

MyStarU.com,Inc.  
Form 10-Q  
May 20, 2009

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

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FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

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

Commission File Number 333-62236

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MYSTARU.COM, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

6 North Twelfth Road  
Country Garden  
Shunde District  
Foshan City, Guangdong  
China 528312

(Address of principal executive offices)

(86) 757 2663 9986

(Registrant's telephone number, including area code)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of May 20, 2009, 179,864,316 shares of common stock, par value \$.001 per share were outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

MYSTARU.COM, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2009<br>(Unaudited) | September 30,<br>2008<br>(Audited) |
|---|----------------------------------|------------------------------------|
| <b>ASSETS</b>   |                                  |                                    |
| <b>Current Assets</b>   |                                  |                                    |
| Cash  | \$ 523,548                       | \$ 302,632                         |
| Accounts Receivable, Net of Allowances for Doubtful Accounts of \$362,952<br>(September 30, 2008 - \$30,767) (Note 3) | 16,648,256                       | 10,387,036                         |
| Inventory   | 405,007                          | 126,256                            |
| Prepaid Advertising   | 1,884,555                        | 2,265,078                          |
| Other Current Assets  | 1,046,277                        | 623,567                            |
| <b>Total Current Assets</b>   | <b>20,507,643</b>                | <b>13,704,569</b>                  |
| Property & Equipment, Net of Accumulated Depreciation of \$16,793,179<br>(September 30, 2008 - \$13,644,708) (Note 7) | 7,207,469                        | 10,301,602                         |
| <b>Intangible Assets</b>  |                                  |                                    |
| Copyrights, Net of Accumulated Amortization of \$2,265,234<br>(September 30, 2008 - \$1,550,443) (Notes 5, 6)         | 12,632,387                       | 13,118,866                         |
| Goodwill (Note 5)   | 557,735                          | 557,224                            |
| <b>Total Intangible Assets</b>  | <b>13,190,122</b>                | <b>13,676,090</b>                  |
| <b>TOTAL ASSETS</b>   | <b>\$ 40,905,234</b>             | <b>\$ 37,682,261</b>               |
| <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>   |                                  |                                    |
| <b>Current Liabilities</b>  |                                  |                                    |
| Accounts Payable  | \$ 3,949,306                     | \$ 4,422,172                       |
| Customer Deposits   | 405,794                          | 308,096                            |
| Accrued Liabilities   | -                                | 237,300                            |
| Short Term Debt   | 1,080,986                        | 1,043,424                          |
| <b>Total Current Liabilities</b>  | <b>5,436,086</b>                 | <b>6,010,992</b>                   |
| <b>Total Liabilities</b>  | <b>5,436,086</b>                 | <b>6,010,992</b>                   |
| Minority Interest in Consolidated Subsidiaries (Note 11)  | 7,000,120                        | 7,138,608                          |
| Commitment and Contingencies (Note 12)  |                                  |                                    |
| Stockholders' Equity (Note 9)   | -                                | -                                  |

|   |                      |                      |
|---|----------------------|----------------------|
| Preferred stock, \$0.001 par value, authorized: 50,000,000 shares, zero shares issued and outstanding at March 31, 2009 and September 30, 2008                            |                      |                      |
| Common stock, \$0.001 par value, authorized: 300,000,000 shares, - and 171,364,316 and 156,014,316 shares issued and outstanding at March 31, 2009 and September 30, 2008 | 171,364              | 156,014              |
| Additional Paid in Capital  | 25,458,219           | 24,301,719           |
| Shares to be Issued   | 8,500                | 350                  |
| Deferred Stock-Based Compensation   | (1,816,515)          | (1,285,362)          |
| Accumulated Other Comprehensive Income  | 52,119               | 30,251               |
| Retained Earnings   | 4,595,341            | 1,329,689            |
| <b>Total Stockholders' Equity</b>   | <b>28,469,028</b>    | <b>24,532,661</b>    |
| <b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>   | <b>\$ 40,905,234</b> | <b>\$ 37,682,261</b> |

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

MYSTARU.COM, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
FOR THE SIX AND THREE MONTHS ENDED MARCH 31, 2009 AND 2008

|   | Six Months Ended<br>March 31 |                   | Three Months Ended<br>March 31 |                   |
|---|------------------------------|-------------------|--------------------------------|-------------------|
|   | 2009<br>Unaudited            | 2008<br>Unaudited | 2009<br>Unaudited              | 2008<br>Unaudited |
| Revenue   |                              |                   |                                |                   |
| Licensing and Royalty Revenues                      | \$ 6,943,877                 | \$ 3,953,352      | \$ 5,632,455                   | \$ 2,629,390      |
| Online Membership Services                          | 10,779,355                   | 4,023,102         | 5,530,687                      | 2,300,823         |
| Import and Export Sales                             | 4,408,396                    | 7,190,979         | 1,553,968                      | 2,826,396         |
| Media and Marketing Management                      | -                            | 641,486           | -                              | 340,357           |
| Software Sales                                      | 1,618,066                    | -                 | 1,176,832                      | -                 |
| Total Revenue                                       | 23,749,694                   | 15,808,919        | 13,893,942                     | 8,096,966         |
| Costs of Sales                                      | 11,809,302                   | 11,508,634        | 7,352,993                      | 5,723,492         |
| Gross Profit  | 11,940,392                   | 4,300,285         | 6,540,949                      | 2,373,474         |
| Operating Expenses                                  |                              |                   |                                |                   |
| Advertising   | 7,170,586                    | 888,499           | 3,696,655                      | 505,431           |
| Salaries and Wages                                  | 90,170                       | 128,668           | 20,070                         | 65,661            |
| Stock Based Compensation                            | 648,847                      | 867,024           | 337,757                        | 503,155           |
| Bad Debt Expense (Recovery)                         | 331,928                      | (161,415)         | 331,928                        | -                 |
| Depreciation and Amortization                       | 13,794                       | 40,972            | 6,484                          | 20,265            |
| Other Selling, General and Administrative Expenses  | 556,218                      | 404,308           | 268,020                        | 173,517           |
| Total Operating Expenses                            | 8,811,543                    | 2,168,056         | 4,660,914                      | 1,268,029         |
| Income From Operations                              | 3,128,849                    | 2,132,229         | 1,880,035                      | 1,105,445         |
| Other Income and Expenses                           | 16                           | 14,251            | (12,295)                       | 5,807             |
| Net Income From Operations Before Income Taxes      | 3,128,865                    | 2,146,480         | 1,867,740                      | 1,111,252         |
| Provision for Income Taxes                          | -                            | (1,052)           | -                              | (1)               |
| Net Income From Operations Before Minority Interest | 3,128,865                    | 2,145,428         | 1,867,740                      | 1,111,251         |
| Minority Interest in Loss (Income) of Subsidiaries  | 136,787                      | (550,572)         | (58,579)                       | (286,957)         |
| Net Income From Operations                          | 3,265,652                    | 1,594,856         | 1,809,161                      | 824,294           |
| Foreign Currency Translation Adjustment             | 21,868                       | (64,720)          | 4,210                          | (38,365)          |

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|  |    |             |    |             |    |             |    |      |             |
|--|----|-------------|----|-------------|----|-------------|----|------|-------------|
| Comprehensive Income   | \$ | 3,287,520   |    | 1,530,136   | \$ | 1,813,371   |    | \$   | 785,929     |
| Basic Net Income Per Common Share                                | \$ | 0.02        | \$ | 0.01        | \$ | 0.01        | \$ | 0.01 |             |
| Diluted Net Income Per Common Share                              | \$ | 0.02        | \$ | 0.01        | \$ | 0.01        | \$ | 0.01 |             |
| Number of Common Shares Used to Compute Basic Weighted Average   |    | 166,247,008 |    | 150,466,746 |    | 170,830,983 |    |      | 152,278,052 |
| Number of Common Shares Used to Compute Diluted Weighted Average |    | 166,247,008 |    | 150,466,746 |    | 170,830,983 |    |      | 152,278,052 |

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

MYSTARU.COM, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASHFLOWS  
FOR THE SIX MONTHS ENDED MARCH 31, 2009 AND 2008

|   | 2009<br>Unaudited | 2008<br>Unaudited<br>(Restated) |
|---|-------------------|---------------------------------|
| <b>Cash Flows From Operating Activities</b>   |                   |                                 |
| Net Income  | \$ 3,265,652      | \$ 1,594,856                    |
| Adjustments to Reconcile Net Income to Net Cash Provided By (Used In) Operating Activities: |                   |                                 |
| Depreciation  | 3,115,672         | 2,075,164                       |
| Amortization of Copyrights  | 710,485           | -                               |
| Bad Debt Expense  | 331,928           | 25,014                          |
| Recovery of Bad Debts   | -                 | (185,431)                       |
| Minority Interests  | (138,488)         | 550,572                         |
| Amortization of Prepaid Entertainment Arts Advertising                                      | -                 | 384,506                         |
| Amortization of Stock Based Compensation  | 648,847           | 867,024                         |
| Changes in Operating Assets and Liabilities:  |                   |                                 |
| Accounts Receivable   | (6,593,405)       | (6,039,187)                     |
| Inventory   | (278,751)         | (10,641)                        |
| Prepaid Advertising   | 380,523           | (356,495)                       |
| Prepaid Deposit on Commercial Real Estate Contract  | -                 | (600,000)                       |
| Other Current Assets  | (422,710)         | 260,106                         |
| Copyrights  | (191,110)         | 784,717                         |
| Accounts Payable and Accrued Expenses   | (472,866)         | (210,625)                       |
| Customer Deposits   | (139,602)         | 594,550                         |
| Net Cash Provided By (Used In) Operating Activities   | 216,175           | (265,870)                       |
| <b>Cash Flows From Investing Activities:</b>  |                   |                                 |
| Cash Received in Acquisition of MGI   | -                 | 2,834                           |
| Capital Expenditures  | (4,797)           | -                               |
| Net Cash (Used In) Provided By Investing Activities   | (4,797)           | 2,834                           |
| <b>Cash Flows From Financing Activities</b>   |                   |                                 |
| Proceeds From Short Term Debt Financing, Net  | 37,562            | -                               |
| Proceeds From Issuance of Common Stock  | -                 | 600,000                         |
| Net Cash Flows Provided by Financing Activities:  | 37,562            | 600,000                         |
| Effect of Exchange Rate Changes on Cash   | (28,024)          | (215,988)                       |
| Net Increase in Cash  | 220,916           | 120,976                         |
| Cash - Beginning of Period  | 302,632           | 1,150,422                       |
| Cash - End of Period  | \$ 523,548        | \$ 1,271,398                    |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                                    |                   |                                 |
| Taxes Paid  | \$ -              | \$ -                            |
| Interest Paid   | \$ -              | \$ -                            |



Non cash investing and financing activities:

|   |    |           |    |           |
|---|----|-----------|----|-----------|
| Acquisition of MGI through issuance of common stock                 | \$ | -         | \$ | 200,000   |
| Issuance of stock for services, deferred compensation               | \$ | 1,180,000 | \$ | 577,550   |
| Issuance of stock for services by subsidiary, deferred compensation | \$ | -         | \$ | 1,738,450 |
| Accounts receivable used for acquisition of websites                | \$ | -         | \$ | 1,000,000 |

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

MYSTARU.COM, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX AND THREE MONTHS ENDED MARCH 31, 2009 AND 2008

NOTE 1 - BUSINESS DESCRIPTION AND ORGANIZATION

MyStarU.com, Inc., a Delaware corporation (together with its consolidated subsidiaries, "MYST" or the "Company") is a fully integrated information and entertainment service provider to the business, internet, and consumer markets in the People's Republic of China (the "PRC"). The Company was originally incorporated on January 6, 1997 in the State of Indiana under the corporate name MAS Acquisition XXI Corp. On December 21, 2000, the Company acquired Telecom Communications of America, a sole proprietorship in California, and changed its name to Telecom Communications, Inc. On February 28, 2005, the Company reincorporated in the State of Delaware by merging with a Delaware corporation of the same name. The surviving Delaware corporation succeeded to all of the rights, properties and assets and assumed all of the liabilities of the original Indiana corporation. On July 10, 2007, the Company changed its name from Telecom Communications, Inc. to MyStarU.com, Inc. The Company's common stock continues to be quoted under the symbol, "MYST.OB," on the over-the-counter bulletin board ("OTCBB") in the United States of America.

The Company operates under the following business segments:

1. Investments in Entertainment Arts Productions - The Company purchases and licenses or resells copyrights of entertainment-related assets.
2. Online Content and Member Services Provider - The Company provides online content and member services for commercial use.
3. Software Sales - The Company provides web-based and mobile software platforms.
4. Media and Marketing Management - The Company's subsidiary, Media Group International, coordinates product placement activities for filmmakers and advertisers within the entertainment arts industry of the PRC.
5. Importing and Exporting of Goods - The Company conducts international trade using the PRC as its base of operations.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2009. 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 period 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-K for the year ended September 30, 2008. 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.

#### Principles of Consolidation

#### Basis of presentation

The consolidated financial statements, prepared in accordance with 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") the accounting standards used in the place of their domicile. 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 reflect the activities of the parent and the following subsidiaries. All significant intercompany accounts, transactions and cash flows are eliminated on consolidation.

| Subsidiaries                               | Countries Registered In                   | Percentage of Ownership |
|--|---|-------------------------|
| MyStarU Limited                            | Hong Kong, The People's Republic of China | 100.00%                 |
| 3G Dynasty Inc.                            | British Virgin Islands                    | 100.00%                 |
| Subaye.com, Inc.                           | United States of America, Delaware        | 69.03%                  |
| Subaye IIP Limited                         | British Virgin Islands                    | 69.03%                  |
| Guangzhou Panyu Metals & Materials Limited | The People's Republic of China            | 100.00%                 |
| Guangzhou Subaye Computer Tech Limited     | The People's Republic of China            | 69.03%                  |
| Media Group International Limited          | Hong Kong, The People's Republic of China | 69.03%                  |

MyStarU Ltd.

MyStarU Ltd. operates the Company's online educational platforms, and manages the MyStarU franchise programs.

3G Dynasty

3G Dynasty operates the Company's investments in entertainment arts business segment and is a holding company utilized by the Company to manage its investments in intellectual properties such as movie copyrights.

Subaye.com, Inc. ("Subaye.com")

Subaye.com is a holding company utilized by the Company to manage its investments in Guangzhou Subaye Computer Technology Limited, Subaye IIP Limited and Media Group International, Inc.

Subaye IIP Limited

Subaye IIP Limited is an operating company utilized by the Company to manage the Company's websites, www.subaye.com, www.goongreen.org, www.x381.com, www.goongood.com. Subaye IIP Limited is also in the business of marketing and delivering software generally referred to as SAAS, or Software as a Service.

Guangzhou Panyu Metals & Materials Limited

Guangzhou Panyu Metals & Materials Limited ("Panyu") operates the Company's importing and exporting business.

Guangzhou Subaye Computer Technology Limited

Guangzhou Subaye Computer Technology Limited ("Guangzhou Subaye") provides technical expertise with regard to computer software, hardware, internet infrastructure and networking for the Company and its employees and markets and sells computer software, namely IBS Version 5.0.

Media Group International Limited

Media Group International Limited ("MGI") provides media, advertising and marketing expertise for the Company and markets and sells its services such as advertising product placement services and media management services within the PRC entertainment market and overseas.

#### Foreign currency translation

The reporting currency of the Company is the US dollar. The Company's principal operating subsidiaries established in the PRC and Hong Kong, use their local currency, Renminbi (RMB), and Hong Kong Dollar (HKD), as their functional currency. Results of operations and cash flows are translated at average exchange rates during the period, and assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China at the end of the period. Translation adjustments resulting from this process are included in accumulated other comprehensive income in stockholders' equity on the balance sheets. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Translation adjustments resulting from this process are included in accumulated other comprehensive income in stockholders' equity on the balance sheets and amounted to \$52,119 and \$30,251 as of March 31, 2009 and September 30, 2008, respectively.

## Revenue Recognition

### Licensing Agreements

Licensing revenue derived from the Company's copyrights is recognized in accordance with Statement of Position 00-2, Accounting by Producers or Distributors of Films ("SOP 00-2"). SOP 00-2 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 licensing 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.

The Company reviewed its business plan with regard to whether the Company will continue to sell off assets it doesn't consider having immediate benefit to the Company. As a result, the Company believes the sale of these copyrights is in the ordinary course of business and should not be reported as an extraordinary event or as other income.

Accordingly, the Company has reported the proceeds from the sales in "licensing and royalty revenues" within the consolidated statement of operations and the adjusted cost basis associated with the sale in costs of sales on the consolidated statement of operations.

### Monthly Website Subscriptions

Revenue for the monthly subscription from the members who subscribed to the Company's websites is recognized on a pro-rata basis, is calculated on a day-to-day basis and invoiced at the end of each month of full service in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition ("SAB 104"). The Company does not currently charge a cancellation fee or penalty if and when a customer decides to terminate their membership with our websites.

Current terms of the [www.subaye.com](http://www.subaye.com) membership agreement stipulate that the customer pays a nonrefundable fee of approximately \$100 per month for access to the marketing and advertising capabilities in place at [www.subaye.com](http://www.subaye.com). The Company does not currently provide any specific software to its customers, although, much of the website is driven by complex software which controls the video and voice streaming, among other things, which is prevalent throughout the website.

The Company has an ongoing agreement with China Netcom ("CN"). CN is an internet and webhosting provider in the PRC and manages the internet connection and webhosting of the Company's [www.subaye.com](http://www.subaye.com) website. Under the agreement, CN is required to ensure that the Company's internet connection and namely its webhosting, is operating correctly at all times such that all users of the websites, including Subaye.com members and anyone else who attempts to access the website can do so without interruption as long as the individual has a reliable internet connection. CN is compensated such that CN receives forty percent (40%) of the Company's gross membership fees, payable on a

monthly basis within approximately fifteen (15) days of the end of each month. The Company records its revenues net of the fees paid to CN, in accordance with Emerging Issues Task Force Issue No. 99-19 ("EITF 99-19"). The Company believes net revenue presentation is reasonable given that it shares the obligation to perform with CN with regard to its membership contracts with its customers. The Company also does not believe it has the ability to replace CN with another comparable internet and webhosting provider. Lastly, the allocation of fees to CN is based on a fixed percentage portion of the membership revenues earned from membership fee transactions.

The Company has an ongoing agreement with SSTH Limited ("SSTH"). SSTH is a merchant service provider contracted to complete two tasks: (i) to assist the members of www.subaye.com in preparing each member's corporate branding video, which is to be uploaded to www.subaye.com and (ii) to assist the Company with the daily operations of www.subaye.com and more specifically, to collect the monthly member fees, which are currently paid in cash, from the members of www.subaye.com. Collecting these cash receipts, tracking which customers have paid and which have not, and remitting the cash to the Company, is a time intensive project each month. In October 2006, the Company and SSTH Limited orally agreed to allow SSTH Limited as much as 90 days in order to collect all cash receipts from any particular month. The Company determined it would provide the merchant services provider flexibility with regard to remitting cash to the Company so that the merchant services provider could focus its efforts on collecting fees from the members of www.subaye.com. The Company has never experienced collection issues with regard to the merchant services provider and does not expect any collection issues to occur in the future. SSTH is compensated such that SSTH receives ten percent (10%) of the Company's gross membership fees, payable on a monthly basis at the end of each month. The Company records its revenues net of the fees paid to SSTH, in accordance with Emerging Issues Task Force Issue No. 99-19 ("EITF 99-19"). The Company believes net revenue presentation is reasonable given that it shares the obligation to perform with SSTH with regard to its membership contracts with its customers. The Company also does not believe it has the ability to replace SSTH with another comparable internet and webhosting provider. Lastly, the allocation of fees to SSTH is based on a fixed percentage portion of the membership revenues earned from membership fee transactions.

The Company also has an ongoing agreement with FRT whereby FRT is to ensure the telephone lines and mechanical equipment associated with the Company's internet connection is operating correctly. The Company has a fixed arrangement with FRT such that the monthly fees payable to FRT for its services are approximately \$6,200.

#### Media & Marketing Management

In accordance with SAB 104, the Company recognizes revenue generated by its MGI subsidiary 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. In general, revenues are typically earned throughout the life of MGI contracts, normally on a monthly basis.

#### Software Sales

Revenue from the sale of software is recognized pursuant to the requirements of Statement of Position 97-2 "Software Revenue Recognition" (SOP 97-2), issued by the American Institute of Certified Public Accountants, as amended by SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." In accordance with SOP 97-2, we begin to recognize revenue from licensing and supporting our software products when all of the following criteria are met: (1) we have evidence of an arrangement with a customer; (2) we deliver the products; (3) license agreement terms are deemed fixed or determinable and free of contingencies or uncertainties that may alter the agreement such that it may not be complete and final; and (4) collection is probable.

Our software licenses generally do not include acceptance provisions. An acceptance provision allows a customer to test the software for a defined period of time before committing to license the software. If a license agreement includes an acceptance provision, we do not record deferred subscription value or recognize revenue until the earlier of the receipt of a written customer acceptance or, if not notified by the customer to cancel the license agreement, the expiration of the acceptance period.

Under our traditional software sales business model, software license agreements for our IBS version 5.0 software typically include a lifetime right of use and do not provide for any support or maintenance to be provided by the Company for the term of the agreement. Software license fees are recognized once all four criteria for revenue recognition criteria are met (as the contracts do not include a right to unspecified software products.)

Our standard licensing agreements include a product warranty provision for all products. Such warranties are accounted for in accordance with SFAS No. 5, "Accounting for Contingencies." The likelihood that we would be required to make refunds to customers under such provisions is considered remote. As a result, the Company has not accrued for potential liabilities associated with the performance of its software products as no liabilities are specifically anticipated by the Company.

Under the terms of substantially all of our license agreements, we have agreed to indemnify customers for costs and damages arising from claims against such customers based on, among other things, allegations that our software products infringe the intellectual property rights of a third party. In most cases, in the event of an infringement claim, we retain the right to (i) procure for the customer the right to continue using the software product; (ii) replace or modify the software product to eliminate the infringement while providing substantially equivalent functionality; or (iii) if neither (i) nor (ii) can be reasonably achieved, we may terminate the license agreement and refund to the customer a pro-rata portion of the fees paid. Such indemnification provisions are accounted for in accordance with SFAS No. 5. The likelihood that we would be required to make refunds to customers under such provisions is considered remote. In most cases and where legally enforceable, the indemnification is limited to the amount paid by the customer.



The Company is also a provider of software as a service "SAAS" products. The Company's SAAS software provides its customers with:

- the ability to store data on the Company's servers and access the data through the internet utilizing "remote access" capabilities
- the ability to customize the design and update the content of the customers' respective company websites, including the ability to organize and edit online advertising videos
- customer relationship management software, which allows the Company's customers to maintain records and data associated with their own customers on a real-time and per-customer basis within a secure platform
- integration with [www.subaye.com](http://www.subaye.com), which allows for immediate updating of each SAAS customer's corporate branding video and other corporate data on [www.subaye.com](http://www.subaye.com)

Potential customers for the SAAS products are identified by our salespersons, starting with existing members of [www.subaye.com](http://www.subaye.com), then targeting small to midsize enterprises in China that would benefit from the enhanced services beyond membership to the [www.subaye.com](http://www.subaye.com) website.

The Company charges a monthly licensing fee of approximately \$100 for each license purchased by a SAAS customer.

In September 2008, the Company completed several significant investments in computer hardware and software totaling approximately \$5.3 million and committed to the SAAS business model. In November and December 2008, the Company entered into two contracts with a large shopping mall management company to secure its first 3,900 SAAS customers, which consisted of shop owners within two separate shopping malls in the PRC. These initial 3,900 SAAS customers will generate approximately \$390,000 in revenues per month for a 12 month period on a combined basis. Prior to these sales the Company's software sales business segment had only completed one software sale in the past twelve months. Continued sales of the IBS Version 5.0 computer software are possible but the Company is not focused on sales of this product at this time. The Company's efforts are currently focused on expanding its SAAS business opportunities, which the Company believes will be much more lucrative than traditional sales of its IBS Version 5.0 software. The interest level in the PRC with regard to SAAS is very high but we are new to this business and we are uncertain of the likelihood of success.

### Importing and Exporting Sales

The Company recognizes revenue on import and export sales when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Net sales of products represent the invoiced value of goods, net of value added taxes, sales returns, trade discounts and allowances. In December 1999, the Securities Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition" and in July 2000, the Emerging Issues Task Force ("EITF") issued EITF Abstract No. 99-19 Reporting Revenue Gross as a Principal versus Net as an Agent ("EITF 99-19") which provided further guidance to SAB 101 on revenue recognition in certain circumstances. Prior to the introduction of EITF 99-19, the manner in which the Company recognized revenues depended on the goods and services sold. We reviewed the considerations included in EITF 99-19 with respect to sales of products within each of our business segments but with particular attention to our importing and exporting business segment. We determined that while EITF 99-19 outlines the variety of types of business transactions which would require the Company to report its revenues and costs of goods sold on a net basis, we do not believe our importing and exporting business should be accounted for with net reporting of revenues and costs of sales. The Company takes full ownership and assumes the risk of loss for its imported goods while the goods are in transit. The Company does not consider itself an agent for its customers, as described by EITF 99-19. After reviewing EITF 99-19, management believes that the Company is correct in continuing to present its revenues and costs of goods sold on a gross basis.

Sales revenue represents the invoiced value of goods, net of a value-added tax (VAT). All of the Company's products sold in the PRC are subject to a Chinese value-added tax at a rate of 6% of the gross sales price or at a rate approved by the Chinese local government."

### Amortization of Copyrights

The Company amortizes its copyrights using the individual-film-forecast-computation method, in accordance with the 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 certain movie copyrights in December 2006, when the Company began to recognize revenue from one of its copyrighted titles, "Big Movie: Subaye." Amortization related to the Company's copyrights was \$710,485 and \$0 and \$115,388 and \$0 for the six and three months ended March 31, 2009 and 2008, respectively, and was included in cost of sales.

The 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 copyright is less than its unamortized costs, the Company will determine the fair value of the film and will write off the amount by which the unamortized capitalized costs exceeds the episode's fair value. Accordingly, the Company cannot subsequently restore any amounts written off in previous fiscal years to income.

### 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. The Company does have

off-balance sheet credit exposure related to its customers. The concentration of customers owing at least 5% of the Company's outstanding accounts receivable as of March 31, 2009 was 82% of the company's accounts receivable.

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 receivable are written off if reasonable collection efforts are not successful.

#### Use of Estimates

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 disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Significant estimates include estimates of the useful life of property and equipment, copyrights, collectibility of accounts receivable, and valuation of stock based compensation.

## Reclassifications

Certain reclassifications to the Company's balance sheet and income statement have been made in 2008, in order for the 2009 financial statements to conform to the presentation of these financial statements. These reclassifications did not impact the Company's assets, liabilities, net income (loss) or stockholders equity for the six months ended March 31, 2009 and 2008, respectively.

## NOTE 3 - ACCOUNTS RECEIVABLE

The Company's business operations are conducted in the PRC. During the normal course of business, the Company extends unsecured credit to its customers. Management reviews its accounts receivable on a regular basis to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Trade accounts receivable at March 31, 2009 and September 30, 2008 consisted of the following:

|                                       | March 31,<br>2009<br>Unaudited | September 30,<br>2008<br>Audited |
|---------------------------------------|--------------------------------|----------------------------------|
| Trade accounts receivable             | \$ 17,011,208                  | \$ 10,417,803                    |
| Less: allowance for doubtful accounts | (362,952)                      | (30,767)                         |
| <b>Totals</b>                         | <b>\$ 16,648,256</b>           | <b>\$ 10,387,036</b>             |

The activity in the allowance for doubtful accounts for trade accounts receivable for the six months ended March 31, 2009 and the year ended September 30, 2008 is as follows:

|   | March 31,<br>2009<br>Unaudited | September 30,<br>2008<br>Audited |
|---|--------------------------------|----------------------------------|
| Beginning Allowance for Doubtful Accounts                           | \$ 30,767                      | \$ 413,036                       |
| Additional Charges to Bad Debt for Estimated Uncollectible Accounts | 331,928                        | -                                |
| Direct Write-offs of Bad Debts                                      | -                              | (196,829)                        |
| Recovery of Accounts Charged to Bad Debt Expense in 2006 and 2005   | -                              | (185,440)                        |
| Foreign Currency Translation Adjustment                             | 257                            | -                                |
| Ending Allowance for Doubtful Accounts                              | \$ 362,952                     | \$ 30,767                        |

The Company has the following concentrations of business with customers constituting greater than 5% of the Company's accounts receivable as of March 31, 2009 and September 30, 2008. The nonpayment of these accounts receivables, individually or in the aggregate, could have a material impact on our future results of operations.

|                  | March 31,<br>2009<br>Unaudited | September 30,<br>2008<br>Audited |
|------------------|--------------------------------|----------------------------------|
| SSTH             | 44%                            | 46%                              |
| Anyone Pictures  | 25%                            | -%                               |
| Gold Swallow     | 7%                             | -%                               |
| CDN              | 6%                             | -%                               |
| QXS Enterprise   | -%                             | 18%                              |
| Fenglin Qimao    | -%                             | 9%                               |
| Fengcun Electric | -%                             | 19%                              |

PanYu HuiQiang Economic and Trade

-%

7%

## NOTE 4 - ADVERTISING PROMOTION

The Company expenses advertising costs as the costs are incurred in accordance with Statement of Position 93-7 "Reporting on Advertising Costs" ("SOP 93-7"), issued by the American Institute of Certified Public Accountants.

On October 1, 2008, the Company entered into a promotional event whereby a total of 16,000 members of www.subaye.com would receive a total of 1,600 DVDs which included both a promotional video on behalf of the customer and the motion picture "Big Movie: Subaye" free of charge. The customer would receive the DVDs and participate in the promotion if they agreed to remain customers of the Company for the twelve month period from October 1, 2008 through September 30, 2009 (the "12 Month Period"). If a customer does not remain a customer for the full 12 Month Period then the customer will owe the Company approximately \$0.72 per DVD for each month in which they did not remain a customer during the 12 Month Period. The Company then delivered the DVDs to its participating customers December 2008 and January 2009. The total cost of the promotional event was approximately \$6.8 million. The Company recorded a prepaid expense for approximately \$6.8 million and expensed the full value of the advertising promotion in December 2008 and January 2009. For the six and three months ended March 31, 2009, the Company recorded \$6.8 million and \$3.4 million in advertising costs for the advertising promotion, respectively, which is included as advertising in the accompanying consolidated statements of operations and comprehensive income.

## NOTE 5 - PURCHASE AND SALE OF ASSETS

## Purchase of Copyrights to Qianfu

On February 22, 2009 the Company purchased the copyrights to Qianfu, a PRC motion picture, for approximately \$3,872,490.

## Sale of Copyrights to Motion Picture "Stockbrokers"

On March 12, 2009, the Company sold all rights under its copyright for the programming rights to the Chinese, motion picture "Stockbrokers." Once the sale was complete, the Company had no remaining assets or copyrights associated with the Stockbrokers production. The details of the sale are listed below:

|  |              |
|--|--------------|
| Gross Proceeds From the Sale of Copyright - Stockbrokers | \$ 4,123,206 |
| Adjusted Cost Basis                                      | (3,680,716)  |
| Net Gain   | \$ 442,490   |

## Acquisition of Media Group International Limited

On October 23, 2007, the Company's subsidiary, Subaye.com, acquired 100% of the outstanding ownership units of Media Group International Limited ("MGI") for 100,000 shares of common stock of Subaye.com, valued at \$200,000 which was the fair market value of recent arms length transactions involving the common stock of Subaye.com, Inc. The net assets received by Subaye.com from the acquisition of MGI totaled \$197,166. In accordance with the purchase method of accounting, the results of MGI and the estimated fair market value of the assets and liabilities assumed have been included in the consolidated financial statements from the date of acquisition.

The purchase price of MGI was allocated to the assets acquired and liabilities assumed by Subaye.com less the goodwill of \$202,453, which was recorded upon Subaye.com's acquisition of MGI. The Company recorded \$202,453 of goodwill, which was the excess of acquisition cost over fair value of net assets of MGI.

|                      |            |
|----------------------|------------|
| Cash                 | \$ 2,834   |
| Fixed assets, net    | \$ 653     |
| Goodwill             | 202,453    |
| Due to related party | (5,940)    |
| Net assets acquired  | \$ 200,000 |

|   |            |
|---|------------|
| Purchase consideration                  | \$ 200,000 |
| Net assets acquired                     | 200,000    |
| Net cash inflow from acquisition of MGI | \$ 2,834   |

Goodwill is comprised of the residual amount of the purchase price over the fair value of the acquired tangible and intangible assets. The operating results of MGI have been included in our subsidiary, Subaye.com's statement of operations from October 23, 2007 and within the Company's statement of operations since October 23, 2007. If the operating results had been included since the beginning of the prior fiscal year, October 1, 2007, the Company's pro-forma consolidated revenue and the Company's pro-forma net income would have been \$15,808,919 (unchanged) and \$1,543,059, respectively.

## First Open

On December 30, 2007, the Company sold all rights under its copyright for the internet programming rights to First Open. Once the sale was complete, the Company had no remaining assets or copyrights associated with the First Open production. The details of the sale are listed below:

|   |             |
|---|-------------|
| Gross proceeds from the sale of Copyright - First Open: internet rights | \$ 279,824  |
| Adjusted cost basis   | (332,291)   |
| Net loss  | \$ (52,467) |

The copyright's adjusted cost basis was net of an impairment loss write down in 2006 of \$332,291 and was not net of any amortization or depreciation.

## Internet Broadcast Copyrights

On February 1, 2008, the Company sold all rights under its copyrights for the internet programming rights for a total of 11 distinct productions. These copyrighted films had been acquired through the Company's contract with ZesTV. Below is the list of the 11 movies included in the sale:

ZuiAiZongDongYuan  
 ShiFenAi  
 HongMeiLi  
 Xin Xiang  
 TianDiGaoBai  
 FengKuangFenShiWong  
 TuYaDeKunShi  
 YongShi  
 GongBu  
 NianCaiNuMo  
 DaTangFengYun

|   |              |
|---|--------------|
| Gross proceeds from the sale of copyrights - ZesTV: internet rights | \$ 1,457,481 |
| Adjusted cost basis   | (1,374,982)  |
| Net gain  | \$ 82,499    |

## NOTE 6 - COPYRIGHTS

Intangible assets are stated at cost (estimated fair value upon contribution or acquisition), less accumulated amortization and impairment. Amortization expense is recognized on the straight-line basis over the estimated useful lives of the assets as follows:

| Intangible assets    | Estimated useful lives |
|----------------------|------------------------|
| Copyrights           | Variable               |
| Permits and licenses | 5 years                |

The following table summarizes the lives and the carrying values of all the Company's goodwill and intangible assets by category, as of March 31, 2009 and September, 30, 2008:

|  | 2009<br>Unaudited | 2008<br>Audited |
|--|-------------------|-----------------|
|--|-------------------|-----------------|

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|   |               |               |
|---|---------------|---------------|
| Copyrights - Motion Picture, Television, Internet and DVD Productions | \$ 14,897,621 | \$ 14,669,309 |
| Accumulated Amortization  | (2,265,234)   | (1,550,443)   |
| Total   | \$ 12,632,387 | \$ 13,118,866 |

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The following table summarizes the copyrights held by the Company as of March 31, 2009, all of which are or will be PRC productions or are being held for investment purposes. All copyrights are wholly-owned by the Company unless noted otherwise.

Copyrights for Movies, DVDs, Television and Internet Broadcasting

Big Movie: Subaye \*

Qianfu

PaoBu

True? \*\*

\*The copyright for "Big Movie: Subaye" does not include rights for television programming.

\*\* The copyright for True? is 50% owned by ZesTV and 50% owned by MyStarU.com, Inc.

Copyrights for Internet Broadcasting Only

Big Movie 2: Two Stupid Eggs

The 113 Movies

The Company amortizes its copyrights using the individual-film-forecast-computation method, in accordance with the 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 Big Movie: Subaye movie copyrights in December 2006, when the Company began to recognize revenue from the film. Amortization related to the Company's copyrights was \$710,485 and \$0 and \$115,388 and \$0 for the six and three months ended March 31, 2009 and 2008, respectively, and is included in cost of sales in the accompanying statements of operations and comprehensive income.

The 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 SOP 00-2. If an event or change in circumstance indicates that the Company should assess whether the fair value of the copyright is less than its unamortized costs, the Company will determine the fair value of the film and will write off the amount by which the unamortized capitalized costs exceeds the episode's fair value. Accordingly, the Company cannot subsequently restore any amounts written off in previous fiscal years to income.

Given the environment in which the Company currently operates, it is reasonably possible that management's estimate of the economic useful lives of these assets or the assumption that they will recover their carrying amounts from future operations, could change in the future.

Intangible assets of the Company are reviewed annually or more often if circumstances dictate, to determine whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also reevaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of March 31, 2009 and September 30, 2008, respectively, the Company expects these assets, at their current carrying value, to be fully recoverable.

NOTE 7 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

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|   | March 31,<br>2009 | September 30,<br>2008 |
|---|-------------------|-----------------------|
| Computer Software & Equipment                   | \$ 14,496,422     | \$ 14,467,374         |
| Websites  | 9,356,175         | 9,338,719             |
| Motor Vehicle                                   | 84,224            | 84,012                |
| Furniture & Fixtures                            | 63,827            | 56,205                |
|   | 24,000,648        | 23,946,310            |
| Less: Accumulated depreciation and amortization | (16,793,179)      | (13,644,708)          |
|   | \$ 7,207,469      | \$ 10,301,602         |

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## NOTE 8 - COSTS OF GOODS SOLD

The Company's costs of goods sold includes products sold by the Company's import and export business segment as well as depreciation and amortization related to copyrights, websites and software and the net carrying amount of copyrights that are sold. Below is a table outlining depreciation and amortization for each asset class which is included in costs of goods sold for each period presented within the financial statements.

|  | Six Months Ended  |                   |
|--|-------------------|-------------------|
|  | March 31,<br>2009 | March 31,<br>2008 |
| Depreciation Included in Operating Expenses              | \$ 13,794         | \$ 40,972         |
| Amortization of Copyrights Included Within Cost of Sales | 710,485           | -                 |
| Amortization of Websites Included Within Cost of Sales   | 1,538,600         | 1,405,184         |
| Amortization of Software Included Within Cost of Sales   | 1,563,278         | 629,008           |
| Total Depreciation and Amortization                      | \$ 3,826,157      | \$ 2,075,164      |

## NOTE 9 - STOCKHOLDERS' EQUITY

The Company is authorized to issue 350,000,000 shares, in aggregate, consisting of 300,000,000 shares of common stock, \$0.001 par value, and 50,000,000 shares of preferred stock, \$0.001 par value. The Company's Certificate of Incorporation authorizes the Board of Directors (the "Board") to determine the preferences, limitations and relative rights of any class or series of Company preferred stock prior to issuance and each such class or series must be designated with a distinguishing designation prior to issuance. As of the date of the report, no shares of the Company's preferred stock and 171,364,316 shares of the Company's common stock were issued or outstanding.

## Stock-Based Compensation

On April 12, 2006, the Company issued 4,000,000 shares of common stock to five consultants as part of their compensation at a market price of \$.52 with a total of \$2,080,000. The Company amortized the consultancy fee of \$1,300,000 over services period of a 24 month period, the remaining \$780,000 is amortized over services period of a 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 stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$0 and \$325,000 and \$0 and \$162,500, respectively.

On January 10, 2007, the Company issued 250,000 shares of common stock to Mary Kratka for investor relations and promotions services at a price of \$.45 per share for 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 and three months ended March 31, 2009 and 2008 was \$0 and \$28,125 and \$0 and \$28,125, respectively.

On January 31, 2007, the Company issued 750,000 shares of common stock to Bon Air Group Limited for investor relations and promotion services at a price of \$.30 per share for a total consideration equal to \$225,000. The shares are being amortized over 12 months with stock-based compensation expense of \$18,700 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$0 and \$75,000 and \$0 and \$18,750, respectively.

On July 16, 2007, the Company agreed to issue 365,000 shares of common stock to a consultant for international business consulting services at a price of \$.16 per share for a total consideration equal to \$58,400. The shares are being amortized over 24 months with stock-based compensation expense of \$2,433 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$14,600 and \$14,600 and

\$7,300 and \$7,300, respectively.

On October 3, 2007, the Company issued 735,000 shares of common stock to the Company's Chief Financial Officer for services to be provided over a two year period at a price of \$.13 per share for a total consideration equal to \$95,550. The shares are being amortized over 24 months with stock-based compensation expense of \$3,981 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$23,888 and \$23,888 and \$11,944 and \$11,944, respectively.

On October 3, 2007, the Company issued 1,000,000 shares of common stock to the Company's Chief Executive Officer for services to be provided over a two year period at a price of \$.13 per share for a total consideration equal to \$130,000. The shares are being amortized over 24 months with stock-based compensation expense of \$5,417 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$32,500 and \$32,500 and \$16,250 and \$16,250, respectively.

On October 3, 2007, the Company issued 400,000 shares of common stock to an investor relations consultant, for services to be provided over a 24 month period at a price of \$.13 per share for a total consideration equal to \$52,000. The shares are being amortized over 24 months with stock-based compensation expense of \$2,167 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$13,000 and \$13,000 and \$6,500 and \$6,500, respectively.

On October 3, 2007, the Company issued 526,316 shares of common stock for investor relations purposes, for services to be provided over a 12 month period at a price of \$.57 per share for a total consideration equal to \$300,000. The shares are being amortized over 12 months with stock-based compensation expense of \$25,000 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$0 and \$150,000 and \$0 and \$75,000, respectively.

On September 18, 2008, the Company agreed to issue 350,000 shares of common stock to Mary Kratka for investor relations and promotions services at a price of \$0.08 per share for total consideration equal to \$28,000. The shares are being amortized over approximately 3 months with a stock-based compensation expense of \$9,333 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$51,520 and \$0 and \$25,760 and \$0, respectively.

On October 10, 2008, the Company agreed to issue 7,000,000 shares of common stock to Results Group International for consulting services at a price of \$0.05 per share for total consideration equal to \$350,000. The shares are being amortized over 36 months with a stock-based compensation expense of \$9,722 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$52,061 and \$0 and \$26,030 and \$0, respectively.

On January 6, 2009, the Company agreed to issue 8,000,000 shares of common stock to Bloomen Limited for consulting services over a 36-month contract at a price of \$0.04 per share for total consideration equal to \$320,000. The shares are being amortized over 36 months with a stock-based compensation expense of \$8,888 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$26,667 and \$0 and \$26,667 and \$0, respectively.

On March 30, 2009, the Company agreed to issue 8,500,000 shares of common stock to Trueboon Limited for consulting services over a 36 month contract at a price of \$0.06 per share for total consideration equal to \$510,000. The shares are being amortized over 36 months with a stock-based compensation expense of \$14,167 each month, commencing in April 2009.

#### Subaye.com Stock Based Compensation

On October 1, 2007, Subaye.com issued 170,000 shares of common stock to Subaye.com's Chief Executive Officer for services to be provided over a two year period from January 2, 2008 through December 31, 2009 at a price of \$2.00 per share for a total consideration equal to \$340,000. The shares will be amortized over 24 months with stock-based compensation expense of \$14,167 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$85,000 and \$42,500 and \$42,500 and \$42,500, respectively.

On October 1, 2007, Subaye.com issued 50,000 shares of common stock to an employee of Subaye.com for services to be provided beginning February 1, 2008 at a price of \$2.00 per share for a total consideration equal to \$100,000. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$25,000 and \$12,500 and \$12,500 and \$12,500, respectively.

On October 1, 2007 and then additionally on January 2, 2008, Subaye.com issued 450,000 shares of common stock to an investor relations consultant, for services to be provided over a 24 month period at a price of \$2.00 per share for a total consideration equal to \$900,000. The shares will be amortized over 24 months with stock-based compensation expense of \$37,500 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$225,000 and \$112,500 and \$112,500 and \$112,500 respectively.

On January 2, 2008, Subaye.com issued 50,000 shares of common stock to a company executive, for services to be provided over a 24 month period at a price of \$2.00 per share for a total consideration equal to \$100,000. The shares will be amortized over 24 months with stock-based compensation expense of \$4,167 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$25,000 and \$12,500 and \$12,500 and \$12,500, respectively.

On January 2, 2008, Subaye.com issued 70,800 shares of common stock to a company executive, for services to be provided over a 24 month period at a price of \$2.00 per share for a total consideration equal to \$141,600. The shares

will be amortized over 24 months with stock-based compensation expense of \$5,900 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$35,400 and \$17,700 and \$17,700 and \$17,700, respectively.

On February 26, 2008, Subaye.com issued 78,425 shares of common stock to its Chief Financial Officer, for services to be provided over a 24 month period at a price of \$2.00 per share for a total consideration equal to \$156,850. The shares will be amortized over 24 months with stock-based compensation expense of \$6,535 each month. The total stock-based compensation expense for the six and three months ended March 31, 2009 and 2008 was \$39,211 and \$7,211 and \$19,606 and \$7,211, respectively.

Total stock compensation expense reported was \$648,847 and \$867,024 and \$337,757 and \$503,155 for the six and three months ended March 31, 2009 and 2008, respectively.

#### Sales of Common Stock Securities

On March 8, 2008, pursuant to a stock purchase agreement, the Company issued 5,000,000 shares of its common stock for \$600,000.

## NOTE 10 - TAXES

### United States of America

Since the Company had no operations within the United States, there is no provision for US taxes and there are no deferred tax amounts as of March 31, 2009 and September 30, 2008, respectively.

### Delaware

The Company is incorporated in Delaware but does not conduct business in Delaware. Therefore, the Company is not subject to corporate income tax. However, the Company does have to pay Franchise Tax to the Delaware Department of State. Regardless of where the Company conducts business, it must file an Annual Franchise Tax Report and pay Franchise Taxes for the privilege of incorporating in Delaware. The minimum Franchise Tax is \$35 with a maximum of \$165,000. The Company's Franchise Tax owed to Delaware was approximately \$500 and \$200 for the fiscal years ended September 30, 2008 and 2007, respectively.

### British Virgin Islands

3G Dynasty and Subaye IIP are incorporated in the British Virgin Islands and, under the current laws of the British Virgin Islands, are not subject to income taxes.

### Hong Kong

Media Group International Ltd. and MyStarU Ltd. are incorporated in Hong Kong and are subject to Hong Kong taxation on its activities conducted in Hong Kong and income arising in or derived from Hong Kong. No provision for Hong Kong profits tax has been made as the Company's Hong Kong subsidiaries incurred a loss during the six and three months ended March 31, 2009 and 2008, respectively. The applicable Hong Kong statutory tax rate for the six and three months ended March 31, 2009 and 2008 is 17.5%, respectively.

### People's Republic of China

Enterprise income tax in PRC is generally charged at 33% of a company's assessable profit, of which 30% is a national tax and 3% is a local tax. The Company's subsidiaries incorporated in the PRC are subject to PRC enterprises income tax at the applicable tax rates on the taxable income as reported in their Chinese statutory accounts in accordance with the relevant enterprises income tax laws applicable to foreign enterprises. Pursuant to the same enterprises income tax laws, the Company's subsidiaries are fully exempted from PRC enterprises income tax for two years starting from the first profit-making year, followed by a 50% tax exemption for the next three years.

No provision for enterprise income tax in the PRC had been made for March 31, 2009 and 2008 due to the fact that the Company had a net loss for the six and three months ended March 31, 2009 and 2008 and was exempt from PRC tax based on the statutory provisions granting a tax holiday for a two year period, as stated above, for the years ended September 30, 2008 and 2007. The Company is currently reviewing its financial forecast for 2009 and is considering the potential of certain tax liabilities for 2009.

The Company is governed by the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws ("the Income Tax Laws"). Under the Income Tax Laws, foreign investment enterprises ("FIE") generally are subject to an income tax at an effective rate of 33% (30% state income taxes plus 3% local income taxes) on income as reported in their statutory financial statements after appropriate tax adjustments unless the enterprise is located in specially designated regions of cities for which more favorable effective tax rates apply. Upon approval by the PRC tax authorities, FIEs scheduled to operate for a period

of 10 years or more and engaged in manufacturing and production may be exempt from income taxes for two years, commencing with their first profitable year of operations, after taking into account any losses brought forward from prior years, and thereafter with a 50% exemption for the next three years.

Beginning January 1, 2008, the new Enterprise Income Tax (“EIT”) law of the People’s Republic of China replaced the existing laws for Domestic Enterprises (“DES”) and FIEs.

The key changes are:

- a. The new standard EIT rate of 25% will replace the 33% rate currently applicable to both DES and FIEs, except for “high tech companies” which pay a reduced rate of 15%. The Company currently believes it will qualify as a high tech company under the rule.
- b. Companies established before March 16, 2007 will continue to enjoy tax holiday treatment approved by local government for a grace period of the next five years or until the tax holiday term is completed, whichever is sooner.



The Company and all of its subsidiaries, except for Subaye IIP, were established before March 16, 2007. Subaye IIP is a British Virgin Islands entity and is 100% owned by the Company. Subaye IIP is therefore treated as a pass-through entity for PRC tax purposes and is therefore not subject to PRC taxes. The Company is qualified to continue enjoying the reduced tax rate as described above. Since the detailed guidelines of the new tax law have not been published yet, the Company cannot determine what the new tax rate applicable to the Company will be after the end of their respective tax holiday terms. The following table reconciles the PRC statutory rates to the Company's effective tax rate for the six months ended March 31, 2009 and March 31, 2008:

|                            | 2009   | 2008   |
|----------------------------|--------|--------|
| U.S. Statutory rates       | 35.0%  | 35.0%  |
| Foreign income             | (35.0) | (35.0) |
| China tax rates            | 33.0   | 33.0   |
| China income tax exemption | (33.0) | (33.0) |
| Effective income tax rates | 0%     | 0%     |

#### Value Added Tax

Enterprises or individuals who sell products, engage in repair and maintenance or import and export goods in the PRC are subject to a value added tax in accordance with Chinese laws. The value added tax rate applicable to the Company is 6% of the gross sales price. No credit is available for VAT paid on the purchases.

#### NOTE 11 - MINORITY INTEREST

Minority interest represents the minority stockholders' proportionate share of 30.97% (2008 - 30.97%) of the equity of Subaye.com. The Company's 69.03% controlling interest requires that Subaye.com's operations be included in the Consolidated Financial Statements. The 30.97% (2008 - 30.97%) equity interest of Subaye.com that is not owned by the Company is shown as "Minority interests in consolidated subsidiaries" in the financial statements is shown as \$7,000,120 and \$7,138,608, respectively.

|                                   | March 31,<br>2009 | September 30,<br>2008 |
|-----------------------------------|-------------------|-----------------------|
| Minority interest of shareholders | \$ 7,000,120      | \$ 7,138,608          |

#### NOTE 12 - COMMITMENTS & 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.

On July 1, 2008, the Company entered into a lease for new office space in Foshan City, Guangdong, China. The following table summarizes the Company's future minimum lease payments under operating lease agreements for the five years subsequent to March 31, 2009:

On February 1, 2009, the Company entered into a lease agreement to utilize approximately 22,000 square feet of office space at 349 Dabei Road, Shiqiao Street, Panyu District, Guanzhou City, Guangdong, China 511400 for

approximately \$8,824 per month through January 31, 2011.

Twelve Months Ended March 31,

|      |            |
|------|------------|
| 2010 | \$ 163,632 |
| 2011 | 145,984    |
| 2012 | 14,436     |
|      | \$ 324,052 |

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 \$39,608 and \$161,638 for the six months ended March 31, 2009 and 2008, respectively.

#### Litigation

We may be involved from time to time in ordinary litigation that will not have a material effect on our operations or finances. We are not aware of any pending or threatened litigation against the Company or our officers and directors in their capacity as such that could have a material impact on our operations or finances.

## NOTE 13 - SHORT TERM DEBT

Total debt obligations as of March 31 consist of the following:

|  | March 31,<br>2009 | September 30,<br>2008 |
|--|-------------------|-----------------------|
| 8.64% Bank Loan, Due September 18, 2009      | \$ 933,624        | \$ 1,021,138          |
| 7.92% Bank Loan, Due December 31, 2009       | 147,362           | -                     |
| Short Term Non-Interest Bearing Bank Advance | -                 | 22,286                |
| <b>Total Debt Obligations</b>                | <b>1,080,986</b>  | <b>1,043,424</b>      |
| Less: Current Maturities                     | 1,080,986         | 1,043,424             |
| <b>Total Long-Term Debt</b>                  | <b>\$ -</b>       | <b>\$ -</b>           |

## Bank Loan

On September 19, 2008, we entered into a bank loan with Panyu RuralCredit Union and Cooperative Bank, a PRC-based bank, for a total of \$1,021,138, (7,000,000 RMB). The bank loan has an annualized interest rate of 8.64% with interest payable on a monthly basis. We used the net proceeds from the bank loan to invest in computer equipment and computer software and for other general corporate purposes. We paid back approximately \$87,500 during the three months ended March 31, 2009. As of March 31, 2009, the outstanding borrowings related to this transaction have been included in the Consolidated Balance Sheets within short term debt. The bank loan and all unpaid interest is payable in full on September 18, 2009.

During the three months ended December 31, 2008, the Company entered into a second bank loan for \$145,896 (1,000,000 RMB). The bank loan has an annualized interest rate of 7.92%.

## Short Term Non-Interest Bearing Bank Advance

In April 2008, the Company received an advance from ICBC, a PRC-based bank for \$22,286 (152,779 RMB). This advance was repaid to ICBC during the three months ended December 31, 2008.

Aggregate scheduled maturities of our debt obligations for each of the five 12- month periods subsequent to March 31, 2009, and thereafter are as follows:

|                                      |                     |
|--------------------------------------|---------------------|
| 12 Months Ended March 31,            |                     |
| 2010                                 | \$ 1,080,986        |
| 2011                                 | -                   |
| 2012                                 | -                   |
| 2013                                 | -                   |
| 2014                                 | -                   |
| Subsequent to 2014                   | -                   |
| <b>Total scheduled debt payments</b> | <b>\$ 1,080,986</b> |

## NOTE 14 - SEGMENT REPORTING

The Company operates under the following business segments:

1. Investments in Entertainment Arts Productions - The Company purchases and licenses or resells copyrights of entertainment-related assets.

2. Online Membership Services - The Company provides online content and member services for commercial use.
3. Software sales - The Company provides web-based and mobile software platforms.
4. Importing and exporting of goods - The Company conducts international trade using the PRC as its base of operations.
5. Media and Marketing Management - The Company coordinates product placement activities for filmmakers and advertisers within the entertainment arts industry of the PRC.

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| Six Months Ended<br>March 31, 2009                | Investments in<br>Entertainment Arts<br>Productions | Online<br>Memberships<br>Services | Software Sales | Importing and<br>Exporting of<br>Goods | Media &<br>Marketing<br>Management | Consolidated<br>Total |
|---|---|-----------------------------------|----------------|--|------------------------------------|-----------------------|
| Net sales   | \$ 6,943,877  | \$ 10,779,355                     | \$ 1,618,066   | \$ 4,408,396                           | -                                  | \$ 23,749,694         |
| Cost of sales                                     | 4,676,149   | 1,717,427                         | 1,126,027      | 4,289,699                              | -                                  | 11,809,302            |
| Segment income (loss)<br>before minority interest | 1,688,722   | 1,304,947                         | 132,742        | 14,622                                 | (12,168)                           | 3,128,865             |
| Segment assets                                    | 20,522,538  | 10,811,438                        | 5,344,901      | 2,943,563                              | 1,282,794                          | 40,905,234            |
| Expenditures for<br>segment assets                | 4,797   | -                                 | -              | -                                      | -                                  | 4,797                 |

| Six Months Ended<br>March 31, 2008                | Investments<br>in<br>Entertainment<br>Arts<br>Productions | Online<br>Memberships<br>for the B2B<br>Marketplace | Media &<br>Marketing<br>Management | Importing<br>and<br>Exporting<br>of<br>Goods | Corporate/<br>Others | Consolidated<br>Total |
|---|---|---|------------------------------------|--|----------------------|-----------------------|
| Net sales   | \$ 3,953,352  | \$ 4,023,102  | \$ 641,486                         | \$ 7,190,979                                 | -                    | \$ 15,808,919         |
| Cost of sales                                     | 2,115,601   | 1,658,315   | 702,935                            | 7,031,783                                    | -                    | 11,508,634            |
| Segment income (loss)<br>before minority interest | 1,807,459   | 2,422,893   | (89,450)                           | 20,989                                       | (2,016,463)          | 2,145,428             |
| Segment assets                                    | 13,840,594  | 11,639,440  | 152,623                            | 3,769,251                                    | 2,481,019            | 31,882,927            |
| Expenditures for segment<br>assets                | 952,588   | 1,000,000   | -                                  | -  | -                    | 1,952,588             |

NOTE 15 - SUBSEQUENT EVENTS

In April 2009, the acquisition of China IPTV Industry Park Holdings Limited ("CIIP") was canceled. On January 21, 2009, the Company entered into a letter of intent to acquire CIIP for \$1,000,000 and equity consideration in the form of Preferred Stock Warrants. CIIP is an IPTV industry developer, advisor and investor in the PRC.

On April 28, 2009, the Company's subsidiary, 3G Dynasty, paid \$625,000 to purchase the copyrights to five new internet broadcasts as follows:

YunNaNQiYi  
XiaoLangJun  
HingCengChou  
XiShi  
TaoYuanDong

NOTE 16 - RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, Defining Fair Value Measurement ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

In September 2006, FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R) ("SFAS 158"). The Company has adopted SFAS 158 except for the requirement to measure plan assets and benefit obligations as of the date of the

Company's fiscal year-end statement of financial position which is effective to fiscal years beginning after December 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS 158 could have on its financial statements.

In December 2006, FASB issued FSB EITF 00-19-2, Accounting for Registration Payment Arrangements("FSB EITF 00-19"), which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. FSB EITF 00-19-2 is effective immediately for new and modified registration payment arrangements entered into after December 21, 2006, and beginning in the fiscal year ended December 31, 2007 for any such instruments entered into before that date. The Company does not expect the issuance of FSB EITF 00-19-2 to have a material impact on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS No. 159 applies to reporting periods beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material impact on the Company's financial condition or results of operations.

In April 2007, the FASB issued a FASB Statement Position ("FSP") on FASB FIN 39-1 which modifies FIN 39, Offsetting of Amounts Relating to Certain Contracts ("FIN 39"). FIN 39-1 addresses whether a reporting entity that is party to a master netting arrangement can offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments that have been offset under the same master netting arrangement in accordance with FIN 39. Upon adoption of this FSP, a reporting entity shall be permitted to change its accounting policy to offset or not offset fair value amounts recognized for derivative instruments under master netting arrangements. The guidance in this FSP is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the potential impact of implementing this standard.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations ("SFAS 141"). SFAS 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of the Company's fiscal year beginning after December 15, 2008. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51 ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of the Company's fiscal year beginning after December 15, 2008. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

In February 2008, FASB issued FSP SFAS No. 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions ("FSP SFAS 140-3"). The objective of this FSP is to provide guidance on accounting for a transfer of a financial asset and a repurchase financing. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS 140"). However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under SFAS 140. FSP SFAS 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within these fiscal years. Earlier application is not permitted. The Company is currently reviewing the effect, if any; the proposed guidance will have on its consolidated financial statements.

In February 2008, FASB issued FSP SFAS No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 ("FSP SFAS 157-1"). FSP SFAS 157-1 amends SFAS 157 to exclude SFAS 13, Accounting for Leases (SFAS 13), and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS 141, or SFAS 141(R), regardless of whether those assets and liabilities are related to leases. FSP SFAS 157-1 is effective upon the initial adoption of SFAS 157. The Company is currently evaluating the impact of

adopting FSP SFAS No. 157-1 on its consolidated financial statements.

In February 2008, FASB issued FSP SFAS No. 157-2, Effective date of FASB Statement No. 157 ("FSP SFAS 157-2"). FSP SFAS 157-2 delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting FSP SFAS No. 157-2 on its consolidated financial statements.

In March 2008, FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS 161 could have on its consolidated financial statements.

In April 2008, FASB issued FSP SFAS No. 142-3, Determination of the Useful Life of Intangible Assets. FSP SFAS No. 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently assessing the potential impact that the adoption of FSP SFAS No. 142-3 could have on its consolidated financial statements.



Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations.

Special Note Regarding Forward-Looking Statements

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

Prospective shareholders should understand that several factors govern whether any forward-looking statement contained herein will be or can be achieved. Any one of those factors could cause actual results to differ materially from those projected herein. These forward-looking statements include plans and objectives of management for future operations, including plans and objectives relating to the products and the future economic performance of the Company. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, future business decisions, and the time and money required to successfully complete development projects, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of those assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in any of the forward-looking statements contained herein will be realized. Based on actual experience and business development, the Company may alter its marketing, capital expenditure plans or other budgets, which may in turn affect 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, 2008 and notes thereto contained in the report on Form 10-K as filed with the Securities and Exchange Commission.

## OVERVIEW

### Company Background

MyStarU.com, Inc., a Delaware corporation, together with its consolidated subsidiaries, is a fully integrated information and entertainment service provider to the business, internet, and consumer markets in the People's Republic of China (the "PRC"). The Company was originally incorporated on January 6, 1997 in the State of Indiana under the corporate name MAS Acquisition XXI Corp. On December 21, 2000, the Company acquired Telecom Communications of America, a sole proprietorship in California, and changed its name to Telecom Communications, Inc. On February 28, 2005, the Company reincorporated in the State of Delaware by merging with a Delaware corporation of the same name. The surviving Delaware corporation succeeded to all of the rights, properties and assets and assumed all of the liabilities of the original Indiana corporation. On July 10, 2007, the Company changed its name from Telecom Communications, Inc. to MyStarU.com, Inc. The Company's common stock continues to be quoted under the symbol, "MYST.OB," on the FINRA over-the-counter bulletin board ("OTCBB") in the United States of America. As used in this report, the words "MYST", "the Company", "we", "us" and "our" refer to MyStarU.com, Inc. and subsidiaries.

The consolidated financial statements presented are those of MyStarU.com, Inc., which have been prepared in accordance with accounting principles generally accepted in the United States of America. The results of operations

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are for the six and three months ended March 31, 2009 and 2008, respectively. The Company's accounting policies and certain other disclosures are set forth in the notes to the consolidated financial statements contained herein.

The consolidated financial statements of the Company reflect the activities of the parent and the following subsidiaries.

| Subsidiaries                               | Countries Registered In                   | Percentage of Ownership |
|--|---|-------------------------|
| MyStarU Ltd.                               | Hong Kong, The People's Republic of China | 100.00%                 |
| 3G Dynasty Inc.                            | British Virgin Islands                    | 100.00%                 |
| Subaye.com, Inc.                           | United States of America, Delaware        | 69.03%                  |
| Subaye IIP Limited                         | British Virgin Islands                    | 69.03%                  |
| Guangzhou Panyu Metals & Materials Limited | The People's Republic of China            | 100.00%                 |
| Guangzhou Subaye Computer Tech Limited     | The People's Republic of China            | 69.03%                  |
| Media Group International Limited          | Hong Kong, The People's Republic of China | 69.03%                  |

## General Business Discussion

The Company operates in five distinct business segments:

1. Investments in Entertainment Arts Productions - The Company purchases and licenses or resells copyrights of entertainment-related assets.
2. Online Membership Services - The Company provides online content and member services for commercial use.
3. Software sales - The Company provides web-based and mobile software platforms.
4. Importing and exporting of goods - The Company conducts international trade using the PRC as its base of operations.
5. Media and Marketing Management - The Company coordinates product placement activities for filmmakers and advertisers within the entertainment arts industry of the PRC.

### Investments in Entertainment Arts Productions

We generate income from the purchase and subsequent licensing or resale of copyrights for motion pictures, internet broadcasting, television broadcasting, DVD and other possible forms of reproductions of our copyrighted assets.

### Big Movie

3G Dynasty began 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 “Investments in Entertainment Arts” business segment is committed to bringing a variety of unique titles to the Chinese market. 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 MYST. 3G Dynasty is also working with SINA Corp. (Nasdaq: SINA) for movie promotion and marketing services.

### Other Copyrights

We currently hold copyrights for 4 additional motion pictures which are presently in production with our production partners. However, the governmental approval process for release of these additional motion pictures is not yet complete. During the three months ended March 31, 2009, we generated revenues from our internet broadcasts being viewed on our websites and affiliated websites. The revenues generated by each copyrighted broadcast(s) and certain revenue-sharing arrangements are detailed in the chart below.

|                   | Six Months<br>Ended<br>March 31,<br>2009 |
|-------------------|--|
| Big Movie: Subaye | \$ 459,988                               |
| Big Movie 2       | 354,930                                  |
| The 11 Movies     | 407,575                                  |
| The 113 Movies    | 1,011,243                                |
| Total             | \$ 2,233,736                             |

We may also license or resell these copyrights and any of our other copyrights for motion pictures, internet broadcasting, television broadcasting, DVD rights and any overseas rights.

We believe our subsidiary, 3G Dynasty, has made and continues to make sound investments in entertainment arts productions in the PRC and is well positioned for continued growth in a fast-paced market. 3G Dynasty began to establish a film distribution network with the purchase of the copyrights to certain films in March 2006. 3G Dynasty distributes films through multiple distribution channels into the PRC film market, including through the internet, mobile phone, TV, DVD and theatrical screenings in cinemas across the PRC. We will continue to make investments to establish our distribution network and acquire more copyrights for high quality programming content.

One of our business partners, ZesTV, Inc. (“ZesTV”) is a leading Chinese media and entertainment company. ZesTV is involved with 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.

MYST will continue its aggressive search for further investments in the entertainment arts industry in the PRC. We intend to continue to have consistent discussions with filmmakers regarding these investments.

As of March 31, 2009, MYST held copyrights to 114 internet broadcasts.

#### Online Membership Services

We own a majority interest in our subsidiary, Subaye.com, Inc. We have established a website, www.subaye.com, which we believe is a premier provider of corporate online video in China and is seen as a destination for business to business e-commerce in the PRC for customers who utilize the website to enhance the marketing and promotion of their business products and services. We continue to experience a strong demand for our services through www.subaye.com and believe the market it serves is one of the fastest growing in the PRC. These customers are demanding easily accessible methods to market and promote their products or services.

The online membership services business segment generated member growth of 88% for the twelve months ended March 31, 2009. We expect continued growth in membership, revenues and net income for this business segment during the fiscal year ending September 30, 2009.

#### Subaye.com - Internet Corporate Video Marketing and Promotions

Subaye.com's platform consists of its websites, www.goongreen.org, www.x381.com, www.goongood.com, www.subaye.com and the Subaye Alliance network, which is its network of third-party websites. As of April 30, 2009, Subaye.com had 39,822 members and the Company's video database consisting of 80,025 profiles of corporate video showcases. These showcases offer a cost-effective venue for small to mid-size enterprises ("SMEs") to advertise their products and services and establish and enhance their corporate brands.

We launched the internet video services on our www.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. We charge our members a monthly membership fee of approximately \$100. The table below details our membership growth and the growth of corporate profiles of small to medium sized enterprises, which make up the majority of our membership.

|                     | Subaye.com Members           |                               | Subaye.com Company Profiles  |                               |
|---------------------|------------------------------|-------------------------------|------------------------------|-------------------------------|
|                     | As of the<br>End of<br>Month | Month Over<br>Month<br>Growth | As of the<br>End of<br>Month | Month Over<br>Month<br>Growth |
| January 31, 2007    | 6,562                        |                               | 9,807                        |                               |
| February 28, 2007   | 9,230                        | 41%                           | 12,101                       | 23%                           |
| March 31, 2007      | 10,625                       | 15%                           | 21,204                       | 75%                           |
| April 30, 2007      | 11,447                       | 8%                            | 26,323                       | 24%                           |
| May 31, 2007        | 11,699                       | 2%                            | 27,989                       | 6%                            |
| June 30, 2007       | 11,968                       | 2%                            | 29,821                       | 7%                            |
| July 31, 2007       | 12,500                       | 4%                            | 32,560                       | 9%                            |
| August 31, 2007     | 12,876                       | 3%                            | 36,999                       | 14%                           |
| September 30, 2007  | 15,121                       | 17%                           | 38,123                       | 3%                            |
| October 31, 2007    | 15,903                       | 5%                            | 39,400                       | 3%                            |
| November 30, 2007   | 16,023                       | 1%                            | 40,995                       | 4%                            |
| December 31, 2007   | 16,348                       | 2%                            | 45,243                       | 10%                           |
| January 31, 2008    | 18,859                       | 15%                           | 53,343                       | 18%                           |
| February 29, 2008 * | 19,015                       | 1%                            | 40,301                       | (24)%                         |

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|                    |        |     |        |     |
|--------------------|--------|-----|--------|-----|
| March 31,2008      | 19,659 | 3%  | 46,233 | 15% |
| April 30, 2008     | 23,788 | 21% | 49,112 | 6%  |
| May 31, 2008       | 26,442 | 11% | 64,410 | 31% |
| June 30, 2008      | 29,323 | 11% | 68,894 | 7%  |
| July 31, 2008      | 29,743 | 1%  | 69,996 | 2%  |
| August 31, 2008    | 30,127 | 1%  | 70,889 | 1%  |
| September 30, 2008 | 32,366 | 7%  | 71,884 | 1%  |
| October 31, 2008   | 34,121 | 5%  | 73,298 | 2%  |
| November 30, 2008  | 34,545 | 1%  | 73,999 | 1%  |
| December 31, 2008  | 35,989 | 4%  | 75,435 | 2%  |
| January 31, 2009   | 36,169 | 1%  | 75,685 | 0%  |
| February 28, 2009  | 36,199 | 0%  | 75,985 | 0%  |
| March 31, 2009     | 36,991 | 2%  | 76,685 | 1%  |
| April 30, 2009     | 39,822 | 8%  | 80,025 | 4%  |

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From July 1, 2007 through December 31, 2007, Subaye.com offered a special promotion to allow potential member users and current member users use of our website free of charge. As a result, no revenue was generated by the Company during this time period.

We believe that Subaye.com is poised for growth due to the following strengths:

- largest user base of users seeking videos produced by SMEs;
- first video uploading service provider in the PRC with an extensive customer base across industries;
- 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:

- 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.

Subaye.com achieved profitability as of the quarter ended December 31, 2006. 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 that our historical financial information is indicative of our future operating results or financial performance, or that our profitability will be sustained.



## X381 - Webshops

The Company's www.x381.com website is focused on selling goods and services to the PRC marketplace. The chart below details the growth of this business since the website was acquired by the Company in February, 2008.

|                    | Webshops                     |                               |
|--------------------|------------------------------|-------------------------------|
|                    | As of the<br>End of<br>Month | Month Over<br>Month<br>Growth |
| February 29, 2008  | 14,301                       |                               |
| March 31, 2008     | 16,213                       | 13%                           |
| April 30, 2008     | 19,205                       | 18%                           |
| May 31, 2008       | 19,986                       | 4%                            |
| June 30, 2008      | 20,641                       | 3%                            |
| July 31, 2008      | 25,690                       | 24%                           |
| August 31, 2008    | 27,108                       | 6%                            |
| September 30, 2008 | 31,887                       | 18%                           |
| October 31, 2008   | 32,981                       | 3%                            |
| November 30, 2008  | 33,785                       | 2%                            |
| December 31, 2008  | 34,359                       | 2%                            |
| January 31, 2009   | 35,590                       | 4%                            |
| February 28, 2009  | 35,850                       | 1%                            |
| March 31, 2009     | 36,550                       | 2%                            |
| April 30, 2009     | 37,331                       | 2%                            |

The Company has provided its services on the www.x381.com website to its members free of charge since the website was acquired in February 2008. In July 2009 the Company expects to begin charging annual membership fees of approximately \$100 which we currently estimate will generate revenues of approximately \$1,000,000 for the year ended September 30, 2009.

## Other Websites

We also plan to launch the www.goongood.com and www.goongreen.org websites during the summer of 2009. We currently estimate an additional \$1.2 million in revenues could be generated by these two websites during the year ended September 30, 2009.

## MyStarU.com and Icurls.com

The Company purchased www.mystaru.com on October 1, 2006, and www.icurls.com on November 20, 2006. We expect to use the two websites in 2009 to continue to develop the Company's offerings in the arts education market. From October 1, 2006 and through the date of this report, the Company sold approximately \$1.8 million in "master franchise licenses" and approximately \$1.7 million in "end user licenses" to unrelated parties in the PRC. The third party purchasers are intent on utilizing the Company's education-related web-based offerings in certain sectors of the PRC and across potential large portions of the PRC population within each sector.

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 Guangzhou Subaye's EDU v5.0 Education Management System and is delivered to viewers via the MYST platform. The multimedia content is produced using Adobe Flash(r) video synchronized presentations and demonstrative video clips. Users can view multimedia 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. MYST 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. MYST's goal is to deliver education content online without meaningful limitations or restrictions.

In a country with significant mobile phone usage, the growth opportunities remain tremendous. The PRC has more than 1.33 billion people, and mobile services will remain a strong area of growth. Entertainment content for these mobile devices is in high demand and MYST is intent on becoming a dominant player within this space.

#### Software Sales

We offer software-based products through our subsidiaries, Subaye IIP and Guangzhou Subaye.

#### SAAS

In September, 2008, the Company committed to the Software as a Service business model ("SAAS") and the Company's subsidiary, Subaye IIP, completed several significant investments in computer hardware and computer software in order to serve the emerging SAAS marketplace in the PRC. For the six and three months ended March 31, 2009, the Company had revenues of \$1,618,066 and \$1,176,832 from its SAAS business. The SAAS business is focused on developing significant recurring revenues from a variety of customers. Management is continuing to focus on the SAAS market in the PRC and expects continued success within the market.

## IBS v4.1 and v5.0 Enterprise Suite

The IBS v4.1 and v5.0 software suites are our main product line, and include 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 service 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 three servers and software, as well as system integration.

Guangzhou Subaye has continued to develop relationships established in the past with some of the Company's contacts in the internet and business industries such as 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), 3721 Inter China Network Software Co. Ltd (www.3721.com), a Yahoo!, Inc. Company (Nasdaq: YHOO), Tencent Company Limited (www.qq.com), Kongzhong Corporation (Nasdaq: KONG), Guangdong Mobile Communication Co., Limited, a China Mobile Communications Corporation and China Mobile (Hong Kong) Ltd. (NYSE: CHL) to develop entertainment SMS, MMS, WAP portal and other wireless contents such as artist profiles, gaming and an SEO4Mobile SMS search engine.

## Import and Export Trading

Our subsidiary, Guangzhou Panyu Metals and Minerals Import & Export Co., Ltd ("Panyu M&M") holds the licenses and approvals necessary to operate our international trading and provide e-commerce logistic agent services. Panyu M&M operates in today's global economy and continually delivers quality services for our importing and exporting clientele. As in the other three business segments, we believe the import/export businesses of the PRC are well-positioned.

During the year ended September 30, 2009, management expects significant growth in revenues for Panyu M&M. Panyu M&M has been in the process of negotiating significant distribution contracts with large PRC importers in recent months and anticipates revenues from these potential new contracts will be significant if and once finalized.

## Results of Operations

### Income Statement Items

The following table summarizes the results of our operations during the three months ended March 31, 2009 and 2008 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  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

|                   |                   |                           |                           | %                      |
|-------------------|-------------------|---------------------------|---------------------------|------------------------|
| March 31,<br>2009 | March 31,<br>2008 | \$ Increase<br>(Decrease) | \$ Increase<br>(Decrease) | Increase<br>(Decrease) |

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|   | (Unaudited)   | (Unaudited)  |              |         |
|---|---------------|--------------|--------------|---------|
| Net Revenues                                      | \$ 13,893,942 | \$ 8,096,966 | \$ 5,796,976 | 72%     |
| Cost of Sales                                     | 7,352,993     | 5,723,492    | 1,629,501    | 28%     |
| Gross Profit                                      | 6,540,949     | 2,373,474    | 4,167,475    | 176%    |
| Operating Expenses                                | 4,660,914     | 1,268,029    | 3,392,885    | 268%    |
| Income From Operations                            | 1,880,035     | 1,105,445    | 774,590      | 70%     |
| Other Income and Expenses                         | (12,295)      | 5,807        | (18,102)     | (312) % |
| Income From Operations Before Taxes               | 1,867,740     | 1,111,252    | 756,488      | 68%     |
| Provision For Income Taxes                        | -             | (1)          | 1            | (100) % |
| Minority Interest in Income of Subsidiaries       | (58,579)      | (286,957)    | 228,378      | 80%     |
| Net Income From Operations                        | 1,809,161     | 824,294      | 984,867      | 119%    |
| Foreign Currency Translation Adjustment           | 4,210         | (38,365)     | 42,575       | (111) % |
| Comprehensive Income                              | 1,813,371     | 785,929      | 1,027,442    | 131%    |
| <b>Earnings Per Common Shares</b>                 |               |              |              |         |
| -Basic  | \$ 0.01       | \$ 0.01      |              |         |
| - Fully Diluted                                   | \$ 0.01       | \$ 0.01      |              |         |
| <b>Weighted Average Common Shares Outstanding</b> |               |              |              |         |
| -Basic  | 170,930,893   | 152,278,052  |              |         |
| - Fully diluted                                   | 170,930,893   | 152,278,052  |              |         |

Revenues increased by \$5,796,976 due primarily to:

Revenues were \$13,893,942 for the three months ended March 31, 2009 compared to \$8,096,966 for the three months ended March 31, 2008. The increase of \$5,796,976 was due primarily to the Company's growth in revenues for its online membership services business segment of approximately \$3.2 million, growth in the investments in entertainment arts business segment of approximately \$3.0 million, growth in the software sales business segment of approximately \$1.2 million, a reduction in the importing and exporting business segment of approximately \$1.3 million, and a reduction in the media and marketing managing business segment of approximately \$600,000. For the three months ended March 31, 2009 and 2008, the Company recorded net revenues of approximately \$5.5 million and \$2.3 million, respectively, for its online membership services segment. The Company had approximately 37,000 members of its www.subaye.com website, each of which paid approximately \$100 per month for the services and content available at www.subaye.com. Under an agreement with China Netcom, the Company's internet provider, and SSTH Limited, the Company's third party merchant services provider, the Company retains 50% of the gross revenues generated by the www.subaye.com website. China Netcom and SSTH retain the remaining 50% of gross revenues. For the three months ended March 31, 2009 and 2008, the Company recorded approximately \$1.6 million and \$2.8 million in revenues, respectively, for the Company's importing and exporting business segment. The importing and exporting business segment suffered as a result of the general downturn in the economy in the last few months of 2008 and first three months of 2009. The Company's investments in entertainment arts productions business segment licenses, provides internet broadcasts and completes outright sales of its entertainment assets, namely copyrights. During the three months ended March 31, 2009 and 2008, the Company generated approximately \$1.3 million and \$0 from the viewing of internet broadcast movies, respectively. During the three months ended March 31, 2009 and 2008, the Company's investments in entertainment arts business segment sold copyrights to motion pictures for approximately \$4.1 million and \$1.5 million, respectively. The Company's software sales business model generated approximately \$1.2 million and \$0 during the three months ended March 31, 2009 and 2008, respectively. The media and marketing management business segment generated approximately \$0 and \$340,000 during the three months ended March 31, 2009 and 2008, respectively. The Company expects continued strong growth in its online membership services business segment and believes the increased spending by the Chinese government in recent months will slowly reinvigorate the Chinese economy and eventually lead many new small to medium sized businesses to the www.subaye.com website. The investment in entertainment arts and media and marketing management business segments are working together very well. The Company expects to release the DaYouCun motion picture by September 30, 2009 and is beginning to generate significant revenues through its internet broadcasting and co-advertising programs. The Company continues to see increased interest in SAAS solutions within the Chinese marketplace and is working to obtain marketshare as this business expands in popularity and acceptance within China. The importing and exporting business segment is suffering from the economic downturn but the Company is attempting to reposition itself to ensure the Company is ready to generate new business when economic conditions improve.

Costs of Sales increased by \$1,629,501 due primarily to:

Costs of sales were \$7,352,993 for the three months ended March 31, 2009 compared to \$5,723,492 for the three months ended March 31, 2008. During the three months ended March 31, 2009 and 2008, the Company's investments in entertainment arts productions business segment had costs of sales which included approximately \$3.7 million and \$1.4 million for the cost basis of copyrights sold, respectively. Depreciation and amortization of websites, computer software and copyrights totaled approximately \$2.1 million in 2009 and \$1.1 million in 2008. The costs of goods sold through the importing and exporting business segment totaled approximately \$1.5 million and \$2.8 million in 2009 and 2008, respectively. The Company's media and marketing management business segment did not generate any revenues and therefore did not generate any costs of sales during the three months ended March 31, 2009. During the three months ended March 31, 2008, costs of sales for the media and marketing management business segment included \$400,000 in production costs associated with completing advertising plans and ordering advertising on behalf of one customer.

Operating Expenses increased by \$3,392,885 due primarily to:

For the three months ended March 31, 2009, we incurred operating expenses of \$4.7 million, as compared to \$1.3 million for the three months ended March 31, 2008. The increase in operating expenses in 2008 is comprised almost entirely of a significant increase in advertising costs, which were inclusive of a \$3.4 million advertising promotion which was expensed in the three months ended March 31, 2009. In total, advertising expense was approximately \$3.7 million and \$500,000 for the three months ended March 31, 2009 and 2008, respectively. Stock based compensation expense totaled approximately \$300,000 for the three months ended March 31, 2009 as compared to \$500,000 for the three months ended March 31, 2008.

Other income and expenses decreased by \$18,102 due primarily to:

Other income and expenses were \$(12,295) for three months ended March 31, 2009 compared to \$5,807 for the three months ended March 31, 2008. For the three months ended March 31, 2009, the Company recorded interest expense on its short-term debts. For the three months ended March 31, 2008, the Company had other income, which included interest income and other income earned through the importing and exporting business segment for non-operating activities, respectively.

Net income increased by \$984,867:

The Company generated net income of \$1,809,161 and \$824,294 for the three months ended March 31, 2009 and 2008, respectively. The increase in net income is a result of the substantial growth of the online membership services and investments in entertainment arts business segments, which offset the decrease in revenues with the importing and exporting business.

## Results of Operations

## Income Statement Items

The following table summarizes the results of our operations during the six months ended March 31, 2009 and 2008 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  
FOR THE SIX MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

|  | March 31,<br>2009<br>(Unaudited) | March 31,<br>2008<br>(Unaudited) | \$ Increase<br>(Decrease) | %<br>Increase<br>(Decrease) |
|--|----------------------------------|----------------------------------|---------------------------|-----------------------------|
| Net Revenues   | \$ 23,749,694                    | \$ 15,808,919                    | \$ 7,940,775              | 50%                         |
| Cost of Sales  | 11,809,302                       | 11,508,634                       | 300,668                   | 3%                          |
| Gross Profit   | 11,940,392                       | 4,300,285                        | 7,640,107                 | 178%                        |
| Operating Expenses                                   | 8,811,543                        | 2,168,056                        | 6,643,487                 | 306%                        |
| Income From Operations                               | 3,128,849                        | 2,132,229                        | 996,620                   | 47%                         |
| Other Income   | 16                               | 14,251                           | (14,235)                  | (100) %                     |
| Income From Operations Before Taxes                  | 3,128,865                        | 2,146,480                        | 982,385                   | 46%                         |
| Provision For Income Taxes                           | -                                | (1,052)                          | 1,052                     | (100) %                     |
| Minority Interest in Losses (Income) of Subsidiaries | 136,787                          | (550,572)                        | 687,359                   | (125) %                     |
| Net Income From Operations                           | 3,265,652                        | 1,594,856                        | 1,670,796                 | 105%                        |
| Foreign Currency Translation Adjustment              | 21,868                           | (64,720)                         | 86,588                    | (134) %                     |
| Comprehensive Income                                 | 3,287,520                        | 1,530,136                        | 1,757,384                 | 115%                        |
| Earnings Per Common Shares                           |                                  |                                  |                           |                             |
| -Basic   | \$ 0.02                          | \$ 0.01                          |                           |                             |
| - Fully Diluted                                      | \$ 0.02                          | \$ 0.01                          |                           |                             |
| Weighted Average Common Shares Outstanding           |                                  |                                  |                           |                             |
| -Basic   | 166,247,008                      | 150,466,746                      |                           |                             |
| - Fully diluted                                      | 166,247,008                      | 150,466,746                      |                           |                             |

Revenues increased by \$7,940,775 due primarily to:

Revenues were \$23,749,694 for the six months ended March 31, 2009 compared to \$15,808,919 for the six months ended March 31, 2008. The increase of \$7,940,775 is due primarily to the Company's growth in revenues for its online membership services business segment of approximately \$6.7 million, growth in the investments in entertainment arts business segment of approximately \$3.3 million and reduction in the importing and exporting business segment of approximately \$3.2 million. For the six months ended March 31, 2009 and 2008, the Company recorded net revenues of approximately \$10.8 million and \$4.0 million, respectively, for its online membership services business segment. The Company had approximately 37,000 members of its www.subaye.com website, each of which paid approximately \$100 per month for the services and content available at www.subaye.com. Under an agreement with China Netcom, the Company's internet provider, and SSTH Limited, the Company's third party merchant services provider, the Company retains 50% of the gross revenues generated by the www.subaye.com website. China Netcom

and SSTH retain the remaining 50% of gross revenues. The Company's www.subaye.com website only recorded membership-based revenues of \$4.0 million in the six months ended March 31, 2008. The Company had provided its members free access to the www.subaye.com website from July 1, 2007 through December 31, 2007. For the six months ended March 31, 2009 and 2008, the Company recorded approximately \$4.4 million and \$7.2 million in revenues, respectively, for the Company's importing and exporting business segment. The importing and exporting business segment suffered as a result of the general downturn in the economy in the last few months of 2008 and first three months of 2009. The Company's investments in entertainment arts productions business segment licenses, provides internet broadcasts and completes outright sales of its entertainment assets, namely copyrights. During the six months ended March 31, 2009 and 2008, the Company generated approximately \$2.2 million and \$0 from the viewing of internet broadcast movies, respectively. During the six months ended March 31, 2009 and 2008, the Company's investments in entertainment arts business segment sold master franchise licenses for approximately \$602,000 and \$2.1 million, respectively. Additionally, during the six months ended March 31, 2009 and 2008, the Company's investments in entertainment arts business segment sold copyrights to a motion picture for approximately \$4.1 million and \$1.7 million, respectively. The Company's software sales business model generated approximately \$1.6 million and \$0 during the six months ended March 31, 2009 and 2008, respectively. The media and marketing management business segment generated approximately \$0 and \$640,000 during the six months ended March 31, 2009 and 2008, respectively. The Company expects continued strong growth in its online membership services business segment and believes the increased spending by the Chinese government in recent months will slowly reinvigorate the Chinese economy and eventually lead many new small to medium sized businesses to the www.subaye.com website. The investment in entertainment arts and media and marketing management business segments are working together very well. The Company expects to release the DaYouCun motion picture by September 30, 2009 and is beginning to generate significant revenues through its internet broadcasting and co-advertising programs. The Company continues to see increased interest in SAAS solutions within the Chinese marketplace and is working to obtain market share as this business expands in popularity and acceptance within China. The importing and exporting business segment is suffering from the economic downturn but the Company is attempting to reposition itself to ensure the Company is ready to generate new business when economic conditions improve.



Costs of Sales increased by \$300,668 due primarily to:

Costs of sales were \$11,809,302 for the six months ended March 31, 2009 compared to \$11,508,634 for the six months ended March 31, 2008. During the six months ended March 31, 2009 and 2008, the Company's investments in entertainment arts productions business segment had costs of sales which included approximately \$3.7 million and \$1.7 million for the cost basis of copyrights sold, respectively. Depreciation and amortization of websites, computer software and copyrights totaled approximately \$3.8 million in 2009 and \$2.1 million in 2008. The costs of goods sold through the importing and exporting business segment totaled approximately \$4.3 million and \$6.9 million in 2009 and 2008, respectively. The Company's media and marketing management business segment did not generate any revenues and therefore did not generate any costs of sales during the six months ended March 31, 2009. During the six months ended March 31, 2008, costs of sales for the media and marketing management business segment included \$702,935 in production costs associated with completing advertising plans and ordering advertising on behalf of one customer.

Operating Expenses increased by \$6,643,487 due primarily to:

For the six months ended March 31, 2009, we incurred operating expenses of \$8,811,543 as compared to \$2,168,056 for the six months ended March 31, 2008. The increase in operating expenses in 2008 is comprised almost entirely of a significant increase in advertising costs, which were inclusive of a \$6.8 million advertising promotion which was expensed in the six months ended March 31, 2009. In total, advertising expense was approximately \$7.2 million and \$1.3 million for the six months ended March 31, 2009 and 2008, respectively. Stock based compensation expense decreased \$218,177 for the six months ended March 31, 2009 as compared to the six months ended March 31, 2008.

Other income and expenses decreased by \$14,235 due primarily to:

Other income was \$16 for the six months ended March 31, 2009 compared to \$14,251 for the six months ended March 31, 2008. For the six months ended March 31, 2009, the Company only had minimal interest income on its savings accounts. For the three months ended March 31, 2008, the Company had other income, which included interest income and other income earned through the importing and exporting business segment for non-operating activities.

Net income increased by \$1,670,796:

The Company generated net income of \$3,265,652 and \$1,594,856 for the six months ended March 31, 2009 and 2008, respectively. The increase in net income is a result of the substantial growth of the online membership services and investments in entertainment arts business segments, which offset the decrease in revenues with the importing and exporting business.

#### Liquidity and Capital Resources

We believe that our currently-available working capital, consistent cashflow from our online membership services business segment and the collection of our accounts receivable, should be adequate to sustain our operations through September 30, 2009.

As of March 31, 2009, we had a cash balance of \$523,548, consisting of cash held in PRC and Hong Kong banks and cash in hand. We currently have no cash positions in the United States of America.

Management has invested substantial time evaluating and considering numerous proposals for possible investments, acquisitions or business combinations, either sought out by management or presented to management by investment professionals, the Company's advisers 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, or that all these actions will be approved by our Board of Directors.

Net cash provided by operations for the six months ended March 31, 2009 was \$216,175. Net income for the six months ended March 31, 2009 was \$3,265,652. Noncash charges totaled \$4,668,444 for the three months ended March 31, 2009. Changes in assets and liabilities for the six months ended March 31, 2009 utilized \$7,717,921. In the future, we may use cash in our operations due to our continuing efforts to rapidly expand our operations.

Our future growth is dependent on our ability to continue to generate significant and consistent cashflow through the online membership services business segment, raise capital for expansion as necessary, and to continually 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 assurances that such capital-raising activities would be successful.

Item 4T. 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 were not 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.

We have taken several actions in order to remedy the shortcomings in our disclosure controls and procedures, including the appointment of a new CFO with more experience in U.S. public company reporting. We are also in the process of migrating our financial data into accounting software that we believe will better facilitate the control and review process. We will continue to identify and correct any deficiencies in order for our Certifying Officers to be able to conclude that our controls and procedures are effective.

The Certifying Officers have also indicated that, except as set forth above, 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.

## PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

As of the date of this filing, there have been no material changes from the risk factors previously disclosed in our "Risk Factors" in the Form 10-K for the period ended September 30, 2008. An investment in our common stock involves various risks. When considering an investment in our company, you should consider carefully all of the risk factors described in our most recent Form 10-K. These risks and uncertainties are not the only ones facing us and there may be additional matters that we are unaware of or that we currently consider immaterial. All of these could adversely affect our business, financial condition, results of operations and cash flows and, thus, the value of an investment in our company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Under Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit | Number  |
|---------|---|
| 31.1    | Rule 13a-14(a)/15d-14(a) Certification (CEO)* |
| 31.2    | Rule 13a-14(a)/15d-14(a) Certification (CFO)* |
| 32.1    | Section 1350 Certification (CEO)*             |
| 32.2    | Section 1350 Certification (CFO)*             |

\*Filed herewith.

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SIGNATURES

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

MYSTARU.COM, INC.

Date: May 20, 2009

By: /s/ Alan R. Lun  
Alan R. Lun  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 20, 2009

By: /s/ James T. Crane  
James T. Crane  
Chief Financial Officer  
(Principal Accounting and Financial  
Officer)