INNOCOM TECHNOLOGY HOLDINGS, INC.
Form 10-Q
December 12, 2008

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

FORM 10-Q

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

For the quarter ended September 30, 2008

-OR-

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

For the transition period from to

Commission File Number 0-50164

INNOCOM TECHNOLOGY HOLDINGS, INC.
(Exact Name of small business issuer as specified in Its charter)

NEVADA (State or other jurisdiction of incorporation or organization)	87-0618756 (I.R.S. Employer Identification No.)
Suite 1501, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, PRC (Address of principal executive offices)	(Zip code)

Issuer's telephone number, including area code: (852) 3102 1602

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

Indicate by check mark whether the registrant: (1) 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 þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

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

The number of shares outstanding of each of the Registrant’s classes of common stock, as of November 20, 2008 was 37,900,536 shares, all of one class of $0.001 par value Common Stock.

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FORM 10-Q
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SPECIAL NOTE ON FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report include forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "proposed," "intended," or "continue" or the negative of these terms or other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other "forward-looking" information. There may be events in the future that we are not able to accurately predict or control. Before you invest in our securities, you should be aware that the occurrence of any of the events described in this Annual Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline and you could lose all or part of your investment. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report to conform these statements to actual results.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

INNOCOM TECHNOLOGY HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2008 AND DECEMBER 31, 2007
(Currency expressed in United States Dollars ("US$"), except for number of shares)

	September 30,2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 527,146	$ 3,597
Inventories	139,430	-
Prepayments and other receivables	238,485	26,636
Total current assets	905,061	30,233
Non-current assets:		
Investment in an unconsolidated affiliate	-	8,463,464
Intangible assets, net	5,179,121	5,603,129
Land use right, net	3,109,170	-
Property, plant and equipment, net	7,319,246	2,082
TOTAL ASSETS	$ 16,512,598	$ 14,098,908
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank overdraft	$ 33,503	$ -
Short-term loan	512,065	-
Accounts payable	81,491	-
Amount due to a related party	2,085,809	128
Deferred revenue	76,411	400,290
Income tax payable	-	1,439,376
Other payables and accrued liabilities	1,972,447	197,697
Total current liabilities	4,761,726	2,037,491
TOTAL LIABILITIES	4,761,726	2,037,491
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 37,898,251 shares and 37,898,251 shares issued and outstanding as of September 30, 2008 and December 31, 2007	37,898	37,898
Additional paid-in capital	6,901,232	6,901,232
Accumulated other comprehensive income	789,571	171,652
Retained earnings	4,022,171	4,950,635
Total stockholders' equity	11,750,872	12,061,417

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	16,512,598	$	14,098,908

See accompanying notes to condensed consolidated financial statements.

INNOCOM TECHNOLOGY HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE (LOSS) INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
REVENUE, NET	$ 73,078	$ 1,138,238	$ 324,490	$ 1,792,083
OPERATING EXPENSES:				
Sales and marketing	-		-	30,128
General and administrative	295,505	740,958	1,194,887	1,909,936
Total operating expenses	295,505	740,958	1,194,887	1,940,064
LOSS FROM OPERATIONS	(222,427)	397,280	(870,397)	(147,981)
Other income (expenses):				
Gain on disposal of subsidiaries	-	-	-	599,737
Exchange gain	98,346	-	191,540	-
Interest income	9,719	11	20,796	17
Interest expenses	(167,699)	-	(270,403)	-
(LOSS) INCOME BEFORE INCOME TAXES	(282,061)	397,291	(928,464)	451,773
Income tax expenses	-	(199,193)	-	(282,623)
NET (LOSS) INCOME	$ (282,061)	$ 198,098	$ (928,464)	$ 169,150
Other comprehensive income (loss):				
- Foreign currency translation gain (loss)	188,384	-	617,919	(266,193)
COMPREHENSIVE (LOSS) INCOME	$ (93,677)	$ 198,098	$ (310,545)	$ (97,043)
Net (loss) income per share – Basic and diluted	$ (0.01)	$ 0.01	$ (0.02)	$ (0.00)
Weighted average shares outstanding – basic and diluted	37,898,251	37,898,251	37,898,251	37,898,251

See accompanying notes to condensed consolidated financial statements.

INNOCOM TECHNOLOGY HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(Currency expressed in United States Dollars ("US$"))

	Nine months ended September 30, 2008	2007
Cash flows from operating activities:		
Net (loss) income	$ (928,464)	$ 169,150
Adjustments to reconcile net (loss0 income to net cash used in operating activities:		
Depreciation	2,384	9,008
Amortization of long-term deferred charges	-	979,646
Amortization of intangible assets	447,472	-
Gain on disposal of subsidiaries	-	(599,737)
Income tax	-	83,432
Loss on disposal of property, plant and equipment	1,667	-
Change in operating assets and liabilities:		
Inventories	(139,430)	-
Accounts receivable, trade	-	(303,190)
Prepayments and other receivables	(211,849)	(4,882,489)
Accounts payable, trade	81,491	(1,305,419)
Deferred revenue	(323,879)	-
Other payables and accrued liabilities	37,562	(29,686)
Income tax payable	-	199,192
Amount due to a related party	99,937	5,158,918
Net cash used in operating activities	(933,109)	(521,175)
Cash flows from investing activities:		
Proceeds from disposal of subsidiaries (net of cash)	5,617,101	5,811,904
Acquisition of deferred expenditure	-	(5,316,362)
Payment for property, plant and equipment	(240,722)	-
Payment for land use right	(261,840)	-
Net cash provided by investing activities	5,114,539	495,542
Cash flows from financing activities:		
Repayment of amount due to a related party	(4,797,925)	-
Proceed from short-term loans	512,065	-
Net increase in bank overdraft	33,503	-
Net cash used in financing activities	(4,252,357)	-
Effect of exchange rate changes on cash and cash equivalents	594,476	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	523,549	(25,633)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,597	101,288

CASH AND CASH EQUIVALENTS, END OF PERIOD	$	527,146	$	75,655
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for income taxes	$	-	$	-
Cash paid for interest expenses	$	270,403	$	-

See accompanying notes to condensed consolidated financial statements.

INNOCOM TECHNOLOGY HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

	Common stock		Additional	Accumulated other comprehensive	Retained	Total stockholders'
	No. of shares	Amount	paid-in capital	income	earnings	equity
Balance as of January 1, 2008	37,898,251	$ 37,898	$ 6,901,232	$ 171,652	$ 4,950,635	$ 12,061,417
Foreign currency translation adjustment	-	-	-	617,919	-	617,919
Net loss for the period	-	-	-	-	(928,464)	(928,464)
Balance as of September 30, 2008	37,898,251	$ 37,898	$ 6,901,232	$ 789,571	$ 4,022,171	$ 11,750,872

See accompanying notes to condensed consolidated financial statements.

INNOCOM TECHNOLOGY HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars ("US$"))
(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by management in accordance with both accounting principles generally accepted in the United States ("GAAP"), and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and note disclosures normally included in audited financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

In the opinion of management, the consolidated balance sheet as of December 31, 2007 which has been derived from audited financial statements and these unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary to state fairly the results for the periods presented. The results for the period ended September 30, 2008 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2008 or for any future period.

These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Management's Discussion and the audited financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2007.

NOTE 2 ORGANIZATION AND BUSINESS BACKGROUND

Innocom Technology Holdings, Inc. (the "Company" or "INCM") was incorporated in the State of Nevada on June 26, 1998. On June 20, 2006, the Company changed its name from "Dolphin Productions, Inc." to "Innocom Technology Holdings, Inc."

For the nine months ended September 30, 2008, the Company, through its subsidiaries is engaged in trading of mobile phone handsets and components.

On April 28, 2008, the Company disposed of a subsidiary, Chinarise Capital (International) Ltd. at a purchase price of $5,617,101.

On May 8, 2008, the Company completed the establishment of a new subsidiary, Changzhou Innocom Communication Technology Limited in the People's Republic of China ("the PRC") upon the approval of its local government.

As of September 30, 2008, details of the Company's subsidiaries are described below:

Name of company	Place and date of incorporation	Issued and fully paid capital	Principal activities
Innocom Technology Holdings Limited ("ITHL")	British Virgin Islands July 12, 2005	US$1 ordinary	Investment holding

(Formerly Wisechamp Group Limited)			
Sky Talent Development Limited (“STDL”)	British Virgin Islands September 8, 2005	US$1 ordinary	Investment holding
Innocom Mobile Technology Limited (“IMTL”)	Hong Kong June 21, 2006	HK$2,000,000 ordinary	Inactive
Pender Holdings Ltd. (“Pender”)	British Virgin Islands August 15, 2003	US$1 ordinary	Trading of mobile phone handsets and components
Favor Will International Ltd. (“FWIL”)	British Virgin Islands July 11, 2007	US$1 ordinary	Investment holding
Changzhou Innocom Communication Technology Limited (“CICTL”)	The PRC January 19, 2007	RMB50,000,000	Manufacture of mobile phone handsets and components

INCM and its subsidiaries are hereinafter referred to as (the "Company").

NOTE 3 GOING CONCERN UNCERTAINTIES

These condensed consolidated financial statements have been prepared assuming that Company will continue as a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

As of September 30, 2008, the Company has incurred a net loss of $928,464 and a negative operating cash flow of $933,109. The continuation of the Company is dependent upon the continuing financial support of shareholders and obtaining short-term and long-term financing, generating significant revenue and achieving profitability. The actions involve certain cost-saving initiatives and growing strategies, including the commencement of assembly lines in the production of mobile handsets in China. As a result, the consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of the Company's ability to continue as a going concern.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

l Use of estimates

In preparing these condensed consolidated financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheets and revenues and expenses during the periods reported. Actual results may differ from these estimates.

l Basis of consolidation

The condensed consolidated financial statements include the financial statements of INCM and its subsidiaries.

All significant inter-company balances and transactions within the Company have been eliminated upon consolidation.

l Cash and cash equivalents

Cash and cash equivalents are carried at cost and represent cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments.

l Inventories

Inventories are stated at the lower of cost or market (net realizable value), cost being determined on a weighted average method. Costs mainly include purchase of raw materials.

l Intangible assets

Intangible assets include trademarks of mobile phone handsets purchased from a third party. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), intangible assets with finite useful lives related to developed technology, customer lists, trade names and other intangibles are being amortized on a straight-line basis over the estimated useful life of the related asset.

These assets are carried at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives of 10 years beginning at the time the related trademarks are granted.

l Land use right

All lands in the People's Republic of China (the "PRC") are owned by the PRC government. The government in the PRC, according to the relevant PRC law, may sell the right to use the land for a specified period of time. Thus, all of the Company's land purchases in the PRC are considered to be leasehold land and are stated at cost less accumulated amortization and any recognized impairment loss. Amortization is provided over the term of the land use right agreements on a straight-line basis, which is 45 years and they will expire in 2054.

No provision for amortization is made until such time as the relevant assets are put into operational use.

l Property, plant and equipment, net

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line basis (after taking into account their respective estimated residual values) over the following expected useful lives from the date on which they become fully operational:

	Depreciable life	Residual value
Plant and machinery	5-10 years	5%
Furniture, fixtures and office equipment	5 years	5%
Leasehold improvement	2 years	Nil

Expenditure for repairs and maintenance is expensed as incurred. When assets have retired or sold, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the results of operations.

l Valuation of long-lived assets

Long-lived assets primarily include plant and equipment, land use right and intangible assets. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company periodically reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. Determining the fair value of long-lived assets includes significant judgment by management, and different judgments could yield different results. There has been no impairment as of September 30, 2008.

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l Revenue recognition

In accordance with the SEC's Staff Accounting Bulletin No. 104, Revenue Recognition, the Company records revenue when services are received by the customers and realized the amounts net of provisions for discounts, allowance and taxes which are recognized at the time of services performed.

Starting from 2007, the Company has changed its role from a principal to an agent in trading activities of mobile phone handsets & related components. The Company recognizes its revenue on a net basis in compliance with EITF 99-19, "Reporting Revenues Gross as a Principal versus Net as an Agent" ("EITF 99-19"), because the Company:

(1) determined that it no longer operates as the primary obligor in the trading activities,
(2) typically is not responsible for damages to goods,
(3) bears no credit and inventory risk,
(4) earns commission income at a fixed rate of the gross amount billed to the customer.

For the period ended September 30, 2008, the Company recognizes $324,490 as net revenues, at a rate of 6.04% based on the gross amount of $5,370,542 billed to the customers.

For the period ended September 30, 2007, the Company recognizes $1,792,083 as net revenues, at a rate of 5.84% based on the gross amount of $30,700,871 billed to the customers.

l Comprehensive (loss) income

SFAS No. 130, "Reporting Comprehensive Income", establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income as defined includes all changes in equity during a period from non-owner sources. Accumulated comprehensive income, as presented in the accompanying consolidated statements of stockholders' equity consists of changes in unrealized gains and losses on foreign currency translation. This comprehensive income is not included in the computation of income tax expense or benefit.

l Income taxes

The Company accounts for income tax using SFAS No. 109 "Accounting for Income Taxes", which requires the asset and liability approach for financial accounting and reporting for income taxes. Under this approach, deferred income taxes are provided for the estimated future tax effects attributable to temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from loss carry-forwards and provisions, if any. Deferred tax assets and liabilities are measured using the enacted tax rates expected in the years of recovery or reversal and the effect from a change in tax rates is recognized in the consolidated statement of operations and comprehensive income in the period of enactment. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

The Company also adopts Financial Accounting Standards Board ("FASB") Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes" and FSP FIN 48-1, which amended certain provisions of FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company determine whether the benefits of the Company's tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. The provisions of FIN 48 also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure.

In connection with the adoption of FIN 48, the Company analyzed the filing positions in all of the federal, state and foreign jurisdictions where the Company and its subsidiaries are required to file income tax returns, as well as all open tax years in these jurisdictions. The Company adopted the policy of recognizing interest and penalties, if any, related to unrecognized tax positions as income tax expense. The Company did not have any unrecognized tax positions or benefits and there was no effect on the financial condition or results of operations for the period ended September 30, 2008. The Company's tax returns remain open subject to examination by major tax jurisdictions.

l Net (loss) income per share

The Company calculates net (loss) income per share in accordance with SFAS No. 128, "Earnings per Share". Basic (loss) income per share is computed by dividing the net (loss) income by the weighted-average number of common shares outstanding during the period. Diluted (loss) income per share is computed similar to basic (loss) income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common stock equivalents had been issued and if the additional common shares were dilutive.

l Foreign currencies translation

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency using the applicable exchange rates at the balance sheet dates. The resulting exchange differences are recorded in the statement of operations.

The reporting currency of the Company is the United States dollar ("US$"). The Company's subsidiaries operating in Hong Kong maintained their books and records in its local currency, Hong Kong Dollars ("HK$"), which are functional currencies as being the primary currency of the economic environment in which these entities operate.

In general, assets and liabilities are translated into US$, in accordance with SFAS No. 52, "Foreign Currency Translation", using the exchange rate on the balance sheet date. Revenues and expenses are translated at average rates prevailing during the period. The gains and losses resulting from translation of financial statements of foreign subsidiaries are recorded as a separate component of accumulated other comprehensive income within the statement of stockholders' equity.

Translation of amounts from HK$ into US$ has been made at the following exchange rates for the respective period:

	2008	2007
Period end RMB:US$ exchange rate	6.8351	-
Average monthly RMB:US$ exchange rate	6.9734	-
Period end HK$:US$ exchange rate	7.7701	7.8000
Average monthly HK$:US$ exchange rate	7.7984	7.8000

l Related parties

Parties, which can be a corporation or individual, are considered to be related if the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

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l Segment reporting

SFAS No. 131 “Disclosures about Segments of an Enterprise and Related Information” establishes standards for reporting information about operating segments on a basis consistent with the Company’s internal organization structure as well as information about geographical areas, business segments and major customers in the financial statements. For the period ended September 30, 2008 and 2007, the Company operates in one reportable segment in trading of mobile phone handsets & related components in Hong Kong.

l Fair value of financial instruments

The Company values its financial instruments as required by SFAS No. 107, “Disclosures about Fair Value of Financial Instruments”. The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of amounts that the Company could realize in a current market exchange.

The Company’s financial instruments primarily consist of cash and cash equivalents, prepaid expenses and other receivable, bill payable, amount due to a related party, income tax payable, other payables and accrued liabilities.

As of the balance sheet dates, the estimated fair values of the financial instruments were not materially different from their carrying values as presented due to the short term maturities of these instruments and that the interest rates on the borrowings approximate those that would have been available for loans of similar remaining maturity and risk profile at respective period ends.

l Recent accounting pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R will change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing GAAP until January 1, 2009. The Company expects SFAS No. 141R will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at that time. The Company is still assessing the impact of this pronouncement.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51, or SFAS No. 160" ("SFAS No. 160"). SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company believes that SFAS 160 should not have a material impact on the consolidated financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities" and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this statement is not expected to have a material effect on the Company's future financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” ("SFAS No. 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States. This statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles”. The Company does not expect the adoption of SFAS No. 162 to have a material effect on the financial condition or results of operations of the Company.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60" ("SFAS No. 163"). SFAS No. 163 interprets Statement 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2009. The Company is currently evaluating the impact of SFAS No. 163 on its financial statements but does not expect it to have an effect on the Company's financial position, results of operations or cash flows.

Also in May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 applies to convertible debt securities that, upon conversion, may be settled by the issuer fully or partially in cash. FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years after December 15, 2008, and must be applied on a retrospective basis. Early adoption is not permitted. The Company does not expect it to have an effect on the Company's financial position, results of operations or cash flows.

In June 2008, the FASB issued FASB Staff Position ("FSP") EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, Earnings per Share. Under the guidance of FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The Company does not expect it to have an effect on the Company's financial position, results of operations or cash flows.

Also in June 2008, the FASB ratified EITF No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early application is not permitted. The Company is assessing the potential impact of this EITF 07-5 on the financial condition and results of operations and does not expect it to have an effect on the Company's financial position, results of operations or cash flows.

NOTE 5 BUSINESS COMBINATION

On April 28, 2008, the Company entered into a Share Purchase Agreement with Xie Guo Qiang ("Qiang") to sell the Company's interest in Chinarise Capital (International) Ltd. for a consideration of $5,617,101 (equivalent to HK$43,813,385). For the nine month ended September 30, 2008, no gain or loss was recognized from the disposal of a subsidiary.

On May 8, 2008, the Company completed the establishment of a new subsidiary upon the approval from the PRC local government. The subsidiary is registered as a limited liability company on January 19, 2007 in Chang Zhou City, Jiang Su Province, the PRC with the registered and paid-in capital of $4,943,997 (equivalent to RMB37,960,812). As of September 30, 2008, the total investment in a subsidiary is approximated as $8,487,661 including the acquisition of land use rights and plant and equipment. Its operation is currently considered as the start up phase and principally engaged in manufacturing and trading of mobile communication products and components. The production from its assembly line will be commenced in the end of the first quarter of 2009.

NOTE 6 INTANGIBLE ASSETS, NET

	September 30, 2008	December 31, 2007
Trademarks	$ 5,960,775	$ 5,960,775
Foreign translation difference	26,696	-
	5,987,471	5,960,775
Less: accumulated amortization	(805,118)	(357,754)
Less: foreign translation difference	(3,232)	108
Net book value	$ 5,179,121	$ 5,603,129

Amortization expense for the three and nine months ended September 30, 2008 were $150,213 and $447,472.

Trademarks will be used in the planned assembly line for mobile phone communication products and components in the PRC.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net, consisted of the following:

	September 30, 2008	December 31, 2007
Plant and machinery	$ 7,308,769	$ 3,331
Furniture, fixtures and office equipment	6,174	-
Leasehold improvement	6,290	-
Foreign translation difference	3	-
	7,321,236	3,331
Less: accumulated depreciation	(1,966)	(1,249)
Less: foreign translation difference	(24)	-
Property, plant and equipment, net	$ 7,319,246	$ 2,082

Depreciation expense for the three and nine months ended September 30, 2008 were $1,138 and $2,384.

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For the nine months ended September 30, 2008, the Company tested for impairment in accordance with the SFAS No. 142 and no impairment charge was required.

NOTE 8 SHORT-TERM LOAN

As of September 30, 2008, the balance was represented by a short-term loan of US$512,065 (approximately RMB3,500,000) which was unsecured, accrued interest at 3.78% per annum payable monthly, with a term of 6 months.

During October 2008, the Company fully repaid the outstanding principal and accrued interest upon its maturity.

NOTE 9 AMOUNT DUE TO A RELATED PARTY

As of September 30, 2008, a balance of $2,085,809 due to a director and a major shareholder of the Company, Mr. William Hui, represented temporary advance to the Company which was unsecured, interest-free and has no fixed repayment term. The imputed interest on the amount due to a stockholder was not significant.

NOTE 10 OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the followings:

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Salaries and welfare payable	$ 18,789	$ -
Temporary advances	37,264	-
Accrued expenses	179,206	197,697
Purchase payable to equipment vendors	1,737,188	-
	$ 1,972,447	$ 197,697

NOTE 11 INCOME TAXES

For the period ended September 30, 2008 and 2007, the local ("the United States") and foreign components of (loss) income before income taxes were comprised of the following:

	Nine months ended September 30, 2008	2007
Local	$ (28,894)	$ (1,504,344)
Foreign	(899,570)	1,673,494
(Loss) income before income taxes	$ (928,464)	$ 169,150

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The provision for income taxes consisted of the following:

	Nine months ended September 30, 2008	2007
Current:		
Local	$ -	$ -
Foreign	-	282,623
Deferred:		
Local	-	-
Foreign	-	-
Provision for income taxes	$ -	$ 282,623

The effective tax rate in the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The Company has subsidiaries that operate in various countries: United States, British Virgin Island and Hong Kong that are subject to tax in the jurisdictions in which they operate, as follows:

United States of America

The Company is registered in the State of Neveda and is subject to United States current tax law.

As of September 30, 2008, the United States operation incurred $6,177,370 net operating losses available for federal tax purposes, which are available to offset future taxable income. The net operating loss carry forwards begin to expire in 2029. The Company has provided for a full valuation allowance for any future tax benefits from the net operating loss carryforwards as the management believes it is more likely than not that these assets will not be realized in the future.

British Virgin Island

Under the current BVI law, the Company is not subject to tax on income.

Hong Kong

For the nine months ended September 30, 2008, no income tax expense for Hong Kong Profits Tax is provided for as the Company's income neither arises in, nor is derived form Hong Kong under its tax law.

NOTE 12 CONCENTRATIONS OF RISK

The Company is exposed to the followings concentrations of risk:

(a) Major customers

For the nine months ended September 30, 2008 and 2007, 100% of the Company's assets were located in the PRC and Hong Kong and 100% of the Company's revenues were generated from customers located in the PRC.

For the three and nine months ended September 30, 2008, one customer represented more than 10% of the Company's revenue and accounts receivable, respectively. This customer accounts for 100% of revenue amounting to $73,078 and 100% of revenue amounting to $324,490 for the three and nine months ended respectively, with $0 of accounts receivable as of September 30, 2008.

For the three and nine months ended September 30, 2007, one customer represented more than 10% of the Company's revenue and accounts receivable, respectively. This customer accounts for 100% of revenue amounting to $1,138,238 and 100% of revenue amounting to $1,792,083 for the three and nine months ended respectively, with $0 of accounts receivable as of September 30, 2007.

(b) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and trade accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition, but does not require collateral to support such receivables.

(c) Exchange rate risk

The Company cannot guarantee that the current exchange rate will remain steady; therefore there is a possibility that the Company could post the same amount of net income for two comparable periods and because of the fluctuating exchange rate actually post higher or lower profit depending on exchange rate of RMB converted to US$ on that date. The exchange rate could fluctuate depending on changes in political and economic environments without notice.

NOTE 13 COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitment

The Company leases an office premise under a non-cancelable operating lease for a term of 2 years due June 15, 2010. Costs incurred under this operating lease are recorded as rent expense and totaled approximately $76,368 and $78,462 for the nine months ended September 30, 2008 and 2007.

Period ending September 30,		
2009	$	131,557
2010		93,156
Total	$	224,713

(b) Capital commitments

As of September 30, 2008, the Company has the following capital commitments:

Planned establishment of a joint venture

The Company has entered into a Memorandum of Understanding ("MOU") dated February 27, 2007 with a Korean listed company. Pursuant to this MOU, both parties are willing to set up a joint venture in PRC to promote a 3-D mobile contents platform. There is no definitive joint venture agreement entered up to the date of this report.

Planned acquisition of a company

The wholly-owned subsidiary of the Company, ITHL, has entered into a Letter of Intent ("LOI") dated February 12, 2007 with a third party. Pursuant to this LOI, ITHL intends to acquire 100% interest of Shanghai BODA Electronic Co., Ltd. There is no definitive equity transfer agreement entered up to the date of this report.