CITY NETWORK INC
Form 10KSB
April 17, 2006

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

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

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

Commission File Number: 333-61286

CITY NETWORK, INC.
(Exact name of small business issuer as specified in its charter)

Nevada	88-0467944
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6F-3, No. 16, Jian Ba Road, Jhonghe City
Taipei County 235, Taiwan, ROC N/A
(Address of principal executive offices) (Zip Code)

Issuer's Telephone Number: 011-886-2-8226-5566

Securities Registered Under Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
$0.001 Common Stock	American Stock Exchange

Securities Registered Under Section 12(g) of the Act:

None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer (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 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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-KSB or any amendment to this Form 10-KSB. [X]

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

The issuer's revenues for the year ended December 31, 2005: $14,320,409.

As of March 31, 2006, there were 32,967,183 shares of the registrant's common stock, $0.001 par value, outstanding. The aggregate market value of the common stock held by non-affiliates of the issuer was approximately $5,934,093 based on the closing price of $0.18 per share on March 31, 2006, as reported by the American Stock Exchange.

Documents incorporated by reference: None

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

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FACTORS THAT MAY AFFECT FUTURE RESULTS

Certain statements in this annual report on Form 10-KSB are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about the plans, objectives, expectations and intentions of City Network, Inc., a Nevada corporation, and other statements contained in this annual report that are not historical facts. Forward-looking statements in this annual report or hereafter included in other publicly available documents filed with the Securities and Exchange Commission (the "SEC"), reports to our stockholders and other publicly available statements issued or released by us involve known and unknown risks, uncertainties and other factors which could cause our actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Such future results are based upon management's best estimates based upon current conditions and the most recent results of operations. When used in this annual report, the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions are generally intended to identify forward-looking statements, because these forward-looking statements involve risks and uncertainties. There are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Risk Factors."

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

OUR COMPANY

City Network, Inc. ("City Network," "we," "our" or "us") was incorporated in 1996 and develops hardware and software (total solution) for broadband communication solutions. We provide Internet broadband communication and wireless infrastructure equipment and services for the rapidly expanding broadband marketplace. We are dedicated to delivering the most user-friendly, cost-effective, and customer-tailored, high-speed Internet broadband and communication access equipment to meet the growing business needs of the International Telecoms, ISP, SI and to a lesser degree the hospitality, residential property, telecommunication and Small and Medium Enterprise marketplace to solve the "last mile" problems worldwide. We also created the Hotspot solution and the NGL (Next Generation Loops) solution, both of which help companies extend their business to the carrier's solution to meet people's communication inquires.

OUR HISTORY

Our company was incorporated on August 8, 1996 as Investment Agents, Inc. under the laws of the State of Nevada. City Network Technology, Inc. (formerly Gelcrest Investments Limited, "CNT") was incorporated under the laws of the British Virgin Islands on March 1, 2002. On November 14, 2002, CNT became a wholly owned subsidiary of our company through an Exchange Agreement, dated November 14, 2002 and amended on December 11, 2002, whereby our company acquired all of the issued and outstanding capital stock of CNT in exchange for 12,000,000 shares of common stock of our company, which represented 49% of our issued and outstanding stock at that time. In connection with the exchange and change in control, the name of our company was changed from Investment Agents, Inc. to City Network, Inc., the officers and directors of City Network resigned and new officers and directors were appointed. Upon the effective date of the exchange and change in control, our company ceased its relationship with the company for whom we previously acted as referral agent, which was our business prior the exchange and change in control.

CNT owns all of the issued and outstanding common stock of City Network Inc. - Taiwan, formerly City Engineering, Inc., which was incorporated under the laws of the Republic of China on September 6, 1994 ("CNT-Taiwan"). CNT-Taiwan owns all of the issued and outstanding common stock of City Construction, which was incorporated under the laws of the Republic of China on October 10, 2003.

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OUR BUSINESS

We design, manufacture and market a comprehensive line of broadband communication and wireless Internet access solutions. Our product line ranges from our Home PNA device for the residential building and hospitality market to the simple DSL bridge/modem for the home and small business user. All of our broadband access equipment includes GUI-based remote management and routing technology software packages for simplified setup, extensive network management and global network connectivity capabilities. Currently, our Home PNA and xDSL broadband access equipment is deployed by major telecommunication carriers, ISPs, and system integrators worldwide. With the development and production of our complete series of Internet products, we believe we are able to provide a "total solution" for any customers' needs. Our motto is "Establish the Broadband

Highway, Innovate A Bright New Life."

In 2005, we began the development of our construction business. We plan to develop and build commercial, industrial and residential buildings. We have entered into co-construction agreements for the development of land in Keelung, Taiwan and the purchase of materials and equipment related to the construction of a commercial building in Vietnam.

PRODUCT AREAS

Our product packages contain items compatible with all major distribution platforms designed to provide clients with a one-stop shop for all their broadband Internet needs.

LCD PANEL

In 2004, we began the sales of LCD panels. Since the beginning of 2005, we have sold large volumes of 15 inch, 17 inch and 19 inch panels. Our major customers for our LCD panels are companies in Taiwan.

WIRELESS COMMUNICATION PRODUCTS

With the development of our IEEE802.11 WiFi and IEEE802.lx (authentication) wireless solutions, our wireless networking products allow computers and appliances to communicate through radio signals, providing added mobility and convenience. Furthermore, customers can enjoy the stability and security of our LAN products. All wireless solutions are equipped with a user verification function to maximize security and reduce outside interference.

We were one of the first companies in Taiwan to develop wireless products with IEEE802.1x in May 2002. Together with Easy-Up Corporation, we have provided solutions to Korea Life Insurance in connection with their 1600 Enterprise Hotspot Project and established Taiwan McDonald's 365 stores Hotspot solution and the Mobile Taiwan project. We also extended our Wireless Hotspot solution business with China Putian. We also furnish mobile handsets, including GSM/GPRS, CEDMA/CDMA 2000 1x mobile handsets.

* Wireless broadband eliminates the need for phone lines, cables and electrical outlets.

* Supports bandwidth-intensive applications such as graphic rich media, animation, Internet phone calls and video conferencing (without breaking up), sending and receiving of large email messages or files, online banking, investing or online shopping. Our total solution of wireless access devices allow users to access their LAN or VPN, as if the remote office was connected directly to our backbone network. It also lets business customers raise the level of worker productivity and allow companies to offer highly efficient work-at-home programs to their employees.

* Using authentication and verification technology, we are able to ensure the security of a wireless network.

* Our Public Hotspot Wireless Solution (PWLAN) has what we believe to be a good security function. We have already established successful projects in Korea and Taiwan.

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* Our wireless products are not only for indoor use, but also for outdoor use, to establish Hot-Zone services, a technology for wireless

Internet access. They feature special functions needed for such products, such as security protections, load balance for avoiding network bottlenecks and repeat functions for transmit data without missing parts.

VOIP

In September 2004, we launched a wireless voice over Internet protocol, or VoIP, product. There are two models available for the market. One provides one VoIP and one public switched telephone network, or PSTN port, and the other model provides two VoIP and two PSTN ports. Both of them have two DECT (digital enhanced cordless telecommunications) Base Stations, and can be registered up to sixteen DECT phones set. Users can choose H.323 or SIP mode, which is easy to add on to the environment where co-existence with old VoIP equipment is needed.

In addition to building up a value-added network environment, in 2002, we aligned with Easy-Up Corporation, one of Taiwan's largest IP wireless phone service providers, to provide low cost VoIP service to end users. By connecting to the partner's network, a user is able to save on its phone bill on GSM cellular phone calls and international calls to China, other areas of Asia, the United States and Canada. This cooperation with Easy-Up Corporation to provide VoIP services in Taiwan has been completed. Our VoIP products were tested at the VoIP service provider's site, and we believe we are in a position to sell the IP phone ISP total solution to the Malaysia, Indonesia and Philippines markets.

In March 2006, our registration for a license to provide VoIP services in Taiwan was completed.

ADSL/VDSL ACCESS DEVICES

Our ADSL/VDSL devices provide broadband access based on leading Internet technologies. The ADSL 2+ and 20Mbps VDSL over Ethernet equipment allow both developing businesses as well as home users to meet their media and communication needs quickly and cost-effectively. They can also provide high speed Internet access without diminishing quality over a larger distance for a cost-effective and efficient method of broadband access. We believe that the low level of maintenance required for this device, coupled with the high level of connectivity should enable us to meet market demands for many years into the future.

HPNA ACCESS DEVICES

HPNA is a broadband network access system based on the HomePNA technology originally invented in the United States. This system can provide 1M/10Mbps broadband data access through existing telephone lines. This technology allows both voice and data to be shared by the same telephone line. Furthermore, our HPNA technology extends Internet transmission distance, allows for multiple single-line users (up to 25), and is compatible with cable, fiber, wireless and xDSL. Combined with our ADSL and VDSL access devices, HomePNA is a great solution to "the last mile problem." We believe that the quality and affordability makes the product ideal for residences, schools, cafes and hotel resorts.

FIBER AND OTHER IMPORTANT ACCESS EQUIPMENT

FTTB (Fiber to the Building) and FTTH (Fiber to the Home) optical fiber installed directly into a home or office was a new growth market for us. To meet our customer's needs, we began outsourcing the Fiber solutions in 2003, and have created our own Fiber products since 2004. We have already shipped these solutions to customers in Korea, Malaysia and Indonesia.

With our access equipment, bandwidth can be distributed efficiently to multiple end users. For developing countries such as China, our solution of integrating wireless with existing telephone lines or cable is often much more attractive than building new infrastructure. From routers and hubs, to PCMCIA cards and USB adapters, we provide customers with a wide range of networking products to meet all customer needs.

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GPS MODULE

The Global Positioning System, or GPS, solution was another new market for us in 2004. In the summer of 2004, we received an official purchase order of GPS modules of approximately 50,000 units, from JuYoung Electronics. In December 2004, we shipped, for a separate order, 65,000 advanced, high performance GPS modules and wireless blue tooth receiver units to JuYoung Electronics. In mid-2005, our sales to JuYoung Electronics diminished, and we are currently searching for other opportunities to outsource our GPS solution.

RECENT DEVELOPMENTS

Our subsidiary, City Construction, has been planning a new construction project in Keelong City, Taiwan since the end of 2004. We entered into a contract in the first quarter of 2005 for construction of a 581 square meter residential building. Upon completion, we will have a 60% interest, and the landowner will have a 40% interest, in the building. We anticipate that this project will generate sales of $3 to $4 million once completed. We have agreed to make refundable deposits, as security, payable at various agreed upon phases of the construction. The deposits will be returned within two years after the construction is completed. As of December 31, 2005, we have paid $91,320 as part of the refundable security deposit and $418,105 in construction costs as construction is in progress. At March 2006, two floors of this ten floor building have been completed, and we anticipate completion of the building project at the end of 2006. We have found buyers for units on six floors of the building and have received approximately $151,515 as deposit for the units. If the building project is not completed by February 2007, we will be in default under the agreement with the landowners. This project is subject to risks involving the cost of construction materials over the course of its construction and our ability to sell this project to customers, as well as changes in the political and overall economic conditions of Taiwan, which are outside the control of management. We cannot assure you that adverse changes in these factors will not occur or, if they occur, that they will not have a material adverse effect on our business, operating results and financial condition.

In April 2004, City Construction placed a refundable performance bond in the amount of $231,344 with a court in Taiwan for the rights to complete an unfinished building in Keelung, Taiwan with the owners of the land. We are currently in discussion with the landowners regarding the terms of the project.

In July 2005, we entered into a contract with a company in Vietnam. Per the terms of this contract, we have agreed to procure materials and equipment related to the construction of a commercial building in Hanoi, Vietnam. In July 2005, we entered into a contract with a company in Samoa to purchase the materials and equipment related to the contract entered into with the Vietnamese company. The total purchases will be approximately $3,000,000. As of December 31, 2005, we received an advance of $3,000,000 on the contract with the Vietnamese company and are using these funds to purchase the agreed upon materials. We have advanced approximately $2,740,000 to the Samoan vendor as of December 31, 2005.

CUSTOMERS

We develop market and focus our sales efforts to broadband and wireless

Internet services providers that provide wireless solutions such as Phoneline solution, HomePNA, xDSL, Ethernet solution, fiber solution and wireless solutions. We also focus our sales efforts on the service provider and systems integrator for WLAN systems and to system integrators for private broadband systems.

We believe that we provide the best service to our existing customers and partners such as Korea Telecom, China Telecom, Malaysia Telecom, and those located in Finland, Japan, other areas of Asia and Africa. We do our best to expand our business with our existing customers and to develop new partners and customers through the quality of our product solutions and service and cost.

SERVICE PROVIDERS AND ENTERPRISE CUSTOMERS

Our customers include a cross-section of small, medium and large telecommunications companies in the United States, Asia, Europe and Africa. We have established business relationships with companies such as Korea Telecom, OCC Communications in Japan and nSTREAMS in the United States as well as with

other companies in Mainland China, Finland, Malaysia, Singapore, South Africa, Indonesia and the Philippines, of which Singapore uses our HomePNA solution and launched HomePNA Internet services on its network. Korea Life Insurance ("KLI") has contracted with us to establish over 1,600 branches of WLAN Internet service for KLI in Korea. In addition, through purchase orders from Easy-Up Corporation, we supplied and set up approximately 360 McDonald's restaurants in Taiwan with WLAN services.

SYSTEM INTEGRATORS

We market our private broadband data systems to domestic and international system integrators who in turn market and sell our products to educational and government institutions, small to large commercial enterprises, and to regional competitive service providers and national carriers. Our system integrators range from small local companies to volume distributors such as Easy-Up Corporation, to country-specific integrators such as Terton Communications in Finland, and to international integrators such as KWON C&C Ltd. in Korea and China Telecom in China.

MARKETING AND SALES

MARKETING

We seek to increase demand for our products and to expand both the visibility of our company and our products in the market. In addition to customer-specific sales efforts, our marketing activities include attendance at major industry tradeshows and conferences, the distribution of sales and product literature, operation of a web site, direct marketing and ongoing communications with our customers, the press, and industry analysts. As appropriate, we enter into cooperative marketing and/or development agreements with strategic partners that may include key customers, application manufacturers, fiber, or video equipment manufacturers, set-top box manufacturers, and others.

SALES

We sell our products through multiple sales channels in overseas markets, including regional value added resellers, system integrators and distributors, data networking catalogs and directly to service providers. Internationally, we sell and market our products through sales agents, systems integrators and distributors. We now have a sales presence in China. For the fiscal year ended December 31, 2005, we derived approximately 99% of our revenue from customers outside of the United States. We believe that our products can serve a substantial market for digital and high-speed data access products outside of the United States.

RESEARCH AND DEVELOPMENT

Our research and development efforts are focused on enhancing our existing products and developing new products through our emphasis on early stage system engineering. The product development process begins with a comprehensive functional product specification based on input from the sales and marketing organizations. We incorporate feedback from end users and distribution channels, and through participation in industry events, industry organizations and standards development bodies, such as the FS-VDSL Committee and MPEG-4 Industry Forum. Key elements of our research and development strategy include:

* CORE DESIGNS. We seek to develop and/or acquire core designs that allow for cost-effective deployment and flexible upgrades that meet the needs of multiple markets and applications. These designs place emphasis on the following characteristics of our products: user friendly, high performance, robustness, standardization, and value adding.

* PRODUCT LINE EXTENSIONS. We seek to extend our existing product lines through product modifications and updating chipsets to provide for greater bandwidth in order to meet the needs of particular customers and markets. Products resulting from our product line extension efforts include the Phoneline solution, HomeHPNA, xDSL and Fiber solution. We also focus on updating the Wireless solution to the new generation including WIRELESS IEEE802.11G, a worldwide specification/standard.

* MINIMIZE COST OF GOODS. Our design philosophy emphasizes the use of industry standard hardware and software components whenever possible to reduce time to market, decrease the cost of goods and reduce the risks inherent in new design. In order to maintain low costs of our services, we established a Components Sales Department whose main goals are to process our current customer's business and to seek out secondary sources of components and spare product parts in order to continually lower the cost of manufacturing and assembly.

* NEW TECHNOLOGIES. We seek to enhance our product lines by incorporating emerging technologies, such as IEEE802.1x Security, higher speed interfaces and new network management software features. Our wireless solution with IEEE802.1x Security was the first ever such solution used in the wireless channel in Taiwan. We are now in the process of developing the 54M , 4-Band VDSL systems.

We have joined forces with a local Taiwanese university in an effort to encourage rapid product growth and to facilitate the continuous training of future technical personnel. We have established an educational and development center at Tamkang University in Taiwan, the primary focus of which is on the technology and information industry. We believe that the establishment of this type of partnership will have a profound effect on our product competitiveness and marketing ability in the long term. In 2005, our educational and development center at Tamkang University in Taiwan began to develop a surveillance system and Internet connectivity technology, for which application may be the use of the surveillance system on roads in Taiwan to capture video footage of traffic violations and connect to a database.

We are responsible for providing funding for expenses such as salary and stipends for the staff of our educational and development center at Tamkang Univeristy, as well as other general expenditures. Expenditures for research and development in the year ended December 31, 2005 totaled $3,500 compared to $12,000 in the ten months ended December 31, 2004. The reason for the reduction in these expenditures is due to a decrease in sales of products and that we have not begun to sell the currently researched products.

MANUFACTURING

We do not manufacture any of our own products. We rely on contract manufacturers to assemble, test and package our products. We require International Organization for Standardization (ISO) 9002 registration for these contract manufacturers as a condition of qualification. We monitor each contractor's manufacturing process performance through audits, testing and inspections.

We currently purchase a substantial portion of the raw materials and components used in our products through contract manufacturers. We forecast our product requirements to maintain sufficient product inventory to ensure that we can meet the required delivery times demanded by our customers. Our future success will depend in significant part on our ability to obtain manufacturing on time, at low costs and in sufficient quantities to meet demand.

The manufacturers' warranty for each of our products is between one to three years. Typically we offer the same warranty on these products to our customers but for a shorter time period, generally 12 to 18 months. Depending on the situation, we can extend the warranty period enhancing the quality of service and strengthening relationships with our customers.

INTELLECTUAL PROPERTY

We consider our trademarks and similar IP important to our business.

EMPLOYEES

As of December 31, 2005, we had a total of 58 employees. Of these, 10 are in administration, 5 are in finance, 8 are in research and development, 6 are in software research and development, 10 are in international partner cooperation and 19 are in sales and marketing. None of our employees are covered by any collective bargaining agreement. We generally consider our relationship with our employees to be satisfactory and have never experienced a work stoppage.

REGULATIONS

We have not been materially impacted by existing government regulation and are not aware of any potential government regulation that would materially affect our operations.

RISK FACTORS

RISKS ASSOCIATED WITH OUR BUSINESS

Our auditors' opinion on our 2005 financial statements includes a "going concern" qualification. We have suffered recurring losses from operations, cash deficiencies and the inability to meet our maturing obligations without borrowing from related parties and restructuring debts. These issues may raise substantial concern about our ability to continue as a going concern. We are currently engaged in discussions with a number of companies regarding strategic acquisitions or potential financings. Although these discussions are ongoing, there can be no assurance that any of these discussions will result in actual acquisitions or a completed financing for us.

WE HAVE A LIMITED OPERATING HISTORY

We have a limited operating history upon which potential investors may base an evaluation of its prospects and there can be no assurance that we will achieve our objectives. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies in a rapidly evolving market such as the market for Internet broadband and wireless infrastructure equipment and services. Such risks include, but are not limited to: our ability to obtain and retain customers and attract a significant number of new customers, the growth of the satellite, wireless, broadband and Internet markets, our ability to implement our growth strategy, especially the sales and marketing efforts, intense competition from providers of broadband products, services and the telecommunication industry in general, and other risks associated with financing, liquidity requirements, rapidly changing customer requirements and the volatility of the public markets.

WE HAVE A HISTORY OF LOSSES AND ANTICIPATE FUTURE LOSSES AND MAY NEVER BECOME PROFITABLE.

We have never operated at a profit. We cannot predict whether our current or prospective business activities will ever be profitable. If we do not generate enough revenue to be profitable, our business might have to be discontinued, in which case, investors would lose all or most of their investment in us.

WE MAY INCREASE OUR INDEBTEDNESS TO FUND OUR OPERATIONS AND INVESTMENT OBJECTIVES, WHICH COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION.

To maintain our operations, we may need to raise additional funds through public or private financing, including taking on additional indebtedness. We cannot assure you that we will incur indebtedness on commercially reasonable terms or at all. Additional indebtedness may make us more vulnerable to general adverse economic and industry conditions; require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, future investments, capital expenditures and other general corporate purposes; limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; place us at a competitive disadvantage compared to our competitors that have less debt; and limit our ability to borrow additional funds.

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WE MAY FAIL TO KEEP PACE WITH RAPIDLY CHANGING TECHNOLOGIES

The market segments we are targeting are characterized by rapidly changing technology, evolving industry standards and frequent new product and service introductions. These factors require management to continually improve the performance, features and reliability of the array of our products. Management may not successfully respond quickly enough or on a cost-effective basis to these developments. We may not achieve widespread acceptance of our services before our competitors offer products and services with speed, performance, features and quality similar to or better than our products or that are more cost-effective than our services, resulting in a decrease in our ability to compete in the market.

WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY

The market for Internet broadband and wireless infrastructure equipment and services is rapidly evolving and highly competitive. Many of our competitors and potential competitors have substantially greater financial, technical, managerial and marketing resources, longer operating histories, greater name recognition and more established relationships than us. Since our business is partially dependent on the overall success of the Internet as a communication medium, it also competes with traditional hardware based access and equipment providers. Management expects competition from these and other types of competitors to increase significantly.

LOSS OF KEY PERSONNEL COULD HARM OUR BUSINESS

Given the early stage of development of our business, we depend highly on the performance and efforts of our Chief Executive Officer and Chairman, Mr. Tiao-Tsan "Andy" Lai, staff and our board of directors. If we should lose the service of any members of our management team or other key personnel, our business, operating results and financial condition may be materially impacted.

RISKS ASSOCIATED WITH OUR CONSTRUCTION BUSINESS

FACTORS OF NATURE MAY ADVERSELY AFFECT OUR CONSTRUCTION BUSINESS.

Typhoons and earthquakes in Taiwan may increase the time necessary to complete our construction projects and, in turn, increase the costs to complete such projects.

INCREASES IN THE COST OF MATERIALS MAY ADVERSELY AFFECT OUR CONSTRUCTION BUSINESS.

The increase in the costs of construction materials will increase the costs to complete our construction projects.

AN UNSTABLE POLITICAL RELATIONSHIP BETWEEN MAINLAND CHINA AND TAIWAN MAY ADVERSELY AFFECT OUR CONSTRUCTION BUSINESS.

Because of the special nature of the political relationship between Mainland China and Taiwan, if the political relationship between Mainland China and Taiwan becomes unstable, the value and demand by customers of real estate in Taiwan may decrease. Conversely, if the political relationship between Mainland China and Taiwan remains stable, the value of real estate and demand by customers may continue to increase.

RISKS ASSOCIATED WITH DOING BUSINESS IN ASIA

There are substantial risks associated with our Asian operations. The establishment and expansion of international operations requires significant management attention and resources. All of our current and anticipated future revenues are derived from Asia. Our international operations are subject to additional risks, including the following, which, if not planned and managed properly, could have a material adverse effect on our business, financial condition and operating results:

* language barriers and other difficulties in staffing and managing foreign operations;

* legal uncertainties or unanticipated changes regarding regulatory requirements, liability, export and import restrictions, tariffs and other trade barriers;

* longer customer payment cycles and greater difficulties in collecting accounts receivable;

* uncertainties of laws and enforcement relating to the protection of intellectual property;

* seasonal reductions in business activity; and

* potentially uncertain or adverse tax consequences.

In addition, changes in the political and overall economic conditions of the Asian region, which are outside the control of management, could have a material adverse effect on our business, operating results and financial condition.

FLUCTUATIONS IN THE VALUE OF THE TAIWANESE CURRENCY RELATIVE TO FOREIGN CURRENCIES COULD AFFECT OUR OPERATING RESULTS.

We have historically conducted transactions with customers, paid payroll and other costs of operations in the Taiwanese national currency, the New Taiwan Dollar. To the extent our future revenue may be denominated in foreign currencies, we would be subject to increased risks relating to foreign currency exchange rate fluctuations which could have a material adverse affect on our financial condition and operating results. To date, we have not engaged in any hedging transactions in connection with our international operations.

FAILURE TO COMPLY WITH THE UNITED STATES FOREIGN CORRUPT PRACTICES ACT COULD ADVERSELY IMPACT OUR COMPETITIVE POSITION AND SUBJECT US TO PENALTIES AND OTHER ADVERSE CONSEQUENCES.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time to time in the non-U.S. countries in which we conduct business. We have attempted to implement safeguards to prevent and discourage such practices by our employees and agents. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

RISKS ASSOCIATED WITH INVESTING IN OUR COMMON STOCK

EFFORTS TO COMPLY WITH RECENTLY ENACTED CHANGES IN SECURITIES LAWS AND REGULATIONS WILL INCREASE OUR COSTS AND REQUIRE ADDITIONAL MANAGEMENT RESOURCES, AND WE STILL MAY FAIL TO COMPLY.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-K. In addition, the public accounting firm auditing the company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. This requirement will first apply to our annual report on Form 10-KSB for our fiscal year ending December 31, 2006. If we are unable to conclude that we have effective internal controls over financial reporting or if our independent auditors are unable to provide us with an unqualified report as to the effectiveness of our internal controls over financial reporting as of December 31, 2006 and future year ends as required by Section 404 of the Sarbanes-Oxley Act of 2002, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our securities. We have not yet begun a formal process to evaluate our internal controls over financial reporting. Given the status of our efforts, coupled with the fact that guidance from regulatory authorities in the area of internal controls continues to evolve, substantial uncertainty exists regarding our ability to comply by applicable deadlines.

OUR STOCK PRICE IS HIGHLY VOLATILE.

Our stock price has fluctuated dramatically. There is a significant risk that the market price of our common stock will decrease in the future in response to any of the following factors, some of which are beyond our control:

* variations in our quarterly operating results;

* announcements that our revenue or income are below analysts' expectations;

* general economic slowdowns;

* changes in market valuations of similar companies;

* sales of large blocks of our common stock;

* announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

* fluctuations in stock market prices and volumes, which are particularly common among highly volatile securities of internationally-based companies.

THERE IS A LIMITED PUBLIC MARKET FOR OUR COMMON STOCK.

There is currently a limited public market for our common stock. Holders of our common stock may, therefore, have difficulty selling their common stock, should they decide to do so. In addition, there can be no assurances that such markets will continue or that any shares of common stock, which may be purchased may be sold without incurring a loss. Any such market price of the common stock may not necessarily bear any relationship to our book value, assets, past operating results, financial condition or any other established criteria of value, and may not be indicative of the market price for the common stock in the future. Further, the market price for the common stock may be volatile depending on a number of factors, including business performance, industry dynamics, news announcements or changes in general economic conditions.

OUR COMMON STOCK IS SUBJECT TO REGULATIONS PRESCRIBED BY THE SEC RELATING TO "PENNY STOCKS".

The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price (as defined in such regulations) of less than $5.00 per share, subject to certain exceptions. Our common stock meets the definition of a penny stock and is subject to these regulations, which impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors, generally institutions with assets in excess of $5,000,000 and individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 (individually) or $300,000 (jointly with their spouse).

WE DO NOT ANTICIPATE PAYING DIVIDENDS IN THE FORESEEABLE FUTURE.

We have never declared or paid any cash dividends or distributions on our common stock. We currently intend to retain our future earnings to support operations and to finance expansion and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future.

ITEM 2. DESCRIPTION OF PROPERTY.

Our main office is located at 2F-1, NO. 16, Jian Ba Road, Jhongue City, Taipei County, Taiwan, consisting of approximately 502.64 square meters. The landlord is Ku Shen Co. Ltd. The rent is NTD$120,000 per month and the lease expires on May 15, 2006.

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INVESTMENT POLICIES

We are developing construction projects with landowners at several locations in Taiwan. There are no limitations on the percentage of assets which may be invested in any one investment or type of investment. We acquire assets for the purposes of both capital gain through real estate sales and income through leasing activities. There are no specifications as to the types of real estate in which we may invest nor limitations on the number or amount of mortgages which may be placed on any one piece of property.

DESCRIPTION OF REAL ESTATE AND OPERATING DATA

Our subsidiary, City Construction, has been planning a new construction project in Keelong City, Taiwan since the end of 2004. We entered into a contract in the first quarter of 2005 for construction of a ten floor residential building. Upon completion, we will own 60%, and the land owner will own 40% of the building. We anticipate that this project will generate sales of $3 to $4 million once completed. We have agreed to make refundable deposits, as security, payable at various agreed upon phases of the construction. The deposits will be returned within two years after the construction is completed. As of December 31, 2005, we have paid $91,320 as part of the refundable security deposit and $418,105 in construction costs as construction is in progress. At March 2006, two floors of this ten floor building has been completed, and we anticipate completion of the building project at the end of 2006. We have found buyers for units on six floors of the building and have received approximately $151,515 as deposit for the units. If the building project is not completed by February 2007, we will be in default under the agreement with the landowners. Upon completion of 50% of the building project, the title to 60% of the building will transfer to us, and we intend to secure approximately $1.2 million from banks in Taiwan to finance the building project.

In April 2004, City Construction placed a refundable performance bond in the amount of $231,344 with a court in Taiwan for the rights to complete an unfinished building in Keelung, Taiwan with the owners of the land. We are currently in discussion with the landowners regarding the terms of the project.

On January 24, 2006, City Network, Inc. - Taiwan, our wholly-owned subsidiary, entered into a Purchase and Sale Agreement with Wang, Rong-Zong (the "Seller") pursuant to which City Network, Inc. - Taiwan agreed to purchase and the Seller agreed to sell property located in the City of Tou-Liu, Yun-Lin County, Taiwan, for an aggregate purchase price equal to approximately $2 million (NTD 64,000,000). The aggregate purchase price is payable in four installments as follows: (i) $312,940 (NTD 10,000,000), (ii) $250,352 (NTD 8,000,000), (iii) $190,738 (NTD 6,100,000) and (iv) $1.25 million (NTD 39,900,000). As of February 1, 2006, City Network, Inc. - Taiwan has paid the first and second payments to the Seller for a total amount equal to approximately $562,000 (NTD 18,000,000). City Network, Inc. - Taiwan will pay the third payment to the Seller after payment, by the Seller, of the outstanding property taxes on the land. City Network, Inc. - Taiwan will pay the final payment to the Seller upon receipt of a mortgage in the amount of approximately $1.25 million (NTD 39,900,000). On January 23, 2006, City Network, Inc. - Taiwan was approved for a mortgage in the amount of approximately $1.25 million (NTD 39,900,000) by Hua Nan Commercial Bank but City Network, Inc. - Taiwan has not yet received the cash amount of the mortgage. On January 24, 2006, City Network, Inc. - Taiwan issued a check to the Seller in the amount of approximately $1.25 million (NTD 39,900,000) as a guarantee of City Network, Inc. - Taiwan's payment of the outstanding purchase price (the "Guarantee"). The Seller agreed to return the Guarantee to City Network, Inc. - Taiwan upon the City Network, Inc. - Taiwan's receipt of the full mortgage and the Seller's receipt of the outstanding purchase price. Upon completion of this transaction, we intend to sell or lease seven of the eight floors of the building to commercial businesses and retain one of the eight floors to utilize for the development of our VoIP business.

The building projects have not yet been completed, and the company has not yet purchased insurance for the properties.

ITEM 3. LEGAL PROCEEDINGS.

We are not presently involved in litigation that we expect individually or in the aggregate to have a material adverse effect on our financial condition, results of operation or liquidity.

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

On December 27, 2005, an annual meeting of our stockholders was held at our main corporate offices in Taipei, Taiwan. There were 32,967,183 shares of common stock outstanding on the record date and entitled to vote at the annual meeting.

The following directors were elected:

Name of Director	Vote For	Votes Withheld
Tiao-Tsan "Andy" Lai	11,271,037	0
Yun-Yi "Stella" Tseng	11,271,037	0
Alice Chen	11,271,037	0
I-Min Ou	11,271,037	0
Chin-Yuan Liao	11,271,037	0
Mei-Chu Lai	11,271,037	0
Kao-Yu Hung	11,271,037	0
Chung-Chieh "Kevin" Lin	11,271,037	0
Yong Su	11,271,037	0
Pi-Liang Liu	11,271,037	0
Chun-Chih Chen	11,271,037	0

The ratification of the appointment of Lichter, Yu & Associates (formerly Lichter, Weil & Associates) as our Independent Public Accountants for the fiscal year ending December 31, 2005 was ratified with 11,271,037 votes for, zero votes against and zero votes abstentions.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading on the American Stock Exchange on January

14, 2004 under the symbol "CSN". Previously, on June 25, 2002, our common stock was initially traded on the OTC Bulletin Board under the symbol "IVAG", and on January 17, 2003 our symbol changed to "CYNW". Prior to June 25, 2002, there was no public market for our stock. The following table sets forth, (i) the high and low sales quotations for the partial period in the fiscal year ended February 29, 2004 from January 14, 2004 through February 29, 2004, the ten months ended December 31, 2004 (including partial period) and the partial period in the first quarter of the current fiscal year and (ii) the high and low sales quotation for the Company for each quarter in the fiscal year ended December 31, 2005, based upon information supplied by the American Stock Exchange.

	Price Range of Common Stock	
	High	Low
2004		
January 14, 2004 - February 29, 2004	$ 2.74	$ 2.10
March 1, 2004 - May 30, 2004	$ 2.38	$ 0.73
June 1, 2004 - August 31, 2004	$ 0.99	$ 0.42
September 1 - November 30, 2004	$ 1.00	$ 0.46
December 1, 2004 - December 31, 2004	$ 1.23	$ 0.64
2005		
January 1, 2005 - March 31, 2005	$ 0.86	$ 0.30
April 1, 2005 - June 30, 2005	$ 0.42	$ 0.20
July 1, 2005 - September 30, 2005	$ 0.30	$ 0.14
October 1, 2005 - December 31, 2005	$ 0.30	$ 0.11

As of March 20, 2006, there were approximately 2,000 shareholders of record of our common stock.

DIVIDEND POLICY

All shares of common stock are entitled to participate proportionally in dividends if our board of directors declares them out of the funds legally available. These dividends may be paid in cash, property or additional shares of common stock. We have not paid any dividends since our inception and presently anticipate that all earnings, if any, will be retained for development of our business. Any future dividends will be at the discretion of our board of directors and will depend upon, among other things, our future earnings, operating and financial condition, capital requirements, and other factors. We currently intend to retain our future earnings to support operations and to finance expansion and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future.

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RECENT SALES OF UNREGISTERED SECURITIES

On January 15, 2004, we issued 500,000 shares of our common stock at $1.44 per share pursuant to a private placement exempt from registration pursuant to Regulation S of the Securities Act. We received proceeds of $720,000 for this private placement. The shares are restricted and do not have registration rights. The offering price was negotiated with the shareholders at the time of the offering. Of the shareholders in this offering, Yun-Yi Tseng was subsequently appointed CFO and a director of our company.

On June 14, 2004, we issued 2,500,000 shares of our common stock in exchange for the conversion in full of a note and short term debt payables to third parties in the aggregate of $1,680,329. The note and short term debt payables were converted into shares of common stock at a price of approximately $0.672 per share. The shares are restricted and do not have registration rights. The conversion rate was fixed in the agreements governing the note and short term debt payables. Of the shareholders in this exchange, Yi-Min Ou, Mei-Ling Chen, and Ching-Yuan Liao were directors of the Company at the time of such exchange, and Yun-Yi Tseng was subsequently appointed CFO and a director of our company.

On August 17, 2005, we issued 977,273 shares to Cornell Capital Partners, L.P. and 44,455 shares to Monitor Capital, Inc. We issued warrants to purchase 25,000 shares of common stock for $25 total, issued to Cornell Capital Partners, LP. We also issued 4,445,455 shares in the name of CSN: currently held by an escrow agent as pledged shares for the notes issued to Highgate House.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Our company was incorporated on August 8, 1996 as Investment Agents, Inc. under the laws of the State of Nevada. CNT was incorporated under the laws of the British Virgin Islands on March 1, 2002. On November 14, 2002, CNT became a wholly owned subsidiary of our company through an Exchange Agreement, dated November 14, 2002 and amended on December 11, 2002, whereby our company acquired all of the issued and outstanding capital stock of CNT in exchange for 12,000,000 shares of common stock of our company, which represented 49% of our issued and outstanding stock at that time. In connection with the exchange and change in control, the name of our company was changed from Investment Agents, Inc. to City Network, Inc. the officers and directors of City Network resigned and new officers and directors were appointed. Upon the effective date of the exchange and change in control, our company ceased its relationship with the company for whom it previously acted as referral agent for.

CNT owns all of the issued and outstanding common stock of CNT-Taiwan, which was incorporated under the laws of the Republic of China on September 6, 1994. CNT-Taiwan owns all of the issued and outstanding common stock of company of City Construction, which was incorporated under the laws of Republic of China on October, 10, 2003.

On December 16, 2004, our board of directors determined to change our fiscal year end from February 28 to December 31.

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-KSB. The following discussion contains forward-looking statements. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those discussed in "Risk Factors" and elsewhere in this Form 10-KSB.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial conditions and results of operations is based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. See "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in Item to this Report for our critical accounting policies. No significant changes in our critical accounting policies have occurred since December 31, 2005.

REVENUE RECOGNITION

Revenue generated from sales of products is recognized upon shipment or when title passes to customers based on terms of sales, and is recorded net of returns, discounts and allowances. Service income is recognized as the related services are provided per terms of the service agreement.

ACCOUNTS RECEIVABLE

Accounts receivables are reported as the outstanding unpaid balances reduced by an allowance for doubtful accounts. We estimate doubtful accounts based on historical bad debts, factors related to specific customer's ability to pay, and current economic trends. We write off accounts receivable against the allowance when a balance is determined to be uncollectible.

NOTES RECEIVABLE

Our subsidiary, CNT-Taiwan usually receives post-dated checks as permitted by Taiwanese law. CNT-Taiwan will typically send an invoice to the customer after which the customer will issue a check dated two to three months, sometimes longer, from the date of the invoice. On CNT-Taiwan's books, the post dated checks are categorized as notes receivables and the invoice is then taken off on the accounts receivables side.

OVERVIEW - RESULTS OF OPERATIONS

AUDITED YEAR ENDED DECEMBER 31, 2005 COMPARED TO AUDITED TEN MONTHS ENDED DECEMBER 31, 2004

NET REVENUE. Net sales for the year ended December 31, 2005 totaled $14,320,409, compared to $15,674,613 for ten months ended December 31, 2004. The decrease in revenues for the year ended December 31, 2005 was due to a decline in the amount of sales of certain merchandise.

COST OF SALES. Cost of revenue for the year ended December 31, 2005 totaled $12,881,717, compared to $14,924,938 for the ten months ended December 31, 2004. The decrease in cost of revenues was due to a decrease in sales. Also, our gross profit increased due to the higher margin of certain merchandise and their decline in cost but not their sales price for the year ended December 31, 2005.

GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses for the year ended December 31, 2005 totaled $1,535,808, compared to $1,395,388 for ten months ended December 31, 2004. The increase was due to an increase in professional fees.

INTEREST EXPENSE. Interest expense for the year ended December 31, 2005 totaled $147,914, compared to $112,922 for ten months ended December 31, 2004. The increase in interest expense was due to the increase in debt.

As a result of the foregoing, Income (loss) Before Income Taxes totaled $(1,057,140) for the year ended December 31, 2005 and $(854,770) for ten months ended December 31, 2004. Provision for income taxes expenses is $336 for the year ended December 31, 2005 and $109,890 for ten months ended December 31, 2004. The result of the above tax calculations resulted in a net loss of $(1,057,476) and a net loss of $(964,660), respectively, for the year ended

December 31, 2005 and ten months ended December 31, 2004.

INCOME TAXES

Provisions of $336 for taxes have been recorded for the year ended December 31, 2005.

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LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $856,587 at December 31, 2005 and $2,010,644 at December 31, 2004. The Company's current assets totaled $9,221,630 at December 31, 2005 as compared to $6,186,420 at December 31, 2004. The Company's total current liabilities were $10,272,005 at December 31, 2005 as compared to $6,656,116 at December 31, 2004. Working capital at December 31, 2005 was $(1,050,375) and $(469,696) at December 31, 2004. During the year ended December 31, 2005, net cash (used in) operating activities was $(2,631,318) as compared to net cash used in operating activities of $(1,293,162) during the ten months in 2004. Net cash provided by financing activities was $1,496,272 and $627,153 for the year ended December 31, 2005 and ten months ended December 31, 2004, respectively. The net change in cash and cash equivalents was $(1,154,057) and $(712,929) for the year ended 2005 and ten months ended 2004, respectively.

We have suffered recurring losses from operations, cash deficiencies and the inability to meet our maturing obligations without borrowing from related parties and restructuring debts. These issues may raise substantial concern about our ability to continue as a going concern.

We are currently engaged in discussions with a number of companies regarding strategic acquisitions or potential financings. Although these discussions are ongoing, there can be no assurance that any of these discussions will result in actual acquisitions or a completed financing for us.

CAPITAL EXPENDITURES

Total capital expenditures during the year ended December 31, 2005 was $66,795 for the purchase of fixed assets.

WORKING CAPITAL REQUIREMENTS

Our operations and short term financing do not currently meet our cash needs. We currently are engaged in discussions with a number of companies regarding strategic acquisitions or investments. Although these discussions are ongoing, there can be no assurance that any of these discussions will result in actual acquisitions or investment. Several potential investors have already shown their interest to invest in our company.

FACTORS THAT INTERRUPT OUR OPERATIONS

Our major risk is incurring a large amount of bad debt. Our short-term and long-term liquidity may be influenced by uncollected account receivables. If the amount of bad debt is high, it will severely affect our ability to continue operations. Therefore, we are taking precautions to manage this risk. We will try to diversify our customer base and control credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. Although we have already taken these measures, it is still possible to incur a large amount of bad debt.

Financial instruments that potentially subject us to concentrations of credit risk are cash, accounts receivable and other receivables arising from its normal business activities. We place our cash in what we believe to be credit-worthy financial institutions. We have a diversified customer base, most of which are related parties. We control credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. We routinely assess the financial strength of its customers and, based upon factors surrounding the credit risk, establish an allowance, if required, for un-collectible accounts and, as a consequence, believe that our accounts receivable credit risk exposure beyond such allowance is limited.

OFF-BALANCE SHEET TRANSACTIONS

We do not have any off-balance sheet transactions.

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ITEM 7. FINANCIAL STATEMENTS

Our Financial Statements together with the independent auditor's report thereon are included on pages F-1 through F-27 hereof.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There have been no changes nor any disagreements with the accountants or the accountant's findings.

ITEM 8A. CONTROLS AND PROCEDURES

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

Additionally, there were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date. We have not identified any significant deficiencies or material weaknesses in our internal controls, and therefore there were no corrective actions taken.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS, COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

DIRECTORS, OFFICERS, PROMOTERS AND CONTROL PERSONS.

Set forth below are the names of our directors, executive officers and key employees of as of December 31, 2005.

Name	Age	Title

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Tiao-Tsan "Andy" Lai	43	Chairman, Director, President and Chief Executive Officer
Yun-Yi "Stella" Tseng	45	Chief Financial Officer and Director
Alice Chen	42	Vice President and Director
I-Min Ou	36	Director, Manager - Technology Department
Chin-Yuan Liao	33	Director, Manager - Engineering Department
Mei-Chu Lai	38	Independent Director
Kao-Yu Hung	47	Independent Director
Chung-Chieh "Kevin" Lin	45	Independent Director
Yong Su	50	Independent Director
Pi-Liang Liu	50	Independent Director
Chun-Chih Chen	36	Independent Director

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Set forth below is certain information with respect to each director, executive officer, key employee and director nominees.

TIAO-TSAN "ANDY" LAI has been Chairman, President and Director of our company (and its predecessors) since 1994. As a pioneer in the network equipment market he was the first entrepreneur to bring the Home PNA solution to Taiwan, China and Asia. With Mr. Lai's guidance, we implemented Home PNA in a winning design for an Internet Service Model for the Taipei city government in 1998. In 1999, Mr. Lai also procured an open tender for a Home PNA project with Korea Telecom. From 1999 to the present, we have had our products approved for purchase and sale by China Telecom, Taiwan's HiNet, Japan OCC and Finland Telecom. In addition, Mr. Lai established business projects with Shanghai Telecom, Fujian Telecom and Guang Dong Telecom. In October, 2000, Mr. Lai was presented the "Excellent Manager" industry award in Taiwan for outstanding service as Chairman of our company. In June 2002, Mr. Lai was also awarded the "The Excellent Alumnus" award for his success in business beyond graduation from the Taiwan National Military Academy. Mr. Lai holds an MBA degree from the University of St. Thomas in Minnesota, USA, and a bachelor's degree in business from Metropolitan University in Minnesota, USA.

YUN-YI "STELLA" TSENG has been the Chief Financial Officer and a Director of the Board of our company since November 2004. In 1998, Ms. Tseng established the asset management and financial consulting group called Chief Securities Investment Inc., where she was the chairman until December 2003. Over the course of five years, Ms. Tseng gradually developed Chief Securities Investment Inc. into a Taiwanese nation-wide operation with more than ten branch offices and over 400 employees. Furthermore, Ms. Tseng has participated in the financing of numerous private and public companies both in Taiwan and abroad. She is an experienced financial planner and experienced in company finance, accounting and auditing. In 2003, Ms. Tseng helped found Hyo-On Biotechnology Corp., where she is a company director and is primarily responsible for strategic growth and financial development. Ms. Tseng graduated from Shih-Hsin University in Taipei, Taiwan with a degree in Communications and Journalism.

ALICE CHEN has been Vice President and a Director of our company since October 2002. Ms. Chen has been Vice General Manager of Sales and Marketing and a Director of CNT-Taiwan since January 1999. Ms. Chen's duty is to implement and develop our worldwide sales and marketing plan. Before joining our company, Ms. Chen had ten years experience working for the Taiwanese National Security Agency as a national policy analyst. Additionally, Ms. Chen spent three years working as head of sales and marketing for a Taiwanese public company. Ms. Chen possesses a degree in Legal Policy from a government university in the Republic of China.

I-MIN OU has been Manager of the Technology Department and a Director of our company since October 2002. From February 2001 to October 2002, Mr. Ou served as a Manager of the Tongnan Technology Company. From June 1999 to January 2001, he served as a Manager of the Gulite Technology Company. From February 1998 to May 1999, Mr. Ou was a Manager for the Hueng Kwuo Technology Company. From 1991 to 1997, he served as a Manager of the Ikuani Technology Company. Since graduating with a bachelor's degree in Electrical Engineering from the Tung Nan Institute of Technology in July 1991, I-Min Ou has been primarily engaged in electronics engineering and computer automation industry.

CHIN-YUAN LIAO has been a Director and Manager of the Engineering Department since October 2002. From January 2000 to October 2002, Mr. Liao served as Manager of the Engineering Department for CNT-Taiwan. Previously, he was a Manager with A Best Information Technology, Inc., a network technology company, from 1998 to 2000. Mr. Liao received a bachelor's degree in electrical engineering from the Oriental Institute of Technology in 1996.

MEI-CHU LAI has been a Director of our company since October 2002. In 1992, Ms. Lai began her career serving four years as an accountant and finance department chief for New Land Developers Co. Ltd. Ms. Lai has been working for ING Antai since 1996 and is currently a financial safety planner responsible for the asset management, financial advisory, inheritance taxation and tax planning of major company clients. She was promoted at ING Antai to the position of Division Supervisor in 1997 and then took the post of Assistant General Manager in 2001. Ms. Lai graduated from the Department of International Trading at Ming Chuan University in 1991. Ms. Lai currently serves on our board of directors' audit committee.

YU-HUNG KAO has been a Director of our company since October 2002. Ms. Hung specializes in import and export customs and regulations of many countries around the world as well as corporate financial reporting, accounting and auditing. In 1983, Ms. Hung personally founded her own trading, customs and product transport company called Ce Young Customs Brokerage Co., Ltd. For the past 20 years, Ms. Hung has managed and directed the development of Ce Young Customs Brokerage Co, Ltd., developing the business into a profitable and well-known brand name in Taiwan and throughout Asia. From 1980 to 1983, she was previously employed by Min Hwa Inc., working as the company's General Manager supervising the handling of customs brokerage-related sales finance, taxation and accounting. She graduated from Hsing Wu College in 1978 with majors in international trading and business administration. Ms. Kao currently serves on our board of directors' audit committee.

CHUNG-CHIEH "KEVIN" LIN has been a Director of our company since November 2004. Since 1996, Mr. Lin has been the chairman of Chun-Yang Investment Co., Ltd., an investment company involved in corporate finance and securities consulting, since April 1997 and chairman of Sino-Freeze Biotechnology Co., Ltd. since February 2003. Mr. Lin has also been involved in venture capital and strategic investments and has invested in, developed and managed more than fifteen public and private companies in Taiwan and China. Mr. Lin's investment experience has been particularly in the biotech and electronics industries. Mr. Lin has a degree in Civil Engineering from Tamkang University.

YONG SU has been a Director of our company since November 2004. Mr. Su is currently a professor at the Business Administration Department at Fudan University and director of the Business Administration Department of the university's advanced studies and post-graduate program. He has worked for many companies as a corporate consultant, utilizing his expertise in corporate strategies planning, corporate culture management, company organization and marketing to provide operational guidelines and strategies. Mr. Su graduated from Fudan University in 1986 with a master's degree in Cultural History and acquired a doctorate degree in Economics from Fudan University in 1994, whereupon he took a teaching position at the university immediately following his graduation. He is the author of over fifty journal articles and industry essays.

PI-LIANG LIU has been a Director of our company since November 2004. He is currently a director of Mega Financial Holding Company and Resident Supervisor at Chiao Tung Bank. He was the CEO of the Southern Taiwan Joint Services Center of the Executive Yuan of Taiwan from 1999 to 2001. From 1997 to 1999, he held the position of Secretary General at the Legislative Yuan of Taiwan's parliament. From 1991 to 1997, Mr. Liu was an Advisor and Director of the Liaison Office with the governing administration's cabinet for the Executive Yuan of Taiwan. He has also served at the post of Chairman of the Budget Committee for the Legislative Yuan of Taiwan. Mr. Liu obtained his master's degree in Arts from the School of Industrial Education at Northeastern Missouri State University in 1988. He was an Invited Researcher at the School of Public Administration of the University of Southern California in 1986. He obtained a bachelor's degree in law from the School of Law at the National Taiwan University in 1984. Also, he is an author of books such as Research on Developing Countries' Government Budgeting System and Research on Modern Democratic Governments' Budgeting Systems. Mr. Liu currently serves on our board of directors' audit committee.

CHUN-CHIH CHEN has been a Director of our company since January 2006. He has been a Certified Public Accountant of Gu-Da Certified Public Accountant Company since August 1988. His responsibilities include preparing certified financial statements, and tax statements for Companies and individuals. From July 1985 to June 1987, Mr. Chen worked as an auditor for Wei-Shi Certified Public Accountant's Company. Mr. Chen received a Bachelor's degree in International Trade from Vanung University in 1981.

The directors named above will serve until the next annual meeting of our stockholders or until their successors are duly elected and have qualified. Directors will be elected for one-year terms at the annual stockholders meeting. Officers will hold their positions at the pleasure of the board of directors, absent any employment agreement, of which none currently exists. There is no arrangement or understanding between any of the directors or officers of our company and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management shareholders will exercise their voting rights to continue to elect the current directors to our board of directors. There are also no arrangements, agreements or understandings between non-management shareholders that may directly or indirectly participate in or influence the management of our company's affairs. There are no agreements or

understandings for any of our officers or directors to resign at the request of another person and none of the officers or directors are acting on behalf of or will act at the direction of any other person.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Our board of directors adopted a written charter for its audit committee, a copy of which was attached as an exhibit to our definitive proxy statement, as filed with the SEC December 10, 2004, and is incorporated by reference herein. The audit committee's charter states that the responsibilities of the audit committee shall include:

* reviewing our charter, annual report to stockholders and reports submitted to the SEC;

* recommending our independent auditors, confirming and reviewing their independence, and approving their fees;

* reviewing the independent auditors' performance;

* considering the independent auditors' judgments about our accounting principals;

* considering and approving major changes to our auditing and accounting principals;

* establishing reporting systems to the committee by management and the independent auditors regarding management's significant judgments in preparing financial statements;

* following an audit, reviewing significant difficulties encountered during the audit;

* reviewing significant disagreements among management and the independent auditors in the preparation of our financial statements;

* reviewing the extent to which improvements in financial or accounting practices approved by the committee have been implemented; and

* Review with counsel any legal matters that could have a significant impact on our financial statements.

The audit committee met one time during the ten months ended December 31, 2005.

The audit committee members during the year ended December 31, 2005 consisted of Mei-Chu Lai, Yu-Hung Kao and Chien-Hui Lin (later replaced by Pi-Liang Liu). Chien-Hui Lin resigned from the board of directors in August 2004. Our board of directors appointed Pi-Liang Liu to serve on the audit committee upon his appointment as director in November 2004. All of the above-listed audit committee members were or are considered "independent" under Section 121(A) (as currently applicable to us) of the listing standards of The American Stock Exchange, as determined by our board of directors. The audit committee recommends to the board of directors the annual engagement of a firm of independent accountants and reviews with the independent accountants the scope and results of audits, our internal accounting controls and audit practices and professional services rendered to us by our independent accountants.

Our board of directors has determined that we have at least one audit committee financial expert, as defined in the Exchange Act, serving on our audit committee. Pi-Liang Liu is the "audit committee financial expert" and is an independent member of our board of directors.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act, as amended, requires the executive officers and directors of our company and every person who is directly or indirectly the beneficial owner of more than 10% of any class of security of our company to file reports of ownership and changes in ownership with the SEC. Such

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persons also are required to furnish our company with copies of all Section 16(a) forms they file. Based solely on its review of copies of such forms received by it, we believe that all other Section 16(a) filing requirements applicable to the reporting persons were complied with by such persons during 2005,

CODE OF ETHICS

We have adopted a code of ethics that applies to our Chief Executive Officer and Chief Financial Officer, and other persons who perform similar functions. A copy of our Code of Ethics is available to any person, without charge, upon request to our principal executive offices at 2F-1, No. 16, Jian Ba Road, Jhonghe City, Taipei County 235, Taiwan, ROC and was filed as an exhibit to our Annual Report on Form 10-KSB for the fiscal year ended February 29, 2004. Our Code of Ethics is intended to be a codification of the business and ethical principles which guide us, and to deter wrongdoing, to promote honest and ethical conduct, to avoid conflicts of interest, and to foster full, fair, accurate, timely and understandable disclosures, compliance with applicable governmental laws, rules and regulations, the prompt internal reporting of violations and accountability for adherence to this Code.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the fiscal year indicated the compensation paid by our company to the Chief Executive Officer at December 31, 2005. No other executive officer received a total annual salary and bonus exceeding $100,000.

Name and Principal Position	Year	Salary (US$)	Bonus (US$)
Tiao-Tsan "Andy" Lai	2005	$24,400	$1,700
	2004(1)	$26,000	$2,600
	2003	$31,200	$2,600

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(1) For the ten month period ended December 31, 2004.

Our directors do not receive any compensation for serving on the board of directors.

REPORT OF THE AUDIT COMMITTEE

The role of the Audit Committee is to assist the Board of Directors in its oversight of City Network, Inc.'s (the "Company") financial reporting process. The Board of Directors, in its business judgment, has determined that all members of the committee are "independent" as required by applicable listing standards of the American Stock Exchange. The Committee operates pursuant to a Charter that was approved by the Board. As set forth in the Charter, management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing the Company's financial statements and expressing an opinion as to their conformity with generally accepted accounting principles.

In the performance of this oversight function, the Committee has reviewed and discussed the audited financial statements with management and the independent auditors. The Committee has discussed with the independent auditors the matters required to be discussed by Statement of Auditing Standards No. 61, Communication with Audit Committee, as currently in effect. Finally, the Committee has received written disclosures and the letter from the independent auditors required by Independence Standard Board Standard No. 1, Independence Discussions with Audit Committees, as currently in effect, and has considered whether the provision of non-audit services by the independent auditors to the Company is compatible with maintaining the auditor's independence and has discussed with the auditors the auditors' independence.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting, are not experts in the fields of accounting or auditing, including in respect of auditor independence. Members of the Committee rely without independent verification on the information provided to

them and on the representations made by management and the independent accountants. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal control and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's consideration and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted accounting principles or that the Company's auditors are in fact "independent".

Based upon the reports, review and discussions described in this report, and subject to the limitations on the role and responsibilities of the Committee referred to above and in the Charter, the Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005, as filed with the Securities and Exchange Commission.

The Audit Committee

Kao-Yu Hung
Mei-Chu Lai
Pi-Liang Liu

Independent Directors, City Network, Inc.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth as of December 31, 2005, the number and percentage of our outstanding shares of common stock that were beneficially owned by (i) each person who is currently a director, (ii) each executive officer, (iii) all current directors and executive officers as a group and (iv) each person who, to our knowledge is the beneficial owner of more than 5% of the outstanding common stock.

Name and Address (1)	Number of Shares Beneficially Owned (2)	Percent of Common Stock Beneficially Owned
Tiao-Tsan "Andy" Lai	2,000,000	6.0%
Yun-Yi "Stella" Tseng	844,000	2.5%
Alice Chen	66,000	*
I-Min Ou	25,000	*
Chin-Yuan Liao	50,000	*
Mei-Chu Lai	648,000	2.0%
Yu-Hung Kao	1,161,000	3.5%
Chung-Chieh "Kevin" Lin	0	*
Yong Su	0	*
Pi-Liang Liu	0	*
Chun-Chih Chen	0	*

All officers and directors as a group (10 persons)	4,794,000	14.5%

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* Indicates less than one percent.

(1) The address of each holder is c/o City Network, Inc., 2F-1, No. 16, Jian Ba Road, Jhonghe City, Taipei County 235, Taiwan, ROC.

(2) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to the shares shown. Except as indicated by footnote and subject to community property laws where applicable, to our knowledge, the stockholders named in the table have sole voting and investment power with respect to all common stock shares shown as beneficially owned by them. A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days upon the exercise of options, warrants or convertible securities (in any case, the "Currently Exercisable Options"). Each beneficial owner's percentage ownership is determined by assuming that the Currently Exercisable Options that are held by such person (but not those held by any other person) have been exercised and converted.

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CHANGE IN CONTROL

There are currently no arrangements which would result in a change in control of our company.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As of December 31, 2005, we had a non-interest-bearing loan from Tiao-Tsan Lai, our Chairman, director, President and Chief Executive Officer, in the amount of $827,094. As of December 31, 2005, we had a non-interest-bearing loan from Stella Tseng, our Chief Financial Officer and director, in the amount of $304,400.

ITEM 13. EXHIBITS

(a) The following documents are filed as part of this Form 10-KSB.

1. The following financial statements of our company, with the independent auditor's report, are filed as part of this Form 10-KSB:

2. The following exhibits are filed with this report and incorporated by reference as set forth below:

Exhibit		Description
2.1	(1)	Exchange Agreement dated December 4, 2002 by and among City Network, Inc., the shareholders of City Network, Inc., Investment Agents, Inc., Pamela Ray Stinson, Raymond Robert Acha, and Joseph H. Panganiban
3.1	(2)	Articles of Incorporation
3.2	(2)	Certificate of Amendment to Articles of Incorporation

3.3	(3)	Certificate of Amendment of the Articles of Incorporation
3.4	(4)	Amended and Restated Bylaws
14.1	(5)	Code of Ethics
21.1		Subsidiaries
31.1		Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2		Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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32.1		Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2		Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(1) Previously filed with the SEC as an Exhibit to City Network's Form 8-K filed March 5, 2003, and incorporated herein by reference.
(2) Previously filed with the SEC as an Exhibit to City Network's Form SB-2 filed May 18, 2001, and incorporated herein by reference.
(3) Previously filed with the SEC as an Exhibit to City Network's Proxy Statement filed March 21, 2003, and incorporated herein by reference.
(4) Previously filed with the SEC as an Exhibit to City Network's Annual Report on Form 10-KSB filed on April 15, 2005, and incorporated herein by reference
(5) Previously filed with the SEC as an Exhibit to City Network's Annual Report on Form 10-KSB filed June 16, 2004, and incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT AND FEES

During fiscal year ended December 31, 2005, our principal independent auditor was Simon & Edward, LLP. The following are the services provided and the amount billed.

AUDIT FEES

The aggregate fees billed by Simon & Edward, LLP for professional service rendered for the audit of our annual financial statements for the fiscal year ended December 31, 2005, were $42,500.

AUDIT RELATED FEES

Other than the fees described under the caption "Audit Fees" above, Simon & Edward, LLP did not bill any fees for services rendered to us during the fiscal year ended December 31, 2005 for assurance and related service in connection with the audit or review of our consolidated financial statements.

TAX FEES

Simon & Edward, LLP did not provide any tax services to the Company during the fiscal year ended December 31, 2005.

ALL OTHER FEES

There were no fees billed by Simon & Edward, LLP for other professional services rendered during the fiscal year ended December 31, 2005.

PRE-APPROVAL OF SERVICES

The Audit Committee pre-approves all services, including both audit and non-audit services, provided by our independent accountants. For audit services, each year the independent auditor provides the Audit Committee with an engagement letter outlining the scope of the audit services proposed to be performed during the year, which must be formally accepted by the Committee before the audit commences. The independent auditor also submits an. audit services fee proposal, which also must be approved by the Committee before the audit commences.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITY NETWORK, INC.

By: /s/ Tiao-Tsan Lai
Tiao-Tsan Lai
Chief Executive Officer

Date: April 17, 2006

By: /s/ Yun-Yi Tseng
Yun-Yi Tseng
Chief Financial Officer

Date: April 17, 2006

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name Title Date

Name	Title	Date
/s/ Tiao-Tsan Lai Tiao-Tsan Lai	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	April 17, 2006
/s/ Yun-Yi Tseng Yun-Yi Tseng	Director and Chief Financial Officer (Principal Accounting Officer)	April 17, 2006
/s/ Alice Chen Alice Chen	Director	April 17, 2006
/s/ Chin Yuan Liao	Director	April 17, 2006

Chin-Yuan Liao		
/s/ I-Min Oun I-Min Oun	Director	April 17, 2006

/s/ Mei-Chu Lai Mei-Chu Lai	Director	April 17, 2006
/s/ Kao-Yu Hung Kao-Yu Hung	Director	April 17, 2006
/s/ Chung Chich Lin Chung Chich Lin	Director	April 17, 2006
/s/ Yang Su Yang Su	Director	April 17, 2006
/s/ Pi-Liang Lu Pi-Liang Lu	Director	April 17, 2006

CITY NETWORK, INC. AND
SUBSIDIARIES

FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2005 AND 2004 AND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CITY NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

DECEMBER 31, 2005 AND DECEMBER 31, 2004

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Simon & Edward, LLP
17700 Castleton Street, Suite 200
City of Industry, CA 91748

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of City Network, Inc.

Gentlemen:

We have audited the accompanying consolidated balance sheet of City Network, Inc. and subsidiaries (the "Company") as of December 31, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of City Network, Inc. for the ten months ended December 31, 2004 were audited by other auditors whose report, dated March 7, 2005, on those statements included an explanatory paragraph that described the litigation discussed in Note O to the financial statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005, and the results of its operations and its cash flows for year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note S to the financial statements, the Company has suffered recurring losses from operations and the inability to meet its maturing obligations without borrowing from related parties and restructuring debts. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note S. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Simon & Edward, LLP

City of Industry, California
March 11, 2006

CITY NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND DECEMBER 31, 2004

	December 31, 2005	December 31, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 856,587	$ 2,010,644
Accounts receivable, net	4,371,110	3,333,990
Inventory	252,608	732,027
Other receivables	241,304	6,863
Prepaid expenses	3,500,021	102,896
Total Current Assets	9,221,630	6,186,420
Fixed Assets, net	2,391,422	2,586,872
Other Assets		
Deposits	503,579	1,724,542
Cash held for compensating balances	1,380,992	0
Construction in progress	418,105	0
Trademarks	1,727	1,812
Equity in net assets of affiliated company	790,842	829,008
Intangible assets	923,347	961,053
Other assets	0	8,255
Total Other Assets	4,018,592	3,524,670
Total Assets	$15,631,644	$12,297,962

See Accompanying Notes and Auditor's Report

CITY NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND DECEMBER 31, 2004

	December 31, 2005	Decem
LIABILITIES AND STOCKHOLDERS' EQUITY		

Current Liabilities		
Accounts payable and accrued expenses	$ 1,471,867	$
Convertible note payable	250,000	
Due to related party	1,131,494	
Deferred revenue	3,198,414	
Current portion, long-term debt	4,220,230	
Total Current Liabilities	10,272,005	
Long-term debt, net of current portion	572,668	
Total Liabilities	10,844,673	
Stockholders' Equity		
Common stock, $.001 par value, 100,000,000 shares authorized, 32,967,183 shares issued and 28,521,728 shares outstanding at December 31, 2005, and 27,500,000 shares issued and outstanding at December 31, 2004	32,967	
Additional paid in capital	6,157,479	
Other comprehensive income	366,384	
Accumulated deficit	(1,769,859)	
Total capital and retained deficit	4,786,971	
Less: cost of treasury stock	0	
Total Stockholders' Equity	4,786,971	
Total Liabilities and Stockholders' Equity	$ 15,631,644	$

See Accompanying Notes and Auditor's Report

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CITY NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FISCAL YEAR ENDED DECEMBER 31, 2005 AND TEN MONTHS ENDED DECEMBER 31, 2004

	December 31, 2005	December 31, 200
Sales, net	$ 14,320,409	$ 15,674,613
Cost of sales	12,881,717	14,924,938
Gross Profit	1,438,692	749,675
General and administrative expenses	1,535,808	1,395,388
Income (loss) from operations	(97,116)	(645,713)
Other (Income) Expense		
Interest income	(8,985)	(3,785)
Rental income	(187,020)	(17,858)
Commission income	(3,846)	(281)

(Gain) loss on currency exchange	9,721	(10,720)
Other income (expense)	24,518	(32,120)
Reserve for bad debt	848,517	185,858
Equity in earnings of investee	38,167	(58,330)
Miscellaneous	12,791	1,303
Loss on sale of fixed assets	78,247	32,068
Interest expense	147,914	112,922
Total Other (Income) Expense	960,024	209,057
Income (loss) before income taxes	(1,057,140)	(854,770)
Provision for income taxes	336	109,890
Net income (loss)	$ (1,057,476)	$ (964,660)
Net income (loss) per share (basic and diluted)		
Basic	$ (0.038)	$ (0.035)
Diluted	$ (0.038)	$ (0.035)
Weighted average number of shares		
Basic	27,925,720	27,500,000
Diluted	27,925,720	27,500,000

See Accompanying Notes and Auditor's Report

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CITY NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FISCAL YEAR ENDED DECEMBER 31, 2005 AND TEN MONTHS ENDED DECEMBER 31, 2004

	December 31, 2005	Dec
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$(1,057,476)	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	182,518	
Equity in earnings of investee	38,167	
Bad debt	848,517	
Losses on fixed assets obsolescence	6,412	
Inventory valuation loss and obsolescence	7,186	
Loss (Gain) on disposal of property, plant and equipment	78,247	
Loss (Gain) on foreign currency exchange	9,721	
Decrease (Increase) in notes and accounts receivables	(1,922,705)	
Decrease (Increase) in other receivables	(299,175)	
Decrease (Increase) in inventories	35,470	
Decrease (Increase) in deposit	1,222,390	
Decrease (Increase) in prepaid expenses and other current assets	(3,191,788)	
Increase (Decrease) in accounts payable and accrued expenses	(1,883,119)	
(Decrease) Increase in deferred revenue	3,202,876	
(Decrease) Increase in deposits payable	0	
(Decrease) Increase in other liabilities	91,441	

Total Adjustments	(1,573,842)
Net cash provided by (used in) operating activities	(2,631,318)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from disposal of property, plant and equipment	389,160
Purchases of property, plant and equipment	(66,795)
Increase in deferred expenses	(155,850)
Net cash provided by investing activities	166,515

See Accompanying Notes and Auditor's Report

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CITY NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FISCAL YEAR ENDED DECEMBER 31, 2005 AND TEN MONTHS ENDED DECEMBER 31, 2004

	December 31, 2005	Decembe
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	$ 9,028,025	$ 5,
Payment on notes payable	(8,156,025)	(5,
Payment of loan from related party	(6,256)	(
Cash held for compensating balances	(1,263,540)	
Loan from related party	1,057,667	
Issuance of convertible notes payable	250,000	
Issuance of notes payable	586,401	
Net cash provided by financing activities	1,496,272	
Effect of exchange rate change on cash	(185,526)	
Net change in cash and cash equivalents	(1,154,057)	(
Cash and cash equivalents at beginning of year	2,010,644	2,
Cash and cash equivalents at end of year	$ 856,587	$ 2,
Supplemental cash flows disclosures:		
Income tax payments	$ 163,284	$
Interest payments	$ 147,914	$
Non cash transaction:		
Conversion of debt to equity	$ 0	$ 1,
Issuance of common stock for prepayment of stock issuance costs	$ 225,000	$

See Accompanying Notes and Auditor's Report

CITY NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
DECEMBER 31, 2005 AND DECEMBER 31, 2004

	December 31, 2005	December 31, 2004
Common stock, number of shares		
Balance at beginning of period	27,500,000	25,000,000
Common stock issued	5,467,183	2,500,000
Balance at end of period	32,967,183	27,500,000
Treasury stock, number of shares		
Balance at beginning of period	0	0
Treasury stock acquired	4,445,455	0
Balance at end of period	4,445,455	0
Common stock, par value $.001		
Balance at beginning of period	$ 27,500	$ 25,000
Common stock issued	5,467	2,500
Balance at end of period	32,967	27,500
Additional paid in capital		
Balance at beginning of period	5,937,946	4,260,117
Issuance of stock	219,533	1,677,829
Balance at end of period	6,157,479	5,937,946
Other comprehensive income		
Balance at beginning of period	142,453	29,663
Foreign currency translation	223,931	112,790
Balance at end of period	366,384	142,453
Retained earnings (deficits)		
Balance at beginning of period	(712,383)	252,277
Net income (loss)	(1,057,476)	(964,660)
Balance at end of period	(1,769,859)	(712,383)
Less: Cost of treasury stock	0	0
Total stockholders' equity at end of period	$ 4,786,971	$ 5,395,516

See Accompanying Notes and Auditor's Report

CITY NETWORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE A - ORGANIZATION

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

The Company designs, manufactures and markets a comprehensive line of broadband communication and wireless internet access products and solutions. Also, the broadband communication product line includes VOIP, GUI-based remote management and routing technology software packages for simplified setup, extensive network management and global network connectivity capabilities, home PNA and xDSL broadband access equipment, ADSL/VDSL ACCESS DEVICES, HPNA ACCESS DEVICES, FTTB (Fiber to the Building) and FTTH (Fiber to the Home), PCMCIA cards and USB adapters. The other wireless Internet access solutions are used in both individual and corporate.

The Company has also recently begun the development of its construction business. The Company plans to develop and build commercial and residential buildings, industry factory buildings, and professional buildings. The Company has entered co-construction agreements for the development of land in Keelung, Taiwan and the purchase of materials with a company in Vietnam, as further described in Note H herein.

On December 16, 2004, the Company changed its fiscal year end from February 28 to December 31.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Revenue from sales of products to customers is recognized upon shipment or when title passes to customers based on the terms of the sales, and is recorded net of returns, discounts and allowances. Service income is recognized as the related services are provided pursuant to the terms of the service agreement.

PRINCIPLES OF CONSOLIDATION

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RISKS AND UNCERTAINTIES

The Company is subject to substantial risks from, among other things, intense competition from the providers of broadband products, services and the telecommunication industry in general, other risks associated with financing, liquidity requirements, rapidly changing customer requirements, limited operating history, and the volatility of public markets.

CONTINGENCIES

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

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

Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

USE OF ESTIMATES

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company has made an allowance for doubtful accounts for trade receivables based on a combination of write-off history, aging analysis, and any specific known troubled accounts.

FIXED ASSETS

Property and equipment are stated at cost less accumulated depreciation. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, or the remaining term of the lease, as follows:

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

INTANGIBLE ASSETS

Effective July 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." The adoption of SFAS No. 142 required an initial impairment assessment involving a comparison of the fair value of trademarks, patents and other intangible assets to current carrying value. No impairment loss was recognized for the years ended December 31, 2005 and 2004. Trademarks and other intangible assets determined to have indefinite useful lives are not amortized. The Company tests such trademarks and other intangible assets with indefinite useful lives for impairment annually, or more frequently if events or circumstances indicate that an asset might be impaired. Trademarks and other intangible assets determined to have definite lives are amortized over their useful lives or the life of the trademark and other intangible asset, whichever is less.

EXCHANGE GAIN (LOSS)

During year ended December 31, 2005 and 2004, the transactions of City Network, Inc. - Taiwan and City Construction were denominated in a foreign currency and are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains and losses are recognized for the different foreign exchange rates applied when the foreign currency assets and liabilities are settled.

TRANSLATION ADJUSTMENT

As of December 31, 2005 and 2004, the accounts of City Network, Inc. - Taiwan and City Construction were maintained, and their financial statements were expressed, in New Taiwan Dollars (NTD). Such financial statements were translated into U.S. Dollars (USD) in accordance SFAS No. 52, "Foreign Currency Translation", with the NTD as the functional currency. According to the Statement, all assets and liabilities were translated at the current exchange rate, stockholder's equity are translated at the historical rates and income statement items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income".

As of December 31, 2005 and 2004 the exchange rates between NTD and the USD was NTD$1=USD$0.03044 and NTD$1=USD$0.03128, respectively. The weighted-average rate of exchange between NTD and USD was NTD$1=USD$0.03117 and NTD$1=USD$0.02998,

TRANSLATION ADJUSTMENT (Continued)

respectively. Total translation adjustment recognized for the year ended December 31, 2005 and 2004 is $366,384 and $142,453, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Our Company measures its financial assets and liabilities in accordance with generally accepted accounting principles. For certain of the Company's financial instruments, including accounts receivable (trade and related party), notes receivable and accounts payable (trade and related party), and accrued expenses, the carrying amounts approximate fair value due to their short maturities. The amounts owed for long-term debt and revolving credit facility also approximate fair value because interest rates and terms offered to the Company are at current market rates.

STATEMENT OF CASH FLOWS

In accordance with SFAS No. 95, "Statement of Cash Flows", cash flows from the Company's operations are based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk are accounts receivable and other receivables arising from its normal business activities. The Company has a diversified customer base. The Company controls credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk, establishes an allowance, if required, for un-collectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowance is limited.

INVENTORY

Inventory is valued at the lower of cost or market. Cost is determined on the weighted average method. As of December 31, 2005 and 2004, inventory consisted only of finished goods.

PRODUCT WARRANTIES

The Company estimates its warranty costs based on historical warranty claim experience and applies this estimate to the revenue stream for products under warranty. Future costs for warranties applicable to revenue recognized in the current period are charged to cost of revenue. The warranty accrual is reviewed quarterly to verify that it properly reflects the remaining obligation based on anticipated expenditures over the balance of the obligation period. Adjustments are made when accrual warranty claim experience differs from estimate.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM EQUITY INVESTMENTS

Long-term equity investments are accounted for by the equity method when the Company and its subsidiaries owns 20% or more of the investee's voting shares, or less than 20% of investee's voting shares but is able to exercise significant influence over the investee's operation and financial polices, but not more then 50%. All other long-term equity investments are accounted for by either the lower-of-cost-or-market method or cost method.

For long-term equity investments accounted for under the equity method related to investee's that are publicly listed companies, unrealized losses resulting from declines in the market value below cost are recorded as a separate component of stockholders' equity.

For long-term equity investments in non-listed companies accounted for under the cost method, investments are stated at original cost. A write-down of the investment balance to earnings is taken only if it is determined that there is a permanent decline in the investment's value. Stock dividends do not result in the recognition of investment income.

For long-term equity investments accounted for by the equity method, the investment is initially recorded at cost, then reduced by dividends and increased or decreased by investor's proportionate share of the investee's net earnings or loss.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with initial maturities of three months or less to be cash equivalents.

ADVERTISING

Advertising costs are expensed in the year incurred.

INCOME TAXES

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements.

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled as prescribed in SFAS No. 109, "Accounting for Income Taxes". As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

EARNINGS PER SHARE

The Company uses SFAS No. 128, "Earnings Per Share", for calculating the basic and diluted earnings (loss) per share. Basic earnings (loss) per share are computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share are computed similar to basic earnings per share except that the denominator is increased to include common stock equivalents, if any, as if the potential common shares had been issued.

IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

The Company adopted the provision of The Financial Accounting Standards Board ("FASB") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair values of the assets. In assessing the impairment of these identifiable intangible assets, identifiable goodwill will be allocated on a pro rata basis using fair values of the assets at the original acquisition date. In estimating expected future cash flows for determining whether an asset is impaired and if expected future cash flows are used in measuring assets that are impaired, assets will be grouped at the lowest level (entity level) for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. In recording an impairment loss, any related goodwill would be reduced to zero before reducing the carrying amount of any identified impaired asset.

For goodwill not identifiable with an impaired asset, the Company will establish benchmarks at the lowest lever (entity level) as its method of assessing impairment. In measuring impairment, unidentifiable goodwill will be considered impaired if the fair value at the lowest level is less than its carrying amount. The fair value of unidentifiable goodwill will be determined by subtracting the fair value of the recognized net asset at the lowest level (excluding goodwill) from the value at the lowest level. The amount of the impairment loss should be equal to the difference between the carrying amount of goodwill and the fair value of goodwill. In the event that impairment is recognized, appropriate disclosures would be made.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NEW ACCOUNTING PRONOUNCEMENTS

In September 2004, the EITF Issue No. 04-08, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" ("EITF 04-08") was issued stating that contingently convertible debt should be included in diluted earnings per share computations regardless of whether the market price trigger has been met. EIFT 04-08 is effective for reporting periods ending after December 15, 2004. EITF 04-08 will have no material impact on the Company's financial statements.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R 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. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R in its three months ending September 30, 2005. Under SFAS 123R, The Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive options, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R, and it expects that the adoption of SFAS 123R will have no material impact on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4," which will become effective for the Company beginning January 1, 2006. This standard clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted material should be expensed as incurred and not included in overhead. In addition, this standard requires that the allocation of fixed production overhead costs to inventory be based on the normal capacity of the production facilities. The Company is currently evaluating the potential impact of this standard on its financial position and results of operations, but does not believe the impact of the change will be material.

In December 2004, the FASB issued SFAS No. 152,"Accounting for Real Estate Time-Sharing Transactions". The FASB issued this Statement as a result of the guidance provided in AICPA Statement of Position (SOP) 04-2,"Accounting for Real Estate Time-Sharing Transactions". SOP 04-2 applies to all real estate time-sharing transactions. Among other items, the SOP provides guidance on the recording of credit losses and the treatment of selling costs, but does not change the revenue recognition guidance in SFAS No. 66,"Accounting for Sales of Real Estate", for real estate time-sharing transactions. SFAS No. 152 amends Statement No. 66 to reference the guidance provided in SOP 04-2. SFAS No. 152 also amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects", to state that SOP 04-2 provides the relevant guidance on accounting for incidental operations and costs related to the sale of real estate time-sharing

transactions. SFAS No. 152 is effective for years beginning after June 15, 2005, with restatements of previously issued financial statements prohibited. This statement is not applicable to the Company.

In December 2004, the FASB issued SFAS No. 153,"Exchanges of Nonmonetary Assets," an amendment to Opinion No. 29,"Accounting for Nonmonetary Transactions". Statement No. 153 eliminates certain differences in the guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to Opinion No. 29 eliminates the fair value exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Such an exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2004. Management does not expect adoption of SFAS No. 153 to have a material impact on the Company's financial statements.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and

Error Corrections", a replacement of Accounting Principles Board Opinion No. 20, "Accounting Changes", and Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements" ("SFAS 154"). SFAS 154 changes the requirements for the accounting for, and reporting of, a change in accounting principle. Previously, voluntary changes in accounting principles were generally required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period of specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the statement does not change the transition provisions of any existing accounting pronouncements. The Company does not believe adoption of SFAS 154 will have a material effect on its financial position, cash flows or results of operations.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS 155"), which amends SFAS No. 133, "Accounting for Derivatives Instruments and Hedging Activities" ("SFAS 133") and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS 140"). SFAS 155 amends SFAS 133 to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principle cash flows. SFAS 155 also amends SFAS 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative instruments. The Company is currently evaluating the impact this new Standard, but believes that it will not have a material impact on the Company's financial position,

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NOTE C - CONCENTRATION

The Company had three major customer during the year ended December 31, 2005. Sales to these customers were approximately $5,538,182. Those customers comprise 39% of the total sales during the year ended December 31, 2005. Included in accounts receivable is approximately $2,765,202 from these customers as of December 31, 2005.

Note D -CASH

The Company maintains its cash balances at various banks in Taiwan. The balances are insured by the Central Deposit Insurance Corporation (CDIC) up to approximately $30,440. As of December 31, 2005, there were $1,836,846 in uninsured balances held at these banks.

Note E - COMPENSATING BALANCES

The company, under the terms of its lines of credit with two banks in Taiwan, has agreed to maintain a compensating balance equal to at least 30% to 35% of the outstanding loan balance. As of December 31, 2005, $1,380,992 of cash is restricted for this purpose (see Note L).

Note F - FIXED ASSETS

Fixed assets consist of the following:

	December 31, 2005	December 31, 2004
Land	$ 1,909,023	$ 1,916,328

Building	0	283,977
Machinery and equipment	512,433	430,880
Furniture and fixtures	208,705	143,655
	$ 2,630,161	$ 2,774,840
Accumulated depreciation	(238,739)	(187,968)
	$ 2,391,422	$ 2,586,872

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Note G - INTANGIBLE ASSETS

Intangible assets consist of the following:

	December 31, 2005	December 31, 2004
Trademarks	$ 2,222	$ 2,150
Intangible asset	1,065,400	1,000,000
	$ 1,067,622	$ 1,002,150
Accumulated depreciation	(142,548)	(39,285)
	$ 925,074	$ 962,865

Note H- COMMITMENTS

A Best Information Technology, Inc. - City Network, Inc. - Taiwan, signed an agreement with A Best Information Technology, Inc. in 2002 for the exclusive right to sell A Best Information's products. The rights are perpetual and transferable.

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

Co-Construction Agreements - In April 2004, City Construction Co., Ltd. placed a refundable performance bond in the amount of $231,344 with the court in Taiwan for the rights to complete an unfinished building in Keelung, Taiwan with the owners of the land. The Company is currently in discussion with the landowners regarding the terms of the project.

In March 2005, City Construction Co., Ltd. entered a Co-Construction Agreement with three individuals who own a tract of land in Keelung, Taiwan. Under the agreement, the Company will finance, construct and, upon completion, will own 60% of the building project. The Company agreed to make refundable deposits, as security, totaling approximately $91,320 payable at various agreed upon phases of the construction. The deposits will be returned within 2 years after the construction is completed. As of December 31, 2005, the Company has paid $91,320 as part of the refundable security deposit and $418,105 as construction in progress on the building.

On July 20, 2005, and as amended on September 22, 2005, the Company entered into a contract with a company in Vietnam. Per the terms of the contract the Company has agreed to procure materials and equipment related to the construction of a commercial building in Vietnam. As of December 31, 2005, the Company received an advance of $3,000,000 on this contract and is using these funds to purchase the related materials.

Note H- COMMITMENTS (Continued)

On July 25, 2005 the Company entered into a contract with a company in Samoa to purchase materials from them related to the above Vietnam contract. The total purchases will be approximately $3,000,000. As of December 31, 2005, the Company advanced approximately $2,740,000 to this vendor.

Operating Leases - The Company leases office facilities under operating leases that terminate on various dates. Rental expense for these leases consisted of $50,335 for the year ended December 31, 2005. The Company has future minimum lease obligations as follows:

Year	Amount
2006	$43,834
2007	20,090
Total	$63,924

On December 16, 2005, the Company entered a letter agreement (the "Term Sheet") with Cornell Capital Partners, LP committing to enter into definitive documents for a proposed transaction. In the transaction, the Company will issue secured convertible debentures (the "Notes") in an aggregate principal amount of up to $650,000 to Cornell Capital or Highgate House Funds, Ltd. ("Highgate House," and together with Cornell Capital, the "Investor"), an affiliate of Cornell Capital. The Company plans to use a portion of the Notes to redeem $250,000 in aggregate principal amount, plus accrued interest, of secured convertible debentures issued pursuant to a Securities Purchase Agreement, dated August 10, 2005, by and between the Company and Highgate House (the "Original Notes").

Under the Term Sheet, the Notes will mature three years after issuance. A 20% redemption premium on the principal amount of the Notes is due when they are redeemed. Additionally, an annual interest rate of 7% (calculated on the basis of a 360-day year) accrues on the outstanding principal amount of the Notes. The Notes will be secured by substantially all of the assets of the Company and its direct and indirect wholly-owned subsidiaries, City Technology, Inc., City Network, Inc.--Taiwan and City Construction Co., Ltd.; a pledge of the 4,445,455 shares of common stock, par value $0.001 per share, securing the Original Notes; and a pledge of 2,000,000 additional shares of common stock. The 2,000,000 additional shares of common stock will be pledged only if Notes exceeding $275,000 in aggregate principal amount are issued. The Notes are convertible into Common Stock based on at the lower of (a)$0.268 per share or (b) ninety-five percent (95%) of the lowest volume weighted average price of the Common Stock, as reported by Bloomberg, LP, for the thirty (30) trading days preceding the conversion. Upon signing the definitive documents for the transaction, the Company will issue to the Investor a five-year warrant (the "Warrant") to purchase 500,000 shares of Common Stock (the "Warrant Shares") at an exercises price of $0.001 per share. The Company will also agree to register the Common Stock underlying the Notes and the Warrant.

Upon signing definitive documents for the transaction, the Standby Equity Distribution Agreement between the Company and Cornell Company, the Investor Registration Rights Agreement between the Company and Cornell Capital, the Escrow Agreement among the Company, Cornell Capital and David Gonzalez, Esq., as escrow agent, and the Registration Rights Agreement between the Company and Cornell Capital, each dated August 10, 2005, will be terminated, and each party to the agreements will release the other parties from all obligations under the agreements.

The aggregate number of shares of Common Stock to be issued pursuant to the definitive agreements for the transaction may not equal or exceed 5,500,000 shares in the aggregate (constituting 20% of the Company's outstanding Common Stock as of August 10, 2005).

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Note I - LONG-TERM INVESTMENT

On August 31, 2003 the Company purchased approximately twenty-five percent (25%) of Beijing Putain Hexin Network Technology Co., Ltd for $325,000. On December 4, 2003 the Company purchased an additional fifteen percent (15%) for $398,500. Beijing Putain Hexin Network Technology Co., Ltd is not publicly traded or listed. The Company is using the complete equity method to record its share of the subsidiary's net income and loss. As of December 31, 2005 and 2004 the Company recognized a loss of $38,167 and an income of $58,330 from their acquisition.

Note J - COMPENSATED ABSENSES

Employees earn annual vacation leave at the rate of seven (7) days per year for the first three years. Upon completion of the third year of employment, employees earn annual vacation leave at the rate of ten (10) days per year for years four through five. Upon completion of the fifth year of employment, employees earn annual vacation leave at the rate of fourteen (14) days per year for years six through ten. Upon completion of the tenth year of employment, one (1) additional day for each additional year, until it reaches thirty (30) days per year. At termination, employees are paid for any accumulated annual vacation leave. As of December 31, 2005 and 2004 vacation liability existed in the amount of $911 and $1,892 respectively.

Note K - INCOME TAXES

Total Federal and State income tax expense for the years ended December 31, 2005 and 2004 amounted to $336 and $109,890, respectively. For the years ended December 31, 2005 and 2004, there is no difference between the federal statutory tax rate and the effective tax rate.

The following is a reconciliation of income tax expense:

12/31/05	U.S.	State	International	Total
Current	$ 0	$ 0	$ 336	$ 336
Deferred	0	0	0	0
Total	$ 0	$ 0	$ 336	$ 336

12/31/04	U.S.	State	International	Total
Current	$ 0	$ 0	$109,890	$109,890

Deferred	0	0	0	0
Total	$ 0	$ 0	$109,890	$109,890

Note K - INCOME TAXES (Continued)

Reconciliation of the differences between the statutory U.S. Federal income tax rate and the effective rate is as follows:

	12/31/05	12/31/04
Federal statutory tax rate	34%	34%
State, net of federal benefit	0%	0%
Effective tax rate	34%	34%

Note L - OTHER COMPREHENSIVE INCOME

Balances of related after-tax components comprising accumulated other comprehensive income (loss), included in stockholders' equity, at December 31, 2005 and 2004 are as follows:

	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income
Balance at February 29, 2004	$ 29,663	$ 29,663
Change for 2004	$112,790	$112,790
Balance at December 31, 2004	$142,453	$142,453
Change for 2005	$223,931	$223,931
Balance at December 31, 2005	$366,384	$366,384

NOTE M - DEBT

At December 31, 2005 and 2004, the Company had notes payable outstanding in the aggregate amount of $4,792,898 and $ $3,472,511, respectively. Payable as follows:

December 31, 2005		December 31, 2004
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by October 8, 2006	$ 487,040	Secured note payable to a bank in Taiwan, interest at 3.175% per annum, due by May 29, 2016
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by August 31, 2006	913,200	Note payable to a bank in Taiwan, interest at 3.616% per annum, due by October 8, 2005

Secured note payable to a bank in Taiwan, interest at 5.906% per annum, due by September 28, 2006	232,483	Note payable to a bank in Taiwan, interest at 3.828% per annum, due by February 13, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by January 27, 2006	45,660	Note payable to a bank in Taiwan, interest at 4.42% per annum, due by March 29, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by February 3, 2006	96,206	Note payable to a bank in Taiwan, interest at 4.42% per annum, due by March 15, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by February 3, 2006	123,693	Note payable to a bank in Taiwan, interest at 4.42% per annum, due by April 11, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by February 17, 2006	233,802	Note payable to a bank in Taiwan, interest at 4.42% per annum, due by April 10, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by February 21, 2006	219,739	Note payable to a bank in Taiwan, interest at 4.42% per annum, due by May 29, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by February 25, 2006	24,352	Note payable to a bank in Taiwan, interest at 3.616% per annum, due by March 10, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by March 3, 2006	69,950	Note payable to a bank in Taiwan, interest at 3.616% per annum, due by February 15, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by March 24, 2006	295,919	Note payable to a bank in Taiwan, interest at 3.616% per annum, due by March 8, 2005

NOTE M - DEBT (Continued)

December 31, 2005		December 31, 2004
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by April 1, 2006	279,553	Note payable to a bank in Taiwan, interest at 3.616% per annum, due by March 2, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by April 21, 2006	435,872	Note payable to a bank in Taiwan, interest at 3.616% per annum, due by March 15, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by April 28, 2006	422,811	Note payable to a bank in Taiwan, interest at 3.616% per annum, due by March 11, 2005
Note payable to a bank in Taiwan, interest at 3.838% per annum, due by January 17, 2006	339,950	Note payable to a bank in Taiwan, interest at 3.616% per annum, due by April 9, 2005

Note payable to a corporation in Taiwan, no interest, due by February 10, 2010	572,668	Note payable to a bank in Taiwan, interest at 3.616% per annum, due by April 9, 2005
		Note payable to a bank in Taiwan, interest at 3.616% per annum, due by April 9, 2005
		Note payable to a bank in Taiwan, interest at 3.26% per annum, due by March 11, 2005
		Note payable to a bank in Taiwan, interest at 3.26% per annum, due by April 22, 2005
		Note payable to a corporation in Taiwan, interest at 6.265% per annum, due by November 20, 2005, personally guaranteed by an office of the Company
Total	4,792,898	
Current portion	$4,220,230	
Long-term portion	$ 572,668	

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NOTE N - RELATED PARTY TRANSACTIONS

Throughout the history of the Company, certain members of the Board of Directors and general management have made loans to the Company to cover operating expenses or operating deficiencies.

Andy Lai - As of December 31, 2005 and 2004, the Company has a non interest-bearing loan from Andy Lai, the Company's President, in the amount of $827,094 and $73,827, respectively.

Huang Hui Maio - As of December 31, 2004, the Company has a non interest-bearing loan from Huang Hui Maio, a shareholder of the Company, in the amount of $6,256.

Stella Tseng - As of December 31, 2005, the Company has a non interest-bearing loan from Stella Tseng, a shareholder of the Company, in the amount of $304,400.

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, deposits and accounts payable approximate their fair value because of the short maturity of those instruments.

The carrying amounts of the Company's long-term debt approximate their fair value because of the short maturity and/or interest rates which are comparable to those currently available to the Company on obligations with similar terms.

NOTE P - STOCK

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

NOTE Q - SEGMENT REPORTING

The Company has two principal operating segments which are (1) the production of broadband communication and wireless internet access products, (2) other, including building constructions and procurement of material and equipment related to construction. These operating segments were determined based on the nature of the products offered. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The Company's chief executive officer and chief financial officer have been identified as the chief operating decision makers. The Company's chief operating decision makers direct the allocation of resources to operating segments based on the profitability, cash flows, and other measurement factors of each respective segment.

The Company has determined that broadband communication and wireless internet access products operating segment are reportable segments as they meet the quantitative thresholds under Financial Accounting Standards Board Statement No. 131 (Disclosures about Segments of an Enterprise and Related Information).

NOTE Q - SEGMENT REPORTING (Continued)

The Company evaluates performance based on several factors, of which the primary financial measure is business segment income before taxes. The Company's construction operating segment is currently in the development stage during 2005 and has no revenues. The accounting policies of the business segments are the same as those described in "Note A: Summary of Significant Accounting Policies." The table on the following page shows the operations of the Company's reportable segments:

	Broadband communication and wireless internet access products	Other (1)	Consolidated
2004			
Sales to unaffiliated customers	$ 15,674,613	$ 0	$ 15,674,613
Intersegment sales	0	0	0
Net sales	15,674,613	0	15,674,613
Income (loss) before taxes	(836,465)	(18,305)	(854,770)
Total assets (2)	11,895,348	402,614	12,297,962
Property additions (3)	5,008	0	5,008
Interest expense	112,922	0	112,922
Interest revenue	3,785	0	3,785
Depreciation and amortization (3)	161,296	0	161,296

2005			
Sales to unaffiliated customers	$ 14,320,409	$ 0	$ 14,320,409
Intersegment sales	0	0	0
Net sales	14,320,409	0	14,320,409
Income (loss) before taxes	(376,521)	(680,619)	(1,057,140)
Total assets (2)	10,769,071	4,637,573	15,406,644
Property additions (3)	66,795	0	66,795
Interest expense	147,914	0	147,914
Interest revenue	8,985	0	8,985
Depreciation and amortization (3)	182,518	0	182,518

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(1) Revenue from segments below the quantitative thresholds are attributable to two operating segments of the Company. Those segments include building constructions and procurement of material and equipment related to construction. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

(2) Total business assets are the owned or allocated assets used by each business. Corporate assets consist of cash and cash equivalents, unallocated fixed assets of support divisions and common facilities, and certain other assets.

(3) Corporate property additions and depreciation and amortization expense include items attributable to the unallocated fixed assets of support divisions and common facilities.

Also, because all of the Company's sales are derived from the sales of products outside of the United States, all long-lived assets are located outside the United States.

NOTE R - LEGAL PROCEEDINGS

The Company is party to certain litigation that has arisen in the normal course of its business and that of its subsidiary.

Hwa-Ching - In August 2004, a customer closed business and did not pay the remaining balance due to City Network - Taiwan on outstanding receivables in the amount of $880,649. City Network - Taiwan has filed criminal and civil litigation against the customer for fraud. The Company has recorded a reserve against this account in the amount of $695,280. This case is currently ongoing.

In August 2004, City Network Inc.-Taiwan filed a lawsuit against the owner of Hwa-Ching Co., as well as the following eight individuals in Taiwan, alleging fraud for closing down Hwa-Ching Co. without payment for the delivered merchandise. City Network Inc.-Taiwan sought approximately NT$27 million or approximately US$900,000. In January 27 2006, the court reached a verdict and found three individuals guilty of fraud and another two individual not guilty. In connection to the litigation against the other three individuals, the court has not yet reached a verdict.

In December 2004, the Company filed a lawsuit against Tain-Kang Co., a customer of Hwa-Ching Co. in Taipei District Court claiming damages owed to Hwa-Ching from Tain-Kang in the amount of approximately NT$5,796,000 or US$172,963 to cover the outstanding account payable owed by Hwa-Ching to the Company. In November 2005, Taipei District Court reached the judgment in favor of defendant. The Company filed appeal to Taiwan High Court. During the appeal, the Company reduced the claimed amount to NT$3,796,000 or US$115,550 due to Tain-Kang has provided the proof of payments of

NT$2,000,000 in the court. To date, the court has not yet reached a verdict on this case.

RPPI International Ltd. - As of June 21, 2005, City Network Inc.-Taiwan settled a litigation with RPPI International Ltd. (or Rong-Dian), a vendor of the Company.

On October 10, 2004, Rong-Dian filed a lawsuit against City Network Inc.-Taiwan in the Taiwan Taipei district court of Taiwan, in Taipei, Taiwan, alleging breach of contract for two different purchase agreements that City Network Inc.-Taiwan entered with them and two third parties. Rong-Dian sought the aggregate amount of approximately NT$40.2 million or US$1.2 million for the alleged breaches. One purchase agreement was for an order that City Network Inc.-Taiwan sold to Hwa-Ching Co. in the amount of approximately NT$27.3 million or US$900,000 and the other purchase agreement was for an order City Network Inc.-Taiwan sold to a separate customer of the Company in the amount of approximately NT$12.9 million or US$390,909.

On June 21, 2005, City Network Inc.-Taiwan entered a settlement agreement with Rong-Dian and on June 29, 2005, the district court lifted the lawsuit against us. In the June 2005 settlement agreement, City Network Inc.-Taiwan agreed to pay Rong-Dian a total of approximately NT$40.2 million or US$1.2 million, to cover the full amount City Network Inc.-Taiwan owed under the two purchase agreements. In August 2005, City Network Inc.-Taiwan paid Rong-Dian approximately NT$12.9 million or US$390,909 of the total amount owed upon receipt of such amount from our customer. City Network Inc.-Taiwan intends to pay the balance of approximately NT$27.3 million or US$827,272 to Rong-Dian in 54 separate checks, issued and payable by Tai-Wang Technology Co., Ltd. These checks will be in increments of NT$500,000 or US$15,910 and payable for 53 consecutive months, beginning on August 10, 2005 with the last and 54th payment being in the amount of NT$813,003 or US$25,870 instead of NT$500,000 or US$15,910. To date approximately NT$2.5 million, or approximately US$76,000, has been paid on this liability.

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NOTE R - LEGAL PROCEEDINGS (Continued)

Pursuant to the June 2005 settlement agreement, City Network Inc.-Taiwan agreed to pay Rong-Dian the balance of NT$27.3 million in monthly payments. However, as a result of its relationship with Tai-Wang and the fact that Tai-Wang is the vendor who introduced City Network Inc.-Taiwan to Rong-Dian, Tai-Wang assumed the responsibility for the payment of NT$27.3 million or US$827,272 to Rong-Dian. Tai-Wang wrote each monthly check in advance and thereafter provided all 54 checks to Rong-Dian. Rong-Dian will cash one check each month until it receives payment of the full NT$27.3 million. However, as Tai-Wang has no written obligation with City Network Inc.-Taiwan to make each monthly payment, beyond an oral promise to do so, there is no assurance that each monthly check will be properly cashed by Rong-Dian. Therefore the Company continues to report the total liability to Rong-Dian. As each payment is successfully paid by Tai-Wang the Company will reduce the liability accordingly and recognize other income as the benefit provided by Tai-Wang.

Additionally, as part of the June 2005 settlement agreement, we secured our obligation that Tai-Wang would pay Rong-Dian the outstanding balance of NT$27.3 million or US$827,272 by giving Rong-Dian a first priority mortgage on certain property including lots 701-4 and 701-6 in Jay-hou-xiao-duan, Xi-zhi Duan, Xixhi City, Taipei County, Taiwan. The value of the first priority mortgage on the property is approximately

NT$27.3 million or US$827,272, the aggregate amount owed to Rong-Dian. City Network Inc.-Taiwan agreed with Rong Dian that this mortgage will expire in 2010.

Shanghai Bank - On January 24, 2005, Shanghai Commercial and Savings Bank ("Shanghai Bank") filed a lawsuit with the Taipei District Court against the Company claiming approximately NT$12 million or approximately US$387,000 for the payment of an unpaid purchase price for goods. The Company purchased such goods from Chin Shin and Chin Shin assigned the account receivable to Shanghai Bank. As such, Shanghai Bank sued the Company for the payment of those goods. However,the Company returned the said goods because they were defective.

On November 24, 2005, the Company entered a settlement agreement with Shanghai Bank and the district court lifted the lawsuit against the Company. In the settlement agreement, the City Network Inc.- Taiwan agreed to pay Shanghai Bank a total of NT$5,100,000 or US$ 155,244. In December 2005, City Network, Inc.- Taiwan paid Shanghai Bank NT$1,100,000 or US$33,484. City Network, Inc.- Taiwan intends to pay the balance of NT$4,000,000 or US$121,760 to Shanghai Bank in 4 separate checks. These checks will be payable for each 2 months, beginning on February 25, 2006. To date NT$2,100,000 or US $63,924 has been paid on this liability.

NOTE S- GOING CONCERN

The Company has suffered recurring losses from operations, cash deficiencies and the inability to meet its maturing obligations without borrowing from related parties and restructuring debts. These issues may raise substantial concern about its ability to continue as a going concern.

Management has prepared the following statement to address these and other concerns:

The Company is currently engaged in discussions with a number of companies regarding strategic acquisitions or potential financings. Although these discussions are ongoing, there can be no assurance that any of these discussions will result in actual acquisitions or a completed financing for the Company.

NOTE T - SUBSEQUENT EVENTS

On January 24, 2006, City Network, Inc. - Taiwan (the "Purchaser"), entered into a Purchase and Sale Agreement with Wang, Rong-Zong (the "Seller") pursuant to which the Purchaser agreed to purchase and the Seller agreed to sell property located in the City of Tou-Liu, Yun-Lin County, including Lots 38-436, 37-126 and 37-125, and otherwise known as Building B, #222, Chunghwa Rd., Tou-Liu City, Yun-Lin County, Taiwan ROC, for an aggregate purchase price equal to approximately $2 million (NTD 64,000,000). The aggregate purchase price is payable in four installments as follows: (i) $312,940 (NTD 10,000,000), (ii) $250,352 (NTD 8,000,000), (iii) $190,738 (NTD 6,100,000) and (iv) $1.25 million (NTD 39,900,000).

As of the date hereof, the Purchaser has paid the first and second payments to the Seller for a total amount equal to approximately $562,000 (NTD 18,000,000). The Purchaser will pay the third payment to the Seller after payment, by the Seller, of the outstanding property taxes on the land. The Purchaser will pay the final payment to the Seller upon receipt of a mortgage in the amount of approximately $1.25 million (NTD 39,900,000). On January 23, 2006, the Purchaser was approved for a mortgage in the amount of approximately $1.25 million (NTD 39,900,000) by Hua Nan Commercial Bank but the Purchaser has not yet received the cash amount of the mortgage.

On January 24, 2006, the Purchaser issued a check to the Seller in the amount of approximately $1.25 million (NTD 39,900,000) as a guarantee of the Purchaser's payment of the outstanding purchase price (the "Guarantee"). The Seller agreed to return the Guarantee to the Purchaser upon the Purchaser's receipt of the full mortgage and the Seller's receipt of the outstanding purchase price.

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