

**CM TEL (USA) LLC**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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To the Board of Directors  
CM TEL (USA) LLC  
LOS ANGELES, CA

We have reviewed the accompanying balance sheet of CM Tel (USA) LLC as of December 31, 2008, and the related statement of income and cash flows for the nine months ended December 31, 2008, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of CM Tel (USA) LLC.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying schedule of operating expenses is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made to it.

V Trust Accounting and Tax Services

*V Trust Accounting & Tax Services*

July 16, 2009

CM TEL (USA) LLC  
Balance Sheet  
As of December 31, 2008

ASSETS

Current assets:

Cash	\$	189,481
Accounts receivable (less allowance of \$1,248,298)		1,911,622
Due from related parties		2,732,902
Prepaid expenses		45,999
Prepaid income taxes		594,986
Security deposit		234,366
Total current assets		<u>5,709,356</u>

Machinery and equipment:

Cost		5,346,610
Less: accumulated depreciation		<u>(5,004,731)</u>
Total machinery and equipment		341,879

Total assets	\$	<u><u>6,051,235</u></u>
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LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities:

Accounts payable	\$	4,463,858
Other payables and accrued expenses		163,169
Deferred revenue		<u>909,516</u>
Total current liabilities		5,536,543

Stockholder's equity:

Share capital		10,000
Retained earnings		<u>504,692</u>
Total stockholder's equity		514,692

Total liabilities and stockholder's equity	\$	<u><u>6,051,235</u></u>
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CM TEL (USA) LLC  
Statement of Income and Retained Earnings  
For the Nine Months Ended December 31, 2008

	Amount	Percentage of Sales
Net sales	\$ 19,084,924	100%
Cost of sales	16,873,903	88%
Gross profit	2,211,021	12%
Operating expenses	2,162,028	11%
Net operating income	48,993	0.3%
Other expenses	(26,965)	-0.1%
Income before income taxes	22,028	0.1%
Income taxes	-	0%
Net income	22,028	0.1%
Retained earnings:		
Beginning balance at April 1, 2008	482,664	
End balance at December 31, 2008	\$ 504,692	

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CM TEL (USA) LLC  
Statement of Cash Flows  
For the Nine Months Ended December 31, 2008

CASH FLOW FROM OPERATING ACTIVITIES:

Net Income	\$	22,028
Adjustments to reconcile net income to net cash used in operations:		
Depreciation		127,653
Change in accounts receivable		286,843
Change in due from related parties		(2,679,625)
Change in prepaid expenses		6,224
Change in prepaid income taxes		(19,248)
Change in security deposit		(120,060)
Change in accounts payable		2,297,213
Change in other payables and accrued expenses		79,018
Change in deferred revenue		(68,461)
		<u>(68,415)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of fixed assets		<u>(60,951)</u>
Decrease in cash and cash equivalents		(129,366)
Cash and cash equivalents:		
Beginning balance at April 1, 2008		<u>318,847</u>
Ending balance at December 31, 2008	\$	<u><u>189,481</u></u>

SUPPLEMENTAL DISCLOSURES:

Cash paid during the period for:

Income tax payments	\$	<u>673,782</u>
Interest payments	\$	<u><u>-</u></u>

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NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

CM Tel (USA) LLC (the Company) is engaged in wholesale distribution and routing of international long-distance capacity on calling from US to foreign countries; and marketing and selling international long-distance calling cards and PINs.

In 2008, the Company has changed its tax year-end from March 31 to December 31. Accordingly, the income statement presented is for the nine months ended December 31, 2008.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Trade Accounts Receivable

Trade accounts receivable is recorded net of an allowance for expected losses. The allowance is estimated from historical performance and projections of trends.

The Company provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. It maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other

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information. Credit losses, when realized, have been within the range of the Company's expectations. As of December 31, 2008, Allowance for bad debt is \$1,248,298.

Depreciation

The Company's telecommunicating and office equipment and software is depreciated using the straight-line method. During the nine months ended December 31, 2008, the depreciation expense was \$127,653.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of property and equipment, and allowance for doubtful accounts for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future federal income taxes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

NOTE B — RELATED PARTY TRANSACTIONS

As of December 31, 2008, 49% of the Company was owned by Pacific Networks Corp (Pacific Networks) and 51% of the Company was owned by ChinaMotion NetCom Holdings Limited (ChinaMotion NetCom), both Pacific Networks and ChinaMotion NetCom were the subsidiaries of CITIC 1616 Holdings Limited. Total receivables due from the related parties that were owned by the same parent were \$2,732,902, the receivables due from the related parties was arising from the net of sales and purchase from the related parties.

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NOTE C — MACHINERY AND EQUIPMENT

Machinery and equipment consist of the following:

	December 31, 2008
Furniture and fixtures	\$ 24,481
Software	228,033
Computer equipment	251,487
Telecommunication equipment	4,842,609
Accumulated depreciation	<u>(5,004,731)</u>
	<u>\$ 341,879</u>

NOTE D – SECURITY DEPOSIT

As of December 31, 2008, the Company paid \$234,366 security deposit for leasing the fiber optical communication lines.

NOTE E – DEFERRED REVENUE

Deferred revenue mainly arises from the delivery of prepaid phone cards to the wholesalers or end users or payment received but the phone cards have not yet been sold by the wholesalers or



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activated by the end users. At December 31, 2008, the Company had deferred revenue of \$909,516, of which, \$887,488 was for the prepaid phone cards.

NOTE F — DESCRIPTION OF LEASING ARRANGEMENTS

The Company leases its office facility, equipment rooms and fiber optical communication lines under various operating leases. Some of the leases are month to month while some of the leases are under various one year noncancelable contracts except the office lease which is under two and half years noncancelable lease contract with expiration date on December 31, 2009.

The following is a schedule of future minimum lease payments required under the leases:

2009	\$ 648,044
2010	<u>99,512</u>
	\$ 747,556
	<u><u>          </u></u>

NOTE G – DEFERRED TAX ASSET

Deferred tax asset represented differences between the tax bases and book bases of property and equipment, allowance for doubtful accounts, and net operating loss that can be used to offset future federal income taxes. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized.

At December 31, 2008, deferred tax asset consisted of the following:

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	2008
Property and equipment	<u>\$ 250,148</u>
Allowance for doubtful accounts	396,165
Net operating loss	55,925
Less: valuation allowance	<u>(702,238)</u>
	<u>\$ 0</u>

NOTE H — INCOME TAXES

The provision (benefit) for income taxes for the nine months ended December 31, 2008 consists of the following components:

	2008
Current	<u>\$ 0</u>
Deferred	(15,626)
Valuation allowance	<u>15,626</u>
	<u>\$ 0</u>

The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes because certain tax deduction exceeded book expenses.

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The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. There was no impact to the Company's financial statements as a result of the implementation of FIN 48.

NOTE I — SUBSEQUENT EVENT

Effective July 1, 2009, the Company changed its business name to COMNET (USA) LLC.

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**Supplementary Information**

CM TEL (USA) LLC

SCHEDULE OF OPERATING EXPENSES

For the Nine Months Ended December 31, 2008

Agency fee	\$ 5,974
Automobile Expense	26,772
Bad Debt	47,105
Contract Labor	61,035
Dealer's Commission	79,889
Depreciation	127,653
Entertainment and Meals	35,106
Insurance	66,506
Job Posting	4,265
Lease Expense - Motor Vehicle	4,941
Licenses and Permits	20,514
Miscellaneous	11,625
Postage and Delivery	4,770
Printing and Reproduction	18,197
Professional Fees	69,416
Rent	84,483
Repairs and Maintenance	48,542

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Show Expense	2,049
Staffing Expense	728,797
Supplies	11,157
Taxes	618,888
Telephone	18,530
Travel	43,736
Utilities	<u>22,078</u>
<b>Total Operating Expenses</b>	<b><u>\$2,162,028</u></b>