TELECOM COMMUNICATIONS INC
Form 10QSB
May 21, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended March 31, 2007

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

Commission file number 333-62236

TELECOM COMMUNICATIONS, INC.
(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware	**35-2089848**
(State or Other Jurisdiction of Incorporation or Organization)	(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, Including Area Code)

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 x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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**:** 123,088,000 shares of common stock, $.001 par value per share, outstanding as of May 1, 2007.

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

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TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

March 31, 2007
ASSETS

Current assets:		Unaudited
Cash	$	651,962
Accounts receivable - related company		480,000
- others, less allowance for bad debts of $3,360,307		3,474,555
Due from related companies		197,660
Prepaid expenses		3,297,178
Other current assets		227,943
Total Current Assets		8,329,298
Property, plant and equipment, net		11,742,135
Intangible assets		2,393,496
Total Assets	$	22,464,929
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$	1,542,458
Accrued expenses		34,175
Other current liabilities		123,897
Total Current Liabilities		1,700,530
Total Liabilities		1,700,530
Minority interest in consolidated subsidiary		2,861,997
Stockholders' equity :		
Preferred stock ($0.001 Par Value: 50,000,000 shares authorized; no shares issued and outstanding)		-
Common stock ($0.001 Par Value: 300,000,000 shares authorized; 123,088,000 shares issued and outstanding)		123,088
Additional paid in capital		20,302,089
Deferred stock-based compensation		(1,798,208)
Accumulated other comprehensive income		6,124
Retained earnings		(730,691)
Total Stockholders' Equity		17,902,402
Total Liabilities and Stockholders' Equity	$	22,464,929

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

2

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Six Months Ended March 31		Three Months Ended March 31	
	2007 Unaudited	2006 Unaudited	2007 Unaudited	2006 Unaudited
Revenue				
Net Revenue - affiliate	$ 720,000	$ 720,000	$ 360,000	$ 360,000
- others	8,677,481	7,379,917	3,073,350	3,411,818
Total Revenue	9,397,481	8,099,917	3,433,350	3,771,818
Cost of sales				
Depreciation	1,898,447	935,031	1,076,263	467,516
Other cost of sales	4,188,898	1,048,650	1,870,195	365,311
	6,087,345	1,983,681	2,946,458	832,827
Gross Profit	3,310,136	6,116,236	486,892	2,938,991
Operating Expenses:				
Allowance for bad debts	3,030,049	977,074	1,890,724	857,914
Depreciation	52,943	36,373	43,901	7,773
Salaries	335,785	386,940	179,679	127,193
Stock-based compensation expenses	1,707,154	1,574,975	680,124	743,529
Other selling and administrative expenses	989,278	259,509	404,539	70,768
.				
Total operating expenses	6,115,209	3,234,871	3,198,967	1,807,177
Income (loss) from operations	(2,805,073)	2,881,365	(2,712,075)	1,131,814
Other income and (expenses)				
Interest income	2,934	2,387	1,313	1,108
Other income (expenses)	23,854	-	3,895	(9,426)
Total other income (expenses)	26,788	2,387	5,208	(8,318)
Income (loss) from operations before income taxes	(2,778,285)	2,883,752	(2,706,867)	1,123,496
Income tax	(1,159)	-	(286)	-
Income (loss) from continuing operations before minority interest	(2,779,444)	2,883,752	(2,707,153)	1,123,496
Minority interest in income of subsidiary	$ (490,505)	$ -	$ 96,086	$ -
Income (loss) from continuing operations	(3,269,949)	2,883,752	(2,611,067)	1,123,496

Loss from discontinuing operations				
Net loss from the discontinued operations of subsidiary	-	(239,775)	-	(239,775)
Net income (loss)	(3,269,949)	2,643,977	(2,611,067)	883,721
Other comprehensive income				
Foreign currency translation difference	5,877	3	(1,017)	(3)
Comprehensive income (loss)	(3,264,072)	2,643,980	(2,612,084)	883,718
Earnings (loss) per Common Share:				
Basic	$ (0.03)	$ 0.03	$ (0.02)	$ 0.01
Fully Diluted	$ (0.03)	$ 0.03	$ (0.02)	$ 0.01
Weighted Average Common Share:				
Outstanding- Basic	117,363,549	80,040,000	117,363,549	82,455,000
Outstanding- Fully Diluted	117,363,549	90,004,000	117,363,549	92,455,000

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

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended March, 31	
	2007 (unaudited)	2006 (unaudited)
Cash flows from operating activities:		
Net cash (used in) operating activities	$ (1,194,793)	$ (1,779,511)
Cash flows from investing activities:		
Capital expenditures	(8,153)	(73,084)
Net cash (used in) investing activities	(8,153)	(73,084)
Cash flows from financing activities:		
Due to related party	(57,511)	-
Proceeds from issuance of common stock	695,000	-
Proceeds from loan payable	-	64,103
Repayment of finance lease	-	(10,199)
Net cash from financing activities:	637,489	53,904
Effect of exchange rate changes in cash	5,877	3
Net (decrease) in cash and cash equivalents	(559,580)	(1,798,688)
Cash and cash equivalents - beginning of period	1,211,542	2,000,847
Cash and cash equivalents - end of period	$ 651,962	$ 202,159
Supplemental disclosure of cash flow information		
Non cash investing and financing activities:		
Common stock issued for acquisition of web sites	$ 2,619,000	$ -
Common stock issued for payment of compensation expenses	$ 415,500	$ -
Common stock issued for payment of accounts payable	$ 705,000	$ -

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

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

1. Business Description, Basis of Presentation and Organization

These condensed interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

The interim results of operations are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2007. The Company's financial statements contained herein are unaudited and, in the opinion of management, contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. The Company's accounting policies and certain other disclosures are set forth in the notes to the consolidated financial statements contained in the Company's Annual Report on Form 10-KSB for the year ended September 30, 2006. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Description of Business

Telecom Communications, Inc. ("TCOM") and its subsidiaries (together, with TCOM, the "Company"), is a fully integrated information and entertainment service provider to the business and consumer internet markets in the People's Republic of China (the "PRC"). We sell a majority of our products through channel resellers, who are companies located in the British Virgin Islands ("BVI"), who then distribute our products to the service provider market ("SP") in the PRC. The service provider channel resellers then in turn supply our content, through various telecommunication providers, to the end users in the PRC. The products that are sold to the SP market in the PRC are a combination of an integrated communications network solutions and entertainment and lifestyle content, which is our primary business segment ("integrated communications network solutions"). Our products also serve the voice, video, data, web and mobile communication markets. Our second business segment is from our revenue derived from our imports and exports trading in PRC through our 100% wholly-owned subsidiary Guangzhou Panyu Metals and Minerals Import & Export Co., Ltd. Our third segment is from our revenue derived from the royalty income from the movie copyrights through our 100%-wholly owned subsidiary IC Star MMS Limited. Our fourth business segment is from our revenue derived from the membership income from the websites and internet services though our 53.92% owned subsidiary Subaye.com, Inc. (formerly known as HRDQ Group Inc.) and 100% wholly-owned subsidiary Guangzhou Tcom Computer Technology Ltd.

Organization

TELECOM COMMUNICATIONS, INC.

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

ARRAN SERVICES LIMITED

Arran Services Limited is an investment and holding company. As of September 30, 2003, TCOM consummated a Stock Purchase Agreement with Arran Services Limited ("Arran") and Arran has a 100% investment interest in IC Star MMS Limited ("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.

5

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

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 is to provide total solution software with entertainment and lifestyle information. Primarily, all of the Internet Content business segment activity, for the six months ended March 31, 2007 and 2006, was conducted by Alpha.

From April 2007, Alpha start terminating the services for its customers due to discontinued operations.

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 is providing entertainment content for 3G mobile and internet use.

SUBAYE.COM INC (Formerly known as HRDQ Group, Inc.)

In April 2006, Alpha provided substantially all the working capital to Subaye.com, Inc. (formerly known as Subaye Group Inc. ("Subaye")), a Delaware limited liability company, through an intercompany loan in the amount of $500,000. In reviewing and applying FIN 46R, Subaye was considered a variable interest entity ("VIE") of Alpha and therefore became the subsidiary of Alpha and an indirect subsidiary of TCOM in April, 2006. TCOM and Alpha are the primary beneficiaries of this VIE.

On June 28, 2006, TCOM subscribed and obtained a direct 53.92% equity interest in Subaye by purchasing the common shares of Subaye through its subsidiary Alpha. Subaye became the subsidiary of TCOM and Subaye holds 100% of the shares of its subsidiary, Guangzhou Panyu Metals & Minerals Import and Export Co. Limited, also purchased a website called subaye.com (refer to note 10 for the website acquisition). Subaye is a Chinese Internet corporate video provider through subaye.com. Subaye offers a unique Chinese language corporate video sharing platform for both users and customers.

On February 28, 2007, HRDQ Group, Inc. changed its name from HRDQ Group, Inc. to Subaye.com, Inc. through the affirmative vote of a majority of the stockholders. The amendment of the Certificate of Incorporation was signed on February 28, 2007 and duly adopted, pursuant to the provisions of Sections 228 and 242 of the General Corporation Law of the State of Delaware.

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

On April 25, 2006, Subaye.com (formerly known as 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 a contractual gross consideration amount of $500,000 (refer to note 4).

On October 1, 2006, Subaye.com transferred 100% of the shares of Panyu M&M to TCOM. Panyu M&M is a limited company in the PRC and its principal activity is conducting import and export trade in the PRC.

GUANGZHOU TCOM COMPUTER TECHNOLOGY LIMITED

On September 1, 2006, the Company formed Guangzhou TCOM Computer Technology Limited ("Tcom Computer"), a wholly-owned subsidiary of the Company, located in the PRC. The principal activity of Tcom Computer is to provide internet services, which include, web browsing, updated information in science technology, entertainment, commercial and webpage editor. The operation of the web site-subaye.com is conducted by the affiliate named Guangzhou TCOM Computer Technology Limited ("Tcom Computer"). Both Subaye and Tcom Computer will receive 60% and 40% of monthly subscription fees respectively from the corporate customers.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

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-The consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America “US GAAP”, include the assets, liabilities, revenues, expenses and cash flows of the Company and all its subsidiaries. This basis of accounting differs in certain material respects from that used for the preparation of the books and records of the Company’s principal subsidiaries, which are prepared in accordance with the accounting principles and the relevant financial regulations applicable to enterprises with limited liabilities established in the PRC (“PRC GAAP”) or in Hong Kong. The accompanying consolidated financial statements reflect necessary adjustments not recorded in the books and records of the Company’s subsidiaries to present them in conformity with US GAAP.

The consolidated financial statements of the Company include the accounts of TCOM and its subsidiaries, namely Arran, Alpha, IC Star, 3G Dynasty, Subaye.com (formerly known as HRDQ), Panyu M&M and Tcom Computer. All significant intercompany accounts, transactions and cash flows are eliminated on consolidation.

Trade accounts receivable - The Company does have off-balance sheet credit exposure related to its customers, due to a concentration of customers accounting for more than 41% of the Company’s accounts receivable. 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.

The Company delegated 10 business agents over the PRC to deal with the operations of the web site subaye.com. Membership fees will be collected by the agents and then paid back to the Company within 90 days. The Company recognized the income at the end of the month and recorded the outstanding membership fees from business agents as accounts receivable.

Amortization of Copyrights - The Company amortizes the License and Agreement asset, for the films using the individual-film-forecast-computation method, in accordance with the Statement of Position (“SOP”) 00-2, which amortizes or accrues (expenses) such costs in the same ratio that current period actual revenue (numerator) bears to estimated remaining unrecognized ultimate revenue as of the beginning of the current fiscal year (denominator). The Company began amortization of the capitalized movies in 2006, when the Company began to recognize revenue from the films. Amortization related to the movies was $430,441for the six month period ended March 31, 2007, which amounts were included in cost of sales.

Ultimate revenue to be included in the denominator of the individual-film-forecast-computation method fraction is subject to certain limitations as set forth in the SOP. If an event or change in circumstance indicates that the Company should assess whether the fair value of the License and Agreement to the films is less than its unamortized costs, the

Company will determine the fair value of the film and write off to the statement of operations the amount by which the unamortized capitalized costs exceeds the episode's fair value. The Company can not subsequently restore any amounts written off in previous fiscal years to income.

Revenue recognition- In accordance with the 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.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

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 package profits and the monthly subscription of the licensed products for the contract period, usually for 2 years.

Revenue for sales of our software package products with database of entertainment contents, namely, total solution software, SEO4 mobile and IBS v4.1 software package, are recognized as products are shipped and installed. The Company bought the IBS v5.1 software package and they plan to sell them in the next quarter.

Revenue for the monthly subscription from the members who subscribed to the websites recognizes the revenue on the day-to-day basic services at the end of each month.

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.

The royalty revenue from the copyrights are recognized in accordance with SOP 00-2, Accounting by Producers or Distributors of Films. The SOP specifies that revenue is to be recognized when all of the following conditions are met:

1. Persuasive evidence of a sale or licensing arrangement with a customer exists.

2. The film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and unconditional delivery.

3. The license period of the arrangement has begun and the customer can begin its exploitation, exhibition, or sale.

4. The arrangement fee is fixed or determinable.

5. Collection of the arrangement fee is reasonably assured.

When the Company's fee is based on a percentage or share of a customer's revenue from the exploitation of the films, the Company recognizes revenue as the customer exploits the films and the Company meets all of the other revenue recognition conditions. In those circumstances, the Company receives reports from the customers on a periodic basis and uses those reports as the basis for recording revenue.

Consulting services revenue is recognized as services are rendered and calculated by the agreed-upon 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.

Net earnings per share - Basic net earnings per share ("EPS") is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net earnings per share gives effect to all dilutive potential ordinary shares outstanding during the year. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

Use of estimates- The preparation of the Company's financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The financial statements include some amounts that are based on management's best estimates and judgments. The most significant estimates relate to allowance for uncollectible accounts receivable, depreciation, intangible asset valuations and useful lives, goodwill impairments, taxes and contingencies. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Significant Estimates Relating to Specific Financial Statement Accounts and Transactions Are Identified - The financial statements include some amounts that are based on management's best estimates and judgments. The most significant estimates relate to allowance for uncollectible accounts receivable, depreciation and amortization, useful lives, tax liabilities, and all other contingencies. These estimates may be adjusted as more current information becomes available, and any future adjustment could be significant to the financial statements.

3. Intangible Assets

The following table summarizes the lives and the carrying values of all the Company's intangible assets by category, at March 31, 2007:

		Carrying value
Copyrights - film productions	$	2,039,445
Goodwill		354,051
Total	$	2,393,496

The Company reviews the carrying value of the copyrights of two film productions that are distributed through both theaters and the internet for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized, equal to an amount by which the carrying value exceeds the fair value of assets. At March 31, 2007, based on management's projected future cash flows, management has determined an impairment loss on those copyrights to be $1,530,000 at March 31, 2007.

The portion of the acquisition costs of Panyu M&M that has been allocated to goodwill totaled $354,051. Such allocation was made by an international appraisal firm on the basis of their appraised value.

4. Stock Transactions

On October 3, 2006, TCOM issued 4,000,000 shares at a price of $0.2 per share, resulting in consideration equivalent to $800,000, to World-East Corporation Ltd., for purchasing 100% of the website-mystaru.com.

On October 20, 2006, TCOM issued 5,300,000 shares at a price of $0.17 per share to Bloomen Ltd. Corporation Ltd. for purchasing 100% of Website-icurls.com, resulting in total consideration equal to $ 901,000.

On October 20, 2006, TCOM issued 5,400,000 shares at a price of $0.17 per share, resulting in consideration equal to $918,000, to China IPTV Industry Park Holdings Ltd. for purchasing 100% of the website-goongreen.org.

On October 31, 2006, TCOM issued 5,000,000 shares at a price of $0.14 per share, resulting in consideration equal to $700,000, to Mr LeYi Yang on behalf of IC Star, of which $5,000 is paid for the settlement of the accounts payable related to movie copyrights, while $695,000 is settled in cash.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

On October 31, 2006, TCOM issued 5,000,000 shares at a price of $0.14 per share, resulting in consideration equal to $700,000, to Mr Guiwen Cai on behalf of IC Star MMS Limited to settle the accounts payable related to the purchase of the movie copyrights.

Refer to note 13, stock-based compensation, for stock issuances during the six months ended March 31, 2007.

5. Accounts Receivable

Accounts receivable concentration at March 31, 2007 was as follows:

		March 31 2007
Accounts receivable - affiliate	$	1,035,000
Less: allowances for bad debts - affiliate		(555,000)
Sub total		480,000
Accounts receivable - others		6,834,862
Less: allowances for bad debts		(3,360,307)
Sub total		3,474,555
Total	$	3,954,555

Concentrations in Accounts Receivable -At March 31, 2007, four customers, each of which accounted for more than 10% of the Company's total accounts receivable, with total amounts of $3,573,346, represented 45% of total accounts receivable in the aggregate.

6. Income Tax

British Virgin Islands

The Company's primary operating subsidiary, Alpha, 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 subsidiary, IC Star, is incorporated in Hong Kong and is 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 incurred a loss during the period. The applicable Hong Kong statutory tax rate for the six months ended March 31, 2007 and 2006 is 17.5% for both periods.

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. The Company's subsidiaries incorporated in PRC are subject to 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 Company’s 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.

Income tax provision of $1,159 is provided for the six months ended March 31, 2007 and no provision for enterprise income tax in the PRC had been made for the six months ended March 31, 2006 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, 2006 and 2007. 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.

The Company uses the liability method, where deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. There are no material timing differences and therefore no deferred tax asset or liability at March 31, 2007.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

7. Related Party Transactions

a) Names and relationship of related parties

	Existing relationships with the Company
TaiKang Capital Management Corporation	Shareholder of the Company

b) Summary of related party transactions

		March 31 2007
Sales of products to:		
TaiKang Capital Management Corporation	$	720,000

8. Property, Plant and Equipment

a) Summary of plant and equipment
Plant and equipment, which are located in the PRC, consisted of the following:

		March 31 2007
At cost:		
Computer equipment	$	157,057
Computer software		8,497,295
Web sites		7,638,860
Motor vehicles		168,307
Furniture, fixtures and equipment		26,306
Leasehold improvements		160,000
Total		16,647,825
Less: accumulated depreciation and amortization		(4,905,690)
Total net book value	$	11,742,135

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized, equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors.

b) Acquisition of property and equipment

<u>Website</u>

Mystaru.com- TCOM acquired a website through the issuance of 4,000,000 shares to World-East Corporation Ltd on October 3, 2006. The total cost of the website recorded as the acquisition cost on TCOM's books was $800,000.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

Icurls.com - TCOM acquired a website through the issuance of 5,300,000 shares to Bloomen Ltd. Corporation Ltd. on October 20, 2006. The total cost of the website recorded as the acquisition cost on TCOM's books was $901,000.

Goongreen.org -TCOM acquired a website through the issuance of 5,4000,000 shares to China IPTV Industry Park Holdings Ltd. on October 20, 2006. The total cost of the website recorded as the acquisition cost on TCOM's books was $918,000.

9. Minority interest

Minority interest represents the minority stockholders' proportionate share of 46.08% of the equity of Subaye.com, Inc. The Company's 53.92% controlling interest requires that Subaye.com's operations be included in the Consolidated Financial Statements. The 46.08% equity interest of Subaye.com that is not owned by the Company is shown as "Minority interests in consolidated subsidiaries" in the three months ended March 31, 2007 at 3,293,836. In addition, 200,000 Series A Convertible Preferred stock outstanding in Subaye.com is shown as minority interests at $780,000. This stock is convertible into 400,000 shares of common stock, at a conversion rate of 2 shares of common stock for every 1 share of preferred stock.

		March 31 2007
MI of minority stockholders	$	2,081,997
MI of preferred stock		780,000
Minority interest in consolidated subsidiaries	$	2,861,997

10. 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 terms. 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 March 31, 2007, the Company had operating leases that have remaining terms of 18 months. The following table summarizes the Company's future minimum lease payments under operating lease agreements as of September 30, 2007:

Year ended September 30, 2007

2007	$	192,938
2008		243,853
	$	436,791

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 $203,493 and $121,282 for the six months ended March 31, 2007 and 2006, respectively.

11. Operating Risk

Credit risk

The Company is exposed to credit risk from its cash in bank, fixed deposits and bills, and accounts receivable. The credit risk on cash in bank and fixed deposits is limited because the counterparties are recognized financial institutions. Bills and accounts receivable are subjected to credit evaluations. An allowance has been made for estimated irrecoverable amounts which have been determined by reference to past default experience and the current economic environment.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

Foreign currency risk

Most of the transactions of the Company were settled in Renminbi and U.S. dollars. In the opinion of the directors, the Company does not have significant foreign currency risk exposure.

Company's operations are substantially in foreign countries

Substantially all of the Company's business is operated in China. The Company's operations are subject to various political, economic, and other risks and uncertainties inherent in China. Among other risks, the Company's operations are subject to: the risks of restrictions on transfer of funds; export duties, quotas, and embargoes; domestic and international customs and tariffs; changing taxation policies; foreign exchange restrictions; and political conditions and governmental regulations.

12. Segment Reporting

The Company has four principal operating segments, which are (1) integrated communications network solutions, (2) import and export trading (3) royalty income from film copyrights and (4) provision of internet corporate video services. These operating segments were determined based on the nature of the products and services offered. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The Company's chief executive officer and chief financial officer have been identified as the chief decision makers. The Company's chief operating decision makers direct the allocation of resources to operating segments based on the profitability and cash flows of each respected segment.

The segments share a common workforce and office headquarters, which include an allocation of all overhead components. Overhead items that are specifically identifiable to a particular segment are applied to such segment.

The Company evaluates performance based on several factors, of which the primary financial measure is business segment income before taxes. The accounting policies of the business segments are the same as those described in "Note 1: Summary of Significant Accounting Policies." The following tables show the operations of the Company's reportable segments:

Six months ended March 31, 2007	Integrated communications network solutions	Import and export trading	Royalty income from film copy rights	Provision of internet corporate video services	Corporate/ Others	Consolidated Total
Net sales	$ 1,539,100	$ 3,708,980	$ 792,389	$ 3,357,012	$ -	9,397,481
Cost of sales	1,282,933	3,641,220	605,558	557,634	-	6,087,345
Segment Income (loss) before taxes	(2,310,651)	1,557	(205,897)	2,016,847	(2,280,142)	(2,778,285)
Segment assets	2,161,068	752,379	4,728,194	12,569,312	2,253,976	22,464,929
Expenditures for segment assets	$ -	$ 20,565	$ -	$ 2,606,588	$ -	$ 2,627,153

13

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

Six months ended March 31, 2006	Integrated communications network solutions	Import and export trading	Royalty income from film copy rights	Provision of internet corporate video services	Corporate/ Others	Consolidated Total
Net sales	$ 8,099,917	$ -	$ -	$ -	-	8,099,917
Cost of sales	1,846,181	-	-	-	137,500	1,983,681
Segment Income (loss) before taxes	5,349,424	-	(60,471)	-	(2,405,201)	2,883,752
Segment assets	10,621,398	-	366,915	-	2,804,859	13,793,170
Expenditures for segment assets	$ -	$ -	$ -	$ -	-	$ -

13. Stock-based Compensation Expense

The Company issued 3,500,000 shares of the Company's common stock on July 22, 2005 under the Company's 2005 Stock Awards Plan to two consultants as part of their compensation, at the then market price of $.24 per share, for a total consideration equal to $840,000. The terms for 1,500,000 of these shares were 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 $41,176 for each month and the total stock-based compensation expense of $183,529 for the six months ended March 31, 2007.

In connection with the 4,000,000 shares of the Company's common stock issued on May 1, 2005 to two consultants as part of their compensation at the then market price of $.29 per share, for a total consideration equal to $1,160,000, the Company amortized such consultancy fee as expense over its service period of 24 months commenced from May 1, 2005. The stock-based compensation expense for the six months ended March 31, 2007 included 17 monthly charges of $48,333 since May 1, 2005, total of $290,000 for the six months ended March 31, 2007.

In connection with the 3,000,000 shares of the Company's common stock issued on January 1, 2006 to three consultants as part of their compensation at the then market price of $.50 per share, for a total consideration equal to $1,500,000, the Company amortized the consultancy fee of $1,500,000 over a 12 month period. The terms for these agreements are 12 months starting from January 1, 2006 to December 31, 2006. It resulted in an expense of $125,000 for each month and the total stock-based compensation expense of $375,000 for the six months ended March 31, 2007.

In connection with the 4,000,000 shares of the Company's common stock issued on April 20, 2006 to five consultants as part of their compensation at the then market price of $.52 per share, for a total consideration equal to $2,080,000, the Company amortized the consultancy fee of $1,300,000 over a 24 month period. The remaining $780,000 was amortized over 12 month period. It resulted in an expense of $119,167 for each month for 12 months and the remaining 12 months will have an expense of $54,167. The total stock-based compensation expense for the six months ended March 31, 2007 was $715,000.

In connection with the 300,000 shares of the Company's common stock issued on Nov 27, 2006 to Mary Kratka for the company's promotion fee at price of $.26 per share for a total consideration equal to $78,000, the shares are being amortized over 3 months with a stock-based compensation expense of $26,000 each month. The total stock-based compensation expense for the six months ended March 31, 2007 was $78,000.

In connection with the 250,000 shares of the Company’s common stock issued on Jan 10, 2007 to Mary Kratka for the company's promotion fee at price of $.45 per share for a total consideration equal to $112,500, the shares are being amortized over 12 months with a stock-based compensation expense of $9,375 each month. The total stock-based compensation expense for the six months ended March 31, 2007 was $28,125.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007

In connection with the 750,000 shares of the Company’s common stock issued on Jan 31, 2007 to Bon Air Group Limited for the company's promotion at price of $.30 per share for a total consideration equal to $225,000, the shares are being amortized over 12 months with a stock-based compensation expense of $18,700 each month. The total stock-based compensation expense for the six months ended March 31, 2007 was $37,500.

As a result, the total stock compensation expense reported was $1,707,154 for the six months ended March 31, 2007.

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

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 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, 2006 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 in the PRC. We specialize in supplying both the entertainment and lifestyle content along with what we currently believe is leading edge software, which we sell as a package 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 System (“TS”), together with our SEO4Mobile Short Message Services (“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 will 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, SMS is the basic form of text messaging, but there is a major increase 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, interactive voice response and speech recognition solutions.

During the year ended September 30, 2006, we signed sales contracts with 5 major clients, which generated revenues in the amount of $12,678,107 to the Company, which represented 82% of our total revenue. The loss of these customers, individually or in the aggregate, could have a material impact on our results of operations. The sales contracts validate our current business model and are a strong indication 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 2007.

As mentioned above, we are a fully integrated information and entertainment service provider to the PRC market. We sell our products through channel resellers, which are British Virgin Islands (“BVI”) companies and we distribute our products to the SP market in the PRC. Channel resellers 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 TS. 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 added 114 stations in 2005, to bring our total business customers and CRM's to over 200 as of December 31, 2006. Our software products are sold to companies with less than 500 employees, inner information resource management and affiliate networks.

We organized our operations in 2006 into four principal operating segments: integrated communications network solutions, import and export trading, royalty income from movie copyrights and membership income from websites. These operating segments were organized based on the nature of the products and services offered. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief executive officer and chief financial officer have been identified as the Company's chief decision makers. Our chief decision makers direct the allocation of resources to operating segments based on the profitability and cash flows of each respective segment.

The operating segments share a common workforce and office headquarters, which include an allocation of all overhead components. Overhead items that are specifically identifiable to a particular segment are applied to such segment.

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 5.1 & IBS 4.1 Enterprise Suite, which is for small to midsize enterprise 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. 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 123 million Internet users in the PRC. According to the Ministry of Information, the PRC's internet users are about 10% of its population, compared to the U.S., in which internet users comprise 60% of the general population.

About IBS v4.1 and v5.0Enterprise Suite

IBS v4.1 and v5.0 is our main product line, which includes a 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 and v5.0 are part of the TS family. Corporate users can leverage all available information resource management on the intranet/extranet over the internet, including wireless applications, and advertisers can use the IBS v4.1 and v5.0 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. The IBS v4.1 and v5.0 standard package includes 3 servers, software, as well as system integration.

SkyeStar.com

SkyeStar.com is a website that is a multilink 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 that links network users across multiple entertainment channels, linking friends and their entertainment choices.

In February 2005, we established 3G Dynasty Inc., a subsidiary of the Company, for the preparation of the third generation mobile system. 3G Dynasty will be responsible for sales of IC Star 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://skyestar.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. 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 (“RSS”) 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 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 the Star Theme Club on WAP. Members with their homepage on WAP can reach their targeted audience through wireless technology.

This personal homepage and WAP membership service was launched in June 2006. The adoption of RSS has deepened our relationship with our members and enhanced 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.

18

As more and more people personalize their content on the internet, many are turning to RSS feeds to quickly and easily access information from news and entertainment sites.

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 and 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 photographs for the community to enjoy and review.

IC Star has partnered with several industry leaders to provide content on the SkyeStar.com entertainment portal. Among its partners, Stareastnet, a company with which IC Star MMS Limited (“IC Star”) has partnered, provides features such as "Artist Profiles and Homepages" and NC Entertainment, another partner of IC Star, 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.

IT Consultant Services – Guangzhou TCOM Computer Tech by the integration of TCOM's Total Solutions into IBS v4.1 and v5.0 Enterprise Suite

Alpha completed stages planned for the integration of TCOM's TS, SMS/MMS virtual Call Center CRM Systems, SEO4Mobile and new SME software, developing and distribution operations.

Guangzhou TCOM Computer Tech Ltd. – consisting of Alpha Century Holdings Limited's TS, SMS/MMS virtual Call Center CRM Systems, SEO4Mobile, MoDirect, AdMaxB2Search and IBS v4.1 and v5.0 Enterprise Suite, the internet business service total solution business – combined and operated by Tcom Computer, the new formation is a wholly owned subsidiary of the Company in the PRC. Tcom Computer also integrated the IBS v4.1 and v5.0

Enterprise Suites, which are web enabling updaters of exchange between corporate user content and end user content. As Tcom Computer integrates with the TS business group of TCOM, it will 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 the successful launch of Tcom Computer, and the IBS v5.0 Enterprise Suite gives us confidence in our core business organization to the SME market, the potential for our total solution business, and the achievement of synergies we identified as part of our strategic investment efforts.

IC Star MMS

IC Star, a wholly owned subsidiary of the Company, began to establish a film distribution network with the purchase of the copyrights to certain films in March 2006. IC Star will distribute the films, through multiple distribution channels into the PRC film market, including through the internet, mobile phone, TV, VCD/DVD and the theatrical screening in theaters across the PRC.

Subaye.com – Operations

On April 1, 2006, we acquired HRDQ Group Inc., a Delaware corporation. HRDQ conducted its operations principally through Subaye.com. In addition, we have conducted part of our operations through Guangzhou Panyu Metals & Minerals Imports & Exports Co., Ltd., a limited liability company in Guangzhou, China, which holds the licenses and approvals necessary to operate our international trading and provide e–commerce logistic agent services. After several combinations, including stock transactions, in September of 2006, HRDQ contracted with our newly incorporated and wholly owned subsidiary, Tcom Computer.

Because of the limitation of PRC laws to the foreign ownership of companies that provide internet content and advertising services, in order to comply with these foreign ownership restrictions, we operate our websites and provide online advertising services in the PRC through Tcom Computer. Tcom Computer holds the licenses and approvals necessary to operate our websites and to provide e–commerce online advertising services in the PRC. We have contractual arrangements with Tcom Computer and its shareholders pursuant to which we provide technology consulting services and license our registered domain names, trademarks and certain software to Tcom Computer. Through these contractual arrangements, we also have the ability to substantially influence Tcom Computer's daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholder approval. As a result of these contractual arrangements, which enable us to control Tcom Computer's business, we are considered the primary beneficiary of Tcom Computer.

Subaye.com – Internet corporate video provider

We are the leading internet corporate video provider in the PRC, and we offer a unique Chinese language corporate video sharing platform for both users and customers. We focus on our potential users in the PRC that demand publishing and sharing their corporate video online over the internet. Our platform consists of our websites and Subaye alliance network, which is our network of third-party websites.

Our services are designed to enable internet users to find relevant information video online from our video database, which currently consists of over 20,000 video corporate profiles, as visible video showcase for presentation. It includes Chinese language corporate web pages, news, images and multimedia files, through links provided on our websites. We provide our users with easy access to an index of up to a million video clips, images and web pages. We also offer a business to business to consumer based online auction marketplace, Subaye e–commerce strategic, which currently consists of over 1,000,000 items of product and service as visible video showcase for purchase and sale.

For our corporate users, Subaye.com allows companies to post their products with corporate video to the platform and auction marketplace for a monthly fee. We launched the internet video services on our Subaye.com website and began generating revenues from corporate video uploading services in November, 2006. We have grown significantly since we commenced operations in October of 2006 and our corporate video uploading services users were 16,007 members as of the end of November 2006. We began charging our members a monthly charge of $60 from the beginning of

November 2006 after a 3-month trial period.

We believe that our leading position in the PRC is primarily attributable to the following strengths:

· largest corporate video online audience as measured by user traffic;

20

- first video uploading service provider in the PRC with an extensive customer base across industries;

- one of the most widely recognized internet enterprise video brands−−we sponsor a movie in the PRC, enhancing our ability to attract both users and customers;

- local market experience and expertise in introducing and expanding our services across the PRC and operating in the PRC's rapidly evolving internet industry;

- leading technology with a proven platform, providing users with relevant video showcase and customers with a cost-effective way to reach potential consumers; and

- extensive and effective nationwide network of over 100 regional distributors, providing high quality and consistent customer services.

Our goal is to become a platform that provides internet users with the best way to find information and allows businesses to reach a broad base of potential customers. We intend to achieve our goal by implementing the following strategies:

- growing our online video marketing business by attracting potential customers and increasing per customer spending on our services; enhancing user experience;

- increasing traffic through the development and introduction of new video related features and functions;

- expanding Subaye Alliance by leveraging our brand and offering competitive economic arrangements to Subaye Alliance members; and

- pursuing selective strategic acquisitions and alliances that will allow us to increase user traffic, enlarge our customer base, expand our product offerings and reduce customer acquisition costs.

The successful execution of our strategies is subject to certain risks and uncertainties, including our ability to:

- maintain our leading position in the internet video industry in the PRC;
- offer new and innovative products and services to attract and retain a larger user base;
- attract additional customers and increase per customer spending;
- increase awareness of our brand and continue to develop user and customer loyalty;
- respond to competitive market conditions;
- respond to changes in our regulatory environment;
- manage risks associated with intellectual property rights;
- maintain effective control of our costs and expenses;
- raise sufficient capital to sustain and expand our business;
- attract, retain and motivate qualified personnel; and

- upgrade our technology to support increased traffic and expanded services.

Subaye.com's limited operating history may make it more difficult to evaluate our future prospects and results of operations. If we are unsuccessful in addressing any of these risks and uncertainties, our business may be materially and adversely affected.

We have, however achieved profitability as of the quarter ended March 31, 2007. We have experienced growth in recent periods, in part, due to the growth in the PRC's online marketing industry, which may not be representative of future growth or be sustainable. We cannot assure you that our historical financial information is indicative of our future operating results or financial performance, or that our profitability will be sustained. You should consider our future prospects in light of the risks and uncertainties experienced by early stage companies in evolving industries such as the internet industry in the PRC.

Business Partnership Developments

IC Star has begun the theatrical screening of the film “Big Movie” (http://ent.sina.com.cn/f/m/bigmovie/index.shtml) in 400 theaters throughout the PRC beginning on December 29, 2006, and running through January 20, 2007. The newly launched movie investment, distributions and value-added services business by IC Star's PRC operations, is committed to bringing a variety of unique titles to Chinese markets. Our first release, Big Movie, a joint venture with Hua Xia Films Distributions Limited Beijing, is a template for the future distribution of film in the PRC by TCOM. IC Star is also partnering with Sina.com (Nasdaq: SINA) for movie promotion and marketing services.

Mystaru.com (http://www.mystaru.com) (“Mystaru”)

On October 3, 2006 the Company acquired Mystaru.com, a website dedicated to performing arts education. Mystaru's content launch includes ten hours of multimedia performing education courses developed by our business partner Stareastnet (http://www.stareastnet.com). The content draws on the popularity of Stareastnet's unique 30−minute presentation concept. Stareastnet has been producing artist profiles since 1999, and delivers several live seminars each year. Another ten hours of Stareastnet content will be added in the near future.

The system is a prototype for state-of-the-art delivery of streaming video performing education courses in the music and movie industries in the PRC. The new courseware was developed using the Tcom Computer's EDU v5.0 Education Management System and is delivered to viewers via the Mystaru platform. The multimedia content is produced using Adobe Flash(r) video synchronized presentations and demonstrative video clips. Users can view multimedia performing training presentations that include downloadable video files of course materials and are then able to upload their own video files to teachers for analysis, which affords users the opportunity to have questions answered by course teachers. Mystaru intends to use this new capability to reach hundreds of thousands of young people who are interested in entering the performing arts, music and movie industries. Mystaru's goal is to deliver education content online without meaningful limitations or restrictions. Mystaru.com will begin to charge users a monthly fee of $20 for each end-user starting on January 1, 2007. We believe this new service offering will add one more substantial revenue stream for us, forecasted to be 60,000 users in 2007. We are also working with a main talent management firm and production companies in Hong Kong and the PRC to adapt their platforms specifically to suit the unique needs of the artists' talent market.

Tcom Computer has finished the integration of all business units of Alpha and 3G Dynasty into cooperation with Baidu.com (Nasdaq: BIDU), Shanghai Linktone Information Limited (Nasdaq: LTON), the wireless business division of Beijing eLong Information Technology Limited, a subsidiary of eLong Inc. (Nasdaq: LONG), 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.

We have 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, we have been implementing the integration of development, production and sales of each business within the Company. We have 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, IC Star 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, the growth opportunities remain tremendous. The PRC has more than 1.3 billion people, and mobile services will remain a strong area of growth. Entertainment content for these mobile devices is in high demand and IC Star 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. The Company's business operations may be adversely affected by increased competition 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. Multiple Distribution Channels into Chinese Films Market.

IC Star has been successful bringing two movies into the Chinese market, via several different distribution channels, including the internet, mobile phone, TV, VCD/DVD and the theatrical screenings in cinemas across the PRC. We will continue investment to establish our distribution network and acquire more content copyrights.

In the past 3 years, the Chinese film market recorded an average of 30% annual growth rate. We feel this market will continue significant growth, based on the results of our research.

2. Our New Product Line, SkyeStar.com IPTV operated by Tcom Computer.

We expect SkyeStar.com, the flagship entertainment property of TCOM, will be a fast-growing, revenue streaming entity. In the coming months, we will launch SkyeStar.com (“SkyeStar”) on IPTV, with new features that let users access their SkyeStar accounts from IPTV. SkyeStar is a free, members only web site that offers community, email, exclusive music and video downloads, instant messaging, blogs, photos and more. We will generate revenue by advertising, entertainment downloads, pay per view, video–on–demand and VIP membership fees.

IPTV is the format representing the convergence of internet, television and telecommunication networks, and is expected to be adopted in the PRC next year. 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 75 million broadband users in the PRC, creating a huge potential market for development of IPTV services.

One of our business partners, ZesTV, Inc. (“ZesTV”) is a leading Chinese media and entertainment company in the development, production, and marketing of entertainment, news and information to a global audience. ZesTV owns and operates a valuable portfolio of news and entertainment networks, a premier motion picture company, significant television production operations, a leading internet entertainment website group, and plans the development of studio branded theme parks. TCOM has the first right to buy ZesTV music, films and TV programming copyrights of online content each year and flood openings with SkyeStar members.

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

3. Many internet users in the PRC seek entertainment

A look at the top internet searches in the PRC for the year suggests that many of the country's 123 million internet users are looking for entertainment content. In 2006, the search data suggested that people crave information about popular culture and want it before newspapers, magazines and TV can provide it. The search data 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 to better regulate the sector and prevent false or distorted information from spreading online. Meanwhile, the PRC also urged websites to register for tightened regulation.

By the end of November 2006, 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.com. Some blog service providers and multimedia online magazine publishers have received funding –– about $10 million each ––from venture capital firms.

4. A New Online Performing Education College: Mystaru.com (http://www.mystaru.com) in the PRC.

(See details under "Business Partnership Developments" above.)

Results of Operations

Income Statement Items

The following table summarizes the results of our operations during the three months ended March 31, 2007 and 2006 and provides information regarding the dollar and percentage increase or (decrease) from the current fiscal period to the prior fiscal period:

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended March 31 2007 (Unaudited)	2006 (Unaudited)	Increase/ (Decrease)	Percentage (Decrease)
Net revenues	3,433,350	3,771,818	(338,468)	(9%)
Cost of sales	2,946,458	832,827	2,113,631	254%
Gross profit	486,892	2,938,991	(2,452,099)	(83%)
Operating expenses	3,198,967	1,807,177	1,391,790	77%
Income (Loss) from operations	(2,712,075)	1,131,814	(3,843,889)	(340%)
Other income	5,208	(8,318)	13,526	(163%)
Minority interest in (loss) income of subsidiary	96,085	-	96,086	-
Income from continued operations	(2,611,067)	1,123,496	(3,734,563)	(332%)
Net (loss) from discontinued operations	-	(239,775)	239,775	-
Net (loss) income	(2,611,067)	883,721	(3,494,788)	(395%)
Other comprehensive income	(1,017)	(3)	(1,014)	338,000%)
Comprehensive income	(2,612,084)	883,718	(3,495,802)	(396%)
Earnings (loss)per common shares				
-Basic	$ (0.02)	$ 0.01		
- Fully diluted	$ (0.02)	$ 0.01		
Weighted average common share Outstanding				
-Basic	117,363,549	82,455,000		
- Fully diluted	117,363,549	92,455,000		

Revenues decreased by $338,468 due primarily to:

Revenues recorded at $3,433,350 for the three months ended March 31, 2007 compared to $3,771,818 for the same period ended March 31, 2006. The decrease of $338,468 is due primarily to the enormous decrease in the Integrated communications network solutions segment, although there is an increase in sales and numbers of subsidiaries in different segments of income. Now, we have 3 new segments of income compared for the same period ended March

31, 2006. The import and export trading generated $1,670,720, the royalty income from the movie copyrights generated $671,776 and the provision of internet corporate video services generated $730,854.

Costs of Sales increased by $2,113,631 due primarily to:

Costs of sales were $2,946,458 for the three months ended March 31, 2007 compared to $832,827 for the same period ended March 31, 2006. Costs of Sales included cost of goods in trading, depreciation and other cost of sales. Cost of trading included all the costs that Panyu M&M incurred in their import and export trading activities in the amount of $1,610,382. Depreciation represented the depreciation and amortization of software, websites and copyrights of movies, which related to the revenue of the Company, amounted to $1,076,263. Other costs of sales were the purchase of various contents and other later stage of production from raw contents and costs associated with the performance of our communication services totaling $59,783.

Operating Expenses increased by $1,391,790 due primarily to:

For the three months ended March 31, 2007, we incurred operating expenses of $3,198,967 as compared to $1,807,177 for the same period ended March 31, 2006. The $3,198,967 incurred as of March 31, 2007 included general operating expenses of $404,539, salary of $179,679 and allowance of bad debts of 1,890,724. Stock-Based Compensation Expense had a net increase of $680,124 for the three months ended March 31, 2007.

Other income increased by $13,526 due primarily to:

The total other income was $5,208 for the three months ended March 31, 2007 compared to ($8,318) for the same period ended March 31, 2006. The $5,208 includes interest income of $1,313, other income of $3,895.

Stock-Based Compensation Expense decreased by $63,405 due primarily to:

The stock-based compensation expense was $680,124 for the three months ended March 31, 2007, compared to $743,529 for the same period ended March 31, 2006. The difference of $63,404 is due to the new issuance of stock-based compensation of 250,000 shares of the Company's common stock on January 10, 2007, to Mary Kratka for the Company's promotion fee at a price of $.45 per share for a total consideration equal to $112,500. The shares are being amortized over 12 months with a stock-based compensation expense of $9,375 each month. On January 31, 2007, the Company issued 750,000 shares of the Company's common stock to Bon Air Group Limited for the Company's promotion fee at a price of $.3 per share for a total consideration equal to $225,000. The shares are being amortized over 12 months with a stock-based compensation expense of $18,750 each month. At the same time, the 1,500,000 shares issued on July 22, 2005 and the 3,000,000 shares issued on January 1, 2006 have been fully amortized and therefore the stock-based compensation expense is reduced for 438,529.

Corporate Taxes

Enterprise income tax in the 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 the 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.

Income tax provision of $286 is provided for the three months ended March 31, 2007 and no provision for Enterprise income tax in the PRC had been made for the three months ended March 31, 2006 due to the fact that it is exempt from the 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 three months ended March 31, 2007 and 2006. The Company's first profit taking year is for the year ended September 30, 2005, and therefore, tax will be due to the PRC, if the Company generates PRC taxable income, for the fiscal year ended September 30, 2007.

The Company uses the liability method, where deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. There are no material timing differences and therefore no deferred tax asset or liability at March 31, 2007.

If all of the above tax holidays and concessions had not been available, we would have paid $0 and $650,000 more in taxes for the three months ended March 31, 2007 and 2006 respectively, since the Company incurred losses during the three months ended March 31, 2007 and 2006.

Six Months Ended March 31,
2007 and 2006 (Unaudited)

	Six Months Ended March 31 2007 (Unaudited)	2006 (Unaudited)	Increase/ (Decrease)	Percentage (Decrease)
Net revenues	$ 9,397,481	$ 8,099,917	$ 1,297,564	16%
Cost of sales	6,087,345	1,983,681	4,103,664	207%
Gross profit	3,310,136	6,116,236	(2,806,100)	(49%)
Operating expenses	6,115,209	3,234,871	2,880,338	89%
Income (Loss) from operations	(2,805,073)	2,881,365	(5,686,438)	(197%)
Other income	26,788	2,387	24,401	(1,022%)
Minority interest in (loss) income of subsidiary	(490,505)	-	(490,505)	-
Income from continued operations	(3,269,949)	2,883,752	(6,153,701)	(213%)
Net (loss) from discontinued operations	-	(239,775)	239,775	-
Net (loss) income	(3,269,949)	2,643,977	(5,913,926)	(224%)
Other comprehensive income	5,877	-	5,877	-
Comprehensive income	(3,264,072)	2,643,977	(5,908,049)	(223%)
Earnings (loss)per common shares				
-Basic	$ (0.03)	0.03		
- Fully diluted	$ (0.03)	0.03		
Weighted average common share Outstanding				
-Basic	$ 117,363,549	$ 80,040,000		
- Fully diluted	117,363,549	90,040,000		

Revenues increased $1,297,564 due primarily to:

Revenues were recorded at $9,397,481 for the six months ended March 31, 2007 compared to $8,099,917 for the same period ended March 31, 2006. The increase of $1,297,564 is due primarily to the increase in sales and numbers of subsidiaries in different segments of income. Currently, we have 3 new segments of income compared for the same period ended March 31, 2006. The import and export trading generated $3,708,980, the royalty income from the movie copyrights generated $792,389 and the provision of internet corporate video services generated $3,357,012. The new segment of business brings significant increase of income to the Company.

As of March 31, 2006, we had signed sales contracts with approximately 6 major clients, which generated total revenue of $8,099,917 to the Company and represented 97% of our total 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 2007.

During the six months ended March 31, 2007 and 2006, sales of Total Solution System to Taikang Capital Managements Corporation, an affiliate of the Company, amounting to $720,000 were classified as Related Party

Transactions.

Costs of Sales increased $4,103,664 due primarily to:

Costs of sales were $6,087,345 for the six months ended March 31, 2007, compared to $1,983,681 for the same period ended March 31, 2006. Costs of Sales included purchase of various contents and other later stage production from raw contents and costs associated with the performance of our communication services. The increase of $4,103,664 was due primarily to the increase in number of our subsidiaries, of which $3,641,220 is used for our import and export trading segment.

We reallocated the depreciation of software which related to the revenue of the Company, to the 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.

Operating Expenses increased $2,880,338 due primarily to:

For the six months ended March 31, 2007, we incurred operating expenses of 6,115,209, as compared to $6,567,871 for the same period ended March 31, 2006. Operating Expenses included allowance of bad debts of $3,030,049, salary of $335,785 and stock-based compensation expense of $1,707,154.

Stock-Based Compensation Expense had a net increase of $132,179 for the six months ended March 31, 2007 due to the issuance of new shares for the promotion consultants.

Other income increased $24,401 due primarily to:

The other income was $26,788 for the six months ended March 31, 2007, compared to $2,387 for the same period ended March 31, 2006. The $26,788 includes interest income of $2,934 and exchange gain of $11,842.

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.

Income tax provision of $1,159 is provided for the three months ended March 31, 2007 and no provision for Enterprise income tax in the PRC had been made for the three months ended March 31, 2006. 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 six months ended March 31, 2007 and 2006.

If all of the above tax holidays and concessions had not been available, we would have paid $420,000 and $1,600,000 more in taxes for the six months ended March 31, 2007 and 2006 respectively. The basic and diluted net income per share would have been $(0.01) and $(0.01), respectively for the six months ended March 31, 2007 while the basic and diluted net income per share would have been lower, less than $0.02 and $0.02, respectively for the six months ended March 31, 2006. As at March 31, 2007, the cumulative effect of such tax holidays and concessions not being granted would be approximately $1,626,024.

OVERALL

We reported net loss for the six months ended March 31, 2007 of $3,269,949. This translates to overall per-share loss of $0.02 for the six months ended March 31, 2007.

Liquidity And Capital Resources

We believe that our currently-available working capital, after receiving the aggregate proceeds of our capital raising activities in the first quarter of fiscal year 2007 and collection of our accounts receivable, should be adequate to sustain our operations at least through the end of fiscal year 2008.

As of March 31, 2007, we had a cash balance of $651,962 held in the PRC and Hong Kong. We currently have no cash positions in the United States. We have been funding our operations from the receipts from customers and sales of our stock.

Management has invested substantial time evaluating and considering numerous proposals for possible investments, acquisitions or business combinations, either looked for by management or presented to management 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 our shareholders. No assurance can be given that any such project, acquisition or combination will be concluded, and all these actions will be approved by our Board of Directors.

Net cash used in operations for the six months ended March 31, 2007 was $1,201,237. In the future, we may use cash in our operations due to the continuing implementation of our business model and increased expenses from costs associated with being a public company.

Net cash used in investing activities for the six months ended March 31, 2007 was $8,153 and was used in adding new computers and office equipment.

The Company issued 14,700,000 shares to purchase 3 websites named mystaru.com, icurls.com and goongreen.org. The total amount of consideration was equal to $2,619,000 and was classified and recorded under the category of property, plant and equipment.

Net cash provided by financing activities for the six months ended March 31, 2007 was $637,489. It represented the issuance of 10,000,000 shares of the Company's common stock, par value $.001 per share, for an aggregate purchase price of $1,400,000, in which $705,000 was used for the settlement of accounts payable for the movie copyrights and $695,000 is settled in cash. It also represented repayment to a related party of $57,511.

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 US GAAP 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 following:

Revenue recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104. Product revenue is recognized when title and risk of ownership have been transferred, provided that persuasive evidence of an arrangement exists, the price is fixed and determinable, remaining obligations are insignificant and collectibility is reasonably assured. Transfer of title and risk of ownership occur when the product is shipped to the customer. Revenue is recorded at the invoiced amount net of discounts.

Accounting for property, plant and equipment

Property and equipment is located in the PRC and is recorded at cost. Depreciation and amortization is calculated using the straight-line method over the expected useful life of the asset, after the asset is placed in service. 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	**5 years**
Motor Vehicles	**3 years**
Furniture and fixtures	**5 years**
Leasehold improvements	**5 years**

Accounting for amortization of Copyrights

Amortization of Copyrights- The Company amortizes the License and Agreement asset for the films using the individual-film-forecast-computation method, in accordance with SOP 00-2, which amortizes or accrues (expenses) such costs in the same ratio that current period actual revenue (numerator) bears to estimated remaining unrecognized ultimate revenue as of the beginning of the current fiscal year (denominator). The Company began amortization of the capitalized movie in 2006, when the Company began to recognize revenue from the films. Amortization related to the movie was $430,441 for the six month period ended March 31, 2007, which amounts were included in cost of sales.

Accounting for allowance for doubtful accounts

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 120 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.

Allowances for doubtful accounts receivable balances are recorded when circumstances indicate that collection is doubtful for particular accounts receivable or as a general reserve for all accounts receivable. Management estimates such allowances based on historical evidence such as amounts that are subject to risk. Accounts receivables are written off if reasonable collection efforts are not successful.

Allowance for doubtful accounts was $3,915,307 and $1,502,914 as of March 31, 2007 and 2006, respectively.

Income taxes

Income taxes are provided on the asset and liability approach for financial accounting and reporting of income taxes. Any tax paid by subsidiaries during the year is recorded. Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted as of the date of the balance sheet. Deferred income tax liabilities or assets are recorded to reflect the tax consequences in future years of the difference between the tax basis of assets and liabilities and the financial reporting amounts as of each year end. A valuation allowance is recognized if it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

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 derived from four segments related to integrated communications network solutions, imports and export trading, royalty income from movie copy rights and membership income from websites. 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.

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 future 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.

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.

The Company is regularly involved in litigation which is incidental to its business.

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

On January 10, 2007, the Company issued 250,000 shares of the Company's common stock to Mary Kratka at a price of $.45 per share for a total consideration equal to $112,500.

On January 31, 2007, the Company issued 750,000 shares of the Company's common stock to Bon Air Group Limited at a price of $.30 per share for a total consideration equal to $225,000.

The foregoing shares were issued pursuant to exemption from registration under Section 4(2) of the Securities Act of 1933.

ITEM 3. DEFAULTS UNDER SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

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.

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.

TELECOM COMMUNICATIONS, INC.

Date: May 21, 2007

By: /s/ Alan R. Lun

Alan R. Lun
President and CEO
(Principal Executive Officer)

Date: May 21, 2007

By: /s/ Yan Liu

Yan Liu
Principal Financial and Accounting Officer