RARE ELEMENT RESOURCES LTD
Form SC 13D
October 19, 2017

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT
TO § 240.13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO
§ 240.13d-2(a)

UNDER THE SECURITIES AND EXCHANGE ACT OF 1934

(Amendment No. ___)*

Rare Element Resources Ltd.
(Name of Issuer)

Common Stock
(Title of Class of Securities)

75381M102
(CUSIP Number)

Kenneth J. Mushinski
Synchron
3550 General Atomics Court
San Diego, CA 92121-1122
(858) 455-3000
copies to:
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Pillsbury Winthrop Shaw Pittman LLP
1540 Broadway
New York, NY 10036-4039
(212) 858-1235
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

October 2, 2017
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box .

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The Information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1	NAMES OF REPORTING PERSONS Synchron	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) (b)
3	SEC USE ONLY	
4	SOURCE OF FUNDS WC	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(E) OR 2(F)	
6	CITIZENSHIP OR PLACE OF ORGANIZATION California	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 50,825,000 Common Shares (See Item 5)
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 50,825,000 Common Shares (See Item 5)
	10	SHARED DISPOSITIVE POWER 0

11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 50,825,000 Common Shares (See Item 5)
12	

	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 49.0% of Common Shares (See Item 5)
14	TYPE OF REPORTING PERSON CO

1	NAMES OF REPORTING PERSONS General Atomic Technologies Corporation	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) (b)
3	SEC USE ONLY	
4	SOURCE OF FUNDS WC	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(E) OR 2(F)	
6	CITIZENSHIP OR PLACE OF ORGANIZATION Wyoming	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 50,825,000 Common Shares (See Item 5)
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 50,825,000 Common Shares (See Item 5)
	10	SHARED DISPOSITIVE POWER 0

11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 50,825,000 Common Shares (See Item 5)
12	

	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 49.0% of Common Shares (See Item 5)
14	TYPE OF REPORTING PERSON CO

1	NAMES OF REPORTING PERSONS Tenaya Corporation		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) (b)
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(E) OR 2(F)		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 50,825,000 Common Shares (See Item 5)	
	8	SHARED VOTING POWER 0	
	9	SOLE DISPOSITIVE POWER 50,825,000 Common Shares (See Item 5)	
	10	SHARED DISPOSITIVE POWER 0	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 50,825,000 Common Shares (See Item 5)		
12			

	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 49.0% of Common Shares (See Item 5)
14	TYPE OF REPORTING PERSON CO

Item 1. Security and Issuer.

The class of equity securities to which this Schedule 13D relates is the Common Shares, no par value, of Rare Element Resources Ltd., a British Columbia corporation (the "Issuer"). The Issuer's principal executive offices are P.O. Box 271049, Littleton, Colorado 80127.

Item 2. Identity and Background.

(a)-(c) The persons filing this Schedule 13D are Synchron, a California corporation ("Synchron"), General Atomic Technologies Corporation, a Wyoming corporation and parent company of Synchron ("GATC") and Tenaya Corporation, a Delaware corporation and parent company of GATC ("Tenaya, and together with Synchron and GATC, the "Reporting Persons"). Synchron is a privately-owned company for diversified businesses in technology and other industries and its principal office and business is located at 3550 General Atomics Court, San Diego, California 92121-1122. GATC is a privately-owned holding company for diversified businesses in technology and other industries and its principal office and business is located at 3550 General Atomics Court, San Diego, California 92121-1122. Tenaya is a privately-owned holding company for diversified businesses in technology and other industries and its principal office and business is located at P.O. Box 910304, San Diego, California, 92191-0304.

(d)-(e) During the last five years, none of the Reporting Persons has been (A) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (B) a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

(f) N/A

Item 3. Source and Amount of Funds or Other Consideration.

On October 2, 2017, the Issuer and Synchron executed an investment agreement (the "Investment Agreement") providing for the purchase of Common Shares of the Issuer. Pursuant to the Investment Agreement, Synchron acquired (x) the right to designate two directors to fill vacancies on the Board of Directors of the Issuer and (y) 26,650,000 Common Shares of the Issuer (the "Acquired Shares"), which constitutes approximately 33.5% of the fully-diluted Common Shares issued and outstanding, for $4,752,000 in cash, including a $500,000 preliminary payment made on August 18, 2017 pursuant to a term sheet executed between the Issuer and an affiliate of Synchron (the "Purchase Price"). The Issuer has also granted Synchron an option (the "Option") to purchase an additional 24,175,000 Common Shares of the Issuer (the "Option Shares"), which, together with the Acquired Shares, would constitute approximately 49.0% of the fully diluted Common Shares issued and outstanding. The Option is exercisable until October 2, 2021, following the purchase of the Acquired Shares, and the total exercise price of the Option will be $5,040,000 in cash. The Issuer and Synchron also executed an intellectual property rights agreement, pursuant to which the Issuer has granted Synchron certain rights to the Issuer's intellectual property relating to rare earth processing and separation. Synchron acquired the Common Shares for investment purposes.

The source of the Purchase Price was available cash and cash equivalents of Synchron.

Item 4. Purpose of the Transaction.

See Item 3.

Item 5. Interest in Securities of the Issuer.

(a)-(b) Synchron is the beneficial owner of 50,825,000 Common Shares of the Issuer, including 26,650,000 Acquired Shares (which were issued in connection with this transaction) and the right to acquire 24,175,000 Option Shares, approximately 49.0% of the Common Shares of the Issuer outstanding as of the filing of its Quarterly Report on Form 10-Q for the period ended June 30, 2017 (assuming, for the purpose of computing this percentage, that the Option Shares are deemed to be outstanding in accordance with Rule 13d-3 pursuant to the Securities Exchange Act of 1934, as amended). Synchron has the sole voting and dispositive power over the Acquired Shares and, upon acquisition, will have the sole voting and dispositive power over the Option Shares.

Because each of General Atomic Technologies Corporation and Tenaya Corporation may be deemed to control Synchron, each of General Atomic Technologies Corporation and Tenaya Corporation may be deemed to beneficially own, and to have the power to vote or direct the vote, or dispose or direct the disposition of, all of the Common Shares beneficially owned by Synchron.

The filing of this Schedule 13D should not be construed as an admission that any Reporting Person is the beneficial owner of any of the shares of Common Shares that such Reporting Person may be deemed to beneficially own.

(c) Other than the transactions described Item 3 above, the Reporting Persons have not been involved in any transactions involving the securities of the Issuer in the last 60 days.

(d) Except as otherwise indicated above, no other persons are known that have the right to receive or the power to direct the receipt of dividends from, or the proceeds of sale of, such securities.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

Pursuant to Rule 13d-1(k) promulgated under the Exchange Act, the Reporting Persons have entered into an agreement with respect to the joint filing of this statement, and any amendment or amendments hereto.

By virtue of the relationships between and among the Reporting Persons, as described in Item 2, the Reporting Persons may be deemed to be a “group” under the Federal securities laws.

Except as described or referred to above, there are no contracts, arrangements, understandings or relationships among the Reporting Persons, or between such persons and any other person with respect to any securities of the Issuer, including but not limited to transfer or voting of any securities of the Issuer, finder’s fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding of proxies.

Item 7. Material to be Filed as Exhibits.

Exhibit 1. Joint Filing Agreement between Synchron, General Atomic Technologies Corporation and Tenaya Corporation.

Exhibit 2. Investment Agreement by and between Rare Element Resources Ltd. and Synchron, dated October 2, 2017.

Exhibit 3. Common Share Purchase Option granted by Rare Element Resources Ltd. to Synchron.

Exhibit 4. Intellectual Property Rights Agreement entered into by and between Rare Element Resources Ltd and Synchron, dated October 2, 2017.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: October 18, 2017

SYNCHRON

By: /s/ Kenneth J. Mushinski
Name: Kenneth J. Mushinski
Title: President

GENERAL ATOMIC
TECHNOLOGIES CORPORATION

By: /s/ James N. Blue
Name: James N. Blue
Title: Director, Chairman and President

TENAYA CORPORATION

By: /s/ James N. Blue
Name: James N. Blue
Title: Chairman, Director and President

RIGHT: 0px">)

(896,495

)

Gross profit

4,007,274

511,110

Operating expenses:

Allowance for bad debt

525,840

-

Depreciation

36,571

-

Salaries	252,249	-
Stock-based compensation expenses	667,353	1,008,750
Other selling, general and administrative	528,609	477,650
Total operating expenses	2,010,622	1,486,400
Income/ (loss) from operations	1,996,652	(975,290)
Other income/ (expense):		
Interest income	699	45
Other income	4,946	553,709
Interest expense	(4,004)	

(1,946
)
Acquisition costs

-

-

Total other income (expense)

1,641

551,808

Income/ (loss) from operations

1,998,293

(423,482
)
before income taxes

Provision for income taxes

-

-

Income/ (expense) from continuing operations before minority interest

1,998,293

(423,482
)

Minority interest in loss (income) of subsidiary

20,000

(35,824
)

Income/ (loss) from continuing operations

2,018,293

(459,306
)

Income/ (loss) from discontinued operations,

- Gain on disposal of subsidiary	53,431	200,000
- Loss on disposal of subsidiary	-	(138,277)
- Net income from the discontinued operations of subsidiaries	-	354,263
- Net (expenses) from the discontinued operations of subsidiaries	(23,272)	-
Total income from discontinued operations	30,159	415,986
Net income/ (loss)	$ 2,048,452	$ (43,320)
EPS from continuing operations - basic	0.03	(0.01)
EPS from discontinued operations - basic	-	0.01

Total EPS - basic	0.03	(0.00)
EPS from continuing operations - fully diluted	0.02	(0.01)
EPS from discontinued operations - fully diluted	-	0.01
Total EPS - fully diluted	0.02	(0.00)
DENOMINATOR FOR BASIC AND DILUTED EPS		
Weighted average share - basic	72,978,411	45,919,882
Weighted average share - fully diluted	82,978,411	51,344,540

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

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended September 30, 2005 **Restated**	For the Year Ended September 30, 2004 **Restated**
Cash flows from operating activities		
Net income (loss)	$ 2,048,452	$ (43,320)
Adjustments to reconcile net income (loss) to net cash provided by operating activities :		
Depreciation - continuing operations	1,538,763	262,027
Depreciation - discontinued operations	-	207,073
Loss on disposal of equipment	208,476	150,310
Allowance for bad debt	525,840	-
Minority interest	(20,000)	310,489
Interest income	(699)	-
Stock-based compensation expenses	667,353	1,008,750
Gain on disposal of subsidiary	(53,431)	(200,000)
Loss on disposal of subsidiary	-	138,277
Changes in operating assets and liabilities :		
Accounts receivable	(3,212,901)	1,010,260
Inventory of real estate held for sale	(21,065)	(33,965)
Costs and estimated earnings in excess of billings on uncompleted contracts	-	(3,043,649)
Retention receivables	-	(669,995)
Due from related party	(86,316)	(4,153)
Prepaid and other current assets	(654,626)	425,069
Other assets	-	11,983
Accrued payable and accrued expenses	1,117,414	762,494
Customer deposits	-	233,351
Billings in excess of costs and estimated earnings on uncompleted contract	-	37,740
Net cash provided by operating activities	2,057,260	562,741
Cash flows from investing activities		
Capital contribution by minority interest	20,000	-
Proceeds from sales of discontinued operations	6,410	200,000
Sales proceeds of disposal of subsidiary net of cash	(519)	(1,343,810)
Interest income	699	-
Capital expenditure	(1,578,550)	(636,429)
Net cash flows used in investing activities	(1,551,960)	(1,780,239)

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

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CON'T.
(RESTATED)

	For the Year Ended September 30, 2005 **Restated**		2004 **Restated**
Cash flows from financing activities			
Due to related party		113,200	69,117
Due to stockholder		(57,138)	304,063
Proceeds from loan payable		-	20,000
Additions of finance lease		64,102	-
Repayment of finance lease		(11,438)	-
Proceeds from issuance of common stock		1,050,000	-
Net cash flows provided by financing activities:		1,158,726	393,180
Effect of exchange rate changes in cash		114	5,590
Net increase (decrease) in cash		1,664,140	(818,728)
Cash - beginning of year		336,707	1,155,435
Cash - end of year		2,000,847	336,707
Supplemental disclosure of cash flow information:			
Non cash investing and financing activities:			
Common stock issued for acquisition of software	$	2,000,000	-
Common stock issued for payment of consultancy fee	$	840,000	$ 1,740,000
Accounts receivable used for acquisition of software	$	317,295	-

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

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock $.001 Par Value Number of Shares	Amount	Additional Paid In Capital **Restated**	Retained Earnings (Deficit) **Restated**	Accumulated Other Comprehensive Income(Loss) **Restated**	Total Stockholders' Equity **Restated**
Balance, September 30, 2003	37,299,000	$ 37,299	$ -	$ (537,599)	$ (7,166)	$ (507,466)
Shares issued at $.0197 per share with 10 million warrants at $2.00 each - March 16, 2004	9,889,000	9,889	185,489			195,378
Shares issued at $.62 per share - April 12, 2004	2,600,000	2,600	1,609,400			1,612,000
Shares Issued at $.32 per share - June 12, 2004	400,000	400	127,600			128,000
Shares Issued at $.20 per share - July 22, 2004	7,500,000	7,500	1,492,500			1,500,000
Shares Issued at $.20 per share - July 22, 2004	2,500,000	2,500	497,500			500,000
Net loss for the year ended September 30,				(43,320)		(43,320)
Comprehensive income - unrealized loss on foreign currency translation	-	-	-	-	7,299	7,299
Balance, September 30, 2004	60,188,000	60,188	3,912,489	(580,919)	133	3,391,891
Shares issued at $.20 per share - October 7, 2004	10,000,000	10,000	1,990,000			2,000,000
Shares issued at $.30 per share - February 1, 2005	3,500,000	3,500	1,046,500			1,050,000
Shares issued at $.24 per share - July 22, 2005	3,500,000	3,500	836,500			840,000

Net income for the year ended September 30,							2,048,452			2,048,452
Comprehensive income - unrealized loss on foreign currency translation	-		-		-		-		113	113
Balance, September 30, 2005	77,188,000	$	77,188	$	7,785,489	$	1,467,533	$	246	$ 9,330,456

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

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS DESCRIPTION AND ORGANIZATION

DESCRIPTION OF BUSINESS

Telecom Communications, Inc. and its subsidiaries, hereafter the "Company" or "TCOM", 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.

We have organized our operations into two principal business segments. Our information and entertainment service provider products described above, is our primary business segment. Our other business segment is our revenue derived from 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 year ended September 30, 2005.

ORGANIZATION

TELECOM COMMUNICATIONS, INC.

TCOM was incorporated on January 6, 1997 in the State of Indiana. The Company 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.

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 Huiri Electric (Panyu) Limited (“Huiri”) 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 Huiri. 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.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ALPHA CENTURY HOLDINGS LIMITED

On December 15, 2003, the Company formed Alpha Century Holdings Limited ("Alpha"), a wholly owned subsidiary of the Company, 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. Substantially, all of the Company's operations are conducted through Alpha.

PANYU NO.6 CONSTRUCTION COMPANY

Panyu No.6 Construction Company ("Panyu"), was a 60% owned subsidiary located in Guangzhou, PRC, and its business was an integrated construction company. The Company sold all its interests in Panyu on April 16, 2004 with the net loss on the disposal of $145,622. Panyu's operating income for the year ended September 30, 2004 of $489,192 was shown as Discontinued Operations in the consolidated statements of income.

HUIRI ELECTRIC (PANYU) LIMITED

Huiri Electric (Panyu) Limited ("Huiri"), a corporation established in the PRC, was a wholly owned subsidiary of Arran since March 16, 2004 and its principal activity was trading of electric lightings. On March 31, 2004, Arran sold all its interests in Huiri to Alpha for approximately $13,000.

On June 22, 2005, Alpha sold all its interests in Huiri with a net gain on the disposal of $53,431. Huiri's operating expenses for the year ended September 30, 2005 of $23,272 was shown as Discontinued Operations in the consolidated statements of income and $29,799 for the year ended September 30, 2004.

3G DYNASTY INC.

On February 21, 2005, the Company formed 3G Dynasty Inc. ("3G Dynasty"), a wholly owned subsidiary of the Company, 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, the Company formed Island Media International Limited ("Island Media"), a wholly owned subsidiary of the Company, 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 60% of the shares of Talent Leader Entertainment & Productions Limited ("Talent Leader").

TALENT LEADER ENTERTAINMENT & PRODUCTIONS LIMITED

On July 20, 2005, Island Media subscribed 60% of the shares of Talent Leader, 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.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 the Company. 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 the Company and the dissolution, merger or sale of the Company's assets or business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The consolidated financial statements of the Company, include the accounts of TCOM and its subsidiaries, namely Arran, Alpha, IC Star, 3G Dynasty, and Talent Leader together with the accounts of Panyu and Huiri that were classified under Income from discontinued operations in 2005 and 2004. The 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.

CASH AND CASH EQUIVALENTS

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at time of purchase to be cash equivalents. All cash is held in banks located in Hong Kong.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents the Company’s best estimate of the amount of probable credit losses in the existing accounts receivable balance. The Company determines the allowance for doubtful accounts based upon historical write-off experience and current economic conditions. The Company reviews the adequacy of its allowance for doubtful accounts on a regular basis. Receivable balances past due over 90 days, which exceed a specified dollar amount, are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

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 year ended September 30, 2005 we had 7 customers, that individually accounted for more than 10% of revenues, which totaled $9,005,715, representing 99% of our total revenue. The loss of these customers, individually or in the aggregate, could have a material impact on our results of operations.

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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:

Description	Useful Lives
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

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.

RELATED PARTY AND STOCKHOLDERS' LOANS

The caption "Due to Related Company" on the 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.

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Common stock equivalents, including stock warrants to purchase an aggregate of 10,000,000 shares at September 30, 2005, are included in the diluted earnings per share for the year ended September 30, 2005. The warrants are exercisable 2 years from the issuance date of March 16, 2004 at exercise prices of $2 per share. All of the warrants expire on March 15, 2006.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 profits 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 our total solution product is provided to Taikang on a monthly subscription basis.

SOFTWARE DEVELOPMENT COSTS

We account for our software development costs in accordance with Statement of Financial Accounting Standards No. 86, “Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed.” Under SFAS No. 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 years ended September 30, 2005 and 2004, 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 selling, general and administrative expense. 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.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Statement of Financial Accounting Standards (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, Alpha, IC Star and 3G Dynasty, and the PRC Chinese Yuan Renminbi to be the functional currency of Huiri and Panyu. The financial statements of the subsidiaries are translated to United States 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 at September 30, 2005 were $246.

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.

INCOME TAXES

Income taxes are accounted for under the asset and liability method in accordance with SFAS No. 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

The Company accounts for stock options issued to employees in accordance with the provisions of the Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant. The Company adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS 148, "Accounting for Stock-Based Compensation -Transition and Disclosure", which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS No. 123 had been applied. The Company accounts for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS 123.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. PROPERTY AND EQUIPMENT

Property and equipment, which is located in the PRC, consisted of the following at September 30, 2005:

Computer hardware	$ 129,202
Computer software	4,897,295
Web site	500,000
Motor vehicles	232,410
Furniture and fixtures	35,958
Leasehold improvements	210,183
	6,005,048
Less: accumulated depreciation	(1,647,817)
	4,357,231

4. RELATED PARTY TRANSACTIONS

A stockholder of the Company and his company advanced funds to TCOM for working capital purposes. As of September 30, 2005 and 2004, TCOM owed the stockholder and his company amounts totaling $113,200 and $108,205, respectively. The advances are non-interest bearing and are payable on demand and are both shown as 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 $34,615.

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 year ended September 30, 2005, the Company recognized income from Taikang amounting to $1,440,000. The amount due from the stockholder at September 30, 2005 of $440,000 was classified under the caption "Accounts receivable - affiliate".

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. STOCK TRANSACTIONS

On March 16, 2004, the Company issued 9,889,000 shares of TCOM's common stock, par value $.001 per share and 10,000,000 warrants to purchase 10,000,000 shares of TCOM's common stock at $2 per share to Auto Treasure Holdings Limited, an entity 100% owned by the majority shareholder, to acquire the remaining 20% interest of IC Star. 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 to the new issuance of 9,889,000 shares of Telecom common stock and 10,000,000 warrants (expire March 15, 2006), the excess of the purchase consideration of $8,322,295 over the book value of the net assets of $195,378 acquired amounted to $8,126,917. As a result of this transfer, the net credit entry to equity has equaled the book value of the net assets acquired totaling $195,378. (See note 11 on this $8,126,917 which was recorded in the consolidated statement of operations as an acquisition expense before, was reversed to APIC.)

On April 12, 2004, the Company issued 2,600,000 shares of TCOM's common stock, par value $.001 per share, to various employees and consultants as part of their compensation at market price of $.62 for a total of $1,612,000. The company expensed $570,000 for fiscal year ended September 30, 2004 and amortized $1,042,000 over 24 months over the service periods. (See note 10 on the details of the amortization of the stock-based compensation expenses.)

On June 12, 2004, the Company issued 400,000 shares of TCOM's common stock, par value $.001 per share, to two consultants as part of their compensation at market price of $.32 with a total of $128,000. The consultants will provide the services to the Company for two years from January 1, 2004 to December 31, 2005. The Company will amortise $128,000 over 24 months. (See note 10 on the details of the amortization of the stock-based compensation expenses.)

On July 22, 2004, the Company entered into a stock purchase agreement (the "Purchase Agreement") with Taikang Capital Managements Company ("Taikang"), under which the Company has agreed to issue and sell to the purchasers in a private placement 7,500,000 shares of TCOM's common Stock, par value $.001 per share for an aggregate purchase price of $1,500,000. Simultaneous with this transaction, Taikang converted the $500,000 Convertible Promissory Note into 2,500,000 shares of Common Stock.

On October 7, 2004, the Company entered into a stock purchase agreement with Taikang, an affiliate of the Company, for the purchase of 10,000,000 shares of TCOM's common stock, par value $.001 per share for an aggregate purchase price of $2,000,000, which was paid for the purchase of software from a third party vendor directly and was classified as a non-cash item under cash flow statement.

On February 1, 2005, the Company entered into a stock agreement with Top Rider Group Limited for the purchase of 3,500,000 shares of TCOM's common stock, par value $.001 per share for an aggregate purchase price of $1,050,000. All such shares are restricted securities within the meaning of the Securities Act of 1933. The purchase consideration was to settle the purchase of software IBS V4.1 of $500,000 and the purchase for database of movie stars and singers content of $550,000.

On July 22, 2005, the Company totally issued 3,500,000 shares of the Company's common stock, par value $.001 per share, to two consultants as part of their compensation at market price of $.24 with a total of $840,000. The Company paid one of the consultants 1,500,000 shares of $360,000 to provide 17 months services to the Company. For another consultant, the Company paid 2,000,000 shares of $480,000 to provide 24 months services to the Company. (See note 10 on the details of the amortization of the stock-based compensation expenses.)

As a result of the merger and reincorporation as a Delaware company in February, 2005, the authorized shares of common stock and par value of the Company was increased from 80,000,000 at $.001 to 300,000,000 at $.001 while the authorized shares of preferred stock and par value of the Company was increased from 20,000,000 at $.001 to 50,000,000 at $.001

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. 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 year ended September 30, 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.

No provision for Enterprise income tax in the PRC had been made for the year ended September 30, 2005 and 2004. 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 fiscal years ended September 30, 2005 and 2004.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123(R), “Share-Based Payment”. SFAS 123(R) is a revision of SFAS No., 123, “Accounting for Stock-based Compensation,” and supersedes Accounting Principles Board Opinion No. 25 (“APB 25”), “Accounting for Stock Issued to Employees.” Among other items SFAS 123(R) eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The Company began recognizing compensation expense for the fair value of stock-based compensation in its financial statements in accordance with SFAS 123 in 2003. The effective date of SFAS 123 (R) is the first annual reporting period beginning after June 15, 2005. The adoption of SFAS 123 (R) is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In March 2005, the SEC staff issued additional guidance on SFAS 123 (R) in the form of Staff Accounting Bulletin (“SAB”) No. 107. SAB 107 was issued to assist preparers by simplifying some of the implementation challenges of FAS 123 (R) while enhancing the information that investors receive. SAB 107 creates a framework that is premised on two themes: (a) considerable judgment will be required by preparers to successfully implement FAS 123 (R), specifically when valuing employee stock options; and (b) reasonable individuals, acting in good faith, may conclude differently on the fair value of employee share options. Key topics covered by SAB 107 include: (a) valuation models - SAB 107 reinforces the flexibility allowed by FAS 123 (R) to choose an option-pricing model that meets the standard’s fair value measurement objective; (b) expected volatility - the SAB provides guidance on when it would be appropriate to rely exclusively on either historical or implied volatility in estimating expected volatility; and (c) expected term - the new guidance includes examples and some simplified approaches to determining the expected term under certain circumstances. The Company will apply the principles of SAB 107 in conjunction with its adoption of SFAS 123 (R) but does not believe its adoption will have material impact on the Company’s financial statements or results of operations.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 did not have a material impact on the Company's financial statements or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46, ("FIN 46"), Consolidation of Variable Interest Entities ("VIE"). Until this interpretation, the Company generally included entities in its consolidated financial statements only if it controlled the entity through voting interests. FIN No. 46 requires a variable interest entity, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. FIN No. 46 is effective for reporting periods ending after December 15, 2003. The adoption of FIN No. 46 did not have a material impact on the Company's Consolidated Financial Statements as of September 30, 2005.

In March 2005, FASB issued FASB Interpretation (“FIN”) No. 47, ”Accounting for Conditional Asset Retirement Obligations.” FIN 47 clarifies that the term “Conditional Asset Retirement Obligation” as used in FASB Statement No. 143, “Accounting for Asset Retirement Obligation,” refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a Conditional Asset

Retirement Obligation if the fair value of the liability can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Management does not believe the adoption of FIN 47 will have a material affect on the Company's financial position, results of operations or cash flows.

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, Accounting Changes and Error Corrections ("SFAS No. 154"), which replaced Accounting Principles Board Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 changes

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

the requirements for the accounting for and reporting of a change in accounting principles. It requires retrospective application to prior periods' financial statements of changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact on the Company's operations will depend on future accounting pronouncements or changes in accounting principles.

8. COMMITMENTS AND CONTINGENCIES - LEASE OBLIGATIONS

Operating Leases
Lessee Costs - 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 September 30, 2005, the Company had operating leases that have remaining terms of 34 months. The following table summarizes the Company's future minimum lease payments under operating lease agreements as of September 30, 2005:

Year ended September, 30		
2006	$	237,080
2007		245,863
2008		190,717
	$	673,660

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 $61,726 and $20,414 for fiscal years 2005 and 2004.

9. STOCK PLAN

On June 8, 2005, a Registration Statement on Form S-8 was filed by the Company 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 the Company'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 the Company. 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.

There were 3,500,000 shares issued under the Company's 2005 Stock Awards Plan as of September 30, 2005 that were described on note 5 to the consolidated financial statements.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. 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 services period of a 24 month 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 $521,000 and $390,750 for the year ended September 30, 2005 and 2004.

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 $64,000 and $48,000 for the year ended September 30, 2005 and 2004.

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 $42,353 for the year ended September 30, 2005.

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 $40,000 for the year ended September 30, 2005.

As a result, the total stock compensation being amortized $667,353 and $1,008,750 for the year ended September 30, 2005 and 2004 respectively.

11. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS - SEPTEMBER 30, 2005

The Company's consolidated 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 reduces the net loss 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. 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 and consultants are required to provide services in exchange for the award.

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS - SEPTEMBER 30, 2005-CON'T

The accompanying financial statements for 2005 and 2004 have been restated to reflect the corrections. The accumulated changes to the retained earnings at September 30, 2005 was increased by $9,030,814, including the increase in 2005 current year earnings of $172,647 and the increase in 2004 current year earnings of $8,858,167.

The following is a summary of the restatements for the year ended September 30, 2005 and 2004 :

	Adjustment no:		Increase/(Decrease) in Current Earnings
Reclassification of the depreciation expenses on the software that sold to customers to cost of sales	2	$	(1,502,192)
Transfer of the depreciation which included in operating expenses to cost of sales	2		1,502,192
Reclassification of other selling, general and administrative expenses to deferred stock-based compensation - B/S	3		840,000
Amortization of stock-based compensation over the contract periods	3		(667,353)
Increase in 2005 retained earnings			172,647
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
Reclassification of the depreciation expenses on the software that sold to customers to cost of sales	2	$	(262,027)
Transfer of the depreciation which included in operating expenses to cost of sales	2		262,027
Reclassification of other selling, general and administrative expenses to deferred stock-based compensation - B/S	3		1,740,000
Amortization of stock-based compensation over the contract periods	3		(1,008,750)
Increase in 2004 retained earnings			8,858,167
Total increase in retained earnings as at September 30, 2005		$	9,030,814

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS - SEPTEMBER 30, 2005-CON'T

Restatement of Consolidated Balance Sheet as at September 30, 2005

	As Previously reported September 30, 2005	Restatement Adjustment September 30, 2005	**As restated September 30, 2005**
ASSETS			
Current assets			
Cash and cash equivalents	$ 2,000,847		$ 2,000,847
Accounts receivable - affiliate	440,000		440,000
- others, less allowance for bad debt of $525,840	2,492,000		2,492,000
Due from related party	91,643		91,643
Deferred stock-based compensation - current portion	-	640,368	640,368
Prepaid expenses	371,190		371,190
Other current assets	322,805		322,805
Total current assets	5,718,485		6,358,853
Property, plant and equipment, net	4,357,231		4,357,231
Deferred stock-based compensation - non-current portion		263,529	263,529
Total assets	$ 10,075,716	$ 903,897	$ 10,979,613
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 1,087,962		$ 1,087,962
Accrued expenses	287,126		287,126
Finance lease - current portion	20,761		20,761
Due to related company	113,200		113,200
Total current liabilities	1,509,049		1,509,049
Commitments and contingencies (refer to note 8)			
Non-current liabilities			
Loan payable	108,205		108,205
Finance lease	31,903		31,903
Total non-current liabilities	140,108		140,108
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 77,188,000 shares issued and outstanding)	77,188		77,188
Additional paid in capital	15,912,406	(8,126,917)	7,785,489
Accumulated other comprehensive income	246		246
Retained earnings	(7,563,281)	9,030,814	1,467,533
Total stockholders’ equity	8,426,559		9,330,456
Total liabilities and stockholders' equity	$ 10,075,716	903,897	$ 10,979,613

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS - SEPTEMBER 30, 2005-CON'T

Restatement of Consolidated Statement of Operation for the year ended September 30, 2005

	As Previously reported September 30, 2005	Restatement Adjustment September 30, 2005	**As restated September 30, 2005**
Net revenues - affiliate	1,440,000		1,440,000
- others	7,631,997		7,631,997
	9,071,997		9,071,997
Cost of sales			
Depreciation	-	(1,502,192)	(1,502,192)
Other cost of sales	(3,562,531)		(3,562,531)
	(3,562,531)		(5,064,723)
Gross profit	5,509,466		4,007,274
Operating expenses:			
Allowance for bad debt	525,840		525,840
Consulting expenses	840,000	(840,000)	-
Depreciation	1,538,763	(1,502,192)	36,571
Salaries	252,249		252,249
Stock-based compensation expenses	-	667,353	667,353
Other selling, general and administrative	528,609		528,609
Total operating expenses	3,685,461		2,010,622
Income/ (loss) from operations	1,824,005		1,996,652
Other income/ (expense):			
Interest income	699		699
Other income	4,946		4,946
Interest expense	(4,004)		(4,004)
Total other income (expense)	1,641		1,641
Income/ (loss) from operations before income taxes	1,825,646		1,998,293
Provision for income taxes	-		-
Income/ (expense) from continuing operations before minority interest	1,825,646		1,998,293
Minority interest in loss (income) of subsidiary	20,000		20,000

Income/ (loss) from continuing operations		1,845,646		2,018,293
Income/ (loss) from discontinued operations,				
- Gain on disposal of subsidiary		53,431		53,431
- Net (expenses) from the discontinued operations of subsidiaries		(23,272)		(23,272)
Total income from discontinued operations		30,159		30,159
Net income/ (loss)	$	1,875,805	$	2,048,452
EPS from continuing operations - basic		0.03		0.03
EPS from discontinued operations - basic		-		-
Total EPS - basic		0.03		0.03
EPS from continuing operations - fully diluted		0.02		0.02
EPS from discontinued operations - fully diluted		-		-
Total EPS - fully diluted		0.02		0.02
DENOMINATOR FOR BASIC AND DILUTED EPS				
Weighted average share - basic		72,978,411		72,978,411
Weighted average share - fully diluted		82,978,411		82,978,411

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS - SEPTEMBER 30, 2005-CON'T

	Common Stock $.001 Par Value Number of Shares	Amount	Additional Paid In Capital **Restated**	Retained Earnings (Deficit) **Restated**	Accumulated Other Comprehensive Income(Loss) **Restated**	Total Stockholders' Equity **Restated**
Balance, September 30, 2003, as previous reported	37,299,000	$ 37,299	$ -	$ (537,599)	$ (7,166)	$ (507,466)
Shares issued at $.0197 per share with 10 million warrants at $2.00 each - March 16, 2004, as restated	9,889,000	9,889	185,489			195,378
Shares issued at $.62 per share - April 12, 2004	2,600,000	2,600	1,609,400			1,612,000
Shares Issued at $.32 per share - June 12, 2004	400,000	400	127,600			128,000
Shares Issued at $.20 per share - July 22, 2004	7,500,000	7,500	1,492,500			1,500,000
Shares Issued at $.20 per share - July 22, 2004	2,500,000	2,500	497,500			500,000
Net loss for the year ended September 30, 2004 as restated				(43,320)		(43,320)
Comprehensive income - unrealized loss on foreign currency translation	-	-	-	-	7,299	7,299
Balance, September 30, 2004, as restated	60,188,000	60,188	12,039,406	(580,919)	133	3,391,891
Shares issued at $.20 per share - October 7, 2004	10,000,000	10,000	1,990,000			2,000,000

Shares issued at $.30 per share - February 1, 2005	3,500,000	3,500	1,046,500			1,050,000
Shares issued at $.24 per share - July 22, 2005	3,500,000	3,500	836,500			840,000
Net income for the year ended September 30, 2005 as restated				2,048,452		2,048,452
Comprehensive income - unrealized loss on foreign currency translation	-	-	-	-	113	113
Balance, September 30, 2005	77,188,000	$ 77,188	$ 7,785,489	$ 1,467,533	$ 246	$ 9,330,456

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. RESTATEMENT OF PRIOR CONSOLIDATED FINANCIAL STATEMENTS - SEPTEMBER 30, 2004

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 reduces the net loss 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. 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 and consultants are required to provide services in exchange for the award.

The accompanying financial statements for 2004 have been restated to reflect the corrections. The accumulated changes to the retained earnings at September 30, 2004 was increased by $ $8,858,167. The following is a summary of the restatements for the year ended September 30, 2004 :

	Adjustment no:		Increase/(Decrease) in Current Earnings
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
Reclassification of the depreciation expenses on the software that sold to customers to cost of sales	2	$	(262,027)
Transfer of the depreciation which included in operating expenses to cost of sales	2		262,027
Reclassification of other selling, general and administrative expenses to deferred stock-based compensation - B/S	3		1,740,000
Amortization of stock-based compensation over the contract periods	3		(1,008,750)
Increase in 2004 retained earnings			8,858,167

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. RESTATEMENT OF PRIOR CONSOLIDATED FINANCIAL STATEMENTS - SEPTEMBER 30, 2004-CON'T

Restatement of Consolidated Balance Sheet as at September 30, 2004

	As Previously reported September 30, 2004	Restatement Adjustment September 30, 2004	**As restated September 30, 2004**
ASSETS			
Current assets:			
Cash and cash equivalents	$ 336,707		$ 336,707
Accounts receivable - affiliate	568,294		568,294
Deferred stock-based compensation - current portion	-	585,000	585,000
Prepaid expenses and other current assets	94,025		94,025
Due from related companies	5,327		5,327
Total current assets	1,004,353		1,589,353
Property, plant and equipment, net	2,208,625		2,208,625
Deferred stock-based compensation - non-current portion	-	146,250	146,250
Total assets	$ 3,212,978	$ 731,250	$ 3,944,228
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 386,994		$ 386,994
Due to related party	165,343		165,343
Total Current Liabilities	552,337		552,337
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: 60,188,000 shares issued and outstanding)	60,188		60,188
Additional paid in capital	12,039,406	(8,126,917)	3,912,489
Accumulated other comprehensive income	133		133
Retained earnings	(9,439,086)	8,858,167	(580,919)
Total stockholders' equity	2,660,641		3,391,891
Total liabilities and stockholders' equity	$ 3,212,978	$ 731,250	$ 3,944,228

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. RESTATEMENT OF PRIOR CONSOLIDATED FINANCIAL STATEMENTS - SEPTEMBER 30, 2004-CON'T

Restatement of Consolidated Statement of Operation and Comprehensive Loss for the year ended September 30, 2004

	As Previously reported September 30, 2004	Restatement Adjustment September 30, 2004	**As restated September 30, 2004**
Revenue:			
Net revenues - affiliate	$ 390,000		$ 390,000
- others	1,017,605		1,017,605
	1,407,605		1,407,605
Cost of sales			
Depreciation	-	262,027	262,027
Other cost of sales	634,468		634,468
	634,468		896,495
Gross profit	773,137		511,110
Operating expenses:			
Stock-based compensation expenses	-	1,008,750	1,008,750
Other selling, general and administrative	2,479,677	(2,002,027)	477,650
Total operating expenses costs	2,479,677		1,486,400
(Loss) from operations	(1,706,540)		(975,290)
Other income/ (expense):			
Interest income	45		45
Other income	553,709		553,709
Interest expense	(1,946)		(1,946)
Acquisition costs	(8,126,917)	8,126,917	-
Total other (expenses) / income	(7,575,109)		551,808
Net loss before minority interest	(9,281,649)		(423,482)
Minority interest in loss of subsidiary	(35,824)		(35,824)
Loss from continuing operations	(9,317,473)		(459,306)
Income / (loss) from discontinuing operations			
-Gain on disposal of subsidiary	200,000		200,000

-Loss on disposal of subsidiary		(138,277)		(138,277)
-Net income from the discontinued operations of subsidiary		354,263		354,263
Total income from discontinued operations		415,986		415,986
Net loss	$	(8,901,487)	$	(43,320)
Other comprehensive income				
Foreign currency translation difference		-		-
Comprehensive loss	$	(8,901,487)	$	(43,320)
Loss per Common Share:				
Basic		(0.19)		(0.00)
Fully diluted		(0.17)		(0.00)
Weighted Average Common Share:				
Outstanding - Basic		45,919,882		45,919,882
Outstanding - Fully diluted		51,334,540		51,344,540

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. RESTATEMENT OF PRIOR CONSOLIDATED FINANCIAL STATEMENTS - SEPTEMBER 30, 2004-CON'T

	Common Stock $.001 Par Value Number of Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
Balance, September 30, 2003, as previous reported	37,299,000	$ 37,299	$ -	$ (537,599)	$ (7,166)	$ (507,466)
Shares issued at $.0197 per share with 10 million warrants Warrants at $2.00 each - March 16, 2004, as restated	9,889,000	9,889	185,489			195,378
Shares issued at $.62 per share - April 12, 2004	2,600,000	2,600	1,609,400			1,612,000
Shares Issued at $.32 per share - June 12, 2004	400,000	400	127,600			128,000
Shares Issued at $.20 per share - July 22, 2004	2,500,000	2,500	497,500			500,000
Shares Issued at $.20 per share - July 22, 2004	7,500,000	7,500	1,492,500			1,500,000
Net loss for the year ended September 30, 2004 as restated				(43,320)		(43,320)
Comprehensive income - unrealized loss on foreign currency translation	-	-	-	-	7,299	7,299
Balance, September 30, 2004, as restated	60,188,000	$ 60,188	$ 12,039,406	$ (580,919)	$ 133	$ 3,391,891