MyStarU.com,Inc.
Form 10-Q
February 23, 2009

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

# FORM 10-Q

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

For the quarterly period ended December 31, 2008

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

For the transition period from ________ to ________

Commission File Number 333-62236

MYSTARU.COM, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 35-2089848 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

6 North Twelfth Road
Country Garden
Shunde District
Foshan City, Guangdong
China 528312
(Address of principal executive offices) (Zip Code)

(86) 757 2663 9986
(Registrant's telephone number, including area code)

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

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 x No o

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of February 22, 2009, 171,364,316 shares of common stock, par value $.001 per share were outstanding.

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | December 31, 2008 (Unaudited) | September 30, 2008 (Audited) |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash | $ 794,452 | $ 302,632 |
| Accounts Receivable, Net of Allowances for Doubtful Accounts of $30,844 (September 30, 2008 - $30,767) (Note 3) | 11,583,215 | 10,387,036 |
| Inventory | 101,070 | 126,256 |
| Prepaid Expenses | 2,172,181 | 2,265,078 |
| Prepaid Sales Incentives (Note 4) | 5,052,357 | - |
| Other Current Assets | 386,068 | 623,567 |
| Total Current Assets | 20,089,343 | 13,704,569 |
| Property & Equipment, Net of Accumulated Depreciation of $15,230,456 (September 30, 2008 - $13,644,708) (Note 8) | 8,764,509 | 10,301,602 |
| Intangible Assets | | |
| Copyrights, Net of Accumulated Amortization of $1,666,442 (September 30, 2008 - $1,550,443) (Note 6, 7) | 13,039,585 | 13,118,866 |
| Goodwill (Note 5) | 557,730 | 557,224 |
| Total Intangible Assets | 13,597,315 | 13,676,090 |
| TOTAL ASSETS | $ 42,451,167 | $ 37,682,261 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts Payable | $ 5,893,168 | $ 4,422,172 |
| Customer Deposits | 314,214 | 308,096 |
| Accrued Liabilities | 133,040 | 237,300 |
| Short Term Debt (Note 14) | 1,167,168 | 1,043,424 |
| Total Current Liabilities | 7,507,590 | 6,010,992 |
| | | |
| Total Liabilities | 7,507,590 | 6,010,992 |
| | | |
| Minority Interest in Consolidated Subsidiaries (Note 12) | 7,607,538 | 7,138,608 |
| | | |
| Commitment and Contingencies (Note 13) | | |
| | | |
| Stockholders' Equity (Note 10) | | |
| Preferred stock, $0.001 par value, authorized: 50,000,000 shares, zero shares issued and outstanding at December 31, 2008 and September 30, 2008 | - | - |
| Common stock, $0.001 par value, authorized: 300,000,000 shares, 163,364,316 and 151,014,316 shares issued and outstanding at December 31, 2008 and September 30, 2008 | 163,364 | 156,014 |
| Additional Paid in Capital | 24,644,719 | 24,301,719 |
| Shares to be Issued | - | 350 |
| Deferred Stock-Based Compensation | (1,324,272) | (1,285,362) |

| | | |
|---|---|---|
| Accumulated Other Comprehensive Income | 48,993 | 30,251 |
| Retained Earnings | 3,803,235 | 1,329,689 |
| Total Stockholders’ Equity | 27,336,039 | 24,532,661 |
| TOTAL LIABILITIES & STOCKHOLDERS’ EQUITY | $ 42,451,167 | $ 37,682,261 |

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 THREE MONTHS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 (Unaudited) | 2007 (Unaudited) |
|---|---|---|
| Revenue | | |
| Licensing and Royalty Revenues | $ 1,311,422 | $ 1,323,962 |
| Online Membership Services | 5,248,668 | - |
| Import and Export Sales | 2,854,428 | 4,364,812 |
| Software Sales | 441,234 | 1,722,279 |
| Media and Marketing Management | - | 300,900 |
| Total Revenue | 9,855,752 | 7,711,953 |
| Costs of Sales | 6,139,344 | 5,785,142 |
| Gross Profit | 3,716,408 | 1,926,811 |
| Operating Expenses | | |
| Salaries and Wages | 70,100 | 63,007 |
| Stock Based Compensation | 311,090 | 363,869 |
| Bad Debt Recovery | - | (185,440) |
| Other Selling, General and Administrative Expenses | 401,576 | 658,591 |
| Total Operating Expenses | 782,766 | 900,027 |
| Income From Operations | 2,933,642 | 1,026,784 |
| Other Income and Expenses | 12,311 | 8,443 |
| Net Income Before Income Taxes | 2,945,953 | 1,035,227 |
| Provision for Income Taxes | (1,793) | (1,051) |
| Net Income Before Minority Interest | 2,944,160 | 1,034,176 |
| Minority Interest in Income of Subsidiaries | (470,614) | (263,615) |
| Net Income | 2,473,546 | 770,561 |
| Foreign Currency Translation Adjustment | 18,742 | (26,355) |
| Comprehensive Income | $ 2,492,288 | $ 744,206 |
| Basic and Diluted Net Income Per Common Share | $ 0.02 | $ 0.01 |
| Number of Common Shares Used to Compute Basic and Diluted Weighted Average | 161,762,686 | 148,675,128 |

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 THREE MONTHS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 (Unaudited) | 2007 (Unaudited) |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Net Income | $ 2,473,546 | 770,561 |
| Adjustments to Reconcile Net Income to Net Cash Provided by (Used In) Operating Activities: | | |
| Depreciation and Amortization | 1,670,101 | 1,020,330 |
| Bad Debt Expense | - | 25,014 |
| Recovery of Bad Debts | - | (185,431) |
| Minority Interests | 470,614 | 263,615 |
| Amortization of Prepaid Advertising | - | 262,515 |
| Amortization of Stock Based Compensation | 311,090 | 363,869 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (1,196,257) | (3,276,343) |
| Inventory | 25,186 | (76,386) |
| Prepaid Expenses | 92,897 | (31,134) |
| Prepaid Sales Incentive | (2,670,095) | - |
| Other Current Assets | 237,499 | 261,008 |
| Copyrights | - | (582,519) |
| Accounts Payable and Accrued Expenses | (1,009,408) | 712,856 |
| Net Cash Provided By (Used In) Operating Activities | 405,173 | (472,045) |
| | | |
| Cash Flows From Investing Activities: | | |
| Purchase of Equipment | (4,797) | - |
| Cash Proceeds From Acquisition of MGI | - | 2,834 |
| Net Cash (Used In) Provided By Investing Activities | (4,797) | 2,834 |
| | | |
| Cash Flows From Financing Activities | | |
| Cash Proceeds From Short Term Debt Financing | 123,744 | - |
| Net Cash Flows Provided by Financing Activities: | 123,744 | - |
| | | |
| Effect of Exchange Rate Changes on Cash | (32,300) | (151,644) |
| | | |
| Net Increase (Decrease) in Cash | 491,820 | (620,855) |
| | | |
| Cash - Beginning of Period | 302,632 | 1,150,422 |
| | | |
| Cash - End of Period | $ 794,452 | $ 529,567 |
| | | |
| Supplemental Disclosure of Cash Flow Information: | | |
| Taxes Paid | $ 1,793 | $ - |
| 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 | $ 350,000 | $ 577,550 |

| | | |
|---|---|---|
| Issuance of Stock for Services by Subsidiary, Deferred Compensation | $ - | $ 840,000 |

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 THREE MONTHS ENDED DECEMBER 31, 2008 AND 2007

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 FINRA over-the-counter bulletin board (“OTCBB”) in the United States of America.

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.

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

Principles of Consolidation

Basis of presentation

The consolidated financial statements, prepared in accordance with generally accepted accounting principles in the United States of America (“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 United States 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 Ltd. | Hong Kong, The People's Republic of China | 100.00% |
| 3G Dynasty Inc. | British Virgin Islands | 100.00% |
| Subaye.com | 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

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.

General Statement

The Securities and Exchange Commission ("SEC") has issued Financial Reporting Release No. 60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies (“FRR 60”), suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company’s financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The methods, estimates and judgments the Company uses in applying these most critical accounting policies have a significant impact on the results the Company reports in its consolidated financial statements.

We believe the following critical accounting policies and procedures, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

- Revenue recognition;
- Valuation of stock based compensation; and
- Valuation of intangible assets and long lived assets, review for impairment losses.

Foreign currency translation

The reporting currency of the Company is the US dollar. The Company's principal operating subsidiaries established in the PRC use their local currency, Renminbi (RMB), 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 the statements of stockholders' equity. 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 the consolidated balance sheets and amounted to $48,993 and $30,251 as of December 31, 2008 and September 30, 2008, respectively.

Revenue Recognition

The Company negotiates contracts with its customers, which may include revenue arrangements with multiple deliverables, as outlined by Emerging Issues Task Force No. 00-21 ("EITF 00-21"). The Company’s accounting policies are defined such that each deliverable under a contract is accounted for separately. Historically, the Company has not entered into contracts with its customers that provided for multiple deliverables.

The Company has identified the following five revenue streams, as follows:

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 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. The Company does not currently provide any specific software to its www.subaye.com members, 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 provider and webhosting in the PRC and manages the internet connection and webhosting of the Company's 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 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 SAB104, the Company recognizes revenues from media, advertising and marketing services, product placement services within the PRC and overseas entertainment markets 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 business model, software license agreements 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.

Copyright Licensing and Sales

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.

Import and Export Revenues

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 the films. Amortization related to the movies was $115,388 and $0 for the three months ended December 31, 2008 and 2007, respectively, and is 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.

Stock-Based Compensation

The Company does not have a formal stock option plan. However, we offered to some of our employees stock-based compensation in the form of stock warrants and shares of our common stock. Prior to July 1, 2005, we accounted for those stock-based compensation awards using the recognition and measurement principles of the intrinsic value method of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations, and applied the disclosure-only provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation. Under the intrinsic value method, we recognized compensation expense on the date of grant only if the current market price of the underlying stock on the grant date exceeded the exercise price of the stock-based award.

In December 2004, the FASB issued FASB Statement No. 123 (Revised 2004), Share-Based Payment, which revises FASB Statement No. 123 and supersedes APB Opinion No. 25. FASB Statement No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005. Subsequent to the effective date, the pro forma disclosures previously permitted under FASB Statement No. 123 are no longer an alternative to financial statement recognition.

In March 2005, the Staff of the SEC issued Staff Accounting Bulletin ("SAB") No. 107, Share-Based Payment. SAB No. 107 expresses the view of the SEC Staff regarding the interaction between FASB Statement No. 123(R) and certain SEC rules and regulations and provides the SEC Staff's views regarding the valuation of share-based payment arrangements for public companies. The SEC Staff believes the guidance in SAB No. 107 will assist public companies in their initial implementation of FASB Statement No. 123(R) beginning with the first interim or annual period of the first fiscal year that begins after June 15, 2005.

Effective July 1, 2005, we adopted FASB Statement No. 123(R) using the modified prospective method. Under this method, compensation cost recognized during 2006 includes: (1) compensation cost for the portions of all share-based payments granted prior to, but not yet vested as of July 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of FASB Statement No. 123 amortized on a straight-line basis over the options' remaining vesting period beginning July 1, 2005, and (2) compensation cost for all share-based payments granted subsequent to July 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of FASB Statement No. 123(R) amortized on a straight-line basis over the options' requisite service period.

Software Development Costs

The Company accounts for software development costs in accordance with SFAS No. 86, Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed. Under SFAS No. 86, the Company expenses software development costs as incurred until it is determined that the software is technologically feasible. Once it is determined that the entertainment software is technologically feasible and there is a basis for estimating the recoverability of the development costs from future cash flows, the Company capitalizes the remaining software development costs until the software product is released. The Company has not developed its own software. The Company has purchased all of its software from third parties.

Once the Company releases software as entertainment content, amortization of the related capitalized software development costs is commenced. The Company records amortization expense as a component of cost of sales. The Company calculates the amortization of software development costs using two different methods, and then amortizes the greater of the two amounts. Under the first method, the Company divides the current period gross revenue for the released software by the total of current period gross revenue and anticipated future gross revenue for the software and then multiplies the result by the total capitalized software development costs. Under the second method, the Company divides the software's total capitalized costs by the number of periods in the software's estimated economic life up to a maximum of thirty six months. Differences between the Company's actual gross revenues and what it projected may result in adjustments in the timing of amortization. If management deems a title's capitalized software development costs unrecoverable based on expected future gross revenue and corresponding cash flows, the Company will write off the costs and record the charge to development expense or cost of revenue, as appropriate.

Property and Equipment

Property and equipment is located in the PRC and is recorded at cost less accumulated depreciation. Depreciation and amortization is calculated using the straight-line method over the expected useful life of the asset, after the asset is placed in service. The Company generally uses the following depreciable lives for its major classifications of property and equipment:

| Description | Useful Lives |
| --- | --- |
| Computer Hardware | 3 years |
| Computer Software | 3 years |
| Websites | 3 years |
| Motor Vehicles | 3 years |
| Furniture and Fixtures | 5 and 7 years |
| Leasehold Improvements | 5 years |

Valuation of Long-Lived Assets

Long-lived tangible assets and definite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company uses an estimate of undiscounted future net cash flows of the assets over the remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values of the assets exceed the expected future cash flows of the assets, the Company recognizes an impairment loss equal to the difference between the carrying values of the assets and their estimated fair values. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets. The evaluation of long-lived assets requires the Company to use estimates of future cash flows. However, actual cash flows may differ from the estimated future cash flows used in these impairment tests. At September 30, 2008, based on management's projected future cash flows, management has determined that there is no impairment of long-lived assets at September 30, 2008. See Notes 5, 7 and 8 to the financial statements.

Goodwill and Intangible Assets

The Company adopted SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, effective June 2001. SFAS No. 141 requires the use of the purchase method of accounting for any business combinations initiated after June 30, 2002, and further clarifies the criteria to recognize intangible assets separately from goodwill. Under SFAS No. 142, goodwill and indefinite–life intangible assets are no longer amortized but are reviewed for impairment annually. The results of MGI and the estimated fair market values of its assets and liabilities have been included in our consolidated financial statements from the date of acquisition, October 23, 2007. See Note 5 to the financial statements.

Cash and Cash Equivalents

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

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 collectability. 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, due to a concentration of customers accounting for more than 89% 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.

Concentrations of Credit Risk

Cash

Cash includes cash on hand and demand deposits in accounts maintained with state-owned banks within the PRC and Hong Kong. Certain financial instruments, which subject the Company to concentration of credit risk, consist of cash and accounts receivable. Balances at financial institutions or state-owned banks within the PRC are not covered by insurance. Total cash in PRC or Hong Kong banks and cash on hand at December 31, 2008 and September 30, 2008, amounted to $794,452 and $302,632 respectively, of which no deposits are covered by insurance. The Company has not experienced any losses in such bank accounts and believes it is not exposed to any specifically identifiable risks on its cash in bank accounts. Cash on hand is susceptible to misappropriation. However, the Company has not experienced any losses of this nature and believes appropriate controls are in place to prevent a possible misappropriation of funds.

Accounts Receivable

We have a concentration of customers in each of our business segments. We are diligent in attempting to ensure that we issue credit to credit-worthy customers. However, our customer base is small and our accounts receivable balances are usually over 90 days outstanding, and that exposes us to significant credit risk. Therefore, a credit loss can be significant relative to our overall profitability.

Geographic, Political, Economic, Taxation and Legal

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Customer Sales Incentives

Customer sales incentives are classified and valued in the consolidated statement of operations and comprehensive income in cost of sales in accordance with Emerging Issues Task Force Issue No. 01-9 Accounting for Consideration Given by a Vendor to a Customer.

Inventory

Inventory is stated at the lower of cost or market. The cost is determined under the first-in-first-out (FIFO) method valuation method. An allowance for excess or obsolete inventory is maintained by the Company. The Company determines an appropriate balance in this account based on historical data and specific identification of certain inventory items. The Company's subsidiary, Panyu M&M, routinely ships and accepts deliveries of goods without insuring for potential losses on the goods during the course of delivery from Panyu M&M's suppliers. Additionally, in certain cases, the Company may accept liability for losses incurred on its goods as they are en route for delivery to Panyu M&M's customers. The Company has not historically encountered significant losses during the delivery process (both to and from Panyu M&M) but there is potential for significant losses to occur at any time.

Comprehensive Income

Accumulated other comprehensive income represents foreign currency translation adjustments and is included in the consolidated statement of shareholders' equity.

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109 Accounting for Income Taxes . Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In July, 2006, the FASB issued FASB Interpretations No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 ("FIN 48"), which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a return. FIN 48 provides guidance on the measurement, recognition, classification and disclosure of tax positions, along with accounting for the related interest and penalties. FIN 48 became effective as of January 1, 2007 and had no impact on the Company's consolidated financial statements.

The charge for taxation is based on the results for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probably that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated using tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it is related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they related to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Research and Development

Research, development, and engineering costs are expensed as incurred, in accordance with SFAS No. 2, Accounting for Research and Development Costs.  Research, development, and engineering expenses primarily include payroll and headcount related costs, contractor fees, infrastructure costs, and administrative expenses directly related to research and development support. Research and development expenses for the three months ended December 31, 2008 and 2007 were $96,188 and approximately $62,187, respectively.

Net Earnings (Loss) Per Share

The Company utilizes SFAS No. 128, Earnings per Share to calculate gain or loss per share. Basic gain or loss per share is computed by dividing the gain or loss available to common stockholders (as the numerator) by the weighted-average number of common shares outstanding (as the denominator). Diluted gain or loss per share is computed similar to basic gain or loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potential common stock (including common stock equivalents) had all been issued, and if such additional common shares were dilutive. Under SFAS No. 128, if the additional common shares are dilutive, they are not added to the denominator in the calculation. Where there is a loss, the inclusion of additional common shares is anti-dilutive (since the increased number of shares reduces the per share loss available to common stock holders).

There were no common stock equivalents as of December 31, 2008 or 2007, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, 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.

Segment Reporting

SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information, requires use of the "management approach" model for segment reporting. Under this model, segment reporting is consistent with the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

Reclassifications

Certain reclassifications to the Company's balance sheets and statements of operations have been made in 2007, in order for the 2007 financial statements to conform to the presentation of the 2008 financial statements. These reclassifications did not impact the Company's consolidated total assets, consolidated total liabilities, consolidated net income or consolidated stockholders equity for the year ended September 30, 2008 and three months ended December 31, 2007, 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 December 31, 2008 and September 30, 2008 consisted of the following:

| | December 31, 2008 | September 30, 2008 |
|---|---|---|
| Trade Accounts Receivable | $ 11,614,059 | $ 10,417,803 |
| Allowance For Doubtful Accounts | (30,844) | (30,767) |
| Accounts Receivable, Net | 11,583,215 | 10,387,036 |

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

| | December 31, 2008 | September 30, 2008 |
|---|---|---|
| Beginning Allowance for Doubtful Accounts | $ 30,767 | $ 413,036 |
| 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 | 77 | - |
| Ending Allowance for Doubtful Accounts | $ 30,844 | $ 30,767 |

The Company has the following concentrations of business with customers constituting greater than 5% of the Company's gross accounts receivable as of December 31, 2008 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.

These accounts receivable totaled $10,336,513 and $10,313,625 or 89% and 99% of our gross total accounts receivable as of December 31, 2008 and September 30, 2008, respectively.

| | December 31, 2008 | September 30, 2008 |
|---|---|---|
| QXS Enterprise | 12% | 18% |
| SSTH | 58% | 46% |
| Fengcun Shangmao | 5% | -% |
| Fenglin Qimao | -% | 9% |
| Fengcun Electronic | -% | 19% |
| Stareast Net Ltd. | 7% | -% |
| PanYu HuiQiang Economic and Trade | 7% | 7% |

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.

The Company has not experienced significant difficulty in collecting its accounts receivable in the past and is has no reason to believe this will change in the near future.

NOTE 4 - PREPAID SALES INCENTIVES

On October 1, 2008, the Company offered the members of www.subaye.com a sales promotion whereby each member would receive 1,600 Digital Video Discs ("DVDs") from the Company if the member agreed to commit to the Company's current membership terms for being a member of www.subaye.com for the twelve month period ending September 30, 2009. The DVDs included a promotional advertisement for each member's business in the introduction section of the DVDs. The remaining programming on the DVDs consisted of the Big Movie: Subaye motion picture, which the Company's subsidiary 3G Dynasty holds the copyright to. The members of Subaye are expected to use the DVDs for their own promotional and marketing purposes. Additionally, if a current member does decide to cancel their membership with www.subaye.com, they have agreed to reimburse the Company for approximately two and a half times the cost of the DVDs, which is approximately $1,152 per member. A total of 16,000 members of www.subaye.com accepted the sales promotion and therefore have agreed to remain members of www.subaye.com for the twelve month period ending September 30, 2009. In December 2008 and January 2009, a total of 25,600,000 DVDs were delivered to the members of www.subaye.com. The Company is amortizing the total cost of the sales promotion, which was approximately $6.7 million, evenly over the twelve month period ending September 30, 2009, in accordance with Emerging Issues Task Force ("EITF") Issue No. 01-9. The unamortized portion of the sales incentive, approximately $5.1 million, is classified as prepaid sales incentives in the Company's balance sheets.

NOTE 5 - BUSINESS ACQUISITIONS

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 for 100,000 shares of Subaye.com’s common stock, valued at $200,000, which was the fair market value of recent arms length transactions involving the Subaye.com’s common stock, namely certain consulting contracts agreed to with third party service providers in October, 2007. The net assets received by the Company from the acquisition of MGI totaled $200,000. 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. Subaye.com 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 the Company's statement of operations since October 23, 2007. If the operating results had been included since the beginning of the current fiscal year, October 1, 2007, the Company's pro-forma consolidated revenue and the Company's pro-forma net income for the three months ended December 31, 2007 would have been $7,711,953 (unchanged) and $718,756, respectively.

NOTE 6 - SALE OF ASSETS

First Open

On December 30, 2007, the Company sold all rights under its copyright for the internet programming rights to First Open, a motion picture developed for the PRC entertainment market. 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.

The Company's plans are to continue to sell off assets it doesn't consider having immediate or significant future 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 in the consolidated statement of operations.

NOTE 7 - INTANGIBLE ASSETS

Intangible assets are stated at cost (estimated fair value upon contribution or acquisition), less accumulated amortization and impairment.

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

| | December 31, 2008 | September 30, 2008 |
|---|---|---|
| Copyrights - Motion Picture, Television, Internet and DVD Productions | $ 14,706,027 | $ 14,669,309 |
| Accumulated Amortization | (1,666,442) | (1,550,443) |
| Copyrights, net | $ 13,039,585 | $ 13,118,866 |

On October 15, 2007, the Company's subsidiary, 3G Dynasty, purchased a copyright for the internet rights for "Big Movie 2," a motion picture production developed by ZesTV, for $200,000.

On October 31, 2007, the Company's subsidiary, 3G Dynasty, purchased a copyright for 50% ownership of "YeLangQuan a/k/a Pye Dog," a motion picture production developed by ZesTV, for $750,000. This copyright was sold on June 21, 2008.

On April 25, 2008, the Company's subsidiary, 3G Dynasty, purchased a copyright for "Stockbrokers," a motion picture production developed by ZesTV, for $3,660,000. The terms of the copyright purchase agreement allowed for payment over a period of 180 days.

On May 27, 2008, the Company's subsidiary, 3G Dynasty, purchased a copyright for 50% ownership of "True?" a motion picture production developed by ZesTV, for $2,500,000. The terms of the copyright purchase agreement allowed for payment over a period of 180 days.

On September 10, 2008, the Company’s subsidiary, 3G Dynasty, purchased a copyright for 113 internet broadcasts for $2,630,000 (the "113 Movies"). The terms of the copyright purchase agreement allowed for payment over a period of 90 days.

The following table summarizes the copyrights held by the Company as of December 31, 2008, all of which are or will be PRC productions. All copyrights are wholly-owned by the Company unless noted otherwise.

| Copyrights for Movies, DVDs, Television and Internet Broadcasting |
| --- |
| Big Movie: Subaye * |
| Stockbrokers |
| PaoBu |
| True? ** |

15

*The copyright for “Big Movie: Subaye” includes only rights for DVDs.

** 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 copyright in December 2006, when the Company began to recognize revenue from the film. Amortization related to the movies was $115,388 and $0 for the three months ended December 31, 2008 and 2007, respectively, and is 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 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 re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of December 31, 2008 and September 30, 2008, respectively, the Company expects these assets, at their current carrying value, to be fully recoverable.

NOTE 8 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

| | December 31, 2008 | September 30, 2008 |
|---|---|---|
| Com Computer Software & Equipment | $ 14,490,952 | $ 14,467,374 |
| Websi Websites | 9,355,996 | 9,338,719 |
| Motor Vehicles | 84,223 | 84,012 |
| Furni Furniture & Fixtures | 63,794 | 56,205 |
| | 23,994,965 | 23,946,310 |
| Less: Accumulated Depreciation and Amortization | (15,230,456) | (13,644,708) |
| Total Property & Equipment | $ 8,764,509 | $ 10,301,602 |

NOTE 9 - 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. 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.

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Depreciation Included in Operating Expenses | $ 7,310 | $ 20,213 |
| Amortization of Copyrights Included Within Cost of Sales | 115,388 | - |
| Amortization of Websites Included Within Cost of Sales | 763,258 | 685,747 |
| Amortization of Software Included Within Cost of Sales | 784,145 | 314,370 |
| Total Depreciation and Amortization | $ 1,670,101 | $ 1,020,330 |

NOTE 10 - 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 December 31, 2008, no shares of the Company’s preferred stock and 163,364,316 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 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 three months ended December 31, 2008 and 2007 was $0 and $162,500, respectively.

On January 10, 2007, the Company issued 250,000 shares of common stock to Mary Kratka for investor relations services at 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $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 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 $18,750 each month. The stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $0 and $56,250, 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 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $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 price of $0.13 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $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 price of $0.13 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $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 price of $0.13 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $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 price of $0.57 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $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 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $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 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $26,031 and $0, respectively.

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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $42,500 and $0, 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 January 1, 2008 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $12,500 and $0, respectively.

On January 2, 2008, Subaye.com agreed to issue 450,000 shares of common stock to an investor relations consultant, for services to be provided over a 24 month period from January 2, 2008 through December 31, 2009 at 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $112,500 and $0, respectively.

On January 2, 2008, Subaye.com issued 50,000 shares of common stock to an executive, for services to be provided over a 24 month period at 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $12,500 and $0, respectively.

On January 2, 2008, Subaye.com issued 70,800 shares of common stock to an executive, for services to be provided over a 24 month period at 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $17,700 and $0, 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 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 stock-based compensation expense for the three months ended December 31, 2008 and 2007 was $19,605 and $0, respectively.

Total stock compensation expense reported was $311,090 and $363,869 for the three months ended December 31, 2008 and 2007, respectively.

NOTE 11 - TAXES

United States of America

Since the Company had no operations within the United States, there is no provision for United States taxes and there are no deferred tax amounts as of December 31, 2008 and 2007, respectively.

Delaware

The Company and its subsidiary, Subaye.com, are incorporated in Delaware but do 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 Tax 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, 2007 and 2006, respectively. The tax owed to Delaware for the fiscal year ended September 30, 2008 has not yet been calculated but is estimated to be less than $1,000.

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 years three months ended December 31, 2008 and 2007, respectively. The applicable Hong Kong statutory tax rate for the three months ended December 31, 2008 and 2007 was 17.5%.

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, namely Guangzhou Subaye and Panyu M&M, 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 December 31, 2008 and 2007 due to the fact that the Company was exempt from PRC tax based on the statutory provisions granting a tax holiday for a two year period, as stated above, for the first two years after the Company has a profit. The Company expects the tax exemption apply such that no tax will be owed for the years ended September 30, 2009 and 2008.

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" who 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 U.S. statutory rates to the Company's effective tax rate for the three months ended December 31, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|

| | | |
|---|---|---|
| U.S. Statutory rates | 35.0% | 35.0% |
| Foreign income | (35.0) | (35.0) |
| China tax rates | 25.0 | 33.0 |
| China income tax exemption | (25.0) | (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 12 - 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 balance sheets, respectively.

| | December 31, 2008 | September 30, 2008 |
|---|---|---|
| Minority interest in consolidated subsidiaries | $ 7,607,538 | $ 7,138,608 |

NOTE 13 - 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 December 31, 2009:

| Twelve Months Ended December 31, | |
|---|---|
| 2009 | $ 57,744 |
| 2010 | 57,744 |
| 2011 | 28,872 |
| | $ 144,360 |

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 $17,473 and $105,815 for the three months ended December 31, 2008 and 2007, 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 14 - SHORT TERM DEBT

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

| | December 31, 2008 | September 30, 2008 |
|---|---|---|
| 8.64% Bank Loan, Due September 18, 2009 | $ 1,021,272 | $ 1,021,138 |
| 7.92% Bank Loan, Due December 31, 2009 | 145,896 | - |
| Short Term Non-Interest Bearing Bank Advance | - | 22,286 |
| | | |
| Total Debt Obligations | 1,167,168 | 1,043,424 |
| Less: Current Maturities | 1,167,168 | 1,043,424 |
| Total Long-Term Debt | $ - | $ - |

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 RenMinBi). 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. As of December 31, 2008, 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 Renminbi). 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 RenMinBi).

Aggregate scheduled maturities of our debt obligations for each of the five twelve month periods subsequent to December 31, 2008, and thereafter are as follows:

| | |
|---|---|
| Twelve Months Ended December 31, | |
| 2009 | $ 1,167,168 |
| 2010 | - |
| 2011 | - |
| 2012 | - |
| 2013 | - |
| Subsequent to 2013 | - |
| Total scheduled debt payments | $ 1,167,168 |

20

NOTE 15 - OPERATING RISK

Credit risk

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

Foreign currency risk

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

Company's operations are substantially in foreign countries

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

NOTE 16 - SEGMENT REPORTING

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.

| Three Months Ended December 31, 2008 | Investments in Entertainment Arts Productions | Online Membership Services | Software Sales | Importing and Exporting of Goods | Media & Marketing Management | Consolidated Total |
|---|---|---|---|---|---|---|
| Net sales | $ 1,311,422 | $ 5,248,668 | $ 441,234 | $ 2,854,428 | - | $ 9,855,752 |
| Cost of sales | 254,201 | 2,307,482 | 784,145 | 2,793,516 | - | 6,139,344 |
| Segment income (loss) before minority interest | 951,155 | 2,368,746 | (366,934) | 5,816 | (14,623) | 2,944,160 |
| Segment assets | | | 6,102,736 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 15,456,423 | 16,283,188 | | 3,503,815 | 1,105,005 | 42,451,167 |
| Expenditures for segment assets | 4,797 | - | - | - | - | 4,797 |

| Three Months Ended December 31, 2007 | Investments in Entertainment Arts Productions | Online Membership Services | Software Sales | Importing and Exporting of Goods | Media & Marketing Management | Consolidated Total |
|---|---|---|---|---|---|---|
| Net sales | $ 1,323,962 | $ - | $ 1,722,279 | $ 4,364,812 | 300,900 | $ 7,711,953 |
| Cost of sales | 551,948 | 466,090 | 314,370 | 4,202,241 | 250,493 | 5,785,142 |
| Segment income (loss) before minority interest | 99,664 | (412,657) | 1,227,912 | 78,472 | 40,785 | 1,034,176 |
| Segment assets | 13,220,968 | 7,933,186 | 4,587,782 | 3,952,199 | 264,928 | 29,959,063 |
| Expenditures for segment assets | 914,810 | - | - | - | 200,000 | 1,114,810 |

NOTE 17 - SUBSEQUENT EVENTS

On January 6, 2009, the Company entered into a consulting agreement with Bloomen Limited (“Bloomen”) for sales and marketing services to be provided over a three year period.  In accordance with a consulting agreement, the Company agreed to issue Bloomen 8,000,000 shares of the Company’s common stock valued at $640,000.

On January 21, 2009, the Company entered into a letter of intent to acquire China IPTV Industry Park Holdings Limited (“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. The terms of the acquisition have not yet been finalized and agreed to. As of February 15, 2009 discussions with CIIP were continuing.

Effective as of February 5, 2009, Yulong Zhu resigned as a member of the Company's board of directors.

Effective as of February 5, 2009, the Company’s Board of Directors appointed He Yao to the Company's board of directors. From February 2006 to January 2009, Ms Yao was the business director of Nanfang Movie TV Studios Base. Before February 2006, Ms. Yao was the Chief Assistant of Shanghai Minolta Optical Technology Co., Ltd. Ms. Yao is a graduate of the Hubei Provincial Institute of Urban Construction.

NOTE 18 - 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 underSFAS 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 Condition 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 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 are for the three months ended December 31, 2008 and 2007, respectively. The Company's financial statements contained herein were audited for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The Company's accounting policies and certain other disclosures are set forth in the notes to the consolidated financial statements contained 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 | 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 December 31, 2008, 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.

| | Three Months Ended December 31, 2008 |
|---|---|
| Big Movie: Subaye | $ 369,321 |
| Big Movie 2 | 176,270 |
| The 11 Movies | 220,424 |
| The 113 Movies | 163,182 |
| | |
| Total | $ 929,197 |

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 has $548,316 in cash on deposit with ZesTV for the first right of refusal to buy ZesTV music, films and TV programming copyrights of online content. We expect this deposit to be fully utilized to purchase additional copyrighted material from ZesTV.

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 December 31, 2008, MYST held copyrights to 114 internet broadcasts.

Online Membership Services

We own a majority interest in our subsidiary, Subaye.com. 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 120% for the twelve months ended December 31, 2008. 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 January 31, 2009, Subaye.com had 36,169 members and the company's video database consisted of 75,685 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. Subaye.com also provides its users with easy access to an index of over 2.77 million video clips, images and web pages.

We launched the internet video services on our Subaye.com website and began generating revenues from corporate video uploading services in November, 2006. We have grown significantly since we commenced operations in October of 2006. We charge our members a monthly charge of approximately $100. The table below details our membership growth and the growth of corporate profiles of small to medium sized businesses, which make up the majority of our membership.

| | Subaye.com Members | | Subaye.com Company Profiles | |
|---|---|---|---|---|
| | As of the End of Month | Month Over Month Growth | As of the End of Month | Month Over Month 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)% |
| 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% |

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 End of Month | Month Over Month 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 | | 24% |

| | | |
|---|---|---|
| | 25,690 | |
| 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% |

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 has sold $1.6 million in "master franchise licenses" and $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 three months ended December 31, 2008, the Company had revenues of $441,234 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 December 31, 2008 and 2007 and provides information regarding the dollar and percentage increase or (decrease) from the current fiscal period to the prior fiscal period:

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(UNAUDITED)

| | December 31, 2008 (Unaudited) | December 31, 2007 (Unaudited) | $ Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| Net Revenues | $ 9,855,752 | $ 7,711,953 | $ 2,143,799 | 28% |
| Cost of Sales | 6,139,344 | 5,785,142 | 354,202 | 6% |
| Gross Profit | 3,716,408 | 1,926,811 | 1,789,597 | 93 % |
| Operating Expenses | 782,766 | 900,027 | (117,261) | (13)% |
| Income From Operations | 2,933,642 | 1,026,784 | 1,906,858 | 186% |
| Other Income | 12,311 | 8,443 | 3,868 | 46% |
| Income From Operations Before Income Taxes | 2,945,953 | 1,035,227 | 1,910,726 | 185% |
| Provision for Income Taxes | (1,793) | (1,051) | (742) | (71)% |
| Minority Interest in Income of Subsidiary | (470,614) | (263,615) | (206,999) | (79)% |
| Net Income | 2,473,546 | 770,561 | 1,702,985 | 221% |
| Other Comprehensive Income (Loss) | 18,742 | (26,355) | 45,097 | N/A |
| Comprehensive Income | 2,492,288 | 744,206 | 1,748,082 | 235% |
| | | | | |
| Earnings per Common Shares | | | | |
| - Basic | $ 0.02 | $ 0.01 | | |
| - Fully Diluted | $ 0.02 | $ 0.01 | | |
| | | | | |
| Weighted Average Common Share Outstanding | | | | |
| -Basic | 161,762,686 | 148,675,128 | | |
| - Fully Diluted | 161,762,686 | 148,675,128 | | |

Revenues increased by $2,143,799:

Revenues were $9,855,752 for the three months ended December 31, 2008 compared to $7,711,953 for the three months ended December 31, 2007. The increase of $2,143,799 is due primarily to the Company's growth in its online membership services business segment and a significant reduction in its importing and exporting business segment. For the three months ended December 31, 2008 and 2007, the Company recorded revenues of approximately $5.2 million and $0, respectively, for its online membership services business segment. The Company had approximately 36,000 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, the Company retains 60% of the actual revenues generated by the www.subaye.com website. China Netcom retains the remaining 40% of the revenues. The Company's www.subaye.com website did not record any membership-based revenues in the three months ended December 31, 2007. The Company had provided its members free access to the www.subaye.com website from July 1, 2007 through December 31, 2007. Revenue for the three months ended December 31, 2007 was generated from the one-time sale of IBS Version 5.0 software to the members of www.subaye.com, which was contracted with the merchant services provider the Company utilizes for the www.subaye.com website. For the three months ended December 31, 2008 and 2007, the Company recorded approximately $2.9 million and $4.4 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. 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 December 31, 2008, the Company generated approximately $929,000 from the viewing of internet broadcast movies and approximately $382,000 from the sale of end-user school licenses. During the three months ended December 31, 2007, the Company sold master franchise licenses for approximately $602,000, a copyright to a motion picture for approximately $281,000, and generated approximately $441,000 from the sale of end-user school licenses, respectively. During the three months ended December 31, 2008, the Company generated approximately $441,000 in SAAS software sales. During the three months ended December 31, 2007, the Company sold a one-time license to its IBS Version 5.0 software to a customer for approximately $1.7 million. During the three months ended December 31, 2008 and 2007, the Company's media and marketing management business segment generated $0 and $300,900 in sales, respectively.

Costs of Sales increased by $354,202:

Costs of sales were $6,139,344 for the three months ended December 31, 2008 compared to $5,785,142 for the three months ended December 31, 2007. The Company's investments in entertainment arts productions business segment had costs of sales of $254,201 for the three months ended December 31, 2008, which included $115,388 in amortization expense associated with the Company's copyrights and $138,813 in amortization expense associated with the Company's websites. During the three months ended December 31, 2007, costs of sales for the investments in entertainment arts productions included $332,291, which was the adjusted cost basis of copyrights sold and $219,657 in amortization expense for the Company's websites. During the three months ended December 31, 2008 and 2007, the costs of sales for the Company's online membership services business included $624,446 and $466,090 for amortization expenses associated with the Company's websites. Additionally, for the three months ended December 31, 2008 and 2007, costs of sales included $1,683,034 and $0 for sales incentives to the members of www.subaye.com, respectively. The Company's software sales business segment had costs of sales related to the amortization expense for computer software of $784,145 and $314,370 for the three months ended December 31, 2008 and 2007, respectively. The Company's media and marketing management business segment did not generate any revenues during the three months ended December 31, 2008. During the three months ended December 31, 2007, costs of sales for the media and marketing management business segment included $250,493 in production costs associated with completing advertising plans and ordering advertising on behalf of one customer. The costs of sales for the importing and exporting business segment were approximately $2.8 million and $4.2 million for the three months ended December 31, 2008 and 2007, respectively.

Operating expenses decreased by $117,261:

For the three months ended December 31, 2008, we incurred operating expenses of $782,766 as compared to $900,027 for the three months ended December 31, 2007. Stock-based compensation expense decreased $52,779 for the three months ended December 31, 2008 as compared to the three months ended December 31, 2007. During the three months ended December 31, 2008 and 2007 the Company reported a recovery of bad debts of $0 and $185,440, respectively. During the three months ended December 31, 2008 and 2007, the Company had salaries of $70,100 and $63,007, respectively. Selling, general and administrative expenses decreased $257,015 during the three months ended December 31, 2008 as compared to the three months ended December 31, 2008. The decrease in selling, general and administrative expenses was as a result of a decrease in advertising expense, which totaled $107,861 and $383,068 for the three months ended December 31, 2008 and 2007, respectively.

Other income increased by $3,868:

Other income was $12,311 for three months ended December 31, 2008 compared to $8,443 for the three months ended December 31, 2007. For the three months ended December 31, 2008 and 2007, the Company had other income, which included interest income, interest expense and other income earned through the importing and exporting business segment for non-operating activities, respectively.

Net income increased by $1,702,985:

The Company generated net income of $2,473,546 and $770,561 for the three months ended December 31, 2008 and 2007, respectively. The increase in net income is a result of successful decrease in operating costs and the substantial growth of the online membership services and investments in entertainment arts business segments.

Corporate tax

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes” (“SFAS 109”). SFAS 109 requires the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between the income tax basis and the financial reporting basis of assets and liabilities. Provisions for income taxes consist of taxes currently due plus deferred taxes.

In July 2006, the Financial Accounting Standard Board (“FASB”) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (“FIN 48”), which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a return. FIN 48 provides guidance on the measurement, recognition, classification and disclosure of tax positions, along with accounting for the related interest and penalties. FIN 48 became effective as of January 1, 2007 and had no impact on the Company’s consolidated financial statements.

The charge for taxation is based on the results for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probably that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated using tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it is related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they related to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

United States of America

Since the Company had no operations within the United States, there is no provision for United States taxes and there are no deferred tax amounts as of December 31, 2008 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 State corporate income tax. However, the Company does have to pay Franchise Taxes 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 has not filed its Franchise Tax Return for 2008 as of the date hereof, but anticipates its Franchise Tax owed to Delaware will be approximately $500 for the years ended September 30, 2009 and 2008, 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

MyStarU Ltd. and Media Group International 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 these subsidiaries incurred losses during the three months ended December 31, 2008 and 2007, respectively. The applicable Hong Kong statutory tax rate for the three months ended December 31, 2008 and 2007 is 17.5%.

People’s Republic of China

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”) are generally subject to an income tax at an effective rate of 25% 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 that are 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.

No provision for enterprise income tax in the PRC had been made for the three months ended December 31, 2008 and 2007 due to the fact that the Company is exempt from PRC tax based on the statutory provisions granting a tax holiday which expires on September 30, 2010.

On January 1, 2008, the new Enterprise Income Tax (“EIT”) law replaced the prior laws for Domestic Enterprises (“DES”) and FIEs. The key changes in the new law are:

a. The new standard EIT rate of 25% replaced the 33% rate that had been applicable to both DES and FIEs, except for High Tech companies who pay a reduced rate of 15%. The Company believes it qualifies as a “High Tech Company.”

b. Companies established before March 16, 2007 will continue to enjoy tax holiday treatment approved by local government for a grace period of five years or until the tax holiday term is completed, whichever is sooner.

The Company and its subsidiaries were all established before March 16, 2007 and are therefore qualified to continue enjoying the reduced tax rate as described above through the year ended September 30, 2010.

The following table reconciles the statutory rates to the Company’s effective tax rate for the three months ended December 31, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| U.S. Statutory rates | 35.0% | 35.0% |
| Foreign income | (35.0) | (35.0) |
| China tax rates | 25.0 | 33.0 |
| China income tax exemption | (25.0) | (33.0) |
| Effective income tax rates | 0.0% | 0.0% |

31

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.

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 December 31, 2008, we had a cash balance of $794,452, 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 three months ended December 31, 2008 was $405,173. In the future, we may use cash in our operations due to our continuing efforts to rapidly expand our operations.

Net cash used in investing activities for three months ended December 31, 2008 was $4,797. The Company invested $4,797 in furniture and fixtures for the Company's office space in Foshan City, China. Other than the proposed acquisition of China IPTV Industry Park Holdings Limited, the Company does not currently have any substantial plans for capital expenditures during the year ended September 30, 2009 but there is a possibility the Company will incur substantial capital expenditures if those expenditures are determined to be beneficial to the Company as it continues to expand operations.

Net cash provided by financing activities for the three months ended December 31, 2008 was $123,744. The Company's importing and exporting business segment received advances from a bank under a short term loan during the three months ended December 31, 2008.

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 4.  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, the Certifying Officers have concluded that our disclosure controls and procedures were not effective as of December 31, 2008 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.  There were no changes in our internal control over financial reporting during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

None.

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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 23, 2009 | By: | /s/ Alan R. Lun<br>Alan R. Lun<br>Chief Executive Officer and President<br>(Principal Executive Officer) |
| Date: February 23, 2009 | By: | /s/ James T. Crane<br>James T. Crane<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |