

Edgar Filing: CITY NETWORK INC - Form 10QSB

CITY NETWORK INC
Form 10QSB
July 20, 2004

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: May 31, 2004

or

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

For the transition period from _____ to _____

Commission File Number: 001-31954

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)

#13F., NO. 77, HSIN TAI WU ROAD
SEC. HIS-CHIH, TAIPEI COUNTY
TAIWAN, REPUBLIC OF CHINA

(Address of principal executive offices) (Zip Code)

011-886-2-2698-8588

(Issuer's telephone number)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN
BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to
be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution
of securities under a plan confirmed by a court.

Yes No
--- ---

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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: 27,500,000

Transitional Small Business Disclosure Format (check one):

Yes ----- No X -----

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

| | May 31, 2004 (Unaudited) | February 29, 2004 |
|--|-----------------------------|---------------------|
| | ----- | ----- |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,745,979 | \$ 2,723,573 |
| Accounts receivable, net | 8,079,597 | 7,173,149 |
| Inventory | 538,474 | 910,190 |
| Other receivables | 101,449 | 126,492 |
| Prepaid expenses | 1,059,690 | 557,903 |
| | ----- | ----- |
| Total Current Assets | 11,525,189 | 11,491,307 |
| | ----- | ----- |
| Fixed Assets, net | 2,719,437 | 2,745,664 |
| | ----- | ----- |
| Total Fixed Assets | 2,719,437 | 2,745,664 |
| | ----- | ----- |
| Other Assets | | |
| Deposits | 301,126 | 255,706 |
| Trademarks | 1,927 | 1,966 |
| Equity in net assets of affiliated company | 770,845 | 770,678 |
| Intangible assets | 1,000,000 | 1,000,000 |
| Other current assets | 93 | 96 |
| | ----- | ----- |
| Total Other Assets | 2,073,991 | 2,028,446 |
| | ----- | ----- |
| Total Assets | \$16,318,617 | \$16,265,417 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|-------------------|-------------------|
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 6,475,389 | \$ 6,838,620 |
| Due to related party | 458,828 | 334,812 |
| Loan payable | 0 | 1,680,329 |
| Deferred revenue | 23,595 | 260,498 |
| Deposits payable | 0 | 4,371 |
| Current portion, long-term debt | 2,695,893 | 2,316,689 |
| | ----- | ----- |
| Total Current Liabilities | 11,334,034 | 11,435,319 |
| | ----- | ----- |
| Long-term debt, net of current portion | 380,240 | 263,041 |
| | ----- | ----- |

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| | | |
|---|--------------|--------------|
| Total Liabilities | 11,714,274 | 11,698,360 |
| <hr/> | | |
| Stockholders' Equity | | |
| Common stock, \$.001 par value, 100,000,000 shares authorized, 27,500,000 and 25,000,000 issued and outstanding, respectively | 27,500 | 25,000 |
| Additional paid in capital | 5,937,946 | 4,260,117 |
| Cumulative foreign-exchange translation adjustment | 53,019 | 29,663 |
| Retained earnings | 266,207 | 252,277 |
| <hr/> | | |
| Total Stockholders' Equity | 6,284,672 | 4,567,057 |
| <hr/> | | |
| Total Liabilities and Stockholders' Equity | \$16,318,617 | \$16,265,417 |
| <hr/> | | |

See accompanying notes.

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | |
|-------------------------------------|--------------------|-----------------|
| | May 31, 2004 | May 31, 2003 |
| | <hr/> | <hr/> |
| Sales, net | \$ 6,403,354 | \$ 4,742,451 |
| Cost of sales | 6,072,148 | 4,436,356 |
| | <hr/> | <hr/> |
| Gross profit | 331,206 | 306,095 |
| General and administrative expenses | 329,281 | 239,980 |
| | <hr/> | <hr/> |
| Income (loss) from operations | 1,925 | 66,115 |
| | <hr/> | <hr/> |
| Other (Income) Expense | | |
| Interest income | (782) | (11,783) |
| Other income | (2,557) | (4,932) |
| Rent income | (8,425) | 0 |
| Repair income | (45,064) | 0 |
| Gain on currency exchange | (1,392) | (369) |
| Equity in earnings of investee | (167) | 0 |
| Interest expense | 19,945 | 11,699 |

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| | | |
|--|------------|------------|
| Bad debt expense | 4,275 | 36,645 |
| Miscellaneous expense | 11,852 | 0 |
| | ----- | ----- |
| Total Other (Income) Expense | (22,315) | 31,260 |
| | ----- | ----- |
| Income (loss) before income taxes | 24,240 | 34,855 |
| Provision for income taxes | 10,310 | 4,548 |
| | ----- | ----- |
| Income (loss) | \$ 13,930 | \$ 30,307 |
| | ===== | ===== |
| | | |
| Net income (loss) per share (basic and diluted) | | |
| Basic | \$ 0.001 | \$ 0.001 |
| Diluted | \$ 0.001 | \$ 0.001 |
| | | |
| Weighted average number of shares | | |
| Basic | 25,833,333 | 24,500,000 |
| Diluted | 25,833,333 | 24,500,000 |

See accompanying notes.

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three Months Ended | |
|--|--------------------|-----------------|
| | May 31, 2004 | May 31, 2003 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income (loss) | \$ 13,930 | \$ 30,307 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 27,280 | 6,596 |
| Equity in earning of investee | (167) | 0 |
| Bad debt | 4,275 | 36,645 |
| Gain on foreign currency exchange | (1,392) | (369) |
| Decrease (Increase) in receivables | (906,448) | (2,698,764) |
| Decrease (Increase) in inventory | 371,716 | 163,684 |
| Decrease (Increase) in other receivables | 25,043 | (101,511) |
| Decrease (Increase) in prepaid expenses | (501,787) | (258,975) |
| Decrease (Increase) in deferred charges | 0 | 2,447 |
| Decrease (Increase) in deposit | (45,420) | (108,711) |
| Decrease (Increase) in other current assets | 3 | (317,442) |

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| | | |
|--|--------------|------------|
| (Decrease) Increase in accounts payable and accrued expenses | (363,231) | 2,975,698 |
| (Decrease) Increase in deferred revenue | (236,903) | 0 |
| (Decrease) Increase in deposits payable | (4,371) | 0 |
| | ----- | ----- |
| Total Adjustments | (1,631,402) | (300,702) |
| | ----- | ----- |
| Net cash used in operations | (1,617,472) | (270,395) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investment | 0 | 108,594 |
| Purchase of furniture and equipment | (933) | (21,403) |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | (933) | 87,191 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment on current portion debt | (1,198,086) | (42,911) |
| Loan from related party debt | 124,015 | 290,582 |
| Issuance of notes payable | 477,953 | 0 |
| Issuance of short-term debt | 1,214,386 | 306,328 |
| | ----- | ----- |
| Net cash provided by financing activities | 618,269 | 553,999 |
| | ----- | ----- |
| Effect of exchange rate | 22,543 | (23,038) |
| Net change in cash and cash equivalents | (977,593) | 347,757 |
| | ----- | ----- |
| Cash and cash equivalents at beginning of year | 2,723,573 | 620,264 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 1,745,980 | \$ 968,021 |
| | ===== | ===== |
| Supplemental cash flows disclosures: | | |
| Income tax payments | \$ 0 | \$ 0 |
| | ----- | ----- |
| Interest payments | \$ 19,945 | \$ 11,699 |
| | ----- | ----- |
| Non cash transaction: | | |
| Conversion of debt to equity | \$ 1,680,329 | \$ 0 |

See accompanying notes.

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(FORMERLY INVESTMENT AGENTS, INC.)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | May 31, 2004 (Unaudited) ----- | February 29, 2004 ----- |
|--|--------------------------------------|----------------------------|
| Common stock, number of shares outstanding | | |
| Balance at beginning of period | 25,000,000 | 24,500,000 |
| Stock cancellation | 0 | 0 |
| Stock split | 0 | 0 |
| Common stock issued | 2,500,000 | 500,000 |
| | ----- | ----- |
| Balance at end of period | 27,500,000 | 25,000,000 |
| | ===== | ===== |
| Common stock, par value \$.001 (thousands of shares) | | |
| Balance at beginning of period | \$ 25,000 | \$ 24,500 |
| Stock cancellation | 0 | 0 |
| Stock split | 0 | 0 |
| Common stock issued | 2,500 | 500 |
| | ----- | ----- |
| Balance at end of period | 27,500 | 25,000 |
| | ----- | ----- |
| Additional paid in capital | | |
| Balance at beginning of period | 4,260,117 | 3,540,617 |
| Common stock issued | 1,677,829 | 719,500 |
| | ----- | ----- |
| Balance at end of period | 5,937,946 | 4,260,117 |
| | ----- | ----- |
| Cumulative foreign-exchange translation adjustment | | |
| Balance at beginning of period | 29,663 | 0 |
| Foreign currency translation | 23,356 | 29,663 |
| | ----- | ----- |
| Balance at end of period | 53,019 | 29,663 |
| | ----- | ----- |
| Total stockholders' equity at end of period | \$ 6,284,672 | \$ 4,567,057 |

See accompanying notes.

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2004

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NOTE 1 - NATURE OF OPERATIONS

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". When used in these notes, the terms "Company," means City Network, Inc. and its subsidiaries.

On November 14, 2002, City Network Technology, Inc became a wholly owned subsidiary of City Network, Inc. through an Exchange Agreement, which was amended on December 4, 2002 whereby City Network, Inc. acquired all of the issued and outstanding capital stock of City Network Technology, Inc. in exchange for 12,000,000 shares of City Network, Inc.

The Company is a provider of internet broadband and wireless infrastructure equipment and service for the rapidly expanding broadband marketplace. The Company intends to be an important provider of these services predicated upon their dedication to delivering user friendly, cost effective, and customer tailored, high speed internet access equipment to meet the business needs of the hospitality, residential property and telecommunication industry worldwide.

The Company operates in an industry characterized by significant competition and rapid technological changes. The Company will need additional investments and funding in order to complete the development and improvements necessary for its products and its planned operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information - The accompanying financial statements have been prepared by City Network, Inc., pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") Form 10-QSB and Item 310 of Regulation S-B, and generally accepted accounting principles for interim financial reporting. These financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary for a fair presentation of the statement of financial position, operations, and cash flows for the periods presented. Operating results for the three months ended May 31, 2004 and 2003 are not necessarily indicative of the results that may be expected for the year ending February 28, 2005, or any future period, due to seasonal and other factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting policies have been omitted in accordance with the rules and regulations of the SEC. These financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes, included in the Company's Annual Report for the year ended February 29, 2004.

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2004

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Basis of Consolidation - The consolidated financial statements for 2004 include the accounts of City Network, Inc., and it's wholly owned subsidiary 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.

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.

Cash and Cash Equivalents - Cash equivalents are stated at cost. Cash equivalents are highly liquid investments readily convertible into cash with an original maturity of three months or less and consist of time deposits with commercial banks.

Allowance for Doubtful Accounts - The Company establishes an allowance for doubtful accounts on a case-by-case basis when it believes the required payment of specific amounts owed is unlikely to occur after a review of historical collection experience, subsequent collections and management's evaluation of existing economic conditions.

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. Whenever an asset is retired or disposed of, its cost and accumulated depreciation or amortization is removed from the respective accounts and the resulting gain or loss is credited or charged to income.

Depreciation is computed using the straight-line and declining-balance methods over the following estimated useful lives:

| | |
|--------------------------------|----------|
| 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 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 periods ended May 31, 2004 and 2003.

Trademarks and other intangible assets determined to have indefinite useful lives are not amortized. We test 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.

Inventory - Inventory is valued at the lower of cost or market; cost is determined on the weighted average method. As of May 31, 2004, inventory consisted only of finished goods.

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(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MAY 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. As of May 31, 2004 and the date of our report, management has informed us that there are no matters that warrant disclosure in the financial statements.

Advertising - Advertising costs are expensed in the year incurred.

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.

Concentration of Credit Risk - Financial instruments, which subject the Company to credit risk, consist primarily of cash equivalents and trade accounts receivable arising from its normal business activities. The Company places its cash in what it believes to be credit-worthy financial institutions, however, cash balances have exceeded the FDIC insured levels at various times during the year. Concentration of credit risk with respect to trade accounts receivable is primarily from customers located in Asia. The Company actively evaluates the creditworthiness of the customers with which it conducts business through credit approvals, credit limits and monitoring procedures.

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2004

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Based Compensation - The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation cost is recognized over the vesting period based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock.

Impairment of Long-Lived Assets - On January 1, 2002 the Company adopted SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. There have been no such impairments to date.

Earnings Per Share - Earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Earnings per share are computed using the treasury stock method. The options to purchase common shares are considered to be outstanding for all periods presented but are not calculated as part of the earnings per share.

Income Taxes - Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. The income tax rates imposed by the taxing authorities vary. Taxable income may vary from pre-tax income for financial accounting purposes. There is no expected relationship between the provision for income taxes and income before income taxes because the countries have different taxation rules, which vary not only to nominal rates but also in terms of available deductions, credits and other benefits. Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities using the applicable tax rates in effect at year end as prescribed by SFAS 109 "Accounting for Income Taxes".

Exchange Gain (Loss) - As of May 31, 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.

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Translation Adjustment - As of May 31, 2004, the accounts of City Network, Inc.

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- 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 with Statement of Financial Accounts Standards ("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 May 31, 2004 and 2003 the exchange rates between NTD and the USD was NTD\$1=USD\$0.02992 and NTD\$1=USD\$0.02879. The weighted-average rate of exchange between NTD and USD was NTD\$1 = USD\$0.03003 and NTD\$1=USD\$0.02874. Total translation adjustment recognized for the period ended May 31, 2004 and 2003 is \$53,019 and \$29,633 respectively.

New Accounting Pronouncements - In October 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires companies to record the fair value of a liability for asset retirement obligations in the period in which they are incurred. The statement applies to a company's legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, and development or through the normal operation of a long-lived asset. When a liability is initially recorded, the company would capitalize the cost, thereby increasing the carrying amount of the related asset. The capitalized asset retirement cost is depreciated over the life of the respective asset while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount or the company incurs a gain or loss. The statement is effective for fiscal years beginning after June 30, 2003. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003) ("Interpretation 46"), "Consolidation of Variable Interest Entities." Application of this interpretation is required in our financial statements for interests in variable interest entities that are considered to be special-purpose entities for the year ended February 29, 2004. Our Company determined that we do not have any arrangements or relationships with special-purpose entities. Application of Interpretation 46 for all other types of variable interest entities is required for our Company effective March 31, 2004.

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interpretation 46 addresses the consolidation of business enterprises to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This interpretation focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential rewards from the variable interest entity's assets and activities are the best

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evidence of control. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary is required to include assets, liabilities and the results of operations of the variable interest entity in its financial statements.

Our Company holds interests in certain entities currently accounted for under the equity method of accounting that are not considered variable interest entities. We do not expect compliance with Interpretation 46 to have an impact on our financial statements.

NOTE 3 - CONCENTRATION

The Company had ten major customers during the three months ended May 31, 2004. Those customers comprise 80.5% of the total sales during the first quarter ended May 31, 2004. Sales to these customers were approximately \$5,158,380. Included in accounts receivable is \$2,917,302 from these customers as of May 31, 2004.

Note 4 - CASH

The Company maintains its cash balances at various banks in Taiwan and Hong Kong. All balances are insured by the Central Deposit Insurance Corporation (CDIC). As of May 31, 2004 and 2003, there were no uninsured portions of the balances held at the bank.

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2004

Note 5 - FIXED ASSETS

Fixed assets consist of the following:

| | May 31, 2004 ----- | February 29, 2004 ----- |
|--------------------------|-----------------------|----------------------------|
| Land | \$ 1,966,694 | \$ 1,966,694 |
| Building | 305,429 | 305,429 |
| Machinery and equipment | 428,057 | 427,126 |
| Furniture and fixtures | 142,402 | 142,402 |
| | ----- | ----- |
| | \$ 2,842,582 | \$ 2,841,651 |
| Accumulated depreciation | (123,145) | (95,987) |
| | ----- | ----- |
| | \$ 2,719,437 | \$ 2,745,664 |
| | ===== | ===== |

Note 6 - COMPENSATED ABSENCES

Employees can 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

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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 May 31, 2004 no accumulated vacation liability exists.

Note 7 - COMMITMENTS

A Best Information - City Network, Inc. - Taiwan, signed an agreement with A Best Information in 2002 for the exclusive right to sell A Best Information's products. There is no expiration date in the agreement, and the Company has the right to transfer the agreement to any third party with a negotiable price. The Company paid \$1,000,000 for these rights.

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 Agreement - In April 2004, City Construction Co., Ltd. entered into a Co-Construction Agreement with another company in Taipei, Taiwan. Under the Agreement, the Company will finance, construct and own 50% of the building project. The Company has not yet begun construction on the building.

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CITY NETWORK, INC. AND SUBSIDIARIES (FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MAY 31, 2004

Note 7 - COMMITMENTS (continued)

Operating Leases - The Company leases three office facilities under operating leases that terminate on various dates. Rental expense for these leases consisted of \$20,722 and \$0 for the three months ended May 31, 2004 and 2003. The Company has future minimum lease obligations as follows:

| Year ending May 31, ----- | |
|---------------------------------|----------|
| 2005 | \$54,973 |
| | ----- |
| Total | \$54,973 |
| | ===== |

Note 8- 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 May 31, 2004 the Company recognized a loss \$1,507 from their acquisition.

Note 9 - DEBT

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At May 31, 2004, the Company had notes payable outstanding in the aggregate amount of \$3,076,133. Payable as follows:

| | |
|---|------------|
| Note payable to a bank in Taiwan, interest at 3.77% per annum, due on December 30, 2004 | \$ 269,100 |
| Note payable to a bank in Taiwan, interest at 3.77% per annum, due on June 13, 2004 | 119,600 |
| Note payable to a bank in Taiwan, interest at 3.77% per annum, due on June 26, 2004 | 118,370 |
| Note payable to a bank in Taiwan, interest at 3.77% per annum, due on July 1, 2004 | 171,820 |
| Note payable to a bank in Taiwan, interest at 3.77% per annum, due on July 9, 2004 | 100,913 |

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2004

Note 9- DEBT (continued)

| | |
|---|---------|
| Note payable to a bank in Taiwan, interest at 3.77% per annum, due on July 30, 2004 | 19,779 |
| Note payable to a bank in Taiwan, interest at 3.77% per annum, due on Sept. 14, 2004 | 34,531 |
| Note payable to a bank in Taiwan, interest at 3.77% per annum, due on Sept. 16, 2004 | 39,106 |
| Note payable to a bank in Taiwan, interest at 3.77% per annum, due on Sept. 23, 2004 | 275,919 |
| Note payable to a bank in Taiwan, interest at 4.25% per annum, due on August 25, 2004 | 328,352 |
| Note payable to a bank in Taiwan, interest at 4.25% per annum, due on | |

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| | |
|---|---------|
| August 25, 2004 | 289,054 |
| Note payable to a bank in Taiwan, interest at 4.25% per annum, due on Sept. 19, 2004 | 148,765 |
| Note payable to a bank in Taiwan, interest at 4.25% per annum, due on October 23, 2004 | 250,432 |
| Note payable to a bank in Taiwan, interest at 4.25% per annum, due on October 4, 2004 | 75,666 |
| Notes payable to a bank in Taiwan, interest at 4.25% per annum, due on June 12, 2004 | 1,346 |
| Secured note payable to a bank in Taiwan, interest at 3.175% per annum, due on May 29, 2016 | 274,706 |

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2004

NOTE 9. DEBT (continued)

| | |
|---|------------|
| Secured note payable to a bank in Taiwan, interest at 4.25% per annum, due on June 12, 2005 | 10,721 |
| Note payable to a corporation, interest at 6.25% per annum, due on November 20, 2005, personally guaranteed by an Officer of the Company | 477,953 |
| | ----- |
| | 3,076,133 |
| Current portion | 2,695,893 |
| Long-term portion | \$ 380,240 |
| | ===== |

Note 10 - EXCHANGE AGREEMENT

On November 14, 2002, City Network Technology, Inc became a wholly owned subsidiary of City Network, Inc. through an Exchange Agreement, which was amended on December 4, 2002. City Network, Inc. acquired all of the issued and outstanding capital stock of City Network Technology, Inc. pursuant to the Exchange Agreement, by issuing 12,000,000 shares of City Network, Inc. stock.

In connection with the exchange and change in control the name of the Company

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was changed from Investment Agents, Inc. to City Network, Inc. and the officers and directors of City Network, Inc. resigned and new officers and directors were appointed.

Note 11 - STOCK PURCHASE BUSINESS COMBINATION

On November 14, 2002, the Company completed the purchase of City Network Technology, Inc., a provider of internet broadband and wireless infrastructure equipment and service for the rapidly expanding broadband marketplace, by acquiring all of the outstanding capital stock of City Network Technology, Inc. in exchange for 12,000,000 shares of City Network, Inc.'s common stock. The acquisition was accounted for using the purchase method of accounting and, accordingly, City Network, Inc.'s results of operations have been included in the consolidated financial statements since the date of acquisition.

Note 12 - 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. As of May 31, 2004, the Company has a non interest-bearing loan from Andy Lai, the Company's President, in the amount of \$458,828. Mr. Lai has also personally guaranteed a note payable of the Company in the amount of \$477,953.

Note 13 - COMMON STOCK

In May 2004, the Company issued 2,500,000 shares of its common stock in exchange 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.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto. The following discussion contains certain forward-looking statements that involve risk and uncertainties. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, risks and uncertainties related to the need for additional funds, the rapid growth of the operations and our ability to operate profitably after the initial growth period is completed.

THREE MONTHS ENDED MAY 31, 2004 AND MAY 31, 2003 FOR CITY NETWORK, INC. AND FOR CITY NETWORK-TAIWAN

SALES. Net sales for the three months ended May 31, 2004 were \$6,403,354 compared to \$4,742,451 for the three months ended May 31, 2003. The increase in sales for the three months ended May 31, 2004 was due to the Company's aggressive approach in diversifying and developing its sales products. CNT-Taiwan's net sales for the three months ended May 31, 2004 were \$6,403,354 compared to \$4,742,451 for the three months ended May 31, 2003. The increase in sales was due to CNT-Taiwan's aggressive approach in diversifying and developing its sales products.

COST OF SALES. Cost of sales for the three months ended May 31, 2004 was \$6,072,148 or 94.8% of net sales, as compared to \$4,436,356 during the three months ended May 31, 2003. CNT-Taiwan's cost of sales for the three months ended

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May 31, 2004 was \$6,072,148, or 94.8% of net sales, as compared to \$4,436,316 or 93.54 % of net sales, for the three months ended May 31, 2003. The increase in cost of sales is related to the increase in sales.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were \$329,281, or 5.1% of net sales, for the three months ended May 31, 2004, as compared to \$239,980 for the three months ended May 31, 2003. The increase was due to increased marketing and promotion costs related to new products and an increase in salary expense related to hiring new employees to increase marketing and promotion development. CNT-Taiwan's general and administrative expense for the three months ended May 31, 2004 was \$364,818 or 5.7 % of net sales as compared to \$266,040, or 5.61% for the three months ended May 31, 2003. The increase was due to increased marketing and promotion costs related to new products and an increase in salary expense related to hiring new employees to increase marketing and promotion development.

INCOME (LOSS) FROM OPERATIONS. Income from operations for the three months ended May 31, 2004 was \$1,925, compared to income from operations for the three months ended May 31, 2003 of \$66,115. The decrease in income from operations was due to the gross profit rate decreasing and general & administrative expenses increasing. CNT-Taiwan's income from operations for the three months ended May 31, 2004 was \$10,420 as compared to income from operations of \$76,700 for the three months ended May 31, 2003. This decrease is primarily due to the gross profit rate decreasing and general & administrative expenses increasing.

OTHER (INCOME) EXPENSE. Other (income) expense was \$(22,315) for the three months ended May 31, 2004, as compared to \$31,260 for the three months ended May 31, 2003. This increase in other income was the result of rental income and non-operating income, such as maintenance revenue. CNT-Taiwan's other (income) expense for the three months ended May 31, 2004 was \$22,302, as compared to \$31,260 for the three months ended May 31, 2003. The increase in other income is attributed to rental income and non-operating income, such as maintenance revenue.

NET INCOME (LOSS). Net income for three months ended May 31, 2004 was \$13,930 compared to net income of \$30,307 for the three months ended May 31, 2003. The decrease in net income is due

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to the gross profit rate decreasing and general and administrative expense increasing. CNT-Taiwan had a net income for the three months ended May 31, 2004 of \$22,245 as compared to net income of \$40,932 for the three months ended May 31, 2003. The decrease in net income is due to the gross profit rate decreasing and general and administrative expense increasing.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended May 31, 2004, the Company had cash and cash equivalents of \$1,745,979. The Company used \$1,617,472 of net cash in operations, used \$933 of net cash in investing activities and had \$618,269 of net cash provided by financing activities. The Company's liquidity is currently dependent on its ability to strengthen its accounts receivable collection time period and its ability to continue to raise cash from financing sources to fund its expansion. The Company's short-term and long-term liquidity may be influenced by uncollected accounts receivables. If the amount of bad debt is high, it will severely effect the Company's ability to continue operations. Therefore, the Company is taking precautions to manage this risk, including diversifying its customer base and controlling credit risk through credit approvals, credit limits and monitoring procedures. There can be no assurance that these measures will prove successful. The Company's inability to manage

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this risk will have a material adverse effect upon its business, financial condition and results of operations.

ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including our chief executive officer and the chief financial officer, the Company 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, the Company's chief executive officer and chief financial officer concluded as of the Evaluation Date that the Company's disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to the 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 the Company's internal controls or in other factors that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting..

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In May 2004, the Registrant issued 2,500,000 shares of its common stock in exchange for the conversion in full of a note and short term debt payable to third parties in the amount 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. The shares were not registered and are exempted securities under Section 3(a)(9) of the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 31 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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32 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended May 31, 2004.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: July 20, 2004

CITY NETWORK, INC.

By: /s/ Tiao Tsan Lai

Tiao Tsan Lai
Chief Executive Officer
(Principal Executive Officer)

Dated: July 20, 2004

By: /s/ Hsin Nan Lin

Hsin Nan Lin
Chief Financial Officer
(Principal Financial Officer)

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