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CITY NETWORK INC
Form 10KSB
June 14, 2004

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 FEBRUARY 29, 2004

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 333-61286

CITY NETWORK, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

88-0467944
(I.R.S. Employer
Identification No.)

#13F., NO. 77, HSIN TAI WU ROAD, SEC.
HIS-CHIH, TAIPEI COUNTY, TAIWAN, ROC
(Address of principal executive offices)

N/A
(Zip Code)

ISSUER'S TELEPHONE NUMBER: 011-886-2-2698-8588

SECURITIES REGISTERED UNDER SECTION 12(B) OF THE ACT:

\$0.001 COMMON STOCK
(Title of Class)

SECURITIES REGISTERED UNDER SECTION 12(G) OF THE ACT:

NONE

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 disclosure of delinquent filers pursuant to Item 405 of Regulation S-K
is not contained herein, and will not be contained, to the best of registrant's
knowledge, in definitive proxy or information statements incorporated by
reference in Part II of this Form 10-K or any amendments to this Form 10-K. [X]

The issuer's revenues for the fiscal year ended February 29, 2004: \$19,647,749.

As of February 29, 2004, there were 25,000,000 shares of the registrant's Common
Stock, \$0.001 par value, outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

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

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FACTORS THAT MAY AFFECT FUTURE RESULTS

The discussion contained herein contains "forward-looking statements" that involve risk and uncertainties. These statements may be identified by the use of terminology such as "believes," "expects," "may," "will," "should" or "anticipates" or expressing this terminology negatively or similar expressions or by discussions of strategy. The cautionary statements made in this Form 10-KSB report should be read as being applicable to all related forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed in this report.

Important factors that could cause or contribute to such differences include those discussed under the caption entitled "Risk Factors," as well as those discussed elsewhere in this Form 10-KSB.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

BACKGROUND OF THE COMPANY

City Network, Inc., a Nevada corporation, was incorporated in 1996 and is a provider of 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 were originally incorporated on August 8, 1996 as Investment Agents, Inc. ("Investment Agents") and acted as a referral agent and collected selling commissions for referring customers who purchased Verio, Inc.'s ("Verio") domain registration services, web hosting services and e-commerce services. On December 11, 2002, we acquired all of the issued and outstanding stock of City Network Technology, Inc. (formerly Gelcrest Investments Limited), a British Virgin Islands company ("CNT"), pursuant to an Amended Exchange Agreement dated November 14, 2002 and amended on December 11, 2002 by and among CNT, the shareholder of CNT, Pamela Ray Stinson, Raymond Robert Acha, Joseph H. Panaganiban and Investment Agents (the "Exchange Agreement"). CNT is the parent company 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").

Pursuant to the Exchange Agreement, CNT became a wholly-owned subsidiary of City Network (then known as Investment Agents), and in exchange for the CNT shares, we issued 12,000,000 shares of its common stock to the shareholders of CNT, representing 49% of City Network's outstanding stock at that time. In connection with the exchange and change in control, the name of the company was changed from Investment Agents to City Network, 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, City Network ceased its relationship with Verio and no longer acts as a referral agent for Verio.

BUSINESS OF THE COMPANY

With the continuous expansion of the internet worldwide, we intend to capitalize on what we believe to be vast underdeveloped and overlooked new and emerging growth internet markets. Together with a combination of technical, sales, design and manufacturing experience, we believe that we are poised to tap the potential of new clients throughout the globe. Our customers have the choice to source what we believe to be one of the most convenient, low-cost and diverse product packages combined with the best personal service to make up a comprehensive business solution.

We design, manufacture and market a comprehensive line of broadband communication and wireless internet access solutions. Our product line ranges from our device for the blooming worldwide 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

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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 are able to provide a "total solution" for any customers needs. Our motto is "Establish the Broadband Highway, Innovate A Bright New Life."

PRODUCT AREAS

Our product repertoire contains items compatible with all major distribution platforms. We believe that our product packages and selections give clients a one-stop shop for all their broadband internet needs.

ADSL/VDSL Access Devices

Our ADSL/VDSL devices provide broadband access based on leading internet technologies. The 20Mbps VDSL over Ethernet equipment allows both developing businesses as well as home users to meet their media and communication needs quickly and in a cost-effective manner. It can also provide high speed internet without influencing quality over a larger distance for a cost-effective and efficient method of broadband access. We believe that the low level of maintenance required and high level of connectivity should be able to meet market demand 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.

Wireless Communication Products

Our wireless networking products allow computers and appliances to communicate through radio signals, providing added mobility and convenience. With the development of our IEEE802.11 and IEEE802.1x wireless solutions, both individual and corporate clients can enjoy work environments free of cords and wires. 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, one of Taiwan's leading wireless ISP companies, we have provided solutions to Korea Life Insurance in connection with their 1600 Enterprise Hot Spot Project. Easy-Up established Taiwan McDonald's 365 stores Hot Spot solution and the Mobile Taiwan project. We also extended our wireless Hot Spot solution business with China Putian.

Also, as a result of our relationship with International Telecoms, we expanded our business to mobile handsets, including GSM/GPRS, CDMA/CDMA 2000 IX Mobile handsets. We also cooperated with Korean and Taiwan partners to develop and expand our business in Africa and other Asian countries.

Fiber and Other Important Access Equipment

FTTB (Fiber to Building) and FTTH (Fiber to Home) was a new growth market

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for us. To meet our customer's needs we began outsourcing the Fiber solutions last year, and have already shipped these solutions to Korea and Malaysia.

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.

GPS MODULE

The GPS solution is another new market for us. We began outsourcing our GPS solution last year and have shipped this solution to Korea.

CORPORATE PROFILE

We believe that we deliver the most comprehensive solution in the market for broadband qualification, installation and support. It is our goal to simplify how people access the internet through easy-to-use broadband connectivity products and solutions. Our product offerings and development efforts are focused on increasing the speed and efficiency of the "last mile" portion of communications networks. Through a combination of fixed-wire and wireless products, our network equipment connects internet service providers to their end users.

We are growing fast and are one of the leading technology developers of broadband and wireless networking products. We have gained industry recognition for developing high performance broadband access

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solutions. City Network's range of products provide a complete solution for providing high speed broadband internet access in homes, airports, convention centers, hotels and other public establishments. Simplicity of use, ease of implementation and cost-effectiveness are the cornerstones of our solution. We are quickly evolving into a global company with rapid expansion of our distribution network and marketing offices in North and South America, Europe, Japan and the entire Asia Pacific region.

PRODUCTS

We believe that the core of today's communications networks are components that enhance the speed, bandwidth and quality of internet/data, video and voice transmissions. Our fiber, copper, and wireless connectivity components serve as the critical junction and connection points that link one network to another. We believe that we have both the agility and depth to deliver tailored and exact solutions to meet customers' needs. We offer products for several technology platforms. We believe we have the capability of delivering high speed broadband access to the end user whether they are at home, in the office or on the road.

Cable/Optical Networking Products

- Our cable and optical products multiplies bandwidth among all users over tree-based topology coax or optical cables.
- We are able to custom design this product to meet large systems integrators and telecommunications companies' needs.
- Our products are designed to be easily set-up, integrated and maintained to meet the needs of multi-dwelling unit buildings and large office

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complexes.

XDSL Products

- xDSL is an alternate and lower cost technology to connect to the internet. xDSL is substantially cheaper than a T1 line which can cost from \$1,000 to \$2,000 for installation and equipment.
- xDSL does not require a high-level technical support structure. xDSL can often cost under USD\$100 to \$300 to install and implement making it most suitable to small businesses and telecommuters who cannot afford a T1 line.
- Our xDSL standard can achieve 13-54 Mbps and higher rates of data transfer. We are able to provide the QAM or DMT solution with what we believe is higher quality at a low cost.
- Our ADSL Solution has received certification by China Telecom and China Network Communication.

Home Phone Line Wiring (HPNA)

- Our HPNA products allow for networking a home using the existing phone wiring.
- Our HPNA 2.0 standard can achieve 10-16Mbps and higher rates of data transfer.
- HPNA technology allows up to twenty-five computers to connect simultaneously using the same internet source.
- Compatible with POTS telephony and ADSL signaling on the same wire.

Wireless

- 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 family 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

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

MARKET OVERVIEW

Information is proliferating worldwide, and demand for that information, by businesses, governments, universities and individuals is exploding, driven

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primarily by the exponential increase in use of the internet for communications, information gathering and electronic commerce.

As business becomes more complex and geographically diverse, the demand for information, delivered to the "transaction point," wherever in the world that point might be, has fueled the increase in networks and computer connectivity systems. These trends have created an ever-increasing demand for bandwidth to accommodate both internet and network traffic. However, we do not believe that the growth and technological advancement of the hardware backbone for networking and computer connectivity has kept pace with that demand. We believe that the worldwide struggle to bring networking and computer connectivity hardware up to the level of demand represents a business opportunity for us. Our strategic objective is to become a leading designer and manufacturer in the networking and computer connectivity equipment industry.

BUSINESS STRATEGY

The networking and computer connectivity industry is characterized by rapid technological change. To maintain and enhance our competitive position, we constantly adapt to technological changes by upgrading and expanding our product line, and eliminating obsolete products within that line.

We believe that the networking and computer connectivity industry is also characterized by inevitable price erosion across the life cycle of products and technologies. To maintain profitability in the face of constantly shrinking gross margins, our strategy is to seek out low cost producers without sacrificing quality and to develop and maintain efficient internal operations which would allow us to control our expenses.

We are constantly expanding and changing product lines to increase the total number of products offered to attract new customers, to penetrate new geographic and vertical markets and to increase gross sales. By expanding our product line to include products for different technologies, frequencies and connection configuration, we have been able to expand sales activities into a number of new markets.

Seven years ago City Network Inc.-Taiwan developed and expanded the Home PNA business. In order to establish good business relationships with telecommunication companies we prepared a variety of solutions for them, including project proposals. We believe that because of our willingness to assist these companies in the past, we will be successful in expanding our business relationships with these companies.

INDUSTRY GROWTH DRIVERS

Growing Need for Additional Bandwidth

We believe that the computer networking industry is witnessing a growing demand for additional bandwidth as a result of the popularity of the internet and global need for rapid, current information. We believe that many people who use the internet cannot access information/download pages quickly because their ISP's hardware is out-dated or low-quality and therefore unable to process hundreds of thousands of requests simultaneously. This is a particularly acute problem during peak hours and in markets with little infrastructure. Therefore, we are focused on improving the quality of internet connectivity in systems worldwide.

In-Home Networking Systems

We believe that an emerging market opportunity exists in connecting household appliances and computers in homes. With our HPNA networking products, we believe numerous applications can be developed to program, control and

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interact with home heating, lighting, security, and appliances. We believe advances such as these will spur growth and encourage innovation worldwide and we believe that we are in a position to help make these technologies accessible.

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Proliferation of Handheld/Communication Devices

We believe that the cornerstone on which the new economy is built is the timely delivery and access to information at any location. We believe that the growth and productivity of today's business economy is reliant upon the accuracy, efficiency and accessibility to data and communication. With the growth in popularity of handheld/communication devices and their great functional complexity, consumers will be able to access a wide array of multimedia content wherever they may be located. We believe that in the future, mobile phones and PDA's will enjoy unhindered access to rich multimedia content via the internet and it is our intention to play a role in this type of transaction.

Expansion of PC's Into Developing Countries

As PC's become ubiquitous throughout the world's emerging economies, we believe the number of high capacity PC's with added features and better voice/image quality will increase exponentially. We believe that the spread of the information economy will continue to drive and enable developing countries to utilize internet technology.

Growth of the Internet

The growth of the internet has forced many telecommunication service providers to replace their voice networks with more efficient, data-oriented packet networks. We believe that the increased demand for services and data over the internet will require companies to upgrade their infrastructure to meet demand. We are partnering with local telecommunications companies to develop new, cost effective and complete solutions for broadband internet access in new markets.

GROWTH/EXPANSION STRATEGY

It is our strategic objective to become a leader in the computer and network connectivity equipment market, and to make our name synonymous with excellence and state-of-the-art hardware in this segment.

Providing Integrated Solutions

We provide voice, data and internet solutions which are capable of being integrated into one seamless IP-based communications network. We believe that an integrated solution will cost effectively connect an unlimited variety of applications and services, enabling broader choice of devices for customer services provided over a common platform.

Explore Additional Revenue Generating Services

We believe that unlocking content (voice, data, video, text, commerce, etc.) so it can flow unfettered among applications will have the potential to provide a future revenue source. We believe that the creation of content and the precision delivery to targeted clients and markets will also become increasingly important. Some examples include news, online shopping, gaming, video, security and other relevant content.

Building International Presence

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We believe that the low penetration rate of broadband internet in developing countries has created an enormous opportunity for us. The demand for internet throughout the world creates opportunity in otherwise unexpected venues. Particularly in new and emerging growth markets, we intend to continue partnering with individuals, companies and governments in these areas as part of our growth strategy.

Partnering, Acquiring and Cooperating with Third Parties

We believe that our success has been largely due to the fact that we have established long term relationships with system integrators, electronics manufacturers and telecommunication companies. Joint ventures

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and cooperative efforts have been the hallmark of our development into new areas. In the future, we intend to continue expanding through mergers and other cooperative synergies. We believe that the blending of manufacturing expertise, market savvy and local know-how will contribute to our growth in the future.

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 also focus our sales efforts on service providers and systems integrators for WLAN systems and private broadband systems. We have also expanded our sales efforts to the mobile handset market and the 3G market. 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, Asia and Africa. We do our best to expand our business with our existing customers and to develop new partners and customers through our good product solutions, great service and good costs.

SERVICE PROVIDERS

Over 100 independent operating companies in over 20 countries now use our products to deliver Internet service over HomePNA, xDSL and other broadband networks. Our customers include a cross-section of small, medium and large telecommunications companies in the United States, Asia and Europe. 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 and Singapore, the latter of which 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, we were also appointed by McDonalds to set up WLAN services in approximately 360 McDonalds stores in Taiwan.

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

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China Telecom in China.

MARKETING, SALES AND CUSTOMER SUPPORT

Marketing

We seek to increase demand for our products and to expand both the visibility of the 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 a select group of 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. In 1999, we opened a sales office in Shanghai and partnered with Shanghai Telecom to establish their HomePNA + xDSL Internet service project. We now have a sales presence in China. We believe that our products can serve a substantial market for digital and high-speed data access products outside of the United States.

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Customer Support

We believe that consistent high-quality service and support is a key factor in attracting and retaining customers. Service and technical support of our products is coordinated by our customer support organization. Our Systems Application Engineers, located in each of our sales regions, support pre-sales and post-sales activities. Customers can also access technical information and receive technical support via our web site. We train our sales support to solve the problem at the customer's first call.

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

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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.

- 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.
- Extend Product Line by Partnering with Other Companies. Due to the expanding mobile phone market, we extended our product line in 2003. First, we are cooperating with Korea Startel to develop a new model of the GPRS mobile phone. The planned release date is in 2003 where mass production will likely begin in June 2003. Furthermore, we have plans to develop the CDMA 2001.1x GSM public phone to meet the high demand of such phone in the Mainland China market. In addition, we have extended our product line by cooperating with our main Korean partner K-WON, a company which recently developed a Bluetooth Headset and has granted City Network distribution and sales rights to this product for any country outside of Korea.
- Extend Product Line by Partnering with Other Companies. Due to the expanding mobile phone market, we extended our mobile product line in 2003. First, we cooperated with Korea Startel to develop a new model of the GPRS mobile phone and began mass production in June 2003. Furthermore, we have plans to develop the CDMA 2001.1x in 2004, and have already had it approved with China Unicom. For the increasing 3G market, CDMA 2000.1x public phones meet the high demands for such phones in Mainland China and the US markets. We have plans to develop the CDMA 2000.1x internet PCMCIA card and USB adapter in 2004.

We have plans to join 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 formally 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 fiscal year 2002, we spent approximately USD\$1,000,000 to buy the exclusive rights to A Best Home PNA Technology, which allowed us to expand our broadband business quickly, including into the Korean Market. We also had the opportunity to cooperate with China Putian to establish a joint venture company, Beijing Putian Hexin, which was named as one of the top 10 ADSL best vendors of China Telecom in 2003.

We are responsible for providing funding for expenses such as salary and stipends for the center's staff, as well as other general expenditures. Expenditures for research and development in the 2004 fiscal year totaled

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USD\$12,000 compared to USD\$1,500,000 in the 2003 fiscal year. The reason for the reduction in these expenditures is due to the fact that some third party development corporation projects were not finished in 2003, and needed to be modified. We anticipate that we will continue to have significant research and development expenditures in the future to provide a continuing flow of innovative and high-quality products to enhance our competitive position.

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. Each contractor's quality is also rigorously assessed through incoming testing and inspection of packaged products received from each contractor. In addition, we monitor the reliability of our products through in-house repair, reliability audit testing and field data analysis.

The manufacturers' warranty for each of our products is two years. Typically we offer the same warranty on these products to our customers but for a shorter time period, generally 12 to 18 months. We have implemented this practice to protect ourselves against risk and financial loss on products shipped to customers which break, need repair or are defective. Depending on the situation, we can extend the warranty period enhancing the quality of service and strengthening relationships with our customers. In order to decrease costs, we have established joint venture projects with product manufacturers in Mainland China. This allows us to save transport costs and forwarding charges when distributing products to customers in Mainland China. We have established a rigid system of quality control with these manufacturing partners.

We currently purchase a substantially 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.

INTELLECTUAL PROPERTY

Our trademarks, service marks, trade secrets, proprietary technology and other intellectual property rights distinguish our products and services from those of our competitors, and contribute to our competitive advantage in its target markets. To protect the our brand, products and services and the systems that deliver those products and services to our customers we rely on a combination of trademark and trade secret laws as well as confidentiality agreements and licensing arrangements with its employees, customers, independent contractors, sponsors and others.

We strategically pursue the registration of our intellectual property rights. However, effective patent, trademark, service mark, copyright and trade secret protection may not always be available. Existing laws do not provide complete protection, and monitoring the unauthorized use of our intellectual property requires significant resources. We cannot be sure that our efforts to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights. In addition, there can be no assurance that competitors will not independently develop similar intellectual property. If others are able to copy and use our products and delivery systems, we may not be able to maintain our competitive position. If litigation is necessary to enforce our intellectual property rights or determine the scope of the proprietary rights of others, we may have to incur substantial costs or

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divert other resources, which could harm our business. We presently have no patents or patent applications granted or pending in the United States.

In order to develop, improve, market and deliver new products and services, we may be required to obtain licenses from others. There can be no assurance that we will be able to obtain licenses on commercially reasonable terms or at all or that rights granted under any licenses will be valid and enforceable.

EMPLOYEES

As of June 6, 2004, we had a total of 65 employees. Of these, 15 are in administration, 8 are in finance, 15 are in research and development, 7 are in international partner cooperation and 20 are in sales and marketing. None of our employees are covered by any

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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.

ITEM 2. DESCRIPTION OF PROPERTY.

Our main office is located at 13F., No. 77, Hsin Tai Wu Road, Sec. J, Hsi-Chih, Taipei County, Taiwan, R.O.C., consisting of approximately 370.68 square meters. We purchased this facility in April 2001. We entered into a loan agreement with the Fubon Bank in the amount of NTD\$10,500,000 for the purchase of this facility. The term of the loan is 15 years that began on May 29, 2001 and is schedule to terminate on May 29, 2016. The monthly principal payments are NTD\$187,500 every three months. The monthly interest payment on the loan is approximately NTD\$26,293. The annual interest rate is 3.175%.

We also lease office space located at 6F-3, NO. 16, Jian Ba Road, Jhongue City, Taipei County, Taiwan, R.O.C., consisting of approximately 557.72 square meters. The landlord is Goang Dyi Shing Industrial Co. Ltd. The rent is NTD\$135,000 per month and the lease expires on May 31, 2005.

ITEM 3. LEGAL PROCEEDINGS.

There is no litigation pending or threatened by or against City Network.

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

None.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTER MARKET INFORMATION AND MARKET PRICE

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

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14, 2004 under the symbol "CSN". 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 bids as reported on the OTC BB during the fiscal year ended 2002 and the quarters ended through January 13, 2004, and (ii) the high and low sales quotations for the partial period in fiscal year 2004 from January 14, 2004 through February 29, 2004, and the partial period in the first quarter of fiscal year 2005, based upon information supplied by AMEX.

| | HIGH | LOW |
|---------------------------------------|---------|---------|
| | ---- | --- |
| 2002 | | |
| June 25, 2002 - August 31, 2002 | \$ 0 | \$0.010 |
| September 1, 2002 - November 30, 2002 | \$ 0.20 | \$0.001 |
| December 1, 2002 - February 28, 2003 | \$ 3.00 | \$ 2.00 |
| 2003 | | |
| March 1, 2003 - May 30, 2003 | \$ 3.05 | \$ 2.00 |
| June 1, 2003 - August 31, 2003 | \$ 3.00 | \$ 2.00 |
| September 1, 2003 - November 30, 2003 | \$ 2.90 | \$ 2.40 |
| December 1, 2003 - January 13, 2004 | \$ 3.00 | \$ 2.30 |
| January 14, 2004 - February 29, 2004 | \$ 2.74 | \$ 2.10 |
| 2004 | | |
| March 1, 2004 - June 10, 2004 | \$ 2.10 | \$ 0.73 |

As of June 10, 2004, there were approximately 2,600 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. Therefore, there can be no assurance that any dividends on the common stock will be paid in the future.

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

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

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"Company". When used in these notes, the term "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 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.

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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 statement 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. We believe that the following are some of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

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 uncollectable.

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

Fiscal Year ended February 29, 2004 Compared to Fiscal Year Ended February 28, 2003 for City Network-Taiwan.

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Net Revenue. Net sales for fiscal year ended February 29, 2004 ("FY 2004") totaled \$19,647,749, compared to \$7,132,970 for fiscal year ended February 28, 2003 ("FY 2003"). The increase in revenues for FY 2004 was due to the GPS's market expansion and the new source of revenue which is from Beijing Putain. CNT-Taiwan's net-sales for FY 2004 totaled \$19,647,749 compared to \$7,132,970 for FY 2003.

Cost of Revenue. Cost of revenue for FY 2004 totaled \$17,827,486, compared to \$6,267,128 for the same period in FY 2003. The increase in cost of revenues was due to the GPS's market expansion, the new source of cost which is from Beijing Putain and City Network Construction. Also, the gross profit is decreasing. CNT-Taiwan's cost of revenues for FY 2004 totaled \$17,827,486 compared to \$6,266,401 for FY 2003.

General and Administrative. Selling, general and administrative expenses for FY 2004 totaled \$1,391,658, compared to \$780,300 for FY 2003. The increase was due to the GPS's market expansion and the new source of revenue which is from Beijing Putain. Also the number of employees are increasing. CNT-Taiwan's selling, general and administrative expenses for FY 2004 totaled \$1,391,658 compared to \$645,222 for FY 2003.

Interest Expense. Interest expense for FY 2004 totaled \$67,691, compared to \$54,887 for FY 2003. The increase in interest expense was due to the increase of financing sources for funds. CNT-Taiwan's interest expenses for FY 2004 totaled \$67,691 compared to \$54,887 for FY 2003.

As a result of the foregoing, Income (loss) Before Income Taxes totaled \$261,385 for FY 2004 and \$165,257 for FY 2003. Provision for income taxes expenses is \$85,190 for FY 2004 and \$44,180 for FY 2003. The result of the above tax calculations resulted in that net income (loss) is \$176,195, \$121,077, respectively, for FY 2004 and FY 2003. CNT-Taiwan contributed net income of \$185,059 for FY 2004.

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Fluctuations in Quarterly Results.

The majority of City Network's revenue comes from Taiwan and Mainland China. In January, the sales performance review meeting took place and the CEO set up the sales goals for each salesman. In February, the sales team reached its goals and created sales volume equal to three months sales. Therefore, revenues for the last quarter of 2004 are much more than compared to other quarters.

Liquidity and Capital Resources.

For the fiscal year ended February 29, 2004 the company had cash provided by operations of \$125,703 and cash (used in) investments of (\$1,235,912) and net cash provided by financing arrangements, including loans from related parties, of \$3,208,675. 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.

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 the company. As of May 2003, the amount of committed funds are \$2,400,000. An additional \$1,800,000 is still required.

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Factors that interrupt the company's operations.

Our major risk is incurring a large amount of bad debt.

City Network's short-term and long-term liquidity may be influenced by uncollected account receivables. If the amount of bad debt is high, it will severely effect the company's ability to continue operations. Therefore, we are taking precautions to manage this risk. The company will try to diversify its 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 the Company to concentrations of credit risk are cash, accounts receivable and other receivables 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 and at year-end. The Company has a diversified customer base, most of which are related parties. 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.

RISK FACTORS

Factors That May Affect Future Results

Prospective investors should carefully consider the following risk factors in evaluating us and our business. The factors listed below represent certain important factors which we believe could cause such results to differ. These factors are not intended to represent a complete list of the general or specific risks that may affect us. It should be recognized that other risks may be significant, presently or in the future, and the risks set forth below may affect us to a greater extent than indicated.

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.

Future Capital Needs, Uncertainty of Future Additional Financing

We currently anticipate that our available funds and resources, including

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product sales will be sufficient to meet our anticipated needs for working capital and capital expenditures for the next twelve months. We will need to raise additional funds in the future in order to fund more aggressive brand promotion and more rapid expansion, to develop new or enhanced products, to respond to competitive pressures or to acquire complementary businesses or technologies. If additional funds are raised through the issuance of equity or convertible debt securities, the current stockholders may experience dilution and any such securities may have rights, preferences or privileges senior to those of the rights of our common stock. There can be no assurance that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or not available on acceptable terms, we may not be able to fund our expansion, promote our brand name as we desire, take advantage of unanticipated acquisition opportunities, develop or enhance products or respond to competitive pressures. Any such inability could have a material adverse effect on our business, results of operations and financial condition.

Fluctuations in Quarterly Operating Results

We may experience significant fluctuations in future quarterly operating results that may be caused by many factors, including, among others: delays in our introduction of products or product enhancements; costs associated with product or technology acquisitions; the size and timing of individual orders; competition and pricing in the broadband internet access industry; seasonality of revenues; customer order deferrals in anticipation of new products; market acceptance of new products; reductions in demand for existing products and shortening of product life cycles as a result of new product introductions; changes in operating expenses; changes in our personnel; changes in regulatory requirements; mix of products sold; and general economic conditions. As a result, we believe that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

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.

Failure to Manage Growth Will Adversely Affect Operations

We plan to significantly expand our sales, marketing, research and development activities, hire a number of additional employees, expand internal information, accounting and billing systems and establish additional

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distribution outlets throughout the world. In addition, we plan to expand our infrastructure by investing in additional research and development talent. In order to successfully manage growth, management must identify, attract, motivate, train and retain highly skilled managerial, financial, engineering, business development, sales and marketing and other personnel. Competition for this type of personnel is intense. If management fails to effectively manage our growth, our business and viability will be materially and adversely impacted.

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.

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, and 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.

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We May Experience Difficulties in Integrating Businesses, Products and Technologies it May Acquire Into Its Business

We may acquire businesses, products and technologies and enter into joint ventures and strategic relationships with other companies. Any of these transactions exposes us to additional risks, including: the difficulty of assimilating and integrating the operations of the combined companies; retaining key personnel; the potential disruption of our core business; and the potential additional expenses associated with amortization of acquired intangible assets, integration costs and unanticipated liabilities or contingencies.

Loss of Key Personnel Could Harm Our Business

Given the early stage of development of our business, it depends highly on the performance and efforts of its President and Chief Executive Officer, Mr. Tiao Tsan "Andy" Lai, its Chief Financial Officer, Mr. Hsin-Nan Lin, staff and the Board of Directors. If we should lose the service of any members of its management team or other key personnel, its business prospects will be materially impacted.

Enactment of New Laws or Changes in Government Regulations Could Adversely Affect Our Business

We are not currently required to comply with direct regulation by any domestic or foreign governmental agency, other than regulations applicable to businesses generally and laws or regulations directly applicable to the Internet. However, due to the increasing popularity of the Internet, it is

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possible that additional laws may be adopted regarding the Internet, any of which could materially harm our business. The adoption of any additional laws may decrease the growth of Internet use, which could lead to a decrease in the demand for our services or increase the cost of doing business.

The Inability to Obtain Patent and Copyright Protection for Our Technology or Misappropriation of Our Intellectual Property Could Adversely Affect Our Competitive Position

Our success depends on internally developed technologies, know-how, trademarks and related intellectual properties. Management regards the technology as proprietary and will attempt to protect it by seeking patents, copyrights or trademarks, and by invoking trade secret laws and confidentiality and nondisclosure agreements. Despite these precautions, it may be possible for a third party to obtain and use our services or technology without authorization.

We intend to apply for registration of certain copyrights and a number of key trademarks and service marks and intends to introduce new trademarks and service marks. Management may not be successful in obtaining registration for one or more of these trademarks. Management may need to resort to litigation in the future to enforce or to protect intellectual property rights, including patent and trademark rights. In addition, our technologies and trademarks may be claimed to conflict with or infringe upon the patent, trademark or other proprietary rights of third parties. If this occurred, we would have to defend ourselves against such challenges, which could result in substantial costs and the diversion of resources. Any of these events could materially harm our business.

ITEM 7. FINANCIAL STATEMENTS

Our Financial Statements together with the independent auditor's report thereon are included on pages F-1 through F-18 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.

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ITEM 8A 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 could significantly affect these controls

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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.

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.

Our directors, executive officers and other significant employees and their ages and positions are as follows:

| Name of Individual ----- | Age --- | Position ----- |
|-----------------------------|------------|--|
| Tiao Tsan "Andy" Lai | 41 | Chairman, Director President and Chief Executive Officer |
| Hsin Nan Lin | 43 | Chief Financial Officer and Director |
| Alice Chen | 40 | Vice President and Director |
| Chin-Yuan Liao | 31 | Manager and Director |
| I-Min Ou | 34 | Director |

Set forth below is a description of the backgrounds of each of the officers and directors of City Network:

TIAO TSAN "ANDY" LAI holds an MBA degree from St. Thomas University in Minnesota, USA. Mr. Lai has been Chairman, President and Director of City Network since October 2002. Mr. Lai has been Chairman, President and Director of City Network Taiwan since June, 1997. 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, City Network 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, City Network has had its 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 City Network. 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.

HSIN NAN LIN holds an EMBA degree from Chiai University in the Republic of China. He has been Chief Financial Officer and a Director of City Network since October 2002. He has been Vice President and a Director of City Network (Taiwan) since June, 2002. In addition, he serves on the board of directors for a large Taiwanese investment company called Chief Financial Consultants, Inc. Before joining these groups, Mr. Lin served

ten years as the general manager of manufacturing for a company with gross sales of over 3.5 million US dollars per year. From 1990 through to the present, Mr. Lin has had twelve years service as financial consultant for several public companies in Asia and has served as Vice President of Chei-Hwa Financial and Investment Consulting Co., Ltd.

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ALICE CHEN possesses a degree in Legal Policy from a government university in the Republic of China. Ms. Chen has been Vice President and a Director of City Network since October 2002. Ms. Chen has been Vice General Manager of Sales and Marketing and a Director of City Network (Taiwan) since January, 1999. Ms. Chen's duty is to implement and develop City Network's worldwide sales and marketing plan. Before joining City Network, 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.

I-MIN OU has been Manager of the Technology Department and a Director of City Network 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 from Tongnan Industry Technology College in July 1991, I-Min Ou has been primarily engaged in electronic engineering and computer automation industry. He has 11 years of experience in engineering.

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 City Network (Taiwan). From February 1997 to November 2001, he served as Manager of Ikuan Engineering, Inc. From 1990 to 1996, Mr. Liao served as Manager of Taiwang Engineering, Inc.

The directors named above will serve until the next annual meeting of City Network's 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 City Network 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 City Network's board. There are also no arrangements, agreements or understandings between non-management shareholders that may directly or indirectly participate in or influence the management of City Network's affairs. There are no agreements or understandings for any officer or director of City Network 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

The board of directors has established a separately designated stand alone audit committee established in accordance with Section 3(a)(58(A) of the Exchange Act, which was comprised of Mei-Chu Lai, Yu-Hung Kao and Chia-Hui Lin. These individuals are no longer serving on the Board of Directors. The Board will appoint new independent directors to serve on the Audit Committee for fiscal year 2005. They were all considered "independent" under Section 121(A) of the listing standards of the American Stock Exchange. 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.

The board of directors has determined that we have at least one audit committee financial expert serving on our audit committee. Ms. Chien-Hui Lin is the "audit committee financial expert", and is an independent member of the

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board of directors.

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act, as amended, requires the officers and directors of City Network and every person who is directly or indirectly the beneficial owner of more than 10% of any class of security of City Network to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Such persons also are required to furnish City Network with copies of all Section 16(a) forms they file. Based solely on its review of copies of such forms received by it, the company believes that all other Section 16(a) filing requirements applicable to the reporting persons were complied with by such persons during 2004.

CODE OF ETHICS

We 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 filed as an exhibit to this Annual Report on Form 10-KSB. 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 City Network to the Chief Executive Officer. No other executive officer received a total annual salary and bonus exceeding USD\$100,000.

| NAME AND PRINCIPAL POSITION ----- | YEAR ---- | SALARY USD ----- | BONUS ----- |
|--------------------------------------|--------------|---------------------|----------------|
| Tiao Tsan "Andy" Lai | 2003 | USD\$31,200 | USD\$2,600 |
| | 2002 | USD\$31,200 | USD\$2,600 |
| | 2001 | USD\$31,200 | USD52,600 |

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

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 June 10 2004, the number and percentage of the 25,000,000 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 the knowledge of City Network is the beneficial owner of more than 5% of the outstanding common stock.

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| NAME AND ADDRESS | NUMBER OF SHARES | PERCENT |
|--|------------------|---------|
| Tiao-Tsan "Andy" Lai 13 F, No. 77, Hsin Tai Wu Road, Sec. 1 His-Chih Taipei, Taiwan, R.O.C. | 2,000,000 | 8% |
| Hsin-Nan Lin 13 F, No. 77, Hain Tai Wu Road, Sec. 1 His-Chih, Taipei, Taiwan, R.O.C. | 0 | 0 |
| Alice Chen 13 F, No. 77, Hsin Tai Wu Road, Sec. 1 His-Chih Taipei, Taiwan, R.O.C. | 61,000 | * |

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| NAME AND ADDRESS | NUMBER OF SHARES | PERCENT |
|---|------------------|---------|
| I-Min Ou 13 F. No. 77, Hsin Tai Wu Road, Sec. 1 His-Chih, Taipei, Taiwan, R.O.C. | 20,000 | * |
| Chin-Yuan Liao 13 F, No. 77, Hsin Tai Wu Road, Sec. 1 His-Chih Chang Hua Hsien, Taiwan | 45,000 | * |
| All officers and directors as a group (5 persons) | 2,126,000 | 8.5% |

* Less than 1%.

CHANGE IN CONTROL

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

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Throughout the history of City Network, 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 February 28, 2003, City Network has a non interest-bearing loan from Tiao-Tsan Lai, the president of City Network in the amount of \$1,271,658.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

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

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

| | |
|--|-----|
| Independent Auditor's Report | F-2 |
| Consolidated Balance Sheets | F-3 |
| Consolidated Statements of Income | F-4 |
| Consolidated Statements of Cash Flow | F-5 |
| Consolidated Statements of Changes in Stockholders' Equity ... | F-6 |
| Notes to Consolidated Financial Statements | F-7 |

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

| Exhibit No. --- | 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 of City Network |

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| | |
|------|---|
| 3.2 | (2) Certificate of Amendment to Articles of Incorporation of City Network |
| 3.3 | (3) Certificate of Amendment of the Articles of Incorporation of City Network |
| 3.4 | (2) Bylaws of City Network |
| 14 | Code of Ethics |
| 21.1 | (4) Subsidiaries of City Network |
| 31 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

-
- (1) Previously filed with the Securities and Exchange Commission as an Exhibit to City Network's Form 8-K filed March 5, 2003, and incorporated herein by reference.
- (2) Previously filed with the Securities and Exchange Commission as an Exhibit

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to City Network's Form SB-2 filed May 18, 2001, and incorporated herein by reference.

- (3) Previously filed with the Securities and Exchange Commission as an Exhibit to City Network's Proxy Statement filed March 21, 2003, and incorporated herein by reference.
- (4) Previously filed with the Securities and Exchange Commission as an Exhibit to City Network's Annual Report on Form 10-KSB filed June 16, 2003, and incorporated herein by reference.
- (b) Reports on Form 8-K.

None.

ITEM 14. PRINCIPAL ACCOUNTANT AND FEES

During fiscal years ended December 31, 2002 and 2003, our principal independent auditor was Lichter, Weil & Associates. The following are the services provided and the amount billed.

AUDIT FEES

The aggregate fees billed by Lichter, Weil & Associates for professional services rendered for the audit of the Company's annual financial statements for the fiscal years ended February 29, 2004 and February 28, 2003, and for the review of the financial statements included in the Company's Quarterly Reports on Form 10-QSB for fiscal years 2004 and 2003 were \$66,530 and \$40,000, respectively.

AUDIT RELATED FEES

Other than the fees described under the caption "Audit Fees" above, Lichter, Weil & Associates did not bill any fees for services rendered to us during fiscal years 2003 and 2002 for assurance and related services in connection with the audit or review of our consolidated financial statements.

TAX FEES

The aggregate fees billed by Lichter, Weil & Associates for tax services during the fiscal year ended February 29, 2004, was \$3,920. There were no fees billed by Lichter, Weil & Associates for tax services during the fiscal year ended February 28, 2003.

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ALL OTHER FEES

There were no fees billed by Lichter, Weil & Associates for other professional services rendered during the fiscal years ended February 29, 2004 and February 28, 2003.

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

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audit commences.

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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: June 14, 2004

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 ---- |
|---|---|---------------|
| /s/ Tiao Tsan Lai ----- Tiao Tsan Lai | Director, Chairman and Chief Executive Officer (Principal Executive Officer) | June 14, 2004 |
| /s/ Hsin Nan Lin ----- Hsin Nan Lin | Director and Chief Financial Officer (Principal Accounting Officer) | June 14, 2004 |
| /s/ Alice Chen ----- Alice Chen | Director and Vice President | June 14, 2004 |
| /s/ Chin Yuan Liao ----- Chin-Yuan Liao | Director and Manager | June 14, 2004 |
| /s/ I-Min Oun ----- I-Min Oun | Director | June 14, 2004 |

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

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FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

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F-1

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
CITY NETWORK, INC. AND SUBSIDIARIES
Las Vegas, Nevada

We have audited the accompanying consolidated balance sheets of City Network, Inc. and its subsidiaries ("the Company") as of February 29, 2004 and February 28, 2003 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years 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 audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the City Network, Inc. and Subsidiaries as of February 29, 2004 and February 28, 2003 and the consolidated results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Lichter, Weil & Associates

Lichter, Weil & Associates

May 18, 2004
San Diego, California

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)
CONSOLIDATED BALANCE SHEETS
FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

| | 2004 | 2003 |
|--|--------------|--------------|
| | ---- | ---- |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 2,723,573 | \$ 620,264 |
| Accounts receivable, net | 7,173,149 | 1,520,341 |
| Inventory | 910,190 | 367,006 |
| Investments | 0 | 108,594 |
| Other receivables | 126,492 | 11,460 |
| Prepaid expenses | 557,903 | 209,957 |
| | ----- | ----- |
| Total Current Assets | 11,491,307 | 2,837,622 |
| | ----- | ----- |
| Fixed Assets, net | 2,745,664 | 2,338,943 |
| | ----- | ----- |
| Total Fixed Assets | 2,745,664 | 2,338,943 |
| | ----- | ----- |
| Other Assets | | |
| Deposits | 255,706 | 969 |
| Trademarks | 1,966 | 1,193 |
| Deferred charges | 0 | 36,836 |
| Equity in net assets of affiliated company | 770,678 | 0 |
| Intangible assets | 1,000,000 | 1,000,000 |
| Other current assets | 96 | 72,758 |
| | ----- | ----- |
| Total Other Assets | 2,028,446 | 1,111,756 |
| | ----- | ----- |
| Total Assets | \$16,265,417 | \$ 6,288,321 |
| | ===== | ===== |

| | 2004 | 2003 |
|--|--------------|------------|
| | ---- | ---- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 6,838,620 | \$ 540,926 |
| Due to related party | 2,015,141 | 1,271,755 |
| Deferred revenue | 260,498 | 0 |
| Deposits payable | 4,371 | 0 |
| Current portion, long-term debt | 2,316,689 | 523,142 |
| | ----- | ----- |
| Total Current Liabilities | 11,435,319 | 2,335,823 |
| Long-term debt, net of current portion | 263,041 | 311,299 |
| | ----- | ----- |
| Total Liabilities | 11,698,360 | 2,647,122 |
| | ----- | ----- |

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| | | |
|--|--------------|--------------|
| Stockholders' Equity | | |
| Common stock, \$.001 par value, 100,000,000 and 25,000,000 shares authorized, 25,000,000 and 24,500,000 | | |
| issued and outstanding, respectively | 25,000 | 24,500 |
| Additional paid in capital | 4,260,117 | 3,540,617 |
| Cumulative foreign-exchange translation adjustment | 29,663 | 0 |
| Retained earnings | 252,277 | 76,082 |
| | ----- | ----- |
| Total Stockholders' Equity | 4,567,057 | 3,641,199 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$16,265,417 | \$ 6,288,321 |
| | ===== | ===== |

See Accompanying Notes and Auditor's Report

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)
CONSOLIDATED STATEMENTS OF INCOME
FISCAL YEARS ENDED FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

| | 2004 | 2003 |
|-------------------------------------|---------------|--------------|
| | ----- | ----- |
| Sales, net | \$ 19,647,749 | \$ 7,132,970 |
| Cost of sales | 17,827,486 | 6,267,128 |
| | ----- | ----- |
| Gross profit | 1,820,263 | 865,842 |
| General and administrative expenses | 1,391,658 | 708,300 |
| | ----- | ----- |
| Income (loss) from operations | 428,605 | 157,542 |
| | ----- | ----- |
| Other (Income) Expense | | |
| Interest income | (20,202) | (9,431) |
| Rental income | (3,085) | 0 |
| Commission income | (15,517) | (6,767) |
| Forgiveness of debt | 0 | (33,745) |
| (Gain) loss on currency exchange | (13,815) | (18,480) |
| Other income | (11,263) | 0 |
| Equity in earnings of investee | 1,674 | 0 |
| Miscellaneous | 2,499 | 497 |
| Bad debt expense | 159,238 | 49 |
| Loss on disposal of assets | 0 | 5,275 |
| Interest expense | 67,691 | 54,887 |
| | ----- | ----- |
| Total Other (Income) Expense | 167,220 | (7,715) |
| | ----- | ----- |
| Income (loss) before income taxes | 261,385 | 165,257 |
| Provision for income taxes | 85,190 | 44,180 |
| | ----- | ----- |

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| | | |
|---|------------|------------|
| Net income (loss) | \$ 176,195 | \$ 121,077 |
| | ===== | ===== |
| Net income (loss) per share (basic and diluted) | | |
| Basic | \$ 0.007 | \$ 0.016 |
| Diluted | \$ 0.007 | \$ 0.016 |
| Weighted average number of shares | | |
| Basic | 24,958,333 | 7,525,342 |
| Diluted | 24,958,333 | 7,525,342 |

See Accompanying Notes and Auditor's Report

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FISCAL YEARS ENDED FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

| | 2004 | 2003 |
|--|-------------|-------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income (loss) | \$ 176,195 | \$ 121,077 |
| Adjustments to reconcile net income (loss) to net cash provided by (used) in operating activities: | | |
| Depreciation and amortization | 44,057 | 45,309 |
| Equity in earning of investee | 1,674 | 0 |
| Loss on disposal of assets | 0 | 5,275 |
| Bad debt | 159,238 | 49 |
| Forgiveness of debt | 0 | (33,745) |
| Gain on foreign currency exchange | (13,815) | (18,480) |
| Decrease (Increase) in receivables | (5,652,808) | (952,867) |
| Decrease (Increase) in inventory | (543,184) | (248,083) |
| Decrease (Increase) in other receivables | (115,032) | (11,100) |
| Decrease (Increase) in prepaid expenses | (347,946) | 390,036 |
| Decrease (Increase) in deposit | (254,737) | 0 |
| Decrease (Increase) in deferred charges | 36,836 | (114,019) |
| Decrease (Increase) in other current assets | 72,662 | (316,508) |
| (Decrease) Increase in accounts payable and accrued expenses | 6,297,694 | (1,001,173) |
| (Decrease) Increase in deferred revenue | 260,498 | 0 |
| (Decrease) Increase in deposits payable | 4,371 | 0 |
| | ----- | ----- |
| Total Adjustments | (50,492) | (2,255,306) |
| | ----- | ----- |
| Net cash provided by (used in) operations | 125,703 | (2,134,229) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceed from sale of investments | 108,594 | 0 |
| Purchase of intangibles | (838) | (1,286) |
| Purchase of investments | (772,352) | (108,594) |
| Purchase of furniture and equipment | (462,722) | (502,691) |

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| | | |
|--|--------------|--------------|
| Net cash used in investing activities | (1,235,912) | (612,571) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment on notes payable | (2,229,705) | (230,753) |
| Issuance of loan from related party | 743,386 | 1,292,154 |
| Issuance of notes payable | 3,974,994 | 460,212 |
| Issuance of common stock | 720,000 | 1,755,870 |
| Net cash provided by financing activities | 3,208,675 | 3,277,483 |
| Effect of exchange rate change on cash | 4,843 | 0 |
| Net change in cash and cash equivalents | 2,103,309 | 530,683 |
| Cash and cash equivalents at beginning of year | 620,264 | 89,581 |
| Cash and cash equivalents at end of year | \$ 2,723,573 | \$ 620,264 |
| Supplemental cash flows disclosures: | | |
| Income tax payments | \$ 9,235 | \$ 24,767 |
| Interest payments | \$ 67,691 | \$ 62,425 |
| Stock dividend paid | \$ 0 | \$ 11,910 |
| Issuance of stock for purchase of subsidiary | \$ 0 | \$ 3,500,000 |

See Accompanying Notes and Auditor's Report

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CITY NETWORK, INC. AND SUBSIDIARIES
(FORMERLY INVESTMENT AGENTS, INC.)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FISCAL YEARS ENDED FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

| | 2004 | 2003 |
|--|------------|-------------|
| | ----- | ----- |
| Common stock, number of shares outstanding | | |
| Balance at beginning of period | 24,500,000 | 1,970,000 |
| Stock cancellation | 0 | (1,380,000) |
| Stock split | 0 | 11,910,000 |
| Common stock issued | 500,000 | 12,000,000 |
| Balance at end of period | 25,000,000 | 24,500,000 |
| | ===== | ===== |
| Common stock, par value \$.001 (thousands of shares) | | |
| Balance at beginning of year | \$ 24,500 | \$ 1,970 |
| Stock cancellation | 0 | (1,380) |

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| | | |
|--|--------------|--------------|
| Stock split | 0 | 11,910 |
| Common stock issued | 500 | 12,000 |
| | ----- | ----- |
| Balance at end of year | 25,000 | 24,500 |
| | ----- | ----- |
| Additional paid in capital | | |
| Balance at beginning of year | 3,540,617 | 13,500 |
| Issuance of stock | 719,500 | 3,527,117 |
| | ----- | ----- |
| Balance at end of year | 4,260,117 | 3,540,617 |
| | ----- | ----- |
| Cumulative foreign-exchange translation adjustment | | |
| Balance at beginning of year | 0 | 0 |
| Foreign currency translation | 29,663 | 0 |
| | ----- | ----- |
| Balance at end of year | 29,663 | 0 |
| | ----- | ----- |
| Retained (deficits) | | |
| Balance at beginning of year | 76,082 | (33,085) |
| Issuance of stock dividend | 0 | (11,910) |
| Net income (loss) | 176,195 | 121,077 |
| | ----- | ----- |
| Balance at end of year | 252,277 | 76,082 |
| | ----- | ----- |
| Total stockholders' equity at end of year | \$ 4,567,057 | \$ 3,641,199 |
| | ===== | ===== |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

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". 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

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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 our 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.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

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.

Risks and Uncertainties

Our 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

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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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

We have 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 |

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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 years ended February 29, 2004 and February 28, 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.

Exchange Gain (Loss):

During fiscal year ended February 29, 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Translation Adjustment

As of February 29, 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 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 February 29, 2004 and February 28, 2003 the exchange rates between NTD and the USD was NTD\$1=USD\$0.02994 and NTD\$1=USD\$0.02857. The weighted-average rate of exchange between NTD and USD was NTD\$1 = USD\$0.02617 and NTD\$1=USD\$0.02899. Total translation adjustment recognized for the year ended February 29, 2004 and February 28, 2003 is \$29,663 and \$0 respectively.

Fair Value of Financial Instruments

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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 Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows", cash flows from the Company's operations is 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 cash, accounts receivable and other receivables 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 and at year-end. The Company has a diversified customer base, most of which are related parties. 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory is valued at the lower of cost or market. Cost is determined on the weighted average method. As of February 29, 2004 and February 28, 2003, 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

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warranty claim experience differs from estimate.

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 policies, but not more than 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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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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 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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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.

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 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

NOTE C - 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

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the Company 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. Upon the effective date of the exchange and change in control, the Company ceased its relationship with Verio and no longer acts as a referral agent for Verio. See Commitments Note G.

NOTE D - 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. 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.

The following table presents the allocation of the acquisition cost, including professional fees and other related acquisition costs, to the assets acquired and liabilities assumed:

| | |
|----------------------------------|---------------|
| Cash and cash equivalents | \$ 207,000 |
| Accounts receivable | 1,255,000 |
| Other receivable | 73,000 |
| Prepaid expenses | 181,000 |
| Inventories | 58,000 |
| Property, plant, and equipment | 2,449,000 |
| Investments | 109,000 |
| Patents | 1,000,000 |
| Other noncurrent assets | 86,000 |
| | ----- |
| Total assets | \$ 5,418,000 |
| | ----- |
| Accounts payable | \$ (588,000) |
| Loan payable | (194,000) |
| Other current liabilities | (231,000) |
| Current portion - long term debt | (171,000) |
| Officer advances | (242,000) |
| Long-term debt | (492,000) |
| | ----- |
| Total liabilities | \$(1,918,000) |
| | ----- |
| Total acquisition cost | \$ 3,500,000 |
| | ===== |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE D - STOCK PURCHASE BUSINESS COMBINATION (CONTINUED)

The following (unaudited) pro forma consolidated results of operations have been prepared as if the acquisition of City Network Technology, Inc. had occurred at March 1, 2002:

| | Year Ending February 28, 2003 |
|---------------------------------|----------------------------------|
| Sales | \$7,236,161 |
| Net income | 121,077 |
| Net income per share -- basic | .02 |
| Net income per share -- diluted | .02 |

The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time, nor is it intended to be a projection of future results.

NOTE E - 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 February 29, 2004 and February 28, 2003, there were no uninsured portions of the balances held at the bank.

NOTE F - FIXED ASSETS

Fixed assets consist of the following:

| | 2004 | 2003 |
|--------------------------|--------------|--------------|
| Land | \$ 1,966,694 | \$ 1,966,694 |
| Building | 305,429 | 305,429 |
| Machinery and equipment | 427,126 | 18,656 |
| Furniture and fixtures | 142,402 | 100,094 |
| | \$ 2,841,651 | \$ 2,390,873 |
| Accumulated depreciation | (95,987) | (51,930) |
| | \$ 2,745,664 | \$ 2,338,943 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

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NOTE G- COMMITMENTS

Verio, Inc.

Upon the effective date of the Exchange Agreement, dated December 14, 2002, and the change in control, City Network ceased its relationship with Verio and no longer acts as a referral agent for Verio, Inc. The agreement with Verio, Inc. was a non-exclusive authorized sales representative agreement, whereby City Network would solicit sales of Verio's services in the United States, in exchange for commission income. These services included various domain registration services, web hosting services and e-commerce services.

A Best Information

City Network, Inc. - Taiwan, signed an agreement with A Best Information in 2003 for the exclusive right to sell A Best Information's products. There is no expiration date in the agreement, and the Company has the rights 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.

Operating Leases

The Company leases three office facilities under operating leases that terminate on various dates. Rental expense for these leases consisted of \$13,482 and \$0 for February 29, 2004 and February 28, 2003. The Company has future minimum lease obligations as follows:

| | |
|-------|----------|
| 2005 | \$78,693 |
| 2006 | 11,813 |
| | ----- |
| Total | \$90,506 |
| | ===== |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

NOTE H- LONG-TERM INVESTMENT

Unium Technology

On December 25, 2001 the Company purchased approximately nine percent (9%) of Unium Technology Corporation for \$108,594. On May 1, 2003 the Company sold the Unium Technology Corporation investment for \$108,594, cost. As of

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February 29, 2004, there was a balance due of \$43,439 from the buyer. Union Technology is not publicly traded or listed. The cost method accounting for the long-term equity investment of Unium Technology Corporation was being used.

Beijing Putain Hexin Network Technology Co., Ltd

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 February 29, 2004 the Company recognized a loss \$1,674 from their acquisition.

NOTE I - COMPENSATED ABSCENSES

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 February 29, 2004 no accumulated vacation liability exists.

NOTE J - INCOME TAXES

Total Federal and State income tax expense for the years ended February 28, 2004 and 2003 amounted to \$85,190 and \$44,180, respectively. For the years ended February 28, 2004 and 2003, there is no difference between the federal statutory tax rate and the effective tax rate.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

NOTE J - INCOME TAXES (CONTINUED)

The following is a reconciliation of income tax expense:

| 2004 | U.S. | State | International | Total |
|----------|---------|-------|---------------|----------|
| | ----- | ----- | ----- | ----- |
| Current | \$3,321 | \$0 | \$81,869 | \$85,190 |
| Deferred | 0 | 0 | 0 | 0 |
| | ----- | ----- | ----- | ----- |
| Total | \$3,321 | \$0 | \$81,869 | \$85,190 |
| | ===== | ===== | ===== | ===== |

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| 2003 | U.S. | State | International | Total |
|----------|-------|-------|---------------|----------|
| | ----- | ----- | ----- | ----- |
| Current | \$0 | \$0 | \$44,180 | \$44,180 |
| Deferred | 0 | 0 | 0 | 0 |
| | ----- | ----- | ----- | ----- |
| Total | \$0 | \$0 | \$44,180 | \$44,180 |
| | ===== | ===== | ===== | ===== |

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

| | 2004 | 2003 |
|-------------------------------|-------|-------|
| | ----- | ----- |
| Federal statutory tax rate | 33% | 27% |
| State, net of federal benefit | 0% | 0% |
| | ----- | ----- |
| Effective tax rate | 33% | 27% |
| | ----- | ----- |

NOTE K - DEBT

At February 29, 2004, the Company had notes payable outstanding in the aggregate amount of \$2,579,730. Payable as follows:

| | |
|---|------------|
| Secured note payable to a bank in Taiwan, interest at 3.175% per annum, due on May 29, 2016 | \$ 280,689 |
| Secured note payable to a bank in Taiwan, interest at 7.425% per annum, due on May 9, 2004 | 30,972 |
| Secured note payable to a bank in Taiwan, interest at 4.25% per annum, due on June 6, 2005 | 13,011 |
| Notes payable to a bank in Taiwan, 4.25% per annum, due on June 12, 2005 | 1,497 |
| Notes payable to a bank in Taiwan, 7.5% per annum, due on June 16, 2004 | 179,641 |

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CITY NETWORK, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE K - DEBT (CONTINUED)

| | |
|--|---------------------|
| Notes payable to a bank in Taiwan, 3.77% per annum, due on December 30, 2004 | 269,462 |
| Notes payable to a bank in Taiwan, 3.77% per annum, due on March 13, 2004 | 119,760 |
| Notes payable to a bank in Taiwan, 3.77% per annum, due on March 26, 2004 | 188,623 |
| Notes payable to a bank in Taiwan, 3.77% per annum, due on May 4, 2004 | 572,405 |
| Notes payable to a bank in Taiwan, 3.77% per annum, due on March 5, 2004 | 78,635 |
| Notes payable to a bank in Taiwan, 3.77% per annum, due on April 8, 2004 | 225,573 |
| Notes payable to a bank in Taiwan, 3.77% per annum, due on April 23, 2004 | 8,994 |
| Notes payable to a bank in Taiwan, 3.77% per annum, due on April 8, 2004 | 19,805 |
| Notes payable to a bank in Taiwan, 3.77% per annum, due on April 8, 2004 | 261,871 |
| Note payable to a bank in Taiwan, interest at 4.269% per annum, due on August 25, 2004 | 328,792 |
| | ----- 2,579,730 |
| Current portion | 2,316,689 |
| | ----- |
| Long-term portion | \$ 263,041 ===== |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

NOTE L - 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 February 29, 2004 and February 28, 2003, the Company has a non interest-bearing loan from Andy Lai, the Company's President, in the amount of \$2,015,141 and \$1,271,658, respectively.

Officer advance - As of the date of the exchange agreement, all prior officer advances were forgiven by the officers of City Network, Inc. These advances totaled \$33,745. We have recognized this amount as forgiveness of debt income during the year ended February 28, 2003.

NOTE M - 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 N - STOCK

On February 14, 2003 the Board of Directors of the Company approved and recommended that Company's Articles of Incorporation be amended to increase the number of authorized shares of common stock, par value \$0.001 of the Company, from 25,000,000 shares to 100,000,000; and to authorize 50,000,000 shares of preferred stock, par value \$0.001.

On February 17, 2003, the holders of approximately 52% of the outstanding shares of common stock of City Network executed a written consent adopting and approving the Charter Amendment. The Charter Amendment was filed with the Secretary of State of the State of Nevada in March 2003.

NOTE O - SUBSEQUENT EVENT

On March 24, 2004, the Board of Directors of the Company approved and consummated a private placement offering of 2,500,000 shares of its common stock, par value \$0.001 per share, for \$1.44 per share (total of \$3,600,000) pursuant to regulation S of the Securities Act of 1933.