spaces in the amount of \$ 9,361 and \$6,763, respectively.

#### Capital commitments

According to the amended Articles of Association of AGTL, CDHL has to fulfill registered capital contributions of \$5 million within two years from July 16, 2004. As of June 30, 2005, we have fulfilled \$1,698,045 of the registered capital requirement and have registered capital commitments of \$3,301,955.

### NOTE 4 - COMMON STOCK AND RELATED PARTY TRANSACTIONS

On January 18, 2005, we issued 20,000,000 shares of our restricted common stock, which was converted from 100,000 shares of preferred stock at a ratio of 200:1, to our President and Chief Executive Officer pursuant to the Plan of Exchange dated December 28, 2004. On May 5, 2005, we issued 1,500,000 shares of our restricted common stock to our President and Chief Executive Officer pursuant to the same Plan of Exchange. These shares were issued in exchange for all of the shares of capital stock of China Digimedia Holdings Limited f/k/a Arcotect Digital Technology Limited, pursuant to the exchange thereto.

In addition, we issued 105 shares of common stock to various parties during the six months ended June 30, 2005 due to our rounding up of common shares on account of the reverse split. We also issued 6,586,500 common shares to six creditors during the six months ended June 30, 2005. These shares were issued under Regulation E with an aggregate consideration of \$2,290,025 in debt principal in the form of 9% ninety-day promissory notes. On May 1, 2005, we extended these notes for an additional two months in return for an increase of three percentage points in the annual percentage interest rate under the notes. The notes were extended again on July 1, 2005 for an additional three months.

On June 28, 2005, we issued 7,500 shares of our restricted common stock to a consultant for services retained. The shares were valued at the market on the date of issuance, or \$4.30 per share, yielding an aggregate market value of \$32,250. This expense is included in our accompanying financial statements.

During the six months ended June 30, 2005, we did not issue preferred stock.

## NOTE 5 - SUBSEQUENT EVENTS

As of May 1, 2005, six obligors under an aggregate of \$2,290,025 in principal amount of their 9% ninety-day promissory notes owing to us, which notes were delivered to us in connection with the obligors' purchase of 6,586,500 shares of our common stock under its Regulation E offering which closed on February 7, 2005, are in default in their payment obligations.

We have agreed to an extension of the term of the notes for an additional two months in return for an increase of three percentage points (3%) in the annual percentage interest rate under the notes.

As of July 1, 2005 the 9% ninety-day promissory notes were again in payment default. After several negotiations, on August 8, 2005, we agreed to an extension of their term by three months from their extended due date. We have received US\$971,123.99 in payments on account of these notes by the obligors as of the date hereof, which payments were contributed to our working capital.

On April 18, 2005, our counsel informed us that Edward A. Roth, our former Chairman and President, as well as the consultant and manager of our former businesses in this country, had unilaterally, and without the approval or our consent, terminated the operations of the our three beauty salons located in South Florida, on or about February 7, 2005.

Such termination was not reported to us by Mr. Roth, and we did not find out about this bizarre action until our counsel spoke to an agent for one of the landlords on April 18, 2005. When we were confronted with this breach of contract and breach of fiduciary duty by Mr. Roth, the Board of Directors promptly discharged Mr. Roth as a consultant to all of our subsidiaries and as an officer of the same.

As previously reported, a Complaint, dated March 3, 2005, in the matter of RM Coral Palm Plaza, Ltd., a Florida limited partnership, Plaintiff, vs. Hairmax of Florida, Inc. f/k/a National Beauty Corporation, a Florida corporation, and Hairmax International, Inc., f/k/a National Beauty Corporation, a Nevada corporation, Defendants, was filed in the Circuit Court of the Seventeenth Judicial Circuit in and for Broward County, Florida. The Complaint arose out of an alleged breach of lease by defendants Hairmax of Florida, Inc. and Hairmax International, Inc., with respect to its operation of a hair salon located at 2031 North University Drive, Coral Springs, Florida 33071.

On April 15, 2005, the parties entered into a Settlement Agreement that provided that the litigation would be dismissed with prejudice in exchange for the payment by the Defendants of an aggregate amount equal to \$15,000. It was agreed that payment would be made in an amount equal to \$10,000 upon execution of the Settlement Agreement, with the remaining \$5,000 being paid in two installments by September 5, 2005.

On May 24, 2005, a Complaint was filed against us, among others, in the United States District Court for the Southern District of New York, in a matter captioned as "Ziegler, Ziegler & Associates LLP and Scott Ziegler, Plaintiffs, v. China Digital Media Corporation and John Does 1-10, Defendants." In the Complaint, the Plaintiffs allege, among other things, that we and John Does 1-10 used Plaintiff Scott Zeigler's e-mail address and Plaintiff Ziegler, Ziegler & Associates, LLP's internet domain name to distribute promotional information about us over the internet. The Plaintiffs seek a several types of relief, including damages in an amount not less than \$1,250,000. The file number of the civil action is 05 CV 4960.

We contest the allegations of the Plaintiffs and have retained counsel admitted to practice in the U.S. District Court for the Southern District of New York to vigorously defend the action. We did not hire a stock promoter or a spammer to distribute promotional e-mails, and the emails themselves recited that they were paid for by one of our shareholders, and not by the Company or an affiliate.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

We are hereby providing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward looking statements made in this quarterly report on Form 10-QSB. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "likely will result," "are expected to," "will continue," "is anticipated," "estimated," "intends," "plans" and "projection") are not historical facts and may be forward-looking statements and involve estimates and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements.

We caution that the factors described herein could cause actual results to differ materially from those expressed in any forward-looking statements and that the investors should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events or circumstances. Consequently, no forward-looking statement can be guaranteed.

New factors emerge from time to time, and it is not possible for us to predict all such factors. Further, we cannot assess the impact of each such factor on our results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

### **Overview**

China Digital Media Corporation was formerly known as HairMax International, Inc. ("Hairmax"), a Nevada corporation. It was incorporated in Nevada in 1987. Arcotect Digital Technology Limited, a corporation organized under the laws of the Hong Kong SAR of the Peoples' Republic of China, consummated a reverse merger with Hairmax in March, 2005, and Hairmax subsequently changed its name to China Digital Media Corporation, which is our corporate name. With the termination of the original businesses of Hairmax, all of China Digital Media Corporation's businesses are now located mainly in China. Arcotect Digital Technology Limited has changed its name to China Digimedia Holdings Limited ("CDHL"), and is a wholly-owned subsidiary of our company..

Our business plan is to develop our operations so that they represent one of the fastest growing companies in the China broadcasting media and Cable TV industry. We have made substantial progress in reaching our goals to date. After the reverse merger, we have strengthened our management teams and committed ourselves to cover three areas of the media industry. These three areas are: Cable TV operations and Digital TV ("DTV") technology development; TV Channel management and advertising sales; and TV program production and related content management services. To accomplish our growth objectives, we plan to utilize investment, mergers, acquisitions and alliance partnerships. In view of the rapid growth and potential opportunities of China's media industry, we will continue to invest our resources into our target media markets across China while looking for potential distribution partners in the United States and other countries.

CDHL and the China operating subsidiary Arcotect Technology (Guangzhou) Limited ("AGTL") are the sole contractors and operators of digital television services in Nanhai, a city in the Guangdong province. The city of Nanhai has approximately 400,000 paying Cable TV subscribers which it plans to migrate the television broadcasting system from analog to digital. Thus far, we have migrated more than 100,000 subscribers from analog television to digital television by installing a digital STB into subscribers' premises. As at the end of the second quarter of June 30, 2005, Nanhai Network Company offers 38 basic TV channels. By contrast, we offer 90 TV channels which are organized into eight packages; including "World Movie", "Life & Leisure", "World Sports", "News Channel", "Drama Channel 1", "Drama Channel 2", "Drama Channel 3" and "Family Channel". Since the Nanhai Government is undergoing a consolidation to regroup its 17 towns into fewer towns and municipalities, the migration process in these towns would be re-scheduled. As the consolidation will be completed in July of 2005, our migration schedule should be back on track soon. We also expect that subscription of additional TV packages will be increased accordingly. We schedule to migrate 100,000 more subscribers in the second half of 2005. The original date for completing the whole transformation of television broadcasting system for 400,000 subscribers is now extended for another six months to one year. We currently employ approximately 200 people to support the existing operations.

In May 2005, we launched the Sunshine e-Government services. Sunshine e-Government is the first information service provided by the newly built Digital TV Data Broadcasting Platform for Nanhai Digital Television services. With a simple click using a remote control of the digital STB provided by AGTL, TV watchers can access to various kinds of government information including:

- Government structure and policy
- Social affairs and communications
- Public announcement and government-to-citizen procedures

Sunshine e-Government is one of the services provided through our TV data broadcasting platform under our Nanhai investment agreement with the government. We anticipate that commercial services could be launched after the general acceptance of the Sunshine e-Government service. The company is currently researching on adding new features to current and future STB for providing more applications to the subscribers. Partnerships with several vendors are being negotiated for developing services under our TV data broadcasting platform.

Because of our forthcoming investment projects, we have appointed Mr. Tung ZhiYong as Consultant to advise on program production and acquisition. Mr. Tung was a Vice President of Guangdong Television Station before retired in 2004. In his over 40 years' experience in the industry, he has produced more than 1,000 episodes of television programs, movies and series under his supervision and directorship as well as having won several national television awards in China. We will continue to appoint more qualified consultants to assist in our investments, broadcasting operations and programs production.

At present, some of our targeted businesses are subject to certain restrictions in the PRC. In order to enable us to invest in certain media sectors such as TV advertising and contents production before related regulations and policies are opened up to foreign investors, we have strategically partnered with a Chinese registered company, Guangdong HuaGuang DigiMedia Culture Development Limited ("Guangdong HuaGuang"), formerly known as Guangdong Pukonyi Culture Development Limited, to hold investments in programs production and advertising operations on our behalf. We anticipate that this arrangement will be continued until the relaxation of broadcasting policy in China. Before transferring entire equity interest in Guangdong HuaGuang to us according to the Alliance Agreement, we shall control and manage the operations of Guangdong HuaGuang and receive 90% of its gross profit through various level of agreements signed between our subsidiaries in China and Guangdong HuaGuang. We have been advised by our Chinese counsel that these arrangements are necessary because we, a Nevada corporation, are considered a foreign company for the purposes of Chinese foreign investment laws.

## **RESULTS OF OPERATIONS**

### **Net Income**

We had net income of \$705,651 and \$1,143,504, or \$.02 and \$.04 per common share for the three months and six months periods ended June 30, 2005, respectively, compared to the net income of \$511,411 and \$883,254, or \$.03 and \$.07 for the same periods ended June 30, 2004, respectively. The change in net income was primarily due to an increase in sale from new TV subscribers, and the share of revenue from commercial TV subscribers and related gross profit.

### **Earnings before interest, tax, depreciation and amortization ("EBITDA")**

EBITDA for the three months and six months ended June 30, 2005 was \$996,975 and \$1,697,766, respectively. The increase of \$442,252, or 80%, from \$554,723 for the three months ended June 30, 2004 was due primarily to the increase in total revenue and gross profit margin.

## Sales

Revenues increased by \$488,601 or 59% from \$822,210 for the three months ended June 30, 2004 to \$1,310,811 for the same period ended June 30, 2005. For the six months ended June 30, 2005, we recorded total revenues of \$2,304,283, compared to total revenues of \$1,481,519 for the same period ended June 30, 2004. The increase was primarily due to increase in number of TV subscribers, sales of Pay-TV and increased revenue from commercial accounts of digitalization of television signals in the second quarter of 2005 compared to the comparable period in 2004.

Gross profit margins increased from 78% during the three months ended June 30, 2004 to 94% during the three months ended June 30, 2005. The increase was mainly attributable to the revenue sharing of commercial accounts. Due to the delay of migration schedule, sales of STB and cost of goods sold decreased accordingly.

## Expenses

Selling, general, administrative and depreciation and amortization expenses for the three months ended June 30, 2005 increased by \$394,869 or 303% to \$525,272 in comparison with the three month period ended June 30, 2004. Selling, general, administrative and depreciation and amortization expenses were \$960,064 for the six months ended June 30, 2005, increased by \$647,071, compared to the same period ended June 30, 2004. Selling, general and administrative expenses increased by \$147,058 due to increase in business activities to support increased revenue, appointment of additional personnel for the development of new value-added business and the negotiation of new business in TV drama production and related activities. Depreciation and amortization increased by \$247,811, due to further purchase of STB for the migration of analog TV into digital TV project in Nanhai. We anticipate depreciation and amortization expenses will continue to increase until the whole of 400,000 existing TV subscribers are digitalized.

## Liquidity and Capital Resources

On June 30, 2005, we had cash of \$66,551 and a working capital deficit of \$1,603,438. This compares with cash of \$160,177 and a working capital deficit of \$2,215,939 at December 31, 2004. The decrease in cash and increase in working capital deficit was due to receivable collections from Nanhai Network Company scheduled to begin from June 2005 and substantial investments in STBs and smart cards.

Operating activities had a net generation of cash in the amount of \$634,489 during the six months ended June 30, 2005 reflecting an excess of revenues over expenditure and increased depreciation as mentioned above.

Net cash used in investing activities for the six months ended June 30, 2005 was \$1,237,040 as compared with net cash used in investing activities of \$1,474,089 for the six months ended June 30, 2004. The decrease in net cash used in investing activities is attributable to fewer purchases of property and equipment during the six months ended June 30, 2005 compared to the comparable period in 2004.

Net cash provided by financing activities for the six months ended June 30, 2005 was \$508,925 as compared with net cash provided by financing activities of \$972,370 for the six months ended June 30, 2004. The decrease in net cash provided by financing activities is attributable to no proceeds from shareholder loan payable in 2005 compared to a large infusion in 2004.

Receivable collections from Nanhai Network Company are scheduled to begin from June 2005. The Company's investment in STBs and smart cards account for the substantial accounts payable at June 30, 2005. For liquidity and cash requirements, the board has considered bank loan or issuance of new shares for supportive funding.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have any material risk with respect to changes in foreign commodities prices or interest rates. We do not believe that we have any other relevant market risk with respect to the categories intended to be discussed in this item of this report.

#### Concentrations and Risks

During 2005 and 2004, 99% of the Company's assets were located in China and 100% of the Company's revenues were derived from customers in China.

The Company relied on one supplier for approximately 85% of its purchases in 2005. As of June 30, 2005, accounts payable to this supplier amounted to \$3,680,987.

In 2005 and 2004, the Company did not derive revenue from any one customer for more than 10% of its total revenue.

### ITEM 4. CONTROLS AND PROCEDURES

#### Quarterly Evaluation of Controls

As of the end of the period covered by this quarterly report on Form 10-QSB, we evaluated the effectiveness of the design and operation of (i) our disclosure controls and procedures ("Disclosure Controls"), and (ii) our internal control over financial reporting ("Internal Controls"). This evaluation ("Evaluation") was performed by our President and Chief Executive Officer, Daniel Ng ("CEO") and Lui Chi Keung, our Chief Financial Officer ("CFO"). In this section, we present the conclusions of our CEO and CFO based on and as of the date of the Evaluation, (i) with respect to the effectiveness of our Disclosure Controls, and (ii) with respect to any change in our Internal Controls that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect our Internal Controls.

#### CEO and CFO Certifications

Attached to this annual report, as Exhibits 31.1 and 31.2, are certain certifications of the CEO and CFO, which are required in accordance with the Exchange Act and the Commission's rules implementing such section (the "Rule 13a-14(a)/15d-14(a) Certifications"). This section of the annual report contains the information concerning the Evaluation referred to in the Rule 13a-14(a)/15d-14(a) Certifications. This information should be read in conjunction with the Rule 13a-14(a)/15d-14(a) Certifications for a more complete understanding of the topic presented.

#### Disclosure Controls and Internal Controls

Disclosure Controls are procedures designed with the objective of ensuring that information required to be disclosed in our reports filed with the Commission under the Exchange Act, such as this annual report, is recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms. Disclosure Controls are also designed with the objective of ensuring that material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the applicable report is being prepared. Internal Controls, on the other hand, are procedures which are designed with the objective of providing reasonable assurance that (i) our transactions are properly authorized, (ii) the Company's assets are safeguarded against unauthorized or improper use, and (iii) our transactions are properly recorded and reported, all to permit the preparation of complete and accurate financial statements in conformity with accounting principals generally accepted in the United States.

## **Limitations on the Effectiveness of Controls**

Our management does not expect that our Disclosure Controls or our Internal Controls will prevent all error and all fraud. A control system, no matter how well developed and operated, can provide only reasonable, but not absolute assurance that the objectives of the control system are met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances so of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision -making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of a system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **Scope of the Evaluation**

The CEO and CFO's evaluation of our Disclosure Controls and Internal Controls included a review of the controls' (i) objectives, (ii) design, (iii) implementation, and (iv) the effect of the controls on the information generated for use in this annual report. In the course of the Evaluation, the CEO and CFO sought to identify data errors, control problems, acts of fraud, and they sought to confirm that appropriate corrective action, including process improvements, was being undertaken. This type of evaluation is done on a quarterly basis so that the conclusions concerning the effectiveness of our controls can be reported in our quarterly reports on Form 10-QSB and annual reports on Form 10-KSB. The overall goals of these various evaluation activities are to monitor our Disclosure Controls and our Internal Controls, and to make modifications if and as necessary. Our external auditors also review Internal Controls in connection with their audit and review activities. Our intent in this regard is that the Disclosure Controls and the Internal Controls will be maintained as dynamic systems that change (including improvements and corrections) as conditions warrant.

Among other matters, we sought in our Evaluation to determine whether there were any significant deficiencies or material weaknesses in our Internal Controls, which are reasonably likely to adversely affect our ability to record, process, summarize and report financial information, or whether we had identified any acts of fraud, whether or not material, involving management or other employees who have a significant role in our Internal Controls. This information was important for both the Evaluation, generally, and because the Rule 13a-14(a)/15d-14(a) Certifications, Item 5, require that the CEO and CFO disclose that information to our Board (audit committee), and to our independent auditors, and to report on related matters in this section of the annual report. In the professional auditing literature, "significant deficiencies" are referred to as "reportable conditions". These are control issues that could have significant adverse affect on the ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition where the internal control does not reduce, to a relatively low level, the risk that misstatement cause by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employee in the normal course of performing their assigned functions. We also sought to deal with other controls matters in the Evaluation, and in each case, if a problem was identified; we considered what revisions, improvements and/or corrections to make in accordance with our ongoing procedures.

## **Conclusions**

Based upon the Evaluation, the Company's CEO and CFO have concluded that, subject to the limitations noted above, our Disclosure Controls are effective to ensure that material information relating to the Company is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared, and that our Internal Controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with accounting principals generally accepted in the United States. Additionally, there has been no change in our Internal Controls that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to affect, our Internal Controls.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

As previously reported, a Complaint, dated March 3, 2005, in the matter of RM Coral Palm Plaza, Ltd., a Florida limited partnership, Plaintiff, vs. Hairmax of Florida, Inc. f/k/a National Beauty Corporation, a Florida corporation, and Hairmax International, Inc., f/k/a National Beauty Corporation, a Nevada corporation, Defendants, was filed in the Circuit Court of the Seventeenth Judicial Circuit in and for Broward County, Florida. The Complaint arose out of an alleged breach of lease by defendants Hairmax of Florida, Inc. and Hairmax International, Inc., with respect to its operation of a hair salon located at 2031 North University Drive, Coral Springs, Florida 33071.

On April 15, 2005, the parties entered into a Settlement Agreement that provided that the litigation would be dismissed with prejudice in exchange for the payment by the Defendants of an aggregate amount equal to \$15,000. It was agreed that payment would be made in an amount equal to \$10,000 upon execution of the Settlement Agreement, with the remaining \$5,000 being paid in two installments by September 5, 2005.

On May 24, 2005, a Complaint was filed against us, among others, in the United States District Court for the Southern District of New York, in a matter captioned as "Ziegler, Ziegler & Associates LLP and Scott Ziegler, Plaintiffs, v. China Digital Media Corporation and John Does 1-10, Defendants." In the Complaint, the Plaintiffs allege, among other things, that we and John Does 1-10 used Plaintiff Scott Zeigler's e-mail address and Plaintiff Ziegler, Ziegler & Associates, LLP's internet domain name to distribute promotional information about us over the internet. The Plaintiffs seek a several types of relief, including damages in an amount not less than \$1,250,000. The file number of the civil action is 05 CV 4960.

We contest the allegations of the Plaintiffs and have retained counsel admitted to practice in the U.S. District Court for the Southern District of New York to vigorously defend the action. We did not hire a stock promoter or a spammer to distribute promotional e-mails, and the emails themselves recite that they were paid for by a shareholder of our Company, and not by the Company or an affiliate..

### Item 2. Changes in Securities

On January 18, 2005, we issued 20,000,000 shares of our restricted common stock, which was converted from 100,000 shares of preferred stock at a ratio of 200:1, to our President and Chief Executive Officer pursuant to the Plan of Exchange dated December 28, 2004. On May 5, 2005, we issued 1,500,000 shares of our restricted common stock to our President and Chief Executive Officer pursuant to the same Plan of Exchange. These shares were issued in exchange for all of the shares of capital stock of Arcotect Digital Technology Limited pursuant to the exchange thereto.

In addition, we issued 105 shares of common stock to various parties during the six months ended June 30, 2005 due to our rounding up of common shares on account of the reverse split. We also issued 6,586,500 common shares to six creditors during the six months ended June 30, 2005. These shares were issued under Regulation E with an aggregate consideration of \$2,290,025 in debt principal in the form of 9% ninety-day promissory notes. We extended these notes for an additional two months in return for an increase of three percentage points in the annual percentage interest rate under the notes.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

We report that Daniel Ng, our Chairman, acquired 1,750,000 shares of common stock, representing 5.8% of the 30,163,343 shares of common stock outstanding as of August 5, 2005, from Edward A. Roth, the former Chairman of Hairmax International, Inc., pursuant to the terms of the Plan of Exchange, dated December 28, 2004. The certificate for these shares had been indorsed in blank with stock powers attached, and Mr. Ng finally exercised his right to acquire these shares on May 11, 2005.

**Item 6. Exhibits and Reports on Form 8-K**

- (a) Exhibits are incorporated by reference.
- (b) On April 12, 2005, we filed an 8-K to report the completion of acquisition of Arcotect Digital Technology, Ltd., a corporation organized and existing under the laws of the Hong Kong SAR of the Peoples' Republic of China ("Arcotect").
- (c) On April 21, 2005, we filed an 8-K to announce the settlement with RM Coral Palm Plaza, Ltd in connection with the lease breach.
- (d) On April 21, 2005, we filed an 8-K to report Edward A. Roth, the former Chairman and President, as well as the consultant and manager of our businesses in the US, had unilaterally, and without our approval or consent, terminate the operations of several of our businesses located in the U.S.
- (e) On April 26, 2005, we filed an amendment of a current report on Form 8-K/A to report the audited financial statements of Arcotect, the new subsidiary acquired as of March 31, 2005..
- (f) On May 9, 2005, we filed an 8-K regarding the extension of the terms of Promissory Notes dated May 1, 2005.
- (g) On May 31, 2005, we filed an 8-K regarding a complaint that we received as discussed above in item 1of this part herein.
- (h) On June 20, 2005, we filed an 8-K to announce that we entered into a Strategic Alliance Agreement with Guangdong Pukonyi Culture Development Limited, a limited liability company organized and existing under the laws of the Peoples' Republic of China ("Pukonyi"), to act as an exclusive service provider to Pukonyi.
- (i) On June 30, 2005, we filed an 8-K to report the investment in television production called "The Story of a Small Town" through Pukonyi.
- (j) On July 5, 2005, we filed an 8-K to report the investment in television production called "Xiguan Affairs" through Pukonyi.
- (k) On July 20, 2005, we filed an 8-K to report that China DigiMedia Holdings Limited, our Hong Kong subsidiary ("China DigiMedia"), entered into a Shares Transfer Agreement with Mr. Wu and Mr. Huang, residents of mainland China and the sole shareholders of Guangdong M-Rider Media Company Limited, a limited liability company organized and existing under the laws of the Peoples' Republic of China ("Guangdong M-Rider"), pursuant to which China DigiMedia will acquire all of the issued and outstanding capital shares of Guangdong M-Rider through an agent.
- (l) On July 21, 2005, we filed an 8-K to report the changes in our certifying accountant.
- (m) On August 10, 2005, we filed an 8-K regarding the extension of the terms of Promissory Notes dated May 1, 2005.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CHINA DIGITAL MEDIA CORPORATION**  
(Registrant)

Date: August 11, 2005

By: /s/ Lui Chi Keung

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Lui Chi Keung  
Chief Financial Officer

Date: August 11, 2005

By: /s/ Daniel Ng

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Daniel Ng  
Chief Executive Officer



**Certification of Principal Executive Officer**

I, Daniel Ng, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of China Digital Media Corporation
2. Based on my knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report ("Evaluation Date"); and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information (all of which do not apply); and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting, (all of which do not apply).

Date: August 11, 2005

By: /s/ Daniel Ng

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Daniel Ng  
Chief Executive Officer

**Certification of Principal Financial Officer**

I, Lui Chi Keung, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of China Digital Media Corporation.
2. Based on my knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report ("Evaluation Date"); and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information (all of which do not apply); and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting, (all of which do not apply).

Date: August 11, 2005

By: /s/ Lui Chi Keung

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Lui Chi Keung  
Chief Financial Officer

STATEMENT REQUIRED BY 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-QSB of China Digital Media Corporation (the "Company") for the six months ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Ng, Chief Executive Officer, and Lui Chi Keung, Chief Financial Officer of the Company, certify that:

- \* the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- \* information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company on the dates and for the periods presented.

*/s/ Daniel Ng*

\_\_\_\_\_  
*Daniel Ng*  
*Director, President and Chief Executive Officer*

*August 11, 2005*

*/s/ Lui Chi Keung*

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*Lui Chi Keung*  
*Director and Chief Financial Officer*

*August 11, 2005*

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.