TELECOM COMMUNICATIONS INC
Form 10QSB/A
August 10, 2006

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

FORM 10-QSB/A

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

For the Quarterly Period Ended March 31, 2006

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT**

For the transition period from ________ to ________

Commission file number 333-62236

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

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

Suites 2412-13 Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
(Address of principal executive offices)
(852)2782 0983
Issuer's telephone number

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date**:** 85,188,000 shares of Common Stock, $.001 Par Value Per Share, outstanding as of May 1, 2006.

Transitional Small Business Disclosure Format (Check One): Yes o No x

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PART I. FINANCIAL INFORMATION

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

ITEM 1. FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS		March 31, 2006 (Unaudited) RESTATED
Current assets:		
Cash and cash equivalents	$	202,159
Accounts receivable - affiliate		800,000
Accounts receivable- others, less allowance for bad debt of $1,502,914		6,934,497
Deferred stock-based compensation - current portion		2,505,588
Prepaid expenses		2,036,604
Other current assets		381,561
Total current assets		12,860,409
Property, plant and equipment, net		3,438,351
Deferred stock-based compensation - non-current portion		653,333
Total assets	$	16,952,093
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$	651,282
Accrued expenses		182,065
Finance lease - current portion		20,761
Due to related companies		99,538
Total Current Liabilities		953,646
Long term liabilities:		
Loan payable - related party		172,307
Finance lease		21,704
Total long term liabilities		194,011
Total liabilities		1,147,657
Commitments and contingencies (refer to note 7)		
Stockholders' equity :		
Preferred stock ($.001 Par Value: 50,000,000 shares authorized; no shares issued and outstanding)		-
Common stock ($.001 Par Value: 300,000,000 shares authorized 85,188,000 shares issued and outstanding)		85,188
Additional paid in capital		11,607,489
Accumulated other comprehensive income		249
Retained earnings		4,111,510

Total stockholders' equity		15,804,436
Total liabilities and stockholders' equity	$	16,952,093

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

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Six Months Ended March 31, 2006 (Unaudited)	Six Months Ended March 31, **Restated 2005** (Unaudited)	Three Months Ended March 31, 2006 (Unaudited)	Three Months Ended March 31, **Restated 2005** (Unaudited)
Revenue:				
Net revenues - affiliate	$ 720,000	$ 720,000	$ 360,000	$ 360,000
- others	7,627,375	2,744,160	3,659,276	1,528,822
	8,347,375	3,464,160	4,019,276	1,888,822
Cost of sales				
Depreciation	935,030	675,755	467,515	366,350
Other cost of sales	1,251,511	1,595,621	568,172	809,064
	2,186,541	2,271,376	1,035,687	1,175,414
Gross profit	6,160,834	1,192,784	2,983,589	713,408
Operating expenses:				
Allowance for bad debt	977,074	-	857,914	-
Depreciation	57,389	14,103	28,788	7,051
Salaries	586,178	-	326,431	-
Stock-based compensation expenses	1,574,975	292,500	743,529	146,250
Other selling, general and administrative	358,529	209,944	169,788	93,433
Total operating expenses costs	3,554,145	516,547	2,126,450	246,734
Income from operations	2,606,689	676,237	857,139	466,674
Other income/ (expense):				
Interest income	2,561	145	1,282	33
Other income	35,899	7,590	25,611	-
Interest expense	(1,626)	(1,226)	(764)	(676)
Gain on disposal of fixed assets	454	-	454	-
Total other income	37,288	6,509	26,583	(643)
Net income	$ 2,643,977	$ 682,746	$ 883,722	$ 466,031
Other comprehensive income				
Foreign currency translation difference	3	-	-	-
Comprehensive income	$ 2,643,980	$ 682,746	$ 883,722	$ 466,031
Earnings per Common Share:				
Basic	$ 0.03	$ 0.01	$ 0.01	$ 0.01
Fully diluted	$ 0.03	$ 0.01	$ 0.01	$ 0.01

Weighted Average Common Share:				
Outstanding - Basic and fully diluted	80,040,000	69,857,000	82,455,000	70,188,000
Outstanding - Fully diluted	90,040,000	69,857,000	92,455,000	70,188,000

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

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended March 31, 2006 (Unaudited)	Restated **2005** (Unaudited)
Cash flows from operating activities:		
Net cash (used in) provided by operating activities	(1,779,511)	(211,288)
Cash flows from investing activities:		
Capital expenditures	(73,084)	(67,672)
Net cash (used in) investing activities	(73,084)	(67,672)
Cash flows from financing activities:		
Repayment of finance lease	(10,199)	(15,438)
Proceeds from loan payable	64,103	-
Net cash (used in) financing activities	53,904	(15,438)
Effect of exchange rate changes in cash	3	112
Net (decrease) in cash and cash equivalents	(1,798,688)	(294,286)
Cash and cash equivalents - beginning of period	2,000,847	336,707
Cash and cash equivalents - end of period	$ 202,159	$ 42,421

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

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

GENERAL

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation in order to make the financial statements not misleading have been included. The accounts of the Company and all of its subsidiaries are included in the unaudited interim condensed consolidated financial statements. All significant intercompany accounts and transactions are eliminated in consolidation. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the year ending September 30, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended September 30, 2005.

1. BUSINESS DESCRIPTION AND ORGANIZATION

DESCRIPTION OF BUSINESS

Telecom Communications, Inc. ("TCOM") and its subsidiaries (collectively with TCOM, the "Company"), is a fully integrated information and entertainment service provider to the market of the PRC. We sell our products through channel resellers, who are BVI companies, distributed to the SP market in the PRC. The channel resellers who then in turn supply our content, through various telecommunication providers, to the end users in the PRC. Our products that are ultimately sold to the SP market in the PRC are a combination of an integrated communications network solutions and entertainment and lifestyle content. Our products serve the voice, video, data, web and mobile communication markets.

We have organized our operations into two principal business segments. Our information and entertainment service provider products, described above, is our primary business segment. Our other business segment is our revenue derived from our public relations work, through our 60%-owned subsidiary, Talent Leader Entertainment and Production Limited and Talent Leader Advertising and Communications Limited. The revenue from our public relations business segment was not significant for the six months ended March 31, 2006.

ORGANIZATION

TELECOM COMMUNICATIONS, INC.

TCOM was incorporated on January 6, 1997 in the State of Indiana. TCOM has changed its state of incorporation from Indiana to Delaware, effected by a merger into a Delaware Corporation with the same name on February 28, 2005. The surviving Delaware company succeeds to all the rights, properties and assets and assumes all of the liabilities.

ARRAN SERVICES LIMITED

As of September 30, 2003, TCOM consummated a Stock Purchase Agreement with Arran Services Limited ("Arran") and Arran had a 80% interest in IC Star MMS Limited ("IC Star"). Arran further acquired the 20% interest in IC Star on March 16, 2004. As of September 30, 2005, Arran owned 100% of the ownership interests of IC Star.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

IC STAR MMS LIMITED

IC Star, formerly known as Sino Super Limited, was established in December 1991. IC Star links entertainment and lifestyle information to local communities across the PRC.

On March 16, 2004, Arran acquired from Auto Treasure Holdings Limited, an entity 100% owned by the majority shareholder, the remaining 20% interest of IC Star together with 100% interest of Huiri Electric (Panyu) Limited (“Huiri”) for a consideration of 9,889,000 shares of TCOM common stock and 10,000,000 warrants to purchase 10,000,000 shares of TCOM common stock at $2 per share.

As a result, as of March 16, 2004, Arran owned 100% of IC Star and Huiri. This transfer was deemed to be a transfer between entities under common control and was therefore recorded on the Company's records at its historical cost basis. In connection with the new issuance of 9,889,000 shares of TCOM common stock and 10,000,000 warrants, which expire March 15, 2006, to acquire IC Star, the excess of the purchase price of $8,322,295 over the book value of the assets acquired from IC Star of $195,378 which totaled $8,126,917, was recorded as a return of capital. This return of capital was recorded as a reduction of additional paid in capital of TCOM.

ALPHA CENTURY HOLDINGS LIMITED

On December 15, 2003, TCOM formed Alpha Century Holdings Limited ("Alpha"), a wholly owned subsidiary of TCOM, in the British Virgin Islands. Alpha commenced its business on July 1, 2004 and its principal activity was providing total solution software with entertainment and lifestyle information and providing a mobile message service platform. Most of the company’s business is presently conducted through Alpha. Substantially, all of the Company’s operations are conducted through Alpha.

3G DYNASTY INC.

On February 21, 2005, TCOM formed 3G Dynasty Inc. ("3G Dynasty"), a wholly-owned subsidiary of TCOM, in the British Virgin Islands. 3G Dynasty commenced its business on April 1, 2005 and its principal activity was providing entertainment content for 3G mobile and Internet use.

ISLAND MEDIA INTERNATIONAL LIMITED

On June 2, 2005, TCOM formed Island Media International Limited ("Island Media"), a wholly-owned subsidiary of TCOM, in the British Virgin Islands. Island Media commenced its business on July 11, 2005 and its principal activity was as an investment holding company. Island Media currently holds 60% of the shares of both Talent Leader Entertainment & Productions Limited ("Talent Leader") and Talent Leader Advertising and Communications Limited (“Talent Leader Adv”).

TALENT LEADER ENTERTAINMENT & PRODUCTIONS LIMITED

On July 20, 2005, Island Media subscribed 60% of the shares of Talent Leader Entertainment & Productions Limited, a limited company in Hong Kong. Talent Leader commenced its business on August 1, 2005 and its principal activity was as a public relations agent to artists.

TALENT LEADER ADVERTISING AND COMMUNICATIONS LIMITED

On December 8, 2005, Island Media subscribed 60% of the shares of Talent Leader Advertising and Communications Limited, a limited company in Hong Kong. Talent Leader Adv commenced its business on January 1, 2006 and its principal activity was providing public relations, advertising and communication services.

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

CONTROL BY PRINCIPAL STOCKHOLDERS

The directors, executive officers and their affiliates or related parties, own beneficially and in the aggregate, the majority of the voting power of the outstanding shares of the common stock of TCOM. Accordingly, the directors, executive officers and their affiliates, if they voted their shares uniformly, would have the ability to control the approval of most corporate actions, including increasing the authorized capital stock of TCOM and the dissolution, merger or sale of TCOM's assets or business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The condensed consolidated financial statements of the Company include the accounts of TCOM and its subsidiaries, namely Arran, Alpha, IC Star, 3G Dynasty, Island Media, Talent Leader and Talent Leader Advertising. The condensed consolidated statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All significant intercompany transactions have been eliminated.

CREDIT RISK AND CUSTOMERS

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

During the six months ended March 31, 2006 we had 6 customers, each of which individually accounted for more than 10% of our revenues, and totaling $8,099,917, representing 97% of our total revenue. The loss of these customers, individually or in the aggregate, could have a material impact on our results of operations.

REGULATION OF TELECOMMUNICATION SERVICES IN THE PRC

The telecommunications industry, including certain wireless value-added services, is highly-regulated in the PRC. Regulations issued or implemented by the State Council, the Ministry of Information Industries, and other relevant government authorities cover many aspects of telecommunications network operations.

PROPERTY AND EQUIPMENT

Property and equipment is located in the PRC and Hong Kong and is recorded at cost. Depreciation is calculated using the straight-line method over the expected useful life of the asset. The Company generally uses the following depreciable lives for its major classifications of property and equipment:

Description	Useful Lives
Computer hardware	3 years

Computer software	3 years
Web site	3 years
Motor vehicles	3 years
Furniture and fixtures	5 years
Leasehold improvements	5 years

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived tangible assets and definite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company uses an estimate of undiscounted future net cash flows of the assets over the remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values of the assets exceed the expected future cash flows of the assets, the Company recognizes an impairment loss equal to the difference between the carrying values of the assets and their estimated fair values. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets. The evaluation of long-lived assets requires the Company to use estimates of future cash flows. However, actual cash flows may differ from the estimated future cash flows used in these impairment tests.

RELATED PARTY AND STOCKHOLDERS' LOANS

The caption "Due to Related Company" on the condensed consolidated Balance Sheet consists of loans that are unsecured, non-interest bearing and have no fixed terms of repayment, and therefore, are deemed payable on demand.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SIGNIFICANT ESTIMATES

Several areas require management's estimates relating to uncertainties for which it is reasonably possible that there will be a material change in the near term. The more significant areas requiring the use of management estimates related to valuation of the useful lives of the Company's equipment and valuation of contingent liabilities and the valuation of stock issued for services.

EARNINGS PER SHARE

Basic earnings per common share ("EPS") is calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are calculated by adjusting the weighted average outstanding shares, assuming conversion of all potentially dilutive common stock equivalents.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

REVENUE RECOGNITION

In accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 104, Revenue Recognition ("SAB 104"), the Company recognizes revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable and (iv)collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment or performance of service.

We enter into certain arrangements where we are obligated to deliver products and/or services (multiple elements). In these arrangements, our fee includes both the initial selling price of our software packaged profits and the monthly subscription of the licensed products for contract period, usually for 2 years.

Revenue for sales of our software packaged products with database of entertainment contents, namely, total solution software, SEO4 mobile, and IBS 4.1 enterprise software package is recognized as products are shipped and installed. Revenue for the monthly subscription of the licensed products, including all post-delivery support and the right to receive unspecified upgrades/enhancements of the licensed products, is charged at a monthly basic price. Pursuant to the terms of the agreements, a fixed sum is due at the beginning of each month regardless of whether the customer requires service during that month. The Company recognizes the subscription on the first day of each month for which the support service agreement is in place, the Company maintains an allowance for doubtful accounts in the event that any such revenue recorded is not realized.

Consulting services revenue is recognized as services are rendered and calculated by the agreed sum on a straight-line basis over the contract period, usually for 2 years.

The company has a 3 year contract that it entered into on May 3, 2004 with a major customer, Taikang Capital Managements Corporation, who subsequently after the contract was executed became a major stockholder of the company. Pursuant to the terms of this contract, we supply our total solutions software product, from the period July 1, 2004 to June 30, 2007. With written notice at least 30 days prior to the expiration of the contract to the other party, either party can extend the term of contract. Income is recognized ratably over the life of the contract, as the our total solution product is provided to Taikang on a monthly subscription basis.

SOFTWARE DEVELOPMENT COSTS

We account for our software development costs in accordance with SFAS No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed." Under SFAS 86, we expense software development costs as incurred until we determine that the software is technologically feasible. Once we determine that the entertainment software is technologically feasible and we have a basis for estimating the recoverability of the development costs from future cash flows, we capitalize the remaining software development costs until the software product is released. For the periods ended March 31, 2006 and 2005, we have purchased all of our software from third parties.

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

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

FOREIGN CURRENCY TRANSLATION

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are converted into U.S. dollars in accordance with SFAS No. 52, "Foreign Currency Translation," and are included in determining net income or loss.

For foreign operations with the local currency as the functional currency, assets and liabilities are translated from the local currencies into U.S. dollars at the exchange rate prevailing at the balance sheet date. Revenues, expenses and cash flows are translated at the average exchange rate for the period to approximate translation at the exchange rate prevailing at the dates those elements are recognized in the financial statements. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive loss.

The Company has determined Hong Kong dollars to be the functional currency of Arran, IC Star and 3G Dynasty, Island Media, Talent Leader and Talent Leader Advertising. The financial statements of the subsidiaries are translated to U.S. dollars using year-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations. The cumulative translation adjustment and effect of exchange rate changes as of March 31, 2006 was $249.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes changes to equity accounts that were not the result of transactions with shareholders. Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income and loss items. The Company's comprehensive income and losses generally consist of changes in the fair value of changes in the cumulative foreign currency translation adjustment.

INCOME TAXES

Income taxes are accounted for under the asset and liability method in accordance with SFAS 109. "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

STOCK-BASED COMPENSATION

The Company accounts for stock options issued to employees in accordance with the provisions of the Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant. The Company adopted the disclosure provisions of SFAS 123, "Accounting for

Stock-Based Compensation", and SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS 123 had been applied. The Company accounts for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS 123.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

STOCK-BASED COMPENSATION - CON'T

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payments (revised 2004)." This statement eliminates the option to apply the intrinsic value measurement provisions of APB Board Opinion No. 25, "Accounting for Stock Issued to Employees," to stock compensation awards issued to employees. Rather, the Statement requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period (usually the vesting period). In March 2005, the SEC staff expressed their views with respect to SFAS No. 123R in Staff Accounting Bulletin No. 107, "Share-Based Payment," (SAB 107). SAB 107 provides guidance on valuing options. We will be required to adopt SFAS 123R on October 1, 2006.

3. PROPERTY AND EQUIPMENT

Property and equipment, which is located in the PRC and Hong Kong, consisted of the following at March 31, 2006:

Computer hardware	$ 167,308
Computer software	4,897,295
Web site	500,000
Motor vehicles	232,410
Furniture and fixtures	32,341
Leasehold improvements	248,779
Total	6,078,133
Less: accumulated depreciation	(2,639,782)
Property and Equipment - Net	$ 3,438,351

4. RELATED PARTY TRANSACTIONS

A stockholder of TCOM and a company owned by such stockholder advanced funds to TCOM for working capital purposes. As of March 31, 2006 and 2005, TCOM owed the stockholder and his company amounts totaling $99,538 and $162,181, respectively. The advances are non-interest bearing and are payable on demand and are recorded as Due to related company under current liabilities.

In addition, TCOM owed the stockholder $172,307 as of March 31, 2006. The amount is recorded as loan payable - related party under non current liabilities.

Grace Motion, Inc., a company in which a former officer of the Company has a beneficial interest, was paid a consulting fee amounting to $3,846 during the six months ended March 31, 2006 and its service contract with TCOM was ceased during the period.

The Company signed a 3-year contract with Taikang Capital Managements Corporation (Taikang"), a principal stockholder of the Company, for total solution software on July 1, 2004. During the six months ended March 31, 2006, the Company recognized income from Taikang amounting to $720,000. The amount due from the stockholder at March 31, 2006 of $800,000 was classified under the caption "Accounts receivable - affiliate".

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

5. STOCK TRANSACTIONS

On November 16, 2005, TCOM issued 1,000,000 shares of TCOM's common stock, par value $0.001 per share, to the Chief Financial Officer of TCOM as part of his compensation at market price of $.49 resulting in stock-based compensation expense of $490,000.

On December 20, 2005, TCOM issued 4,000,000 shares of TCOM's common stock, par value $0.001 per share, to two consultants of TCOM as consultancy fee at market price of $.43 resulting in an expense of $1,720,000. The consultants will provide the services to the Company for two years from December, 2005 to November, 2007. The Company will amortise $1,720,000 over 24 months. (See note 9 on the details of the amortization of the stock-based compensation expenses.)

On March 23, 2006, TCOM issued 3,000,000 shares of TCOM's common stock, par value $0.001 per share, to three consultants of TCOM as consultancy fee at market price of $.54 resulting in an expense of $1,620,000. The consultants will provide the service to the Company for one year from January, 2006 to December, 2006,. The Company will amortise $1,620,000 over 12 months. (See note 9 on the details of the amortization of the stock-based compensation expenses.)

6. INCOME TAXES

British Virgin Islands

Alpha, the primary operating subsidiary, is incorporated in the British Virgin Islands and, under the current laws of the British Virgin Islands, is not subject to income taxes.

Hong Kong

The Company’s other subsidiaries, IC Star and Talent Leader are incorporated in Hong Kong and are subject to Hong Kong taxation on its activities conducted in Hong Kong and income arising in or derived from Hong Kong. No provision for Hong Kong profits tax has been made as the Company had no assessable income for Hong Kong. The applicable Hong Kong statutory tax rate for the quarter ended December 31, 2005 and 2004 are 17.5% and 17.5%, respectively.

PRC

Enterprise income tax in PRC is generally charged at 33% of a company’s assessable profit, in which 30% is a national tax and 3% is a local tax. For foreign investment enterprises established in a Special Economic Zone or Coastal Open Economic Zone, and which are engaged in production-oriented activities, the national tax rate could be reduced to 15% or 24% respectively. Companies which are incorporated in PRC are subject to a PRC enterprise income tax at the applicable tax rates on the taxable income as reported in their Chinese statutory accounts in accordance with the relevant enterprise income tax laws applicable to foreign enterprises. Pursuant to the same enterprise income tax laws, the subsidiaries are fully exempted from PRC enterprise income tax for two years starting from the first profit-making year, followed by a 50% tax exemption for the next three years. For those foreign enterprises established in the mid-western region of PRC, a 50% tax exemption for the next three years. For those foreign enterprises established in the middle west of PRC, a 50% tax exemption is granted for a further three years after the tax holiday and concession stated above. The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." No provision for Enterprises income tax in PRC has been made as the subsidiary has no assessable income for the year/period.

No provision for Enterprise income tax in the PRC had been made for the six months ended March 31, 2006 and 2005 The Company had no assessable taxable income in the PRC, due to the fact that it is exempt from PRC tax, based on the statutory provisions granting a tax holiday for a two year period, as stated above, or for the Company's operations, for the Company's years ended September 30, 2005 and 2006. The Company's first profit taking year was the year ended September 30, 2005, therefore tax will be due to the PRC, if the Company generates PRC taxable income, for the fiscal year ended September 30, 2007.

Based on the above statutory PRC tax provision, the Company believes that it is remote that any PRC tax liability will be due for the six months ended March 31, 2005 and 2004.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

7. COMMITMENTS AND CONTINGENCIES

Operating Leases - In the normal course of business, the Company leases office space under operating lease agreements. The Company rents office space, primarily for regional sales administration offices, in commercial office complexes that are conducive to administrative operations. The operating lease agreements generally contain renewal options that may be exercised at the Company's discretion after the completion of the base rental term. In addition, many of the rental agreements provide for regular increases to the base rental rate at specified intervals, which usually occur on an annual basis. As of March 31, 2006, the Company had operating leases that have remaining terms of 28 months. The following table summarizes the Company's future minimum lease payments under operating lease agreements as of March 31, 2006:

Year ended March 31,		
2006	$	237,080
2007		245,863
2008		67,785
	$	550,728

The Company recognizes lease expense on a straight-line basis over the life of the lease agreement. Contingent rent expense is recognized as it is incurred. Total rent expense in continuing operations from operating lease agreements was $121,282 and $11,268 for the six months ended March 31, 2006 and 2005 .

Obligations to purchase copyrights - On December 29, 2005, the Company had signed an agreement with Zestv Features Limited (“Zestv”) to purchase Zestv’s future rights to its music, films and TV programming copyrights of online content. The total obligation to Zestv is $2,500,000. As of March 31, 2006, the Company paid to Zestv a cumulative amount of $1,807,436 and recorded the payments as a prepaid expense.

8. STOCK PLAN

On June 8, 2005, a Registration Statement on Form S-8 was filed by TCOM with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act"), for registration under said Securities Act of an additional 30,000,000 shares of common stock in connection with TCOM's 2005 Stock Awards Plan (the "Plan").

All shares issued under the Plan may be either authorized and unissued shares or issued shares reacquired by TCOM. Under the Plan, no participant may receive in any calendar year (i) Stock Options relating to more than 10,000,000 shares, (ii) Restricted Stock or Restricted Stock Units that are subject to the attainment of Performance Goals of Section 13 hereof relating to more than 5,000,000 shares, (iii) Stock Appreciation Rights relating to more than 10,000,000 shares, or (iv) Performance Shares relating to more than 5,000,000 shares. No non-employee director may receive in any calendar year Stock Options relating to more than 1,200,000 shares or Restricted Stock Units relating to more than 500,000 shares. The shares reserved for issuance and the limitations set forth above shall be subject to adjustment. All of the available shares may, but need not, be issued pursuant to the exercise of Incentive Stock Options. The number of shares that may be issued under the Plan for benefits other than Stock Options or Stock Appreciation Rights shall not exceed a total of 30,000,000 shares.

In connection to TCOM's 2005 Stock Awards Plan, there were 8,000,000 shares of restricted stock, was issued during the six months ended March 31, 2006, refer to note 5. Such shares are “restricted securities” within the meaning of the

Securities Act of 1933 (the "1933 Act"). Total shares outstanding at March 31, 2006 were 85,188,000 shares.

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

9. STOCK-BASED COMPENSATION EXPENSES

In connection to the 2,600,000 shares of the Company's common stock issued on April 12, 2004 to various employees and consultants as part of their compensation at market price of $.62 with a total of $1,612,000, the Company expensed the salary bonus of $570,000 in the profit and loss for the year ended September 30, 2004 and amortized the consultancy fee of $1,042,000 over services period of a 24 month period. The terms for these agreements are 24 months starting from January 1, 2004 to December 31, 2005. It resulted in an expense of $43,416 for each month and the total expenses of $130,250 and $260,500 for the six months ended March 31, 2006 and 2005 respectively.

In connection to the 400,000 shares of the Company's common stock issued on June 12, 2004 to two consultants as part of their compensation at market price of $.32 with a total of $128,000, the terms for these agreements are 24 months starting from January 1, 2004 to December 31, 2005. It resulted in an expense of $5,333 for each month and the total expenses of $16,000 and $32,000 for the six months ended March 31, 2006 and 2005 respectively.

In connection to the 3,500,000 shares of the Company's common stock issued in July 22, 2005 to two consultants as part of their compensation at market price of $.24 with a total of $840,000, the terms for 1,500,000 of these shares totaled $360,000, is for the services to be rendered over 17 months from August, 2005 to December, 2006. Therefore, the Company amortized the total expense over a 17 month period which resulted in an expense of $21,176 for each month and the total expenses of $127,057 and $0 for the six months ended March 31, 2006 and 2005 respectively.

The terms for remaining 2,000,000 shares totaled $480,000, is for the services to be rendered over 24 months from August, 2005 to July, 2007. Therefore, we amortized the total expense over a 24 month period which resulted in an expense of $20,000 for each month and the total expenses of $120,000 and $0 for the six months ended March 31, 2006 and 2005 respectively.

In connection to the 1,000,000 shares of the Company's common stock issued on November 16, 2005 to Chief Financial Officer as part of their compensation at market price of $.49 with a total of $490,000, this was for compensation for a salary bonus and we accordingly expensed the whole amount of $490,000 in the profit and loss and was included in the six months ended March, 31, 2006.

In connection to the 4,000,000 shares of the Company's common stock issued in December 20, 2005 to two consultants as part of their compensation at market price of $.43 with a total of $1,720,000, the services are to be rendered over 24 months from December, 2005 to November, 2007. Therefore, we amortized the total expense over a 24 month period which resulted in an expense of $71,667 for each month and the total expense of $286,668 and $0 for the six months ended March 31, 2006 and 2005 respectively.

In connection to the 3,000,000 shares of the Company's common stock issued in March 23, 2006 to consultants as part of their compensation at market price of $.54 with a total of $1,620,000, the services terms are 12 months from January, 2006 to December, 2006, therefore, the Company amortized the total over 12 months and then there will be $135,000 for each month and we have amortized three months of $405,000 for the six months ended March 31, 2006.

As a result, the total stock compensation being amortized totals $1,574,975 and $292,500 for the six months ended March 31, 2006 and 2005 respectively.

10. SUBSEQUENT EVENT

On January 28, 2006, Alpha Century Holdings Limited, a wholly owned subsidiary of Telecom Communications, Inc. signed a letter of intent to acquire 100% of Wukuang IE, Limited with Wukuang's sole shareholder, Telecom Value Added, Inc. It is anticipated that the transaction will close on June 30, 2006, and, subject to certain terms and conditions, Alpha will pay an approximate aggregate amount equal to $6,000,000 in cash and notes to Telecom Value Added, Inc.

TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

11. RESTATEMENT OF PRIOR INTERIM CONDENSED FINANCIAL STATEMENTS - MARCH 31, 2005

The Company's interim financial statements have been restated to give effect to the following adjustment :

1) The Company bought the 20% of IC Star MMS on March 16, 2004. The Company recorded significant reorganization expenses in the statement of operations for the year ended September 30, 2004. Pursuant to SEC comments received after this filing, we have recorded these reorganization expenses as a deemed dividend paid out of additional paid in capital, instead of recording this transaction as an expense. This restatement does not change our total stockholders' equity but only increases our retained earnings and decreases our additional paid in capital.

2) Pursuant to the SEC comments received after the filing, we reallocated the depreciation of software related to the revenue of the company to cost of sales. Other depreciation expenses related to motor vehicles and office equipments and are stated in Selling, General and Administration Expenses. This had no impact on our prior earnings reported.

3) In March 2005, the SEC staff expressed their views with respect to SFAS No. 123R in Staff Accounting Bulletin No. 107, "Share-Based Payment," (SAB 107). SAB 107 provides guidance on valuing options. Now, we amortize the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. Also, that cost is recognized over the period during which the employee is required to provide services in exchange for the award.

The accompanying financial statements for the six months ended March 31, 2005 have been restated to reflect the corrections. The accumulated changes to the retained earnings at March 31, 2005 was increased by $8,565,667, including the decrease in the current earnings for the six months ended March 31, 2005of $292,500 and the total increase in retained earnings as at September 30, 2004 of $8,858,167.

The following is a summary of the restatements for the six months ended March 31, 2005

	Adjustment no:		Increase/(Decrease) in Current Earnings
Reclassification of the depreciation expenses on the software that sold to customers to cost of sales	2	$	(689,858)
Transfer of the depreciation which included in other selling, general and administrative to cost of sales and depreciation	2		689,858
Stock-based compensation expenses charged to Statement of Operation	3		(292,500)
Total decrease in the current earnings for the six months ended March 31, 2005			(292,500)
Credit to acquisition cost of the 20% interest of IC Star in 2004 and debit to the additional paid in capital	1		8,126,917
Transfer to deferred stock-based compensation	3		731,250
Total increase in retained earnings as at September 30, 2004			8,858,167

Total increase in retained earnings as at March 31, 2005	$	8,565,667

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TELECOM COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006

11. RESTATEMENT OF PRIOR INTERIM CONDENSED FINANCIAL STATEMENTS - MARCH 31, 2005 -CON'T

Restatement of Interim Condensed Balance Sheet as at March 31, 2005

	As Previously reported March 31, 2005	Restatement Adjustment March 31, 2005