

Edgar Filing: CITY NETWORK INC - Form 10QSB

CITY NETWORK INC  
Form 10QSB  
October 20, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended: August 31, 2004

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

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

Commission File Number: 001-31954

CITY NETWORK, INC.  
-----

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

NEVADA  
-----

88-0467944  
-----

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No)

#13F., NO. 77, HSIN TAI WU ROAD  
SEC. HIS-CHIH, TAIPEI COUNTY  
TAIWAN, REPUBLIC OF CHINA  
-----

(Address of principal executive offices)

011-886-2-2698-8588  
-----

(Issuer's telephone number)

N/A  
-----

(Former name, former address and former fiscal  
year, if changed since last report)

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 issuer was required to file such reports, and (2) has  
been subject to such filing requirements for the past 90 days. Yes  No

The number of shares outstanding of the issuer's common stock, \$0.001 par  
value, as of the close of business on October 15, 2004 was 27,500,000.

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

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TABLE OF CONTENTS

	PAGE
	----
PART I. FINANCIAL INFORMATION.....	1
ITEM 1.    FINANCIAL STATEMENTS.....	1
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION.....	1
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED).....	2
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED).....	3
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY.....	4
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2004.....	5
ITEM 2.    MANAGEMENT'S DISCUSSION AND ANALYSIS.....	17
ITEM 3.    CONTROLS AND PROCEDURES.....	19
PART II. OTHER INFORMATION.....	20
ITEM 1.    LEGAL PROCEEDINGS.....	20
ITEM 2.    CHANGES IN SECURITIES AND USE OF PROCEEDS.....	20
ITEM 3.    DEFAULTS UPON SENIOR SECURITIES.....	20
ITEM 4.    SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	20
ITEM 5.    OTHER INFORMATION.....	20
ITEM 6.    EXHIBITS AND REPORTS ON FORM 8-K.....	20

i

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31, 2004  
(Unaudited)  
-----

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,006,745
Accounts receivable, net	6,326,836



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	August 31, 2004	August 31, 2003	August 31, 2002
Sales, net	\$ 5,430,262	\$ 4,924,237	\$11,833,6
Cost of sales	5,145,009	4,529,010	11,217,1
Gross profit	285,253	395,227	616,4
General and administrative expenses	484,836	223,554	814,1
Income (loss) from operations	(199,583)	171,673	(197,6
Other (Income) Expense			
Interest income	(1,162)	(2,761)	(1,9
Other income	(25,545)	(12,426)	(16,2
Rent income	(5,633)	0	(14,0
Repair income	(7,419)	0	(52,4
Gain on currency exchange	(4,221)	1,067	(5,6
Equity in earnings of investee	3,145	9,988	2,9
Interest expense	36,823	13,703	56,7
Bad debt expense	45,181	19,939	49,4
Total Other (Income) Expense	41,169	29,510	18,8
Income (loss) before income taxes	(240,752)	142,163	(216,5
Provision for income taxes	68,975	14,201	79,2
Income (loss)	(\$ 309,727)	\$ 127,962	(\$ 295,7
Net income (loss) per share (basic and diluted)			
Basic	(\$ 0.011)	\$ 0.005	(\$ 0.0
Diluted	(\$ 0.011)	\$ 0.005	(\$ 0.0
Weighted average number of shares			
Basic	27,500,000	24,833,333	26,666,6
Diluted	27,500,000	24,833,333	26,666,6

See accompanying notes.

-2-

CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended	
	August 31, 2004	August 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (loss)	(\$ 295,797)	\$ 158,269

Adjustments to reconcile net income to net cash used in operating activities:

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Depreciation and amortization	102,410	18,558
Equity in earning of investee	2,978	9,988
Bad debt	49,456	56,584
(Gain) loss on foreign currency exchange	(5,613)	698
Decrease (Increase) in receivables	846,313	(4,667,177)
Decrease (Increase) in inventory	204,073	(393,331)
Decrease (Increase) in other receivables	89,744	(94,779)
Decrease (Increase) in prepaid expenses	22,998	(39,868)
Decrease (Increase) in deferred charges	0	4,632
Decrease (Increase) in deposit	(19,880)	(136,779)
Decrease (Increase) in other current assets	0	(361,222)
(Decrease) Increase in accounts payable and accrued expenses	(2,758,173)	2,831,175
(Decrease) Increase in payable to investee	0	127,898
(Decrease) Increase in deferred revenue	441,032	0
(Decrease) Increase in deposits payable	(4,371)	(147,616)
	-----	-----
Total Adjustments	(1,029,033)	(2,791,239)
	-----	-----
Net cash used in operations	(1,324,830)	(2,632,970)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment	0	108,594
Purchase of net assets of affiliated company	0	(325,000)
Purchase of furniture and equipment	(5,008)	(78,806)
	-----	-----
Net cash provided by (used in) investing activities	(5,008)	(295,212)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on current portion debt	(2,625,661)	(44,330)
Payment on loan from related party	(339,575)	0
Payment on notes payable	(109,106)	0
Loan from related party	120,415	0
Issuance of notes payable	477,953	0
Issuance of short-term debt	2,151,499	2,123,976
Issuance of common stock	0	720,000
	-----	-----
Net cash provided by (used in) financing activities	(324,475)	2,799,646
	-----	-----
Effect of exchange rate	(62,515)	(13,540)
Net change in cash and cash equivalents	(1,716,828)	(142,076)
	-----	-----
Cash and cash equivalents at beginning of year	2,723,573	620,264
	-----	-----
Cash and cash equivalents at end of period	\$ 1,006,745	\$ 478,188
	=====	=====
Supplemental cash flows disclosures:		
Income tax payments	\$ 139,541	\$ 0
	-----	-----
Interest payments	\$ 56,768	\$ 25,402
	-----	-----
Non cash transaction:		
Conversion of debt to equity	\$ 1,680,329	\$ 0
	-----	-----

See accompanying notes.

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## CITY NETWORK, INC. AND SUBSIDIARIES (FORMERLY INVESTMENT AGENTS, INC.)

### CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	August 31, 2004 (Unaudited)	February 29, 2004
	-----	-----
Common stock, number of shares outstanding		
Balance at beginning of period	25,000,000	24,500,000
Common stock issued	2,500,000	500,000
	-----	-----
Balance at end of period	27,500,000	25,000,000
	=====	=====
Common stock, par value \$.001 (thousands of shares)		
Balance at beginning of period	\$ 25,000	\$ 24,500
Common stock issued	2,500	500
	-----	-----
Balance at end of period	27,500	25,000
	-----	-----
Additional paid in capital		
Balance at beginning of period	4,260,117	3,540,617
Common stock issued	1,677,829	719,500
	-----	-----
Balance at end of period	5,937,946	4,260,117
	-----	-----
Cumulative foreign-exchange translation adjustment		
Balance at beginning of period	29,663	0
Foreign currency translation	17,117	29,663
	-----	-----
Balance at end of period	46,780	29,663
	-----	-----
Retained (deficits)		
Balance at beginning of period	252,277	76,082
Issuance of stock dividend	0	0
Net income (loss)	(295,797)	176,195
	-----	-----
Balance at end of period	(43,520)	252,277
	-----	-----
Total stockholders' equity at end of period	\$ 5,968,706	\$ 4,567,057
	=====	=====

See accompanying notes.

-4-

CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2004

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### NOTE 1 - NATURE OF OPERATIONS

City Network, Inc., formerly Investment Agents, Inc., was incorporated on August 8, 1996 under the laws of the State of Nevada. City Network Technology, Inc., formerly Gelcrest Investments Limited, was incorporated under the laws of the British Virgin Islands on March 1, 2002. City Network, Inc.- Taiwan, formerly City Engineering, Inc., was incorporated under the laws of Republic of China on September 6, 1994. City Construction was incorporated under the laws of Republic of China on October, 10, 2003. City Network, Inc. owns 100% of the capital stock of City Network Technology, Inc., and City Network Technology, Inc. owns 100% of the capital stock of City Network, Inc. - Taiwan, and City Construction. Collectively the four corporations are referred to herein as the "Company". When used in these notes, the terms "Company," means City Network, Inc. and its subsidiaries.

On November 14, 2002, City Network Technology, Inc. became a wholly owned subsidiary of City Network, Inc. through an Exchange Agreement, which was amended on December 4, 2002 whereby City Network, Inc. acquired all of the issued and outstanding capital stock of City Network Technology, Inc. in exchange for 12,000,000 shares of City Network, Inc.

The Company is a provider of internet broadband and wireless infrastructure equipment and service for the rapidly expanding broadband marketplace. The Company intends to be an important provider of these services predicated upon their dedication to delivering user friendly, cost effective, and customer tailored high speed internet access equipment to meet the business needs of the hospitality, residential property and telecommunication industry worldwide.

The Company operates in an industry characterized by significant competition and rapid technological changes. The Company will need additional investments and funding in order to complete the development and improvements necessary for its products and its planned operations.

-5-

CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2004

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information - The accompanying financial statements have been prepared by City Network, Inc., pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") Form 10-QSB and Item 310 of Regulation S-B, and generally accepted accounting principles for interim financial reporting. These financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary for a fair presentation of the statement of financial position, operations, and cash flows for the periods presented. Operating results for the six months ended August 31, 2004 and 2003 are not necessarily indicative of the results that may be expected for the year ending February 28, 2005, or any future period, due to seasonal and other factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting policies have been omitted in accordance with the rules and regulations of the SEC. These financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes, included in the Company's Annual Report for the year ended February 29, 2004.

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Basis of Consolidation - The consolidated financial statements for 2004 include the accounts of City Network, Inc., and it's wholly owned subsidiary City Network Technology, Inc. and its wholly owned subsidiaries, City Network, Inc. - Taiwan and City Construction, collectively referred to within as the Company. All material intercompany accounts, transactions and profits have been eliminated in consolidation.

Revenue Recognition - Revenue from sales of products to customers is recognized upon shipment or when title passes to customers based on the terms of the sales, and is recorded net of returns, discounts and allowances.

Cash and Cash Equivalents - Cash equivalents are stated at cost. Cash equivalents are highly liquid investments readily convertible into cash with an original maturity of three months or less and consist of time deposits with commercial banks.

Allowance for Doubtful Accounts - The Company establishes an allowance for doubtful accounts on a case-by-case basis when it believes the required payment of specific amounts owed is unlikely to occur after a review of historical collection experience, subsequent collections and management's evaluation of existing economic conditions.

-6-

### CITY NETWORK, INC. AND SUBSIDIARIES (FORMERLY INVESTMENT AGENTS, INC.)

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2004

##### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets - Property and equipment are stated at cost less accumulated depreciation. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Whenever an asset is retired or disposed of, its cost and accumulated depreciation or amortization is removed from the respective accounts and the resulting gain or loss is credited or charged to income.

Depreciation is computed using the straight-line and declining-balance methods over the following estimated useful lives:

Furniture and Fixtures	5 years
Equipment	5 years
Computer Hardware and Software	3 years
Building and Improvements	50 years

Intangible Assets - Effective July 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." The adoption of SFAS No. 142 required an initial impairment assessment involving a comparison of the fair value of trademarks, patents and other intangible assets to current carrying value. No impairment loss was recognized for the periods ended August 31, 2004 and 2003.

Trademarks and other intangible assets determined to have indefinite useful lives are not amortized. We test such trademarks and other intangible assets with indefinite useful lives for impairment annually, or more frequently if events or circumstances indicate that an asset might be impaired. Trademarks and other intangible assets determined to have definite lives are amortized over their useful lives or the life of the trademark and other intangible asset, whichever is less.



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Inventory - Inventory is valued at the lower of cost or market; cost is determined on the weighted average method. As of August 31, 2004, inventory consisted only of finished goods.

-7-

### CITY NETWORK, INC. AND SUBSIDIARIES (FORMERLY INVESTMENT AGENTS, INC.)

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2004

##### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contingencies - Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed.

Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed. As of August 31, 2004 and the date of our report, management has informed us that there are no matters that warrant disclosure in the financial statements.

Advertising - Advertising costs are expensed in the year incurred.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include collectibility of accounts receivable, accounts payable, sales returns and recoverability of long-term assets.

Concentration of Credit Risk - Financial instruments, which subject the Company to credit risk, consist primarily of cash equivalents and trade accounts receivable arising from its normal business activities. The Company places its cash in what it believes to be credit-worthy financial institutions, however, cash balances have exceeded the FDIC insured levels at various times during the year. Concentration of credit risk with respect to trade accounts receivable is primarily from customers located in Asia. The Company actively evaluates the creditworthiness of the customers with which it conducts business through credit approvals, credit limits and monitoring procedures.

-8-

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CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2004

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Based Compensation - The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation cost is recognized over the vesting period based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock.

Impairment of Long-Lived Assets - On January 1, 2002 the Company adopted SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. There have been no such impairments to date.

Earnings Per Share - Earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Earnings per share are computed using the treasury stock method. The options to purchase common shares are considered to be outstanding for all periods presented but are not calculated as part of the earnings per share.

Income Taxes - Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. The income tax rates imposed by the taxing authorities vary. Taxable income may vary from pre-tax income for financial accounting purposes. There is no expected relationship between the provision for income taxes and income before income taxes because the countries have different taxation rules, which vary not only to nominal rates but also in terms of available deductions, credits and other benefits. Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities using the applicable tax rates in effect at year end as prescribed by SFAS 109 "Accounting for Income Taxes".

Exchange Gain (Loss) - As of August 31, 2004 the transactions of City Network, Inc. - Taiwan and City Construction were denominated in a foreign currency and are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains and losses are recognized for the different foreign exchange rates applied when the foreign currency assets and liabilities are settled.

-9-

CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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AUGUST 31, 2004

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Translation Adjustment - As of August 31, 2004 and 2003, the accounts of City Network, Inc. - Taiwan and City Construction were maintained, and their financial statements were expressed, in New Taiwan Dollars (NTD). Such financial statements were translated into U.S. Dollars (USD) in accordance with Statement of Financial Accounts Standards ("SFAS") No. 52, "Foreign Currency Translation", with the NTD as the functional currency. According to the Statement, all assets and liabilities were translated at the current exchange rate, stockholder's equity are translated at the historical rates and income statement items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income".

As of August 31, 2004 and 2003 the exchange rates between NTD and the USD was NTD\$1=USD\$0.02942 and NTD\$1=USD\$0.2922. The weighted-average rate of exchange between NTD and USD was NTD\$1 = USD\$0.02981 and NTD\$1=USD\$0.02886. Total translation adjustment recognized for the period ended August 31, 2004 and 2003 is \$46,780 and \$99,524 respectively.

New Accounting Pronouncements - In October 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires companies to record the fair value of a liability for asset retirement obligations in the period in which they are incurred. The statement applies to a company's legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, and development or through the normal operation of a long-lived asset. When a liability is initially recorded, the company would capitalize the cost, thereby increasing the carrying amount of the related asset. The capitalized asset retirement cost is depreciated over the life of the respective asset while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount or the company incurs a gain or loss. The statement is effective for fiscal years beginning after June 30, 2003. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003) ("Interpretation 46"), "Consolidation of Variable Interest Entities." Application of this interpretation is required in our financial statements for interests in variable interest entities that are considered to be special-purpose entities for the year ended February 29, 2004. Our Company determined that we do not have any arrangements or relationships with special-purpose entities. Application of Interpretation 46 for all other types of variable interest entities is required for our Company effective March 31, 2004.

-10-

CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2004

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interpretation 46 addresses the consolidation of business enterprises to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This interpretation focuses on controlling financial interests

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that may be achieved through arrangements that do not involve voting interests. It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential rewards from the variable interest entity's assets and activities are the best evidence of control. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary is required to include assets, liabilities and the results of operations of the variable interest entity in its financial statements.

Our Company holds interests in certain entities currently accounted for under the equity method of accounting that are not considered variable interest entities. We do not expect compliance with Interpretation 46 to have an impact on our financial statements.

### NOTE 3 - CONCENTRATION

The Company had fifteen major customers during the six months ended August 31, 2004. Those customers comprise 37% of the total sales during the six months ended August 31, 2004. Sales to these customers were approximately \$4,381,041. Included in accounts receivable is \$2,230,555 from these customers as of August 31, 2004.

### Note 4 - CASH

The Company maintains its cash balances at various banks in Taiwan and Hong Kong. All balances are insured by the Central Deposit Insurance Corporation (CDIC). As of August 31, 2004 and 2003, there were no uninsured portions of the balances held at the bank.

-11-

## CITY NETWORK, INC. AND SUBSIDIARIES (FORMERLY INVESTMENT AGENTS, INC.)

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2004

### Note 5 - FIXED ASSETS

Fixed assets consist of the following:

	August 31, 2004 -----	February 29, 2004 -----
Land	\$ 1,966,694	\$ 1,966,694
Building	305,429	305,429
Machinery and equipment	430,656	427,126
Furniture and fixtures	143,880	142,402
	-----	-----
	\$ 2,846,659	\$ 2,841,651
Accumulated depreciation	(151,954)	(95,987)
	-----	-----
	\$ 2,694,705	\$ 2,745,664
	=====	=====

### Note 6 - INTANGIBLE ASSETS

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Intangible assets consist of the following:

	August 31, 2004 -----	February 29, 2004 -----
Trademarks	\$ 2,150	\$ 2,150
Intangible asset	1,000,000	1,000,000
	-----	-----
	\$ 1,002,150	\$ 1,002,150
Accumulated depreciation	(16,354)	(184)
	-----	-----
	\$ 985,796	\$ 1,001,966
	=====	=====

Note 7 - COMPENSATED ABSENCES

Employees earn annual vacation leave at the rate of seven (7) days per year for the first three years. Upon completion of the third year of employment, employees earn annual vacation leave at the rate of ten (10) days per year for years. At termination, employees are paid for any accumulated annual vacation leave. As of August 31, 2004 vacation liability exists in the amount of \$3,251.

-12-

CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2004

Note 8 - COMMITMENTS

A Best Information - City Network, Inc. - Taiwan, signed an agreement with A Best Information in 2002 for the exclusive right to sell A Best Information's products. There is no expiration date in the agreement, and the Company has the right to transfer the agreement to any third party with a negotiable price. The Company paid \$1,000,000 for these rights. As of August 31, 2004, net book value is \$983,936.

Reseller Agreements - City Network, Inc. - Taiwan has several signed reseller agreements with various customers. These resellers are given special sales prices and are paid commissions for their sales orders.

Co-Construction Agreement - In April 2004, City Construction Co., Ltd. entered into a Co-Construction Agreement with another company in Taipei, Taiwan. Under the Agreement, the Company will finance, construct and own 50% of the building project. The Company has not yet begun construction on the building.

Operating Leases - The Company had leases for three office facilities under operating leases that terminate on various dates. The Company as of August 31, 2004 only has one lease that terminates on May 31, 2005. Rental expense for these leases consisted of \$33,278 and \$0 for the six months ended August 31, 2004 and 2003. The Company has future minimum lease obligations as follows:

Year ending

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August 31,

2005	\$ 36,219
	-----
Total	\$ 36,219
	=====

Note 9 - LONG-TERM INVESTMENT

On August 31, 2003 the Company purchased approximately twenty-five percent (25%) of Beijing Putain Hexin Network Technology Co., Ltd for \$325,000. On December 4, 2003 the Company purchased an additional fifteen percent (15%) for \$398,500. Beijing Putain Hexin Network Technology Co., Ltd is not publicly traded or listed. The Company is using the complete equity method to record its share of the subsidiary's net income and loss. As of August 31, 2004 the Company recognized a loss \$4,652 from their acquisition.

-13-

CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2004

Note 10 - DEBT

At August 31, 2004, the Company had notes payable outstanding in the aggregate amount of \$2,468,899. Payable as follows:

Note payable to a bank in Taiwan, interest at 3.762% per annum, due on December 30,2004	\$264,780
Note payable to a bank in Taiwan, interest at 3.762% per annum, due on February 13,2005	117,680
Note payable to a bank in Taiwan, interest at 3.762% per annum, due on March 26, 2005	185,346
Note payable to a bank in Taiwan, interest at 4.302% per annum, due on October 23, 2004	246,412
Note payable to a bank in Taiwan, interest at 4.302% per annum, due on October 4, 2004	74,452
Note payable to a bank in Taiwan, interest at 33.762% per annum, due on October 8, 2004	294,200
Note payable to a bank in Taiwan, interest at 3.762% per annum, due on October 28, 2004	131,650
Note payable to a bank in Taiwan, interest at 3.762% per annum, due on November 12,2004	36,274
Note payable to a bank in Taiwan, interest at 3.762% per annum, due on November 16,2004	100,722

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-14-

CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2004

Note 10 - DEBT (CONTINUED)

Note payable to a bank in Taiwan, interest at 3.762% per annum, due on December 14, 2004	50,343
Note payable to a bank in Taiwan, interest at 3.762% per annum, due on December 24, 2004	323,923
Note payable to a bank in Taiwan, interest at 4.25% per annum, due on June 12, 2005	1,177
Secured note payable to a bank in Taiwan, interest at 3.175% per annum, due on May 29, 2016	264,780
Secured note payable to a bank in Taiwan, interest at 4.25% per annum, due on June 12, 2005	8,313
Note payable to a corporation, interest at 6.25% per annum, due on November 20, 2005, personally guaranteed by an Officer of the Company	368,847
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	2,468,899
Current portion	2,226,226
Long-term portion	\$ 242,673
	=====

-15-

CITY NETWORK, INC. AND SUBSIDIARIES  
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2004

Note 11 - RELATED PARTY TRANSACTIONS

Throughout the history of the Company, certain members of the Board of Directors, and general management have made loans to the Company to cover operating expenses or operating deficiencies. As of August 31, 2004, the Company has a non interest-bearing loan from Andy Lai, the Company's President, in the amount of \$115,652. Mr. Lai has also personally guaranteed a note payable of the

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Company in the amount of \$368,847.

### Note 12 - COMMON STOCK

In May 2004, the Company issued 2,500,000 shares of its common stock as consideration for the conversion in full of a note and short term debt payable to third parties in the aggregate of \$1,680,329. The note and short term debt payable were converted into shares of common stock at a price of approximately \$0.672 per share.

-16-

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto. The following discussion contains certain forward-looking statements that involve risk and uncertainties. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, risks and uncertainties related to the need for additional funds, the rapid growth of the operations and our ability to operate profitably after the initial growth period is completed.

#### RESULTS OF OPERATIONS

THREE MONTHS ENDED AUGUST 31, 2004 COMPARED WITH THREE MONTHS ENDED AUGUST 31, 2003

**SALES.** Net sales for the three months ended August 31, 2004 were \$5,430,262 compared to \$4,924,237 for the three months ended August 31, 2003. The increase in sales for the three months ended August 31, 2004 was due to the Company's aggressive approach in diversifying and developing its sales products.

**COST OF SALES.** Cost of sales for the three months ended August 31, 2004 was \$5,145,009 or 94.7% of net sales, as compared to \$4,529,010 or 91.9% of net sales, during the three months ended August 31, 2003. The increase in cost of sales is related to the increase in sales.

**GENERAL AND ADMINISTRATIVE EXPENSES.** General and administrative expenses were \$484,836, or 8.9% of net sales, for the three months ended August 31, 2004, as compared to \$223,554 or 4.5% of net sales, for the three months ended August 31, 2003. The increase was due to increased marketing and promotion costs related to new products and an increase in salary expense related to hiring new employees to increase marketing and promotion development and to improve our infrastructure.

**INCOME (LOSS) FROM OPERATIONS.** Income (loss) from operations for the three months ended August 31, 2004 was (\$199,583), compared to income (loss) from operations for the three months ended August 31, 2003 of \$171,673. The loss from operations for the three months ended August 31, 2004 compared with income from operations for the three months ended August 31, 2003 was due to the gross profit rate decreasing and general and administrative expenses increasing.

**OTHER (INCOME) EXPENSE.** Other (income) expense was \$41,169 for the three months ended August 31, 2004, as compared to \$29,510 for the three months ended August 31, 2003. This increase in other expense was the result of increased interest expense.

**INCOME (LOSS).** Income (loss) for three months ended August 31, 2004 was (\$309,727) compared to income of \$127,962 for the three months ended August 31,



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2003. The decrease in net income is due to the gross profit rate decreasing and general and administrative expense increasing.

SIX MONTHS ENDED AUGUST 31, 2004 COMPARED WITH SIX MONTHS ENDED AUGUST 31, 2003

SALES. Net sales for the six months ended August 31, 2004 were \$11,833,616 compared to \$9,666,688 for the six months ended August 31, 2003. The increase in sales for the six months ended August 31, 2004 was due to the Company's aggressive approach in diversifying and developing its sales products.

-17-

COST OF SALES. Cost of sales for the six months ended August 31, 2004 was \$11,217,157 or 94.8% of net sales, as compared to \$8,965,366 or 92.7% of net sales during the six months ended August 31, 2003. The increase in cost of sales is related to the increase in sales.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were \$814,117, or 6.9% of net sales, for the six months ended August 31, 2004, as compared to \$463,534 or 4.8% of net sales for the six months ended August 31, 2003. The increase was due to increased marketing and promotion costs related to new products and an increase in salary expense related to hiring new employees to increase marketing and promotion development and to improve our infrastructure.

INCOME (LOSS) FROM OPERATIONS. Income (loss) from operations for the six months ended August 31, 2004 was (\$197,658), compared to income (loss) from operations for the six months ended August 31, 2003 of \$237,788. The loss from operations for the six months ended August 31, 2004 compared with income from operations for the six months ended August 31, 2003 was due to the gross profit rate decreasing and general and administrative expenses increasing.

OTHER (INCOME) EXPENSE. Other (income) expense was \$18,854 for the six months ended August 31, 2004, as compared to \$60,770 for the six months ended August 31, 2003. This decrease in other expense was the result of rental income and non-operating income, such as maintenance revenue.

INCOME (LOSS). Income (loss) for six months ended August 31, 2004 was (\$295,797) compared to income of \$158,269 for the six months ended August 31, 2003. The decrease in net income is due to the gross profit rate decreasing and general and administrative expense increasing.

### LIQUIDITY AND CAPITAL RESOURCES

For the six months ended August 31, 2004 and 2003, the Company had cash and cash equivalents of \$1,006,745 and \$478,188 respectively. The Company's current assets totaled \$8,611,351 at August 31, 2004 as compared to \$7,895,569 at August 31, 2003. The Company's total current liabilities were \$7,123,855 at August 31, 2004 as compared to \$7,341,103 at August 31, 2003. Working capital at August 31, 2004 was \$1,487,496 and \$554,466 at August 31, 2003. The Company used \$1,324,830 of net cash in operations, and used \$324,475 of net cash in financing activities. The Company's liquidity is currently dependent on its ability to strengthen its accounts receivable collection time period and its ability to continue to raise cash from financing sources to fund its expansion. The Company's short-term and long-term liquidity may be influenced by uncollected accounts receivables. If the amount of bad debt is high, it will severely affect the Company's ability to continue operations. Therefore, the Company is taking precautions to manage this risk, including diversifying its customer base and controlling credit risk through credit approvals, credit limits and monitoring procedures. There can be no assurance that these measures will prove successful. The Company's inability to manage this risk will have a material adverse effect

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upon its business, financial condition and results of operations.

CAPITAL EXPENDITURES. Total capital expenditures during the six months ended August 31, 2004 were \$5,008 compared to \$295,212 for the six months ended August 31, 2003.

### OFF-BALANCE SHEET ARRANGEMENTS

We have never entered into any off-balance sheet financing arrangements and have never established any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

-18-

### ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including our chief executive officer and the chief financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, the Company's chief executive officer and chief financial officer concluded as of the Evaluation Date that the Company's disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to the Company, including our consolidating subsidiaries, and was made known to them by others within those entities, particularly during the period when this report was being prepared.

Additionally, there were no significant changes in the Company's internal controls or in other factors that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

-19-

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

### ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 31 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended August 31, 2004.

-20-

SIGNATURES

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

Dated: October 19, 2004

CITY NETWORK, INC.

By: /s/ Tiao Tsan Lai

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Tiao Tsan Lai  
Chief Executive Officer  
(Principal Executive Officer)

Dated: October 19, 2004

By: /s/ Hsin Nan Lin

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Hsin Nan Lin  
Chief Financial Officer  
(Principal Financial Officer)

-21-