

TELECOM COMMUNICATIONS INC  
Form 10QSB  
August 21, 2006

**U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-QSB**

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x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended June 30, 2006**

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 333-62236

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**TELECOM COMMUNICATIONS, INC.**  
(Exact name of small business issuer as specified in its charter)

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

**35-2089848**  
(I.R.S. Employer  
Identification No.)

**9/F., Beijing Business World  
56 Dongxinglong Avenue  
CW District  
Beijing, China 100062**  
(Address of principal executive offices)

**(86) 10 6702 6968**  
Issuer's telephone number

**Suites 2412-13 Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong**  
(Former name, former address and former fiscal year, if changed since last report)

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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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 92,488,000 shares of Common Stock, \$.001 Par Value Per Share, outstanding as of August 1, 2006.

Transitional Small Business Disclosure Format (Check One): Yes  No

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**PART I. FINANCIAL INFORMATION****TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES****ITEM 1. FINANCIAL INFORMATION****CONDENSED CONSOLIDATED BALANCE SHEET**

<b>ASSETS</b>	June 30, 2006 (Unaudited)
Current assets:	
Cash and cash equivalents	\$ 852,405
Accounts receivable - affiliate	480,000
Accounts receivable- others, less allowance for bad debt of \$355,650	2,968,213
Due from related company	238,443
Deferred stock-based compensation - current portion	3,272,059
Prepaid expenses	3,597,853
Payment in advance	279,251
Other current assets	458,118
<b>Total current assets</b>	<b>12,146,342</b>
Software acquisition cost	3,000,000
Property, plant and equipment, net	6,725,852
Deferred stock-based compensation - non-current portion	865,833
<b>Total assets</b>	<b>\$ 22,738,027</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current liabilities:	
Accounts payable	\$ 1,536,293
Accrued expenses	74,737
Due to related companies	57,513
Other current liabilities	108,912
<b>Total Current Liabilities</b>	<b>1,777,455</b>
Minority interests	1,099,985
Commitments and contingencies (refer to note 7)	
Stockholders' equity :	
Preferred stock (\$.001 Par Value: 50,000,000 shares authorized; no shares issued and outstanding)	-
Common stock (\$.001 Par Value: 300,000,000 shares authorized 89,188,000 shares issued and outstanding)	89,188
Additional paid in capital	13,683,489
Accumulated other comprehensive income	249
Retained earnings	6,087,661
<b>Total stockholders' equity</b>	<b>19,860,587</b>

Total liabilities and stockholders' equity	\$	22,738,027
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*The accompanying notes are an integral part of the condensed consolidated financial statements.*

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## TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Nine Months Ended June 30,		Three Months Ended June 30,	
	2006 (Unaudited)	Restated 2005 (Unaudited)	2006 (Unaudited)	Restated 2005 (Unaudited)
Net revenues - affiliate	\$ 1,080,000	\$ 1,080,000	\$ 360,000	\$ 360,000
- others	9,799,607	5,221,132	2,419,690	2,476,972
	10,879,607	6,301,132	2,779,690	2,836,972
Cost of sales				
- Depreciation	1,381,624	1,047,211	446,594	371,456
- Other cost of sales	1,523,270	2,940,827	474,619	1,345,206
	2,904,894	3,988,038	921,213	1,716,662
Gross profit	7,974,713	2,313,094	1,858,477	1,120,310
<b>Operating expenses:</b>				
(Recovery) Allowance for bad debt	(170,190)	-	(1,147,264)	-
Depreciation	75,482	21,154	39,109	7,051
Salaries	392,811	-	5,872	-
Stock-based compensation expenses	2,676,005	438,750	1,101,030	146,250
Other selling, general and administrative	438,775	369,742	179,265	159,798
Total operating expenses costs	3,412,883	829,646	178,012	313,099
Income from operations	4,561,830	1,483,448	1,680,465	807,211
<b>Other income/ (expense):</b>				
Interest income	2,541	49	153	(96)
Other income	-	-	-	(7,590)
Interest expense	-	(1,614)	-	(388)
Gain on disposal of fixed assets	-	-	-	-
Total other income	2,541	(1,565)	153	(8,074)
Income from continuing operations before income tax	4,564,371	1,481,883	1,680,618	799,137
Income tax expenses	-	-	-	-
Net income after tax	4,564,371	1,481,883	1,680,618	799,137
<b>Income (Loss) from discontinued operations</b>				
Gain on disposal of subsidiary	295,533	53,431	295,533	53,431
(Loss) from discontinued operations	(239,776)	(23,272)	-	(23,272)
	55,757	30,159	295,533	30,159

<b>Net income from discontinued operations</b>				
Net income	4,620,128	1,512,042	1,976,151	829,296
<b>Other comprehensive income</b>				
Foreign currency translation difference	3	-	-	-
<b>Comprehensive income</b>	<b>\$ 4,620,131</b>	<b>\$ 1,512,042</b>	<b>\$ 1,976,151</b>	<b>\$ 829,296</b>
<b>Earnings per Common Share:</b>				
<b>Discontinued operations</b>				
Basic	\$ 0.0007	\$ 0.0004	\$ 0.0006	\$ 0.0004
Fully diluted	\$ 0.0006	\$ 0.0004	\$ 0.0005	\$ 0.0004
<b>Continued operations</b>				
Basic	\$ 0.056	\$ 0.021	\$ 0.022	\$ 0.011
Fully diluted	\$ 0.052	\$ 0.019	\$ 0.022	\$ 0.010
<b>Weighted Average Common Share:</b>				
Outstanding - Basic	82,040,000	71,125,500	88,353,000	70,188,000
Outstanding - Fully diluted	88,921,000	81,125,500	88,353,000	80,188,000

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Nine Months Ended June 30,	
	2006 (Unaudited)	<b>Restated</b> <b>2005</b> (Unaudited)
<b>Cash flows from operating activities:</b>		
Net cash provided by (used in) operating activities	1,816,722	(399,491)
<b>Cash flows from investing activities:</b>		
Cash acquired in acquisition	82,253	-
Sales proceed of disposal of Island Media net of cash	9,454	-
Capital expenditure	(3,273,085)	(2,596,709)
Net cash (used in) investing activities	(3,181,378)	(2,596,709)
<b>Cash flows from financing activities:</b>		
Due to a stockholder		18,690
Due to a related party		(79,293)
Repayment of finance lease	(10,199)	(80,444)
Proceeds from loan payable	226,410	-
Proceeds from new issuance of common Stock	-	3,050,000
Net cash provided by financing activities	216,211	2,908,953
Effect of exchange rate changes in cash	3	(207)
Net (decrease) in cash and cash equivalents	(1,148,442)	(87,454)
Cash and cash equivalents - beginning of period	2,000,847	336,707
Cash and cash equivalents - end of period	\$ 852,405	\$ 249,253
<b>Supplemental disclosure of cash flow information:</b>		
Non cash investing and financing activities		
Accounts receivable used for acquisition of software - this is still a cash transaction	3,000,000	-
Common stock issued for acquisition of software	5,910,000	-

*The accompanying notes are an integral part of the condensed consolidated financial statements.*



**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**GENERAL**

The accompanying unaudited interim 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 with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation in order to make the financial statements not misleading have been included. The accounts of the Company and all of its subsidiaries are included in the unaudited interim condensed consolidated financial statements. All significant intercompany accounts and transactions are eliminated in consolidation. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the year ending September 30, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended September 30, 2005.

**1. BUSINESS DESCRIPTION AND ORGANIZATION**

**DESCRIPTION OF BUSINESS**

Telecom Communications, Inc. ("TCOM") and its subsidiaries (collectively with TCOM, the "Company"), is a fully integrated information and entertainment service provider to the market of the PRC. We sell our products through channel resellers, who are BVI companies, distributed to the SP market in the PRC. The channel resellers who then in turn supply our content, through various telecommunication providers, to the end users in the PRC. Our products that are ultimately sold to the SP market in the PRC are a combination of an integrated communications network solutions and entertainment and lifestyle content. Our products serve the voice, video, data, web and mobile communication markets.

**ORGANIZATION**

**TELECOM COMMUNICATIONS, INC.**

TCOM was incorporated on January 6, 1997 in the State of Indiana. TCOM has changed its state of incorporation from Indiana to Delaware, effected by a merger into a Delaware Corporation with the same name on February 28, 2005. The surviving Delaware company succeeds to all the rights, properties and assets and assumes all of the liabilities.

**ARRAN SERVICES LIMITED**

As of September 30, 2003, TCOM consummated a Stock Purchase Agreement with Arran Services Limited ("Arran") and Arran had a 80% interest in IC Star MMS Limited ("IC Star"). Arran further acquired the 20% interest in IC Star on March 16, 2004. As of September 30, 2005, Arran owned 100% of the ownership interests of IC Star.

**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**1. BUSINESS DESCRIPTION AND ORGANIZATION-CON'T**

**IC STAR MMS LIMITED**

IC Star, formerly known as Sino Super Limited, was established in December 1991. IC Star links entertainment and lifestyle information to local communities across the PRC.

On March 16, 2004, Arran acquired from Auto Treasure Holdings Limited, an entity 100% owned by the majority shareholder, the remaining 20% interest of IC Star together with 100% interest of Hui Electric (Panyu) Limited ("Hui") for a consideration of 9,889,000 shares of TCOM common stock and 10,000,000 warrants to purchase 10,000,000 shares of TCOM common stock at \$2 per share.

As a result, as of March 16, 2004, Arran owned 100% of IC Star and Hui. This transfer was deemed to be a transfer between entities under common control and was therefore recorded on the Company's records at its historical cost basis. In connection with the new issuance of 9,889,000 shares of TCOM common stock and 10,000,000 warrants, which expire March 15, 2006, to acquire IC Star, the excess of the purchase price of \$8,322,295 over the book value of the assets acquired from IC Star of \$195,378 which totaled \$8,126,917, was recorded as a return of capital. This return of capital was recorded as a reduction of additional paid in capital of TCOM.

**ALPHA CENTURY HOLDINGS LIMITED**

On December 15, 2003, TCOM formed Alpha Century Holdings Limited ("Alpha"), a wholly owned subsidiary of TCOM, in the British Virgin Islands. Alpha commenced its business on July 1, 2004 and its principal activity was providing total solution software with entertainment and lifestyle information and providing a mobile message service platform. Most of the company's business is presently conducted through Alpha. Substantially, all of the Company's operations are conducted through Alpha.

**3G DYNASTY INC.**

On February 21, 2005, TCOM formed 3G Dynasty Inc. ("3G Dynasty"), a wholly-owned subsidiary of TCOM, in the British Virgin Islands. 3G Dynasty commenced its business on April 1, 2005 and its principal activity was providing entertainment content for 3G mobile and Internet use.

**ISLAND MEDIA INTERNATIONAL LIMITED**

On June 2, 2005, TCOM subscribed 60% of the shares of Island Media International Limited ("Island Media"), which was registered in the British Virgin Islands. Island Media commenced its business on July 11, 2005 and its principal activity was as an investment holding company. Island Media currently holds 100% of the shares of both Talent Leader Entertainment & Productions Limited ("Talent Leader") and Talent Leader Advertising and Communications Limited ("Talent Leader Adv").

On April 1, 2006, TCOM sold all its interests in Island Media with the net gain on the disposal of \$295,533. Island Media's operating loss for the nine months ended June 30, 2006 of \$239,776 was shown as Discontinued Operations in the condensed consolidated statements of Income and comprehensive income.

**TALENT LEADER ENTERTAINMENT & PRODUCTIONS LIMITED**

On July 20, 2005, Island Media subscribed 100% of the shares of Talent Leader Entertainment & Productions Limited, a limited company in Hong Kong. Talent Leader commenced its business on August 1, 2005 and its principal activity was as a public relations agent to artists.

On April 1, 2006 , TCOM sold all its interests in Talent Leader by selling all the interests in Island Media which held 100% of the shares of Talent Leader.

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**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**1. BUSINESS DESCRIPTION AND ORGANIZATION-CON'T**

**TALENT LEADER ADVERTISING AND COMMUNICATIONS LIMITED**

On December 8, 2005, Island Media subscribed 100% of the shares of Talent Leader Advertising and Communications Limited, a limited company in Hong Kong. Talent Leader Adv commenced its business on January 1, 2006 and its principal activity was providing public relations, advertising and communication services.

On April 1, 2006, TCOM sold all its interests in Talent Leader Adv by selling all the interests in Island Media which held 100% of the shares of Talent Leader Adv.

**HRDQ GROUP INC**

On June 28, 2006, TCOM subscribed 53.92% of the shares of HRDQ Group Inc ("HRDQ"), a limited company in Delaware, USA. HRDQ's principal activity was as an investment holding company. As of June 30, 2006, HRDQ holds 100% of the shares of Guangzhou Panyu Metals & Minerals Import and Export Co., Limited and the website called Subaye.com.

**GUANGZHOU PANYU METALS & MINERALS IMPORT & EXPORT CO., LTD.**

On April 25, 2006, HRDQ acquired 100% of the shares of Guangzhou Panyu Metals & Minerals Import and Export Co., Limited ("Panyu M&M") from the sole shareholder, Wukang IE Limited (Formerly known as WayToPay China Holdings Limited) for \$500,000 cash. Panyu M&M is a limited company in PRC and its principal activity was conducting imports and exports trade in PRC.

**CONTROL BY PRINCIPAL STOCKHOLDERS**

The directors, executive officers and their affiliates or related parties, own beneficially and in the aggregate, the majority of the voting power of the outstanding shares of the common stock of TCOM. Accordingly, the directors, executive officers and their affiliates, if they voted their shares uniformly, would have the ability to control the approval of most corporate actions, including increasing the authorized capital stock of TCOM and the dissolution, merger or sale of TCOM's assets or business.

**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION**

The condensed consolidated financial statements of the Company include the accounts of TCOM and its subsidiaries, namely Arran, Alpha, IC Star, 3G Dynasty, HRDQ and Panyu M&M. During the nine months ended June 30, 2006, TCOM sold all its interests in Island Media with the net gain on the disposal of \$295,533. Island Media's operating loss for the nine months ended June 30, 2006 of \$239,776 was shown as Discontinued Operations in the condensed consolidated statements of Income and comprehensive income. The condensed consolidated statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All significant intercompany transactions have been eliminated.

**CREDIT RISK AND CUSTOMERS**

We have a concentration of customers in our information service provider business segment market. We are diligent in attempting to ensure that we issue credit to credit-worthy customers. However, our customer base is small and our accounts receivable balances are usually over 90 days outstanding, and that exposes us to significant credit risk. Therefore, a credit loss can be very large relative to our overall profitability.

During the nine months ended June 30, 2006 we had 6 customers, each of which individually accounted for more than 10% of our revenues, and totaling \$10,879,607, representing 100% of our total revenue. The loss of these customers, individually or in the aggregate, could have a material impact on our results of operations.

**REGULATION OF TELECOMMUNICATION SERVICES IN THE PRC**

The telecommunications industry, including certain wireless value-added services, is highly-regulated in the PRC. Regulations issued or implemented by the State Council, the Ministry of Information Industries, and other relevant government authorities cover many aspects of telecommunications network operations.

**PROPERTY AND EQUIPMENT**

Property and equipment is located in the PRC and Hong Kong and is recorded at cost. Depreciation is calculated using the straight-line method over the expected useful life of the asset. The Company generally uses the following depreciable lives for its major classifications of property and equipment:

<b>Description</b>	<b>Useful Lives</b>
Computer hardware	3 years
Computer software	3 years
Web site	3 years

Motor vehicles 3 years

Furniture and  
fixtures 5 years

Leasehold  
improvements 5 years

**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CON'T**

**IMPAIRMENT OF LONG-LIVED ASSETS**

Long-lived tangible assets and definite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company uses an estimate of undiscounted future net cash flows of the assets over the remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values of the assets exceed the expected future cash flows of the assets, the Company recognizes an impairment loss equal to the difference between the carrying values of the assets and their estimated fair values. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets. The evaluation of long-lived assets requires the Company to use estimates of future cash flows. However, actual cash flows may differ from the estimated future cash flows used in these impairment tests.

**GOODWILL AND INTANGIBLE ASSETS**

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Company's acquisitions of interests in its subsidiaries. Under Statement of Financial Accounting Standards ("SFAS") No.142, "Goodwill and Other Intangible Assets ("SFAS 142")," goodwill is no longer amortized, but tested for impairment upon first adoption and annually, thereafter, or more frequently if events or changes in circumstances indicate that it might be impaired. The Company assesses goodwill for impairment periodically in accordance with SFAS 142

The Company applies the criteria specified in SFAS No.141, "Business Combinations" to determine whether an intangible asset should be recognized separately from goodwill. Intangible assets acquired through business acquisitions are recognized as assets separate from goodwill if they satisfy either the "contractual-legal" or "separability" criterion. Per SFAS 142, intangible assets with definite lives are amortized over their estimated useful life and reviewed for impairment in accordance with SFAS No.144, "Accounting for the Impairment or Disposal of Long-lived Assets." Intangible assets, such as purchased technology, trademark, customer list, user base and non-compete agreements, arising from the acquisitions of subsidiaries and variable interest entities are recognized and measured at fair value upon acquisition. Intangible assets are amortized over their estimated useful lives from one to ten years. The Company reviews the amortization methods and estimated useful lives of intangible assets at least annually or when events or changes in circumstances indicate that it might be impaired. The recoverability of an intangible asset to be held and used is evaluated by comparing the carrying amount of the intangible asset to its future net undiscounted cash flows. If the intangible asset is considered to be impaired, the impairment loss is measured as the amount by which the carrying amount of the intangible asset exceeds the fair value of the intangible asset, calculated using a discounted future cash flow analysis. The Company uses estimates and judgments in its impairment tests, and if different estimates or judgments had been utilized, the timing or the amount of the impairment charges could be different.

**RELATED PARTY AND STOCKHOLDERS' LOANS**

The caption "Due to Related Company" on the condensed consolidated Balance Sheet consists of loans that are unsecured, non-interest bearing and have no fixed terms of repayment, and therefore, are deemed payable on demand.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CON'T**

**SIGNIFICANT ESTIMATES**

Several areas require management's estimates relating to uncertainties for which it is reasonably possible that there will be a material change in the near term. The more significant areas requiring the use of management estimates related to valuation of the useful lives of the Company's equipment and valuation of contingent liabilities and the valuation of stock issued for services.

**EARNINGS PER SHARE**

Basic earnings per common share ("EPS") is calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are calculated by adjusting the weighted average outstanding shares, assuming conversion of all potentially dilutive common stock equivalents.

**REVENUE RECOGNITION**

In accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 104, Revenue Recognition ("SAB 104"), the Company recognizes revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment or performance of service.

We enter into certain arrangements where we are obligated to deliver products and/or services (multiple elements). In these arrangements, our fee includes both the initial selling price of our software packaged products and the monthly subscription of the licensed products for contract period, usually for 2 years.

Revenue for sales of our software packaged products with database of entertainment contents, namely, total solution software, SEO4 mobile, and IBS 4.1 enterprise software package is recognized as products are shipped and installed. Revenue for the monthly subscription of the licensed products, including all post-delivery support and the right to receive unspecified upgrades/enhancements of the licensed products, is charged at a monthly basic price. Pursuant to the terms of the agreements, a fixed sum is due at the beginning of each month regardless of whether the customer requires service during that month. The Company recognizes the subscription on the first day of each month for which the support service agreement is in place, the Company maintains an allowance for doubtful accounts in the event that any such revenue recorded is not realized.

Consulting services revenue is recognized as services are rendered and calculated by the agreed sum on a straight-line basis over the contract period, usually for 2 years.

The company has a 3 year contract that it entered into on May 3, 2004 with a major customer, Taikang Capital Managements Corporation, who subsequently after the contract was executed became a major stockholder of the company. Pursuant to the terms of this contract, we supply our total solutions software product, from the period July

1, 2004 to June 30, 2007. With written notice at least 30 days prior to the expiration of the contract to the other party, either party can extend the term of contract. Income is recognized ratably over the life of the contract, as the our total solution product is provided to Taikang on a monthly subscription basis.

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**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CON'T**

**SOFTWARE DEVELOPMENT COSTS**

We account for our software development costs in accordance with SFAS No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed." Under SFAS 86, we expense software development costs as incurred until we determine that the software is technologically feasible. Once we determine that the entertainment software is technologically feasible and we have a basis for estimating the recoverability of the development costs from future cash flows, we capitalize the remaining software development costs until the software product is released. For the periods ended June 30, 2006 and 2005, we have purchased all of our software from third parties.

Once we release our software as entertainment content, we commence amortizing the related capitalized software development costs. The Company records amortization expense as a component of cost of sales. We calculate the amortization of software development costs using two different methods, and then amortize the greater of the two amounts. Under the first method, the Company divides the current period gross revenue for the released software by the total of current period gross revenue and anticipated future gross revenue for the software and then multiplies the result by the total capitalized software development costs. Under the second method, the Company divides the software's total capitalized costs by the number of periods in the software's estimated economic life up to a maximum of twelve months. Differences between the Company's actual gross revenues and what it projected may result in adjustments in the timing of amortization. If we deem a title's capitalized software development costs unrecoverable based on our expected future gross revenue and corresponding cash flows, we write off the costs and record the charge to development expense or cost of revenue, as appropriate.

**FOREIGN CURRENCY TRANSLATION**

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are converted into U.S. dollars in accordance with SFAS No. 52, "Foreign Currency Translation," and are included in determining net income or loss.

For foreign operations with the local currency as the functional currency, assets and liabilities are translated from the local currencies into U.S. dollars at the exchange rate prevailing at the balance sheet date. Revenues, expenses and cash flows are translated at the average exchange rate for the period to approximate translation at the exchange rate prevailing at the dates those elements are recognized in the financial statements. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive loss.

The Company has determined Hong Kong dollars to be the functional currency of Arran, IC Star and 3G Dynasty, Island Media, Talent Leader and the PRC Chinese Yuan Renminbi to be the functional currency of Panyu M&M. The financial statements of the subsidiaries are translated to U.S. dollars using year-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations. The cumulative translation adjustment and effect of exchange rate changes as of June 30, 2006 was \$249.

**COMPREHENSIVE INCOME (LOSS)**

Comprehensive income (loss) includes changes to equity accounts that were not the result of transactions with shareholders. Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income and loss items. The Company's comprehensive income and losses generally consist of changes in the fair value of changes in the cumulative foreign currency translation adjustment.

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**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CON'T****INCOME TAXES**

Income taxes are accounted for under the asset and liability method in accordance with SFAS 109, "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**STOCK-BASED COMPENSATION**

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payments (revised 2004)." This statement replaces SFAS 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board's Opinion No. 25 (ABP 25), "Accounting for Stock Issued to Employees." SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period (usually the vesting period). In March 2005, the SEC staff expressed their views with respect to SFAS No. 123R in Staff Accounting Bulletin No. 107, "Share-Based Payment," (SAB 107). SAB 107 provides guidance on valuing options. We adopted SFAS 123R on January 1, 2006.

**3. PROPERTY AND EQUIPMENT**

Property and equipment, which is located in the PRC and Hong Kong, consisted of the following at June 30, 2006:

Computer hardware	\$ 129,202
Computer software	4,897,295
Web site	4,205,712
Copyrights	200,000
Motor vehicles	168,307
Furniture and fixtures	45,782
Leasehold improvements	200,000
Total	9,846,298
Less: accumulated depreciation	(3,120,446)
Property and Equipment - Net	\$ 6,725,852

## TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

## 4. BUSINESS ACQUISITIONS

Acquisition of HRDQ, Inc. ("HRDQ")

On June 28, 2006, the Company acquired 53.92% of the outstanding common stock of \$0.001 par value of HRDQ by acquiring 2,024,190 new shares of HRDQ at \$0.52 per share. The Company paid a total of \$1,060,000 for its interest in the common stock of HRDQ. As part of the total purchase consideration, the Company issued a promissory note of \$1,000,000 to HRDQ. At the same date, HRDQ acquired assets by selling 798,747 shares of its common stock to China Dongguan Networks, Inc, at \$0.52 each (total consideration of \$415,348) and 500,000 shares of its common stock to Top Rider Group Limited at \$2.2 each. HRDQ (total consideration of \$1,100,000).

, HRDQ also issued 200,000 Series A Convertible Preferred stock of \$0.01 par value to Top Rider Group Limited at \$3.3 each with a total consideration of \$660,000. These Series A Convertible Preferred Stock is convertible, into 2 shares of Common Stock or a total of 400,000 shares of common stocks. The proceeds from the issuances of HRDQ's common stock and preferred stock were used primarily to acquire a new website, called Subaye.com ("Website").

The Company adopted SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, effective June 2001. SFAS No. 141 requires the use of the purchase method of accounting for any business combinations initiated after June 30, 2002, and further clarifies the criteria to recognize intangible assets separately from goodwill. Under SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed for impairment. The results of HRDQ and the estimated fair market values of the assets and liabilities have been included in our consolidated financial statements from the date of acquisition (June 28, 2006).

The purchase price for HRDQ was allocated to the assets acquired and liabilities assumed of HRDQ. The estimated fair value of the tangible assets acquired and liabilities assumed approximated the historical cost basis of these assets. The company has written off the negative goodwill amount of \$369,509, which was the excess of acquisition cost (common stock value issued) over fair value of net assets of HRDQ's acquisition of its wholly own subsidiary Panyu M&M, acquired in April, 2006. We wrote down the Website acquired to \$3,705,712 as its fair market value and was allocated to additional paid-in capital. All intangible and tangible assets acquired and liabilities assumed, based on their estimated fair values, were determined by management. We will finalize this allocation at year end, with the assistance of a qualified independent third-party appraiser.

Cash	\$ 82,253
Accounts receivables	356,707
Payment in advance	279,251
Website	3,705,712
Property, plant, and equipment	11,605
Liabilities assumed	(2,275,543)
Net assets value of HRDQ at June 28, 2006	\$ 2,159,985
Net assets acquired by TCOM (representing 49% of diluted interest in HRDQ, Inc.)	1,060,000
Purchased consideration	1,060,000

**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**4. BUSINESS ACQUISITIONS - (CON'T)**

Acquisition of HRDQ, Inc. ("HRDQ")

The operating results of the Company have been included in our statement of operations from June 28, 2006. The following table presents the unaudited results of operations of the Company as if the acquisition had been consummated as of October 1, 2005, and includes certain pro forma adjustment, including the negative goodwill written off of \$369,509, which was the excess of acquisition cost over the preliminary valuation of the fair value of net assets for HRDQ's acquisition of its own subsidiary Panyu M&M in April, 2006:

	2006
Revenues	14,490,882
Net income	4,631,691
Net income per share - basic	0.056
Net income per share - diluted	0.052
Shares used for computing net income per share - basic	82,040,000
Shares used for computing net income per share - diluted	88,921,000

**5. RELATED PARTY TRANSACTIONS**

A stockholder of TCOM and a company owned by such stockholder advanced funds to TCOM for working capital purposes. As of June 30, 2006 and 2005, TCOM owed the stockholder and his company amounts totaling \$57,513 and \$18,690 respectively. The advances are non-interest bearing and are payable on demand and are recorded as Due to related company under current liabilities.

Grace Motion, Inc., a company in which a former officer of the Company has a beneficial interest, was paid a consulting fee amounting to \$3,846 during the nine months ended June 30, 2006 and its service contract with TCOM was ceased during the period.

The Company signed a 3-year contract with Taikang Capital Managements Corporation (Taikang"), a principal stockholder of the Company, for total solution software on July 1, 2004. During the six ended June 30, 2006, the Company recognized income from Taikang amounting to \$1,080,000. The amount due from the stockholder at June 30, 2006 of \$480,000 was classified under the caption "Accounts receivable - affiliate".

**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**6. STOCK TRANSACTIONS**

On November 16, 2005, TCOM issued 1,000,000 shares of TCOM's common stock, par value \$0.001 per share, to the Chief Financial Officer of TCOM as part of his compensation at market price of \$.49 resulting in stock-based compensation expense of \$490,000.

On December 20, 2005, TCOM issued 4,000,000 shares of TCOM's common stock, par value \$0.001 per share, to two consultants of TCOM as consultancy fee at market price of \$.43 resulting in an expense of \$1,720,000. The consultants will provide the services to the Company for two years from December, 2005 to November, 2007. The Company will amortise \$1,720,000 over 24 months. (See note 9 on the details of the amortization of the stock-based compensation expenses.)

On March 23, 2006, TCOM issued 3,000,000 shares of TCOM's common stock, par value \$0.001 per share, to three consultants of TCOM as consultancy fee at market price of \$.54 resulting in an expense of \$1,620,000. The consultants will provide the service to the Company for one year from January, 2006 to December, 2006,. The Company will amortise \$1,620,000 over 12 months. (See note 9 on the details of the amortization of the stock-based compensation expenses.)

On April 20, 2006, TCOM issued 2,500,000 shares of TCOM's common stock, par value \$0.001 per share, to four vice presidents of TCOM as remuneration at market price of \$.52 resulting in an expense of \$1,300,000. The vice presidents will provide the service to the Company for two years from April, 2006 to March, 2008, The Company will amortise \$1,300,000 over 24 months. (See note 9 on the details of the amortization of the stock-based compensation expenses.) At the same date, TCOM issued 1,500,000 shares of TCOM's common stock, par value \$0.001 per share, to chief executive officer of TCOM as remuneration at market price of \$.52 resulting in an expense of \$780,000. The chief executive officer will provide the service to the Company for one year from April, 2006 to March, 2007, The Company will amortise \$780,000 over 24 months. (See note 12 on the details of the amortization of the stock-based compensation expenses.)



**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**7. INCOME TAXES**

British Virgin Islands

Alpha, the primary operating subsidiary, is incorporated in the British Virgin Islands and, under the current laws of the British Virgin Islands, is not subject to income taxes.

Hong Kong

The Company's other subsidiaries, IC Star and Talent Leader are incorporated in Hong Kong and are subject to Hong Kong taxation on its activities conducted in Hong Kong and income arising in or derived from Hong Kong. No provision for Hong Kong profits tax has been made as the Company had no assessable income for Hong Kong. The applicable Hong Kong statutory tax rate for the quarter ended December 31, 2005 and 2004 are 17.5% and 17.5%, respectively.

PRC

Enterprise income tax in PRC is generally charged at 33% of a company's assessable profit, in which 30% is a national tax and 3% is a local tax. For foreign investment enterprises established in a Special Economic Zone or Coastal Open Economic Zone, and which are engaged in production-oriented activities, the national tax rate could be reduced to 15% or 24% respectively. Companies which are incorporated in PRC are subject to a PRC enterprise income tax at the applicable tax rates on the taxable income as reported in their Chinese statutory accounts in accordance with the relevant enterprise income tax laws applicable to foreign enterprises. Pursuant to the same enterprise income tax laws, the subsidiaries are fully exempted from PRC enterprise income tax for two years starting from the first profit-making year, followed by a 50% tax exemption for the next three years. For those foreign enterprises established in the mid-western region of PRC, a 50% tax exemption for the next three years. For those foreign enterprises established in the middle west of PRC, a 50% tax exemption is granted for a further three years after the tax holiday and concession stated above. The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." No provision for Enterprises income tax in PRC has been made as the subsidiary has no assessable income for the year/period.

No provision for Enterprise income tax in the PRC had been made for the nine months ended June 30, 2006 and 2005. The Company had no assessable taxable income in the PRC, due to the fact that it is exempt from PRC tax, based on the statutory provisions granting a tax holiday for a two year period, as stated above, or for the Company's operations, for the Company's years ended September 30, 2005 and 2006. The Company's first profit taking year was the year ended September 30, 2005, therefore tax will be due to the PRC, if the Company generates PRC taxable income, for the fiscal year ended September 30, 2007.

Based on the above statutory PRC tax provision, the Company believes that it is remote that any PRC tax liability will be due for the nine months ended June 30, 2006 and 2005.

**8. MINORITY INTERESTS**

Minority interests comprise:

Minority interests in the subsidiary of HRDQ, Inc.

1,729,627 common stock of \$0.01 par value of HRDQ, Inc., representing 41% of diluted interest in HRDQ, Inc.	\$	885,594
200,000 Series A Convertible Preferred stock of \$0.01 par value of HRDQ, Inc., representing 10% of diluted interest in HRDQ, Inc.		214,391
	\$	1,099,985

**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006****9. COMMITMENTS AND CONTINGENCIES**

Operating Leases - In the normal course of business, the Company leases office space under operating lease agreements. The Company rents office space, primarily for regional sales administration offices, in commercial office complexes that are conducive to administrative operations. The operating lease agreements generally contain renewal options that may be exercised at the Company's discretion after the completion of the base rental term. In addition, many of the rental agreements provide for regular increases to the base rental rate at specified intervals, which usually occur on an annual basis. As of June 30, 2006, the Company had operating leases that have remaining terms of 24 months. The following table summarizes the Company's future minimum lease payments under operating lease agreements as of September 30, 2006:

Year ended September 30,	
2006	\$ 88,500
2007	354,002
2008	212,049
	\$ 654,551

The Company recognizes lease expense on a straight-line basis over the life of the lease agreement. Contingent rent expense is recognized as it is incurred. Total rent expense in continuing operations from operating lease agreements was \$182,625 and \$15,485 for the nine months ended June 30, 2006 and 2005 .

#### Obligations to purchase copyrights

On December 29, 2005, the Company had signed an agreement with Zestv Features Limited ("Zestv") to purchase Zestv's future rights to its music, films and TV programming copyrights of online content. The total obligation to Zestv is \$2,500,000. As of June 30, 2006, the Company paid to Zestv a cumulative amount of \$1,807,436 and recorded the payments as a prepaid expense.

On June 13, 2006, the Company had signed an agreement with Zestv Incorporation (Zestv") to purchase two film's copy rights of "Xiong Chu Mo" and "Da Dian Ying", the cost of each film is \$1,060,000. The total obligation to Zestv Incorporation is \$2,120,000. As of June 30, 2006, the Company paid 50% of the cost amounting to \$1,060,000 and recorded the payments as prepaid expenses. The Company needs to settle the balance of \$1,060,000 within 30 days after Zestv Incorporation supplies the rights of using the film to the Company.

**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**10. STOCK PLAN**

On June 8, 2005, a Registration Statement on Form S-8 was filed by TCOM with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act"), for registration under said Securities Act of an additional 30,000,000 shares of common stock in connection with TCOM's 2005 Stock Awards Plan (the "Plan").

All shares issued under the Plan may be either authorized and unissued shares or issued shares reacquired by TCOM. Under the Plan, no participant may receive in any calendar year (i) Stock Options relating to more than 10,000,000 shares, (ii) Restricted Stock or Restricted Stock Units that are subject to the attainment of Performance Goals of Section 13 hereof relating to more than 5,000,000 shares, (iii) Stock Appreciation Rights relating to more than 10,000,000 shares, or (iv) Performance Shares relating to more than 5,000,000 shares. No non-employee director may receive in any calendar year Stock Options relating to more than 1,200,000 shares or Restricted Stock Units relating to more than 500,000 shares. The shares reserved for issuance and the limitations set forth above shall be subject to adjustment. All of the available shares may, but need not, be issued pursuant to the exercise of Incentive Stock Options. The number of shares that may be issued under the Plan for benefits other than Stock Options or Stock Appreciation Rights shall not exceed a total of 30,000,000 shares.

In connection to TCOM's 2005 Stock Awards Plan, there were 12,000,000 shares of free traded stock, issued during the nine months ended June 30, 2006, refer to note 5. Total shares outstanding at June 30, 2006 were 89,188,000 shares.

## TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

## 11. DISCONTINUED OPERATIONS

On April 1, 2006, TCOM sold all its interests in Island Media with the net gain on the disposal of \$295,533. Island Media's operating loss for the nine months ended June 30, 2006 of \$239,776 was shown as Discontinued Operations in the condensed consolidated statements of Income and comprehensive income. The followings shown the results of the Island Media from October 1, 2005 to March 31, 2006

	<b>From October 1, 2005 to March 31, 2006 (Unaudited)</b>
Net revenues - others	\$ 247,458
Cost of sales- Other cost of sales	202,860
Gross profit	44,598
<b>Expenses:</b>	
Depreciation	21,016
Salaries	199,238
Other selling, general and administrative	99,020
Total operating expenses costs	319,274
	(274,676)
<b>Other income/ (expense):</b>	
Interest income	173
Other income	35,899
Interest expense	(1,626)
Gain on disposal of fixed assets	454
Total other income	34,900
Income from continuing operations before income tax	(239,776)
Income tax expenses	-
<b>(Loss) from discontinued operations , net</b>	<b>\$ (239,776)</b>

**TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**

**12. STOCK-BASED COMPENSATION EXPENSES**

In connection to the 2,600,000 shares of the Company's common stock issued on April 12, 2004 to various employees and consultants as part of their compensation at market price of \$.62 with a total of \$1,612,000, the Company expensed the salary bonus of \$570,000 in the profit and loss for the year ended September 30, 2004 and amortized the consultancy fee of \$1,042,000 over the service period of 24 months period. The terms for these agreements are 24 months starting from January 1, 2004 to December 31, 2005. It resulted in an expense of \$43,416 for each month and the total expenses of \$130,250 and \$390,750 for the nine months ended June 30, 2006 and 2005 respectively.

In connection to the 400,000 shares of the Company's common stock issued on June 12, 2004 to two consultants as part of their compensation at market price of \$.32 with a total of \$128,000, the terms for these agreements are 24 months starting from January 1, 2004 to December 31, 2005. It resulted in an expense of \$5,333 for each month and the total expenses of \$16,000 and \$48,000 for the nine months ended June 30, 2006 and 2005 respectively.

In connection to the 3,500,000 shares of the Company's common stock issued in July 22, 2005 to two consultants as part of their compensation at market price of \$.24 with a total of \$840,000, the terms for 1,500,000 of these shares totaled \$360,000, is for the services to be rendered over 17 months from August, 2005 to December, 2006. Therefore, the Company amortized the total expense over a 17 month period which resulted in an expense of \$21,176 for each month and the total expenses of \$190,585 and \$0 for the nine months ended June 30, 2006 and 2005 respectively.

The terms for remaining 2,000,000 shares totaled \$480,000, is for the services to be rendered over 24 months from August, 2005 to July, 2007. Therefore, we amortized the total expense over a 24 month period which resulted in an expense of \$20,000 for each month and the total expenses of \$180,000 and \$0 for the nine months ended June 30, 2006 and 2005 respectively.

In connection to the 1,000,000 shares of the Company's common stock issued on November 16, 2005 to Chief Financial Officer as part of their compensation at market price of \$.49 with a total of \$490,000, this was for compensation for a salary bonus and we accordingly expensed the whole amount of \$490,000 in the profit and loss and was included in the nine months ended March, 31, 2006.

In connection to the 4,000,000 shares of the Company's common stock issued in December 20, 2005 to two consultants as part of their compensation at market price of \$.43 with a total of \$1,720,000, the services are to be rendered over 24 months from December, 2005 to November, 2007. Therefore, we amortized the total expense over a 24 month period which resulted in an expense of \$71,667 for each month and the total expense of \$501,669 and \$0 for the nine months ended June 30, 2006 and 2005 respectively.

In connection to the 3,000,000 shares of the Company's common stock issued in March 23, 2006 to consultants as part of their compensation at market price of \$.54 with a total of \$1,620,000, the services terms are 12 months from January, 2006 to December, 2006, therefore, the Company amortized the total over 12 months and then there will be \$135,000 for each month and we have amortized six months of \$810,000 for the quarter ended June 30, 2006.

In connection to the 2,500,000 shares of the Company's common stock issued in April 20, 2006 to vice presidents as part of their compensation at market price of \$.52 with a total of \$1,300,000, the services terms are 24 months from April, 2006 to March, 2008, therefore, the Company amortized the total over 24 months and then there will be \$54,167 for each month and we have amortized three months of \$162,501 for the quarter ended June 30, 2006 . In

connection to the 1,500,000 shares of the Company's common stock issued in April 20, 2006 to chief executive officer as part of their compensation at market price of \$.52 with a total of \$780,000, the services terms are 12 months from April, 2006 to March, 2007, therefore, the Company amortized the total over 12 months and then there will be \$65,000 for each month and we have amortized three months of \$195,000 for the quarter ended June 30, 2006 .

As a result, the total stock compensation being amortized \$2,676,005 and \$438,750 for the nine months ended June 30, 2006 and 2005 respectively.

## TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

## 13. RESTATEMENT OF PRIOR INTERIM CONDENSED FINANCIAL STATEMENTS - JUNE 30, 2005

The Company's interim financial statements have been restated to give effect to the following adjustment :

- 1) The Company bought the 20% of IC Star MMS on March 16, 2004. The Company recorded significant reorganization expenses in the statement of operations for the year ended September 30, 2004. Pursuant to SEC comments received after this filing, we have recorded these reorganization expenses as a deemed dividend paid out of additional paid in capital, instead of recording this transaction as an expense. This restatement does not change our total stockholders' equity but only increases our retained earnings and decreases our additional paid in capital.
- 2) Pursuant to the SEC comments received after the filing, we reallocated the depreciation of software related to the revenue of the company to cost of sales. Other depreciation expenses related to motor vehicles and office equipments and are stated in Selling, General and Administration Expenses. This had no impact on our prior earnings reported.
- 3) In March 2005, the SEC staff expressed their views with respect to SFAS No. 123R in Staff Accounting Bulletin No. 107, "Share-Based Payment," (SAB 107). SAB 107 provides guidance on valuing options. Now, we amortize the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. Also, that cost is recognized over the period during which the employee is required to provide services in exchange for the award.

The accompanying financial statements for the nine months ended June 30, 2005 have been restated to reflect the corrections. The accumulated changes to the retained earnings at June 30, 2005 was increased by \$8,565,667, including the decrease in the current earnings for the nine months ended June 30, 2005 of \$438,750 and the total increase in retained earnings as at September 30, 2004 of \$8,858,167.

The following is a summary of the restatements for the nine months ended June 30, 2005

	Adjustment no:	Increase/(Decrease) in Current Earnings
Reclassification of the depreciation expenses on the software that sold to customers to cost of sales	2	\$ (1,047,211)
Transfer of the depreciation which included in other selling, general and administrative to cost of sales and depreciation	2	1,047,211
Stock-based compensation expenses charged to Statement of Operation	3	(438,750)
<b>Total decrease in the current earnings for the nine months ended June 30, 2005</b>		<b>(438,750)</b>
Credit to acquisition cost of the 20% interest of IC Star in 2004 and debit to the additional paid in capital	1	8,126,917
Transfer to deferred stock-based compensation	3	731,250



Total increase in retained earnings as at September 30, 2004	8,858,167
Total increase in retained earnings as at June 30, 2005	\$ 8,419,417

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## TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

14. RESTATEMENT OF PRIOR INTERIM CONDENSED FINANCIAL STATEMENTS - JUNE 30, 2005  
-CON'T

The following is a summary of the restatements for the three months ended June 30, 2005

	Adjustment no:	Increase/(Decrease) in Current Earnings
Reclassification of the depreciation expenses on the software that sold to customers to cost of sales	2	\$ (371,456)
Transfer of the depreciation which included in other cost of sales to cost of sales and depreciation	2	371,456
Stock-based compensation expenses charged to Statement of Operation	3	(146,250)
Total decrease in the current earnings for the three months ended June 30, 2005		(146,250)

## Restatement of Interim Condensed Balance Sheet as at June 30, 2005

	As Previously reported June 30, 2005	Restatement Adjustment June 30, 2005	As restated June 30, 2005
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 249,253		\$ 249,253
Accounts receivable - affiliate	700,000		700,000
Accounts receivable	4,015,489		4,015,489
Deferred stock-based compensation - current portion	-	292,500	292,500
Prepaid expenses and other current assets	82,690		82,690
Total current assets	5,047,432		5,339,932
Property, plant and equipment, net	3,764,304		3,764,304
Total assets	\$ 8,811,736		\$ 9,104,236
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 994,252		\$ 994,252
Accrued expenses	51,194		51,194
Due to related party	18,690		18,690
Other loan	86,051		86,051
Total Current Liabilities	1,150,187		1,150,187

## Stockholders' equity :

Preferred stock (\$.001 Par Value: 50,000,000 shares authorized; no shares issued and outstanding)	-			-
Common stock (\$.001 Par Value: 300,000,000 shares authorized: 73,688,000 shares issued and outstanding)	73,688			73,688
Additional paid in capital	15,075,906	(8,126,917)		6,948,989
Accumulated other comprehensive income	249			249
Retained earnings	(7,488,294)	8,419,417		931,123
<b>Total stockholders' equity</b>	<b>7,661,549</b>			<b>7,954,049</b>
Total liabilities and stockholders' equity	\$ 8,811,736	\$ 438,750	\$	9,104,236

## TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006**  
**Restatement of Interim Statement of Operation and Comprehensive Loss for**  
**the Nine months ended June 30, 2005**

**14. RESTATEMENT OF PRIOR INTERIM CONDENSED FINANCIAL STATEMENTS - JUNE 30, 2005**  
**-CON'T**

	As Previously reported June 30, 2005	Restatement Adjustment June 30, 2005	As restated June 30, 2005
<b>Revenue:</b>			
Net revenues - affiliate	\$ 1,080,000		\$ 1,080,000
- others	5,221,132		5,221,132
	6,301,132		6,301,132
Cost of sales			
Depreciation	-	1,047,211	1,047,211
Other cost of sales	3,988,038	(1,047,211)	2,940,827
	3,988,038		3,988,038
Gross profit	2,313,094		2,313,094
<b>Operating expenses:</b>			
Depreciation	21,154		21,154
Stock-based compensation expenses	-	438,750	438,750
Other selling, general and administrative	369,742		369,742
Total operating expenses costs	390,896		829,646
Income from operations	1,922,198		1,483,448
<b>Other income/ (expense):</b>			
Interest income	49		49
Interest expense	(1,614)		(1,614)
Total other income / (expense)	(1,565)		(1,565)
Income from continuing operations	\$ 1,920,633		\$ 1,481,883
<b>Income (Loss) from discontinued operations</b>			
Gain on disposal of subsidiary	53,431		53,431
(Loss) from discontinued operations	(23,272)		(23,272)
Net income from discontinued operations	30,159		30,159
	1,950,792		1,512,042
Other comprehensive income			
Foreign currency translation difference	-		-
<b>Comprehensive income</b>	\$ 1,950,792		\$ 1,512,042

<b>Earnings per Common Share:</b>			
Discontinued operations			
Basic	\$	0.0004	\$ 0.0004
Fully diluted	\$	0.0004	\$ 0.0004
Continued operations			
Basic		0.027	0.021
Fully diluted		0.024	0.019
<b>Weighted Average Common Share:</b>			
Outstanding - Basic		71,125,500	71,125,500
Outstanding - Fully diluted		81,125,500	81,125,500

## TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

15. RESTATEMENT OF PRIOR INTERIM CONDENSED FINANCIAL STATEMENTS - JUNE 30, 2005  
-CON'TRestatement of Interim Statement of Income and Comprehensive Income  
for the three months ended June 30, 2005

	As Previously reported June 30, 2005	Restatement Adjustment June 30, 2005	As restated June 30, 2005
<b>Revenue:</b>			
Net revenues - affiliate	\$ 360,000		\$ 360,000
- others	2,476,972		2,476,972
	2,836,972		2,836,972
Cost of sales			
Depreciation	-	371,456	371,456
Other cost of sales	1,716,662	(371,456)	1,345,206
	1,716,662		1,716,662
Gross profit	1,120,310		1,120,310
<b>Operating expenses:</b>			
Depreciation	-	7,051	7,051
Stock-based compensation expenses	-	146,250	146,250
Other selling, general and administrative	166,849	(7,051)	159,798
Total operating expenses costs	166,849		313,099
Income from operations	953,461		807,211
<b>Other income/ (expense):</b>			
Interest income	(96)		(96)
Other income	(7,590)		(7,590)
Interest expense	(388)		(388)
Total other income / (expense)	(8,074)		(8,074)
Income from continuing operations	\$ 945,387		\$ 799,137
<b>Income (Loss) from discontinued operations</b>			
Gain on disposal of subsidiary	53,431		53,431
(Loss) from discontinued operations	(23,272)		(23,272)
Net income from discontinued operations	30,159		30,159
	975,546		829,296
Other comprehensive income			
Foreign currency translation difference	-		-

<b>Comprehensive income</b>	\$	975,546	\$	829,296
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**Earnings per Common Share:**

## Discontinued operations

Basic	\$	0.0004	\$	0.0004
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Fully diluted	\$	0.0004	\$	0.0004
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## Continued operations

Basic		0.013		0.011
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Fully diluted		0.012		0.010
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**Weighted Average Common Share:**

Outstanding - Basic		70,188,500		70,188,000
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Outstanding - Fully diluted		80,188,500		80,188,000
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## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

### **Special Note Regarding Forward-Looking Statements**

This periodic report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing products, plans and objectives of management. Statements in this periodic report that are not historical facts are hereby identified as "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act.

Prospective shareholders should understand that several factors govern whether any forward-looking statement contained herein will be or can be achieved. Any one of those factors could cause actual results to differ materially from those projected herein. These forward-looking statements include plans and objectives of management for future operations, including plans and objectives relating to the products and the future economic performance of the Company. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, future business decisions, and the time and money required to successfully complete development projects, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of those assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in any of the forward-looking statements contained herein will be realized. Based on actual experience and business development, the Company may alter its marketing, capital expenditure plans or other budgets, which may in turn affect the our results of operations. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of any such statement should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the financial statements of the Company for the year ended September 30, 2005 and notes thereto contained in the report on Form 10-KSB as filed with the Securities and Exchange Commission.

### **OVERVIEW**

#### **Company Background**

We believe that we can be one of the leading Internet and value-added telecommunications services providers to the market of the People's Republic of China (the "PRC"). We specialize in supplying both the entertainment and lifestyle content along with what we currently view is leading edge software, which we sell as one package to our customers who then resell to telecommunication service providers ("SP") who subscribe to our products. The SP then deliver our content through our software products, though various media, to some of the approximately several hundred million end users in the telecommunications market in the PRC. Since the launch of our Total Solutions - Information System together with our SEO4Mobile SMS search engine software in 2005, we believe that we now have the right software products to deliver our content, in order to serve the rapidly expanding telecommunications market in the PRC.



We intend to target the enterprise multimedia communications market in the PRC where there is significant growth potential. In the PRC, where billions of messages are sent every month, Short Message Services ("SMS") is the basic form but the major growth is in Multimedia Message Services ("MMS"). TCOM's Customer Relations Management Virtual Call Center ("CRM") provides highly customized, scalable, flexible interactive services, offers clients high value, low cost sales and service solutions using the highly scalable interactive MMS response (IMR), interactive voice response (IVR) and speech recognition solutions.

As mentioned above, we are a fully integrated information and entertainment service provider to the market of the PRC. We sell our products through channel resellers, who are BVI companies, distributed to the SP market in the PRC. The channel resellers who then in turn supply our content, through various telecommunication providers, to the end users in the PRC. Our products serve the voice, video, data, web and mobile communication markets in the PRC.

We have experienced revenue growth in the CRM market, which is the primary deliverable of TCOM's Total Solutions System. Our CRM product combined an extensive network of Chinese contact centers for live operator support, and provides all end users with opt-in subscriptions of SMS and MMS. We have added 114 stations in 2005, to bring our total business customers and CRM's to over 200 at June 30, 2006. Our software products are sold to all companies with less than 500 employees, inner information resource management and affiliate networks, vendor/customer, information process and communications over the Internet and wireless communications. Our product has strong customer relations and interactive management.

We have organized our operations in 2005 into two principal business segments. Our information and entertainment service provider products is our primary business segment. Our other business segment, established in 2005, is our public relations work, through our 60%-owned subsidiary Talent Leader Entertainment and Production Limited. The revenue from our public relations work was not significant for the nine months ended June 30, 2006.

Our software products, described in detail below, includes our Total Solutions System, CRM System, SEO4Mobile and AdMaxB2Search, which deliver our entertainment and lifestyle content and our IBS 4.1 Enterprise Suite, which is for small to middle size enterprise's wireless/web applications.

## **THE INTEGRATED INFORMATION AND ENTERTAINMENT SERVICE PROVIDER SOFTWARE PRODUCTS**

### **About Total Solutions System - SMS/MMS Call Center & CRM System**

Our specialized software product, Total Solutions System, offers integrated communications network solutions and Internet content service in universal voice, video, data, web and mobile communication for interactive media applications, technology and content leaders in interactive multimedia communications. We develop markets and sell a universal media software solution for enterprise-wide deployment of integrated voice, video, data, web, and mobile communication for media applications. Designed around TCOM's Internet content and database and integrated into the Information Manager System and SMS/MMS Call Center CRM System core software, the Total Solutions application facilitates the collaboration of key business processes, such as corporate and marketing communications, membership distance interactive programs, product development, customer relationship management and content management, by allowing dispersed enterprise users to collaborate in real time with multimedia message services.

Our business model is built on the integration of strong entertainment and lifestyle content into the Total Solutions System, network database and the application of technology. Network database was established by signing contracts with strategic partners and the database collected all of their Internet and mobile phone users to be the online/offline members in the PRC. Our content was built through our business alliance in which IC Star MMS Limited (formerly known as Sino Super Ltd.), one of our subsidiaries and a network services provider based in Hong Kong, links entertainment and lifestyle information to local communities across the PRC. IC Star, which was originally created as

the Star SMS /MMS called "My Star Friends" community, was first invented as a SMS/MMS interactive between IC Star and fans of local artists in the world. By integrating the network database and contents into software that TCOM sources from the market, we can leverage the functions of the software and target it to various industries.

### **About SEO4Mobile**

SEO4Mobile, a search engine optimization for mobile phones, is the original unique new service solution creation by Alpha. The SEO4Mobile offers wireless mobile phone service, allowing providers the ability to use SMS search implementation for their users. Mobile phone users who enter a relevant keyword or keyword phrase, along with a geographic identifier, can send searches via an SMS to a service code. The search results will be received by MMS and the search engine optimization processes the search through the Internet within a matter of minutes. Many searchers don't realize that, within an SMS search query, they can add in a geographic identifier. By specifically laying out a separate search SMS for the geographic portion, SEO4Mobile helps structure the search in a simple and efficient way for the searcher. SEO4Mobile has been selected by service providers such as China Mobile and China Unicom.

Both SEO4Mobile and AdMaxB2Search have proven our strength in innovative and creative value-added service with the fact that three contracts have been signed with business partners since October 2004. Revenues are derived principally from providing integrated solutions and an AdMaxB2Search platform by entering into business contracts with enterprises for a fixed monthly fee. The management of TCOM is confident that the SEO4Mobile and AdMaxB2Search platforms will provide excellent revenue when these two products gain popularity with mobile phone users. In fact, SEO4Mobile is a cutting edge technology designed to integrate the Internet with mobile phones using search engine technology and a pay per click business model. We will target the approximately 300 million mobile phone users as well as the 111 million Internet users in the PRC. According to the Ministry of Information, the PRC's Internet users are about 8.5% of its population, which is less than the 60% of Internet users in the U.S.

### **About IBS V4.1 Enterprise Suite**

IBS v4.1 is a new product line including built-in MoDirect, an innovative suite of technologies that enables wireless and web publishers to target SEO4Mobile users more effectively and allows advertisers to obtain targeted leads with rich demographic data. IBS v4.1 is one of the Total Solutions (TM) families. Corporate users are allowed to leverage all information resource management on the intranet/extranet over the Internet, plus wireless applications as well as an advertiser to use the IBS V 4.1 to publish SMS and MMS by searches on mobile phones. The system enables manufacturers and services providers to use the Internet to establish and manage continuous connections with automated e-services, operations monitoring and e-commerce offerings. The system's customers include end-user clients in many industries throughout the PRC. IBS v4.1 SME Standard Package includes 3 servers and software as well as the system integration. As of June 30, 2006, Alpha had delivered IBS v4.1 Enterprise Suite to the agent of over 300 small- and middle-size enterprises, totaling over 300 sets of SME Standard Packages plus 26,000 seat licenses, according to the second order from corporate users.

### **About 3G Dynasty**

In February 2005, we established 3G Dynasty Inc. ("3G Dynasty") for the preparation of the Third Generation mobile system. 3G Dynasty will be responsible for sales of IC Star MMS products, and will focus on entertainment content for 3G mobile and Internet use. IC Star Wireless Application Protocol ("WAP") Club is based on the IC Star Theme Club on WAP, which provides the most comprehensive and up-to-date mobile entertainment services in the PRC. The WAP users can access IC Star Theme Club for content we provide through China Mobile Communications. In May 2005, 3G Dynasty created the website <http://skystar.com>, a multi-channel infotainment portal supported by proprietary fan clubs and a community platform. It allows new members to personalize their own homepage with 3G Dynasty's content as added-on value. It registers members and allows them to build their personal homepage on WAP. As the host and content provider, 3G Dynasty will start publishing a daily Real Simple Syndication feed of its original content from a number of its contracted web sites, including local information, life style and entertainment content. Through the use of Real Simple Syndication ("RSS") feeds, users can receive 3G Dynasty's daily content automatically, thereby broadening 3G Dynasty's distribution and providing an additional platform for mobile phone

users who are registered members of Star Theme Club on WAP. Members with their homepage on WAP can reach their targeted audience through wireless technology.

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We expect that this personal homepage and WAP membership service will officially launch in June, 2006. We expect the adoption of RSS to deepen our relationship with our members and enhance the appeal of our original content. We believe that RSS represents the next evolution in the distribution of content. It allows publishers and end users alike to be seamlessly notified of new content and to integrate that content into start pages, blogs and web sites.

As more and more people personalize the Web, many are turning to RSS feeds to quickly and easily access information and content from news and entertainment sites. On March 22, 2005, Slashdot.org released the findings of a survey of its readers regarding RSS feeds. The open-source organization found that 73 percent of its readers will increase their use of RSS feeds in the next year, and that most will rely on mobile and other devices to receive RSS feeds, pointing to the growing trend toward serving the needs of Web connected mobile consumers.

On July 1 2005, all contracted base business that operates as IC Star MMS and IC Star Brands will be combined with the personalized homepage on WAP and SkyeStar.com, the flagship entertainment property that operates by a joint venture of 3G Dynasty, Inc. and its business partners in the PRC. As the integration internet business group of TCOM, 3G Dynasty's strategic investment in the PRC will be created specifically to address those new market dynamics and help telecom carriers get the most from content programs, while effectively handling changes in capacity, deal terms and players. As of June 30, 2006, IC Star WAP Club had over 800,000 registered members.

### **SkyeStar.com**

SkyeStar.com is a website that is a multi-links user experience sharing network in the PRC as well as a multi-channel entertainment portal supported by proprietary fan clubs and a community platform. SkyeStar.com combines the best of IC Star MMS's artist profiles, "my star friend", games and other entertainment offerings with a host of new content, community and fan networking features. SkyeStar.com is the first Internet portal to network users across multiple entertainment channels, linking friends and their entertainment choices in a unique way.

SkyeStar.com provides users multiple opportunities to play games, send MMS/SMS greetings, watch movie trailers, find show times, and purchase tickets and DVDs. They can also rate, review and refer their entertainment choices to others. Customization features allow members to create their own personal homepages, profile and display their entertainment favorites as well as access their friends' recommendations. SkyeStar.com's innovative fan club's networking features flow throughout the site so users can enjoy diverse content and connect with other people who enjoy similar interests.

SkyeStar.com features include:

- "My Star Friend", where members upload images of their artist friends, create star profiles, and enter them in a ratings system allowing members to vote on the my star friend;
- Fans Experiences Sharing, where members rate and review their favorite movies, music, and greetings for the community to read;
- Customizable User Homepages, Profiles, where members track their favorite movies, music, games, stars and greetings as well as their friends' favorites, upload photos, check music statistics, view event reminders, and post on "friends-only" message boards;
- User Music Critics, where members review and rate their choices of music, add their ratings to a community score and compare their reviews and ratings to those of professional music critics;

- Online & Downloadable Games, where members play single player and multiplayer games online or download and purchase their favorites; and
- User-generated Content, where developers and creators upload their own music, games and photos for the community to enjoy and review.

IC Star MMS has partnered with several industry leaders to provide content on the SkyeStar.com entertainment portal. Among its partners, Stareastnet, a company whom IC Star MMS has partnered with, provides features such as "Artist Profiles and Homepages" and NC Entertainment, another partner of IC Star MMS, provides movie trailers. SkyeStar.com provides a community experience within the entertainment vertical by including artists, movies, games, music and more. Through user-generated content as well as personal homepages and content reviews, community members can express themselves and become a trusted referral of content for their friends.

### **Subaye.com By The integration of TCOM's Total Solutions into IBS V5.0 Enterprise Suite**

Alpha has completed stages planned for the integration of TCOM's Total Solutions-Information Manager Systems, SMS/MMS virtual Call Center CRM Systems, SEO4Mobile and joint venture of small- to middle-size enterprise's (SME) software developing and distribution operations.

Alpha -- consisting of Total Solutions-Information Manager Systems, SMS/MMS virtual Call Center CRM Systems, SEO4Mobile, MoDirect, AdMaxB2Search and IBS v4.1 Enterprise Suite, the Internet business service total solution business -- will be combined with SuBaye.com (<http://www.subaye.com>), the flagship e-commerce business operated by Alpha Century Holdings, Ltd. and its business partners in the PRC. Alpha will also integrate the IBS v5.0 Enterprise Suite, which is a web enabling updater of exchange between corporate user content and end user content. As Alpha integrates with the Total Solutions business group of TCOM, it intends to strategically invest in the PRC, specifically to address new market dynamics and help SME users get the most from end user content while effectively handling changes in capacity, deal terms and players.

The integration expertise we gained through our joint venture with subaye.com and the IBS v5.0 Enterprise Suite gives us confidence in our core business organization to an SME market, the potential of our total solution business, and the achievement of synergies we identified as part of our strategic investment efforts.

TCOM has continually worked to establish a system that can quickly and accurately respond to the market, which we expect can increase the value of our products by strengthening the development and competitiveness of each business. As part of this strategy, TCOM has been implementing the integration of development, production and sales of each business within the Company.

TCOM believes that a positive impact will be realized from integrating the functions of the various contracted operation lines of business and that, as a result, Alpha will become more competitive and realize synergies between its marketing, product development and sales organizations. It is also projected that as more resources of the Company are built up, more strategic alliances will be structured.

In a country with enormous mobile phone and Internet usage already, we believe that the growth opportunities remain tremendous. Because the PRC has more than 1.3 billion people and millions of SMEs, we anticipate that Internet business services will remain a strong area of growth in the PRC. User content for m-commerce and e-commerce is in high demand and Alpha Century hopes to become one of the dominant players within this area.

### **BUSINESS PARTNERSHIP DEVELOPMENTS**

The Company has moved forward to develop and implement agreements with business partners through its subsidiaries' operations. 3G Dynasty has finished the integration of all business units of IC Star MMS Limited through Aixi Software Limited into cooperation with Baidu.com (Nasdaq: BIDU); Shanghai Linktone Information Limited (Nasdaq: LTON); the wireless business division of Beijing eLong Information Technology Limited, a company of eLong Inc. (Nasdaq: LONG); 3721 Inter China Network Software Co. Ltd ([www.3721.com](http://www.3721.com)); a Yahoo!, Inc. Company (Nasdaq: YHOO); Tencent Company Limited ([www.qq.com](http://www.qq.com)); Kongzhong Corporation (Nasdaq: KONG); Guangdong Mobile Communication Co., Limited, a China Mobile Communications Corporation; and China Mobile (Hong Kong)

Ltd. (NYSE: CHL) to develop entertainment SMS, MMS, WAP portal and other wireless contents such as artist profiles, gaming and an SEO4Mobile SMS search engine.



TCOM has continually worked to establish a system that can quickly and accurately respond to the market, as well as raise shareholder value by strengthening the development and competitiveness of each business. As part of this strategy, TCOM has been implementing the integration of development, production and sales of each business within the Company. It has determined that a positive impact will be realized from integrating the functions of the various contracted operations lines of business and that, as a result, 3G Dynasty will become more competitive and synergies will be realized between its marketing, product development and sales organizations. It is also projected that as the resources of the Company are increased and the strategic alliance is structured, the overall efficiency of group management will improve, providing even greater shareholder value.

In a country with significant mobile phone usage, we believe that the growth opportunities remain tremendous. Because the PRC has more than 1 billion people, we anticipate that mobile services will remain a strong area of growth. Entertainment content for these mobile devices is in high demand, and 3G Dynasty hopes to become the dominant player within this space.

### **Impact of Inflation**

We believe that inflation has had a negligible effect on operations during the period. We believe that we can offset inflationary increases in the cost of sales by increasing sales and improving operating efficiencies.

### **Trends, Events, and Uncertainties**

The present demand for our products will be dependent on, among other things, market acceptance of the Company's concept, the quality of its products and general economic conditions, which are cyclical in nature. Inasmuch as a major portion of the Company's activities is the receipt of revenues from the sales of its products, the Company's business operations may be adversely affected by the Company's competitors and prolonged recessionary periods in the PRC.

We expect the demand for our products described above to increase next year due to the following factors:

1. Our New Product Line, SkyeStar.com with Help of ZestV, Inc.

We expect SkyeStar.com, the Flagship Entertainment Property of TCOM, will be a fast-growing, revenue streaming entity. In the coming months, we plan to launch a SkyeStar on WAP, with new features that let users access their SkyeStar accounts from mobile phones and soon, SkyeStar IPTV. ZestV, Inc. is TCOM's new investments entertainment company, one of the world's leading Chinese media and entertainment companies in the development, production, and marketing of entertainment, news and information to a global audience. The Company expects to launch SkyeStar IPTV. Formed in January 2005 through the combining of Free Productions and ICChina Entertainment, ZestV, Inc. owns and operates a valuable portfolio of news and entertainment networks, a premier motion picture company, significant television production operations, a leading Internet entertainment websites group, and plans the development of studio-branded theme parks. TCOM was granted an option investment into ZestV, Inc. of up to 25% ownership interests, effective in 2006. We expect that TCOM will get the first right to buy ZestV music, films and TV programming copyrights of online content each year and flood openings with SkyeStar members.

We expect SkyeStar.com to rival MTV. SkyeStar should mean something to its audience in much the same way that MTV meant something to its audience during its early years.

SkyeStar is a free, members-only web site that offers community, e-mail, exclusive music and video downloads, instant messaging, blogs, photos and more. We will generate revenue by advertising, entertainment downloads, pay per view, VOD and VIP membership fees.



2. Many Internet Users in the PRC use the Internet to search for fun

A look at the top Internet searches in the PRC for the year suggests that the country's 103 million Internet users just want to have fun. In 2005, the top searches indicate that people crave information about popular things and want it before newspapers, magazines and TV can provide it. It also shows people are attracted to a growing amount of content that is only available online, such as games, novels and Mp3's. The PRC published a guideline on news websites in September, 2005 to better regulate the sector and prevent false or distorted information from spreading online. Meanwhile, it also urged Websites to register for tightened regulation.

By the end of November, 2005, a total of 36.82 million blog Websites have been established. Another 16 million have written blogs, meaning every blogger has 2.3 blog Websites on average, according to Baidu. Some blog service providers and multimedia online magazine publishers have received funding about \$10 million each from venture capital firms. Telecommunications IPTV, Internet protocol television, is a service, representing the convergence of Internet, television and telecom networks, and is expected to be adopted next year. Providers of trial IPTV services in Shanghai have uncertainty about the IPTV services because of questions relating to the sector of IPTV.

China 3G wireless communication License are expected to be issued 2006, TCOM has great opportunity to provide entertainment contents as movies/music/games to 3G cell phone users through Service Providers (SP) at that time. Also, Cun Cun Tong, a fixed line phone coverage, will be very extensive in every village in the PRC. By the end of October 2005, the network covered more than 96 percent of villages, and the whole project is projected to be finished by the end of 2006. After that, more than 800 million people will be able to make a simple phone call. This will be a great help to TCOM, and TCOM provides data communications and city information to its customers which provide SMS/MMS over this fixed line.

3. The PRC Targeted as Top Internet TV Market (IPTV)

The PRC is one of the largest IPTV markets in the world. The PRC is among the first in the world to put IPTV services in commercial trial operation. Statistics show that there are 360 million TV viewers and 25 million broadband users in the Chinese mainland, creating a huge potential for development of IPTV services.

Our 3G Dynasty will distribute all the contents to our channel partners. We expect that 3G Dynasty will enter into a partnership with LIVE ONLINE as IPTV services exclusive entertainment channel for China Telecom and China Netcom users in 2006.

TCOM will continue discussion with filmmakers for acquisition or strategy investments into picture production companies.

**Results of Operations**

*Income Statement Items*

The following table summarizes the results of our operations during the three months and nine months ended June 30, 2006 and 2005 and provides information regarding the dollar and percentage increase or (decrease) from the current fiscal period to the prior fiscal period:

**Three Months Ended June 30, 2006 and 2005 (Unaudited)**

	6/30/2006	6/30/2005	Increase (Decrease)	Percentage Increase (Decrease)
Revenues	\$ 2,779,690	\$ 2,836,972	\$ (57,282)	(2)%
Cost of sales	921,213	1,716,662	(795,449)	(46)%
Gross profit	1,858,477	1,120,310	738,167	66%
Operating expenses	178,012	313,099	(135,087)	(43)%
Other income (expenses)	153	(8,074)	8,227	(102)%
Income from continuing operations	\$ 1,680,618	\$ 799,137	\$ 881,481	110%
Net income from discontinued operations	295,533	30,159	265,374	880%
Net income	1,976,151	829,296	1,146,855	138%
Other comprehensive income	-	-	-	-
Comprehensive income	1,976,151	829,296	1,146,855	138%
Earnings per common share				
- Basic	\$ 0.022	\$ 0.012		
- Fully diluted	\$ 0.022	\$ 0.010		
Weighted average common share Outstanding				
- Basic	88,353,000	70,188,000		
- Fully diluted	88,353,000	80,188,000		

**Revenues decrease \$57,282 due primarily to:**

Revenues were recorded at \$2,779,690 for the three months ended June 30, 2006 compared to \$2,836,972 for the same period ended June 30, 2005. The decrease of \$57,282 is due primarily to the decrease in revenue from the services provided by 3G to IC Star Wap Club.

Revenues for the three months ended June 30, 2006 were generated from the fixed monthly income amounting \$682,900 by providing clients our support and logistics services for the products, namely Total Solutions, SEO4Mobile and IBS V4.1.

Also, revenues for the three months ended June 30, 2006 were generated from the sales of the right to use IBSV4.1 amounting \$742,000.

During the three months ended June 30, 2006 and 2005, sales of the Total Solution System to Taikang Capital Managements Corporation, an affiliate of the Company amounting to \$360,000 were classified as Related Party Transactions.

During the three months ended June 30, 2006 and 2005, sales of the Total Solution System to Taikang Capital Managements Corporation, an affiliate of the Company amounting to \$360,000 were classified as Related Party Transactions.

**Costs of Sales decreased \$795,449 due primarily to:**

Costs of sales were \$921,213 for the three months ended June 30, 2006 compared to \$1,716,662 for the same period ended June 30, 2005. Costs of Sales included depreciation and other cost of sales. Depreciation represented the depreciation of software which related to the revenue of the Company. Other costs of sales were the purchase of various contents and other later stage production from raw contents and costs associated with the performance of our communication services. The decrease of \$795,449 included the decrease of other cost of sales of \$870,587 and was due primarily to the drop of purchase of content and the drop of initial costs of equipment provided together with the package offered and there was an increase of depreciation of \$75,138 due to the Company purchase of software for the production of income.

**Operating Expenses decreased \$135,087 due primarily to :**

For the three months ended June 30, 2006, we incurred operating expenses of \$178,012 as compared to \$313,099 for the same period ended June 30, 2005. The decrease of \$135,087 is due primarily to the recovery of bad debts of \$1,147,264 offset by stock-based compensation expense of \$1,101,030.

**Stock-Based Compensation Expense**

In March 2005, the SEC staff expressed their views with respect to SFAS No. 123R in Staff Accounting Bulletin No. 107, "Share-Based Payment," (SAB 107). SAB 107 provides guidance on valuing options. The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. Also, that cost is recognized over the period during which the employee is required to provide services in exchange for the award.

Stock-Based Compensation Expense had a net increase of \$954,780 for the three months ended June 30, 2006 due to compensation to the chief executive officer and four vice presidents and new consultants.

The total other income was \$153 for the three months ended June 30, 2006 compared to \$(8,074) for the same period ended June 30, 2005. The \$153 includes interest income.

#### Corporate Taxes

Enterprise income tax in PRC is generally charged at 33% of a company's assessable profit, in which 30% is a national tax and 3% is a local tax. For foreign investment enterprises established in a Special Economic Zone or Coastal Open Economic Zone, and which are engaged in production-oriented activities, the national tax rate could be reduced to 15% or 24% respectively. Companies which are incorporated in PRC are subject to a PRC enterprise income tax at the applicable tax rates on the taxable income as reported in their Chinese statutory accounts in accordance with the relevant enterprise income tax laws applicable to foreign enterprises. Pursuant to the same enterprise income tax laws, the subsidiaries are fully exempted from PRC enterprise income tax for two years starting from the first profit-making year, followed by a 50% tax exemption for the next three years.

No provision for Enterprise income tax in the PRC had been made for the three months ended June 30, 2006 and 2005. The Company had no assessable taxable income in the PRC, due to the fact that it is exempt from PRC tax, based on the statutory provisions granting a tax holiday for a two year period, as stated above, or for the Company's operations, for the Company's years ended September 30, 2005 and 2006. Based on the above statutory PRC tax provision, the Company believes that it is remote that any PRC tax liability will be due for the three months ended June 30, 2006 and 2005.

If all of the above tax holidays and concessions had not been available, we would have paid \$630,000 and \$460,000 more in taxes for the three months ended June 30, 2006 and 2005 respectively. The basic and diluted net income per share would have been lower by \$0.007 and \$0.007, respectively for the three months ended June 30, 2006 while the basic and diluted net income per share would have been lower less than \$0.007 and \$0.006, respectively for the three months ended June 30, 2005.

#### Nine Months Ended June 30, 2006 and 2005 (Unaudited)

	6/30/2006	6/30/2005	Increase (Decrease)	Percentage Increase (Decrease)
Revenues	\$ 10,879,607	\$ 6,301,132	\$ 4,578,475	73%
Cost of sales	2,904,894	3,988,038	(1,083,144)	(27)%
Gross profit	7,974,713	2,313,094	5,661,619	245%
Operating expenses	3,412,883	829,646	2,583,237	311%
Other income (expenses)	2,541	(1,565)	4,106	(262)%
Income from continuing operations	4,564,371	1,481,883	3,082,488	208%
Net income from discontinued operations	55,757	30,159	25,598	85%
Net income	4,620,128	1,512,042	3,108,086	206%
Other comprehensive income	3	0	3	
Comprehensive income	\$ 4,620,131	\$ 1,512,042	\$ 3,108,089	206%

Earnings per common share

- Basic	\$	0.056	\$	0.021
- Fully diluted	\$	0.052	\$	0.019

Weighted average common share

Outstanding

- Basic and fully diluted	82,040,000	71,125,500
- Fully diluted	88,921,000	81,125,500

**Revenues increased \$4,578,475 due primarily to:**

Revenues were recorded at \$10,879,607 for the nine months ended June 30, 2006 compared to \$6,301,132 for the same period ended June 30, 2005. The increase of \$4,578,475 is due primarily to the increase in revenue from the fixed monthly income of \$321,690 by providing our products of IBS V4.1 that was not sold at the same period ended of June 30, 2005 and sale of the contracted rights to use IBS V4.1 of \$5,052,000 for the nine months ended June 30, 2006.

Revenues for the nine months ended June 30, 2006 were generated from the fixed monthly income amounting \$682,900 by providing clients our support and logistics services for the products, namely Total Solutions, SEO4Mobile and IBS V4.1.

Also, revenues for the three months ended June 30, 2006 were generated from the sales of the right to use IBSV4.1 amounting \$5,052,000.

During the three months ended June 30, 2006 and 2005, sales of the Total Solution System to Taikang Capital Managements Corporation, an affiliate of the Company amounting to \$360,000 were classified as Related Party Transactions.

As of June 30, 2006, we had signed sales contracts with approximately 6 major clients, which generated total revenue of \$10,879,607 to the Company and represented all of our revenue. The loss of these customers, individually or in the aggregate, could have a material impact on our results of operations. The sales contracts have proven out our current business model and have shown us that we have customer acceptance for our products in the PRC telecommunications market. It is our present expectation that the integrated Internet and value-added telecommunication service market that we serve is an expanding market in the PRC and our customer base and number of sales contracts should increase in fiscal year 2006.

During the nine months ended June 30, 2006 and 2005, sales of Total Solution System to Taikang Capital Managements Corporation, an affiliate of the Company, amounting to \$1,080,000 were classified as Related Party Transactions.

**Costs of Sales decreased \$1,083,144 due primarily to :**

Costs of sales were \$2,904,894 for the nine months ended June 30, 2006 compared to \$3,988,038 for the same period ended June 30, 2005. Costs of Sales included depreciation and other cost of sales. Depreciation represented the depreciation of software which related to the revenue of the Company. Other cost of sales was the purchase of various contents and other later stage production from raw contents and costs associated with the performance of our communication services. The decrease of \$1,083,144 included the decrease of other cost of sales of \$1,417,557 was due primarily to the drop of purchase of content and the drop of initial costs of equipment provided together with the package offered and there was an increase of depreciation of \$334,413 due to the Company purchase of software for the production of income.

**Operating Expenses increased \$2,583,237 due primarily to :**

For the nine months ended June 30, 2006, we incurred operating expenses of \$3,412,883 as compared to \$829,646 for the same period ended June 30, 2005. Operating Expenses included recovery of bad debts of \$170,190, salary of \$392,811 and stock-based compensation expense of \$2,676,005.



Stock-Based Compensation Expense had a net increase of \$2,237,255 for the nine months ended June 30, 2006 due to the compensation of vice presidents and the chief executive officer and new consultants.

The other income was \$2,541 for the nine months ended June 30, 2006 compared to (\$1,565) for the same period ended June 30, 2005. The \$2,541 was interest income.

**Income from discontinued operations increased \$ 25,598 due primarily to:**

For the nine months ended June 30, 2006, we incurred net income from discontinued operations \$55,757 as compared to \$30,159 for the same period ended June 30, 2005. Income from discontinued operations included \$295,533 of gain on disposal of subsidiary and \$239,776 loss from discontinued operations. The disposal of subsidiary represents that we sold all our interests in Island Media.

**Corporate Taxes**

Enterprise income tax in PRC is generally charged at 33% of a company's assessable profit, in which 30% is a national tax and 3% is a local tax. For foreign investment enterprises established in a Special Economic Zone or Coastal Open Economic Zone, and which are engaged in production-oriented activities, the national tax rate could be reduced to 15% or 24% respectively. Companies which are incorporated in PRC are subject to a PRC enterprise income tax at the applicable tax rates on the taxable income as reported in their Chinese statutory accounts in accordance with the relevant enterprise income tax laws applicable to foreign enterprises. Pursuant to the same enterprise income tax laws, the subsidiaries are fully exempted from PRC enterprise income tax for two years starting from the first profit-making year, followed by a 50% tax exemption for the next three years.

No provision for Enterprise income tax in the PRC had been made for the nine months ended June 30, 2006 and 2005. The Company had no assessable taxable income in the PRC, due to the fact that it is exempt from PRC tax, based on the statutory provisions granting a tax holiday for a two year period, as stated above, or for the Company's operations, for the Company's years ended September 30, 2005 and 2006. Based on the above statutory PRC tax provision, the Company believes that it is remote that any PRC tax liability will be due for the nine months ended June 30, 2006 and 2005.

If all of the above tax holidays and concessions had not been available, we would have paid \$3,170,000 and \$800,000 more in taxes for the nine months ended June 30, 2006 and 2005 respectively. The basic and diluted net income per share would have been lower by \$0.03 and \$0.03, respectively for the nine months ended June 30, 2006 while the basic and diluted net income per share would have been lower less than \$0.01 and \$0.01, respectively for the nine months ended June 30, 2005. As at June 30, 2006, the cumulative effect of such tax holidays and concessions not being granted would be approximately \$3,170,000.

**OVERALL**

We reported net income for the nine months ended June 30, 2006 of \$4,620,128. This translates to overall per-share profit of \$0.06 for the nine months ended June 30, 2006.

**Liquidity And Capital Resources**

*Balance Sheet Items*

We believe that our currently-available working capital, after receiving the aggregate proceeds of our capital raising activities in the first quarter of fiscal 2006, should be adequate to sustain our operations through the end of fiscal year 2006.

As of June 30, 2006, we had a cash balance of \$852,405 held in Hong Kong and PRC. We currently have no cash positions in the United States. We have been funding our operations from the receipts from customers.

As of June 30, 2006, the Company owed one officer or his companies \$57,513. The advances are non-interest bearing and are payable on demand.

Management has invested substantial time evaluating and considering numerous proposals for possible acquisitions or combinations developed by management or presented by investment professionals, the Company's advisors and others. We continue to consider acquisitions, business combinations, or start up proposals, which could be advantageous to shareholders. No assurance can be given that any such project, acquisition or combination will be concluded.

Our Company's future operations and growth will likely be dependent on our ability to raise capital for expansion and to implement our strategic plan.

### *Cash Flows*

Net cash provided by operations for the nine months ended June 30, 2006 was \$1,816,722. It is due primarily to the increase in accounts receivable of \$121,157 and the increase in prepaid expense of \$2,626,663. Net cash used in investing activities for the nine months ended June 30, 2006 was \$3,181,378 for acquiring software. Net cash provided by financing activities for the nine months ended June 30, 2006 was \$216,211. It represented proceeds from loan payable of \$ 226,410 and repayment of finance lease of \$10,199.

Our future growth is dependent on our ability to raise capital for expansion, and to seek additional revenue sources. If we decide to pursue any acquisition opportunities or other expansion opportunities, we may need to raise additional capital, although there can be no assurance such capital-raising activities would be successful.

We currently have a commitment to purchase copyrights as we had signed an agreement with Zestv Features Limited (“Zestv”) on December 29, 2005 to purchase Zestv’s future rights to its music, films and TV programming copyrights of online content. The total obligation to Zestv is \$2,500,000. As of June 30, 2006, the Company paid to Zestv a cumulative amount of \$1,807,436 and recorded the payments as a prepaid expense.

Besides, we signed an agreement with Zestv Incorporation on June 13, 2006 to purchase two film’s copy rights of “Xiong Chu Mo” and “Da Dian Ying”, the cost of each film is \$1,060,000. The total obligation to Zestv Incorporation is \$2,120,000. As June 30, 2006, the Company paid 50% amounting \$1,060,000 and recorded the payments as prepaid expenses. The Company need to settle the balance of \$1,060,000 within 30 days after Zestv Incorporation supplies the rights of using the film to the Company.

Our future growth is dependent on our ability to raise capital for expansion, and to seek additional revenue sources. If we decide to pursue any acquisition opportunities or other expansion opportunities, we may need to raise additional capital, although there can be no assurance such capital-raising activities would be successful.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the evaluation of accounts receivable and contingent liabilities and the evaluation of our income tax liabilities.

Management relies on historical experience, legal advice and on assumptions believed to be reasonable under the circumstances in making its judgment and estimates. Actual results could differ materially from those estimates.

### **Risk Factors That May Affect Future Operating Results**

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are the material risks that apply to our business, operations, financial condition and prospects.

#### **Operating Risk**

Currently, the Company's revenues are primarily derived from the reselling of software to enterprises, large corporations, and the academic sector, as well as telecom-related services to customers in the PRC. The Company

hopes to expand its operations to countries outside the PRC, however, such expansion has not been commenced and there are no assurances that the Company will be able to achieve such an expansion successfully. Therefore, a downturn or stagnation in the economic environment of the PRC could have a material adverse effect on the Company's financial condition.

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### **Products Risk**

Our revenue-producing operations are limited and the information available about the Company makes evaluation of the Company difficult. We have conducted limited operations and we have little operating history that permits you to evaluate our business and our prospects based on prior performance. You must consider your investment in light of the risks, uncertainties, expenses and difficulties that are usually encountered by companies in their early stages of development, particularly those engaged in international commerce. In addition to competing with other telecommunication and web companies, the Company could have to compete with larger U.S. companies who have greater funds available for expansion, marketing, research and development and the ability to attract more qualified personnel if access is allowed into the PRC market. If U.S. companies do gain access to the PRC markets in general, they may be able to offer products at a lower price. There can be no assurance that the Company will remain competitive should this occur.

### **Exchange Risk**

The Company generates revenue and incurs expenses and liabilities in Chinese renminbi, Hong Kong dollars and U.S. dollars. As a result, the Company is subject to the effects of exchange rate fluctuations with respect to any of these currencies. Since 1994, the official exchange rate for the conversion of renminbi to U.S. dollars has generally been stable and the renminbi has appreciated slightly against the U.S. dollar. On July 21, 2005, the People's Bank of China ("PBOC") announced a revaluation of the Chinese currency Renminbi ("RMB") or yuan, which immediately jolted international finance markets. PBOC said the RMB yuan will no longer be pegged to the U.S. dollar and will be traded at a rate of 8.11 for the U.S. dollar. However, given recent economic instability and currency fluctuations in the world, the Company can offer no assurance that the renminbi will continue to remain stable against the U.S. dollar or any other foreign currency. The Company's results of operations and financial condition may be affected by changes in the value of renminbi and other currencies in which its earnings and obligations are denominated. The Company has not entered into agreements or purchased instruments to hedge its exchange rate risks, although the Company may do so in the future.

### **Our Future Performance Is Dependent On Our Ability To Retain Key Personnel**

Our future success depends on the continued services of executive management in the PRC. The loss of any of their services would be detrimental to us and could have an adverse effect on our business development. We do not currently maintain key-man insurance on their lives. Our future success is also dependent on our ability to identify, hire, train and retain other qualified managerial and other employees. Competition for these individuals is intense and increasing.

### **Our Business Depends Significantly Upon the Performance of Our Subsidiaries, Which Is Uncertain**

Currently, a majority of our revenues are derived via the operations of our subsidiaries. Economic, governmental, political, industry and internal company factors outside our control affect each of our subsidiaries. If our subsidiaries do not succeed, the value of our assets and the price of our common stock could decline. Some of the material risks relating to our partner companies include:

- our subsidiaries are located in the PRC and have specific risks associated with that; and
- Intensifying competition for our products and services and those of our subsidiaries, which could lead to the failure of some of our subsidiaries.

### **A Viable Trading Market for Our Common Stock May Not Develop**

Our common stock is currently traded on the Over-the-Counter Bulletin Board under the symbol "TCOM". The quotation of our common stock on the OTCBB does not assure that a meaningful, consistent and liquid trading market currently exists. We cannot predict whether a more active market for our common stock will develop in the future. In the absence of an active trading market:

- investors may have difficulty buying and selling or obtaining market quotations;
- market visibility for our common stock may be limited; and
- a lack of visibility for our common stock may have a depressive effect on the market price for our common stock.

### **Our Stock Is a Penny Stock, and There Are Significant Risks Related to Buying and Owning Penny Stock**

Rule 15g-9 under the Securities Exchange Act of 1934 imposes additional sales practice requirements on broker-dealers that sell non-Nasdaq listed securities except in transactions exempted by the rule, including transactions meeting the requirements of Rule 506 of Regulation D under the Securities Act and transactions in which the purchaser is an institutional accredited investor (as defined) or an established customer (as defined) of the broker or dealer. For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. Consequently, this rule may adversely affect the ability of broker-dealers to sell our securities and may adversely affect your ability to sell any of the securities you own.

The Securities and Exchange Commission regulations define a "penny stock" to be any non-Nasdaq equity security that has a market price (as defined in the regulations) of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to some exceptions. For any transaction by a broker-dealer involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure is also required to be made about commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Our market liquidity could be severely adversely affected by these rules on penny stocks.

Our largest target market is in the PRC and there are several significant risks relating to conducting operations in the PRC. Our business, financial condition and results of operations are, to a significant degree, subject to economic, political and social events in the PRC.

### **Governmental Policies in the PRC Could Impact Our Business**

Since 1978, the PRC's government has been and is expected to continue reforming its economic and political systems. These reforms have resulted in and are expected to continue to result in significant economic and social development in the PRC. Many of the reforms are unprecedented or experimental and may be subject to change or readjustment due to a number of political, economic and social factors. We believe that the basic principles underlying the political and economic reforms will continue to be implemented and provide the framework for the PRC's political and economic system. New reforms or the readjustment of previously implemented reforms could have a significant negative effect on our operations. Changes in the PRC's political, economic and social conditions and governmental policies which could have a substantial impact on our business include:

- new laws and regulations or new interpretations of those laws and regulations;
- the introduction of measures to control inflation or stimulate growth;
- changes in the rate or method of taxation;
- the imposition of additional restrictions on currency conversion and remittances abroad; and
- any actions which limit our ability to conduct lottery operations in the PRC.

### **Economic Policies in the PRC Could Negatively Impact Our Business**

The economy of the PRC differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development in various respects, such as structure, government involvement, level of development,



growth rate, capital reinvestment, allocation of resources, self-sufficiency, rate of inflation and balance of payments position. In the past, the economy of the PRC has been primarily a planned economy subject to one- year and five-year state plans adopted by central government authorities and largely implemented by provincial and local authorities. These plans set production and development targets.

Since 1978, increasing emphasis had been placed on decentralization and the utilization of market forces in the development of the PRC's economy. Economic reform measures adopted by the PRC's government may be inconsistent or ineffectual, and we may not be able to capitalize on any reforms in all cases. Further, these measures may be adjusted or modified in ways that could result in economic liberalization measures that are inconsistent from time to time, from industry to industry or across different regions of the country. The PRC's economy has experienced significant growth in the past decade. This growth, however, has been accompanied by imbalances in the PRC's economy and has resulted in significant fluctuations in general price levels, including periods of inflation. The PRC's government has implemented policies from time to time to increase or restrain the rate of economic growth, control periods of inflation or otherwise regulate economic expansion. While we may be able to benefit from the effects of some of these policies, these policies and other measures taken by the PRC's government to regulate the economy could also have a significant negative impact on economic conditions in the PRC with a resulting negative impact on our business.

### **The PRC's Entry into the WTO Creates Uncertainty**

The PRC formally became the 143rd member of the World Trade Organization (WTO), the multilateral trade body, on December 11, 2001. Entry into the WTO will require the PRC to further reduce tariffs and eliminate other trade restrictions. While the PRC's entry into the WTO and the related relaxation of trade restrictions may lead to increased foreign investment, it may also lead to increased competition in the PRC's markets from international companies. The impact of the PRC's entry into the WTO on the PRC's economy and our business is uncertain.

### **Uncertainty Relating to the PRC's Legal System Could Negatively Affect Us**

The PRC has a civil law legal system. Decided court cases do not have binding legal effect on future decisions. Since 1979, many new laws and regulations covering general economic matters have been promulgated in the PRC. Despite this activity to develop the legal system, the PRC's system of laws is not yet complete. Even where adequate law exists in the PRC, enforcement of contracts based on existing law may be uncertain and sporadic and it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of the PRC's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. Further, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that will have an effect on our current financial conditions or our financial conditions for the remainder of 2006.

### **Commitments**

As of the balance sheet date, the Company had a total commitment amount of \$550,728, which comprises three lease agreements. The first lease commitment is the commitment of TCOM to rent the office at Suite 2412-13, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong with a gross area of approximately 1,514 square feet for a term of 36 months from May 1, 2005 amounting to \$109,464.

The second lease commitment is the commitment of Talent Leader to rent its office at Room 1005B, Sino Plaza 255-257, Gloucester Road, Hong Kong, for a term of 36 months from September 15, 2005 amounting to \$167,677.

The third lease commitment is the commitment of 3G Dynasty to rent its office at No. 74 Shanan Road Shiqiao Panyu Guangzhou, PRC for a term of 36 months from July 1, 2005 amounting to \$273,587.

Obligations to purchase copyrights - On December 29, 2005, the Company had signed an agreement with Zestv Features Limited ("Zestv") to purchase Zestv's future rights to its music, films and TV programming copyrights of online

content. The total obligations to Zestv are \$2,500,000. As of June 30, 2006, the Company paid to Zestv a cumulative amount of \$1,807,436 and recorded the payments as a prepaid expense.

### **ITEM 3. CONTROLS AND PROCEDURES**

Our Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for us. Based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing of this Quarterly Report, and subject to the limitations noted hereinafter, the Certifying Officers have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in this Quarterly Report is accumulated and communicated to management, including our principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officers have also indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Our management, including each of the Certifying Officers, does not expect that our disclosure controls or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a 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 of fraud, if any, within a 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 any systems 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 goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

### **ITEM 3. DEFAULTS UNDER SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5. OTHER INFORMATION**

**(a) Reports on Form 8-K**

None.

**(b) Information required by Item 401(g) of Regulation S-B**

None.

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**ITEM 6. EXHIBITS**

**Exhibits**

**Exhibit Number**

31.1 Rule 13a-14(a)/15d-14(a) Certification (CEO)\*

31.2 Rule 13a-14(a)/15d-14(a) Certification (CFO)\*

32.1 Section 1350 Certification (CEO)\*

32.2 Section 1350 Certification (CFO)\*

\*Filed herewith.

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**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 21, 2006

TELECOM COMMUNICATIONS, INC.

By: /s/ Tim T. Chen

Tim T. Chen

President and CEO

(Principal Executive Officer)

Date: August 21, 2006

By: /s/ Victor Z. Li

Victor Z. Li

Principal Financial and Accounting Officer