

CHINA NETWORK MEDIA, INC.

FORM 10-Q (Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 333-152539

CHINA NETWORK MEDIA, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

32-0251358

(I.R.S. Employer Identification No.)

**Room 205, Building A
No. 1 Torch Road, High-Tech Zone
Dalian, China**

(Address of principal executive offices)

116023

(Zip Code)

+86 (411) 3973-1515

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At November 12, 2014, the registrant had 63,957,333 shares of common stock, par value \$0.001 per share, issued and outstanding.

CHINA NETWORK MEDIA, INC.

FORM 10-Q REPORT

September 30, 2014

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CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (this “Report”) contains “forward-looking statements”. Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements may include words such as “anticipate,” “believe,” “estimate,” “intend,” “could,” “should,” “would,” “may,” “seek,” “plan,” “might,” “will,” “expect,” “predict,” “project,” “forecast,” “potential,” “continue” negatives thereof or similar expressions. Forward-looking statements speak only as of the date they are made, are based on various underlying assumptions and current expectations about the future and are not guarantees. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, level of activity, performance or achievement to be materially different from the results of operations or plans expressed or implied by such forward-looking statements.

We cannot predict all of the risks and uncertainties. Accordingly, such information should not be regarded as representations that the results or conditions described in such statements or that our objectives and plans will be achieved and we do not assume any responsibility for the accuracy or completeness of any of these forward-looking statements. These forward-looking statements are found at various places throughout this Report and include information concerning possible or assumed future results of our operations, including statements about potential acquisition or merger targets; business strategies; future cash flows; financing plans; plans and objectives of management, any other statements regarding future acquisitions, future cash needs, future operations, business plans and future financial results, and any other statements that are not historical facts.

These forward-looking statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. All subsequent written and oral forward-looking statements concerning other matters addressed in this Report and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Report.

Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.

CERTAIN TERMS USED IN THIS REPORT

When this report uses the words “we,” “us,” “our,” and the “Company,” they refer to the combined business of China Network Media Inc. and its consolidated subsidiaries and variable interest entities.

In addition, unless the context otherwise requires and for the purposes of this Report only:

- “MGYS” refers to Metha Energy Solutions Inc., a Delaware corporation;
- “PRC” and “China” refers to the People’s Republic of China, excluding, for the purpose of this prospectus, Taiwan and the special administrative regions of Hong Kong and Macau;
- “PRC Operating Subsidiaries” and “PRC Operating Entities” refers to “Science & Technology (Dalian)” and “Dalian Tianyi”;
- “Renminbi” and “RMB” refers to the legal currency of China;
- “Science & Technology Trading” or “WFOE” refers to our indirect subsidiary of Science & Technology World Website Trade (Dalian) Co., Ltd., a PRC limited company;
- “Science & Technology Network” refers to our variable interest entity Science & Technology World Network (Dalian) Co., Ltd., a PRC limited company;
- “Dalian Tianyi” refers to our variable interest entity Dalian Tianyi Culture Development Co., Ltd., a PRC limited company;

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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China Network Media Inc.
Consolidated Balance Sheets
(U.S. Dollars)

	September 30, 2014	December 31, 2013
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 186,485	\$ 135,465
Accounts receivable	8,122	7,496
Prepaid taxes	97,432	90,191
Prepaid expenses and other current assets	51,674	122,850
Total current assets	343,713	356,002
Property and equipment, net	29,150	49,319
Total assets	\$ 372,863	\$ 405,321
Liabilities and shareholders' deficit		
Current Liabilities		
Deferred revenue	\$ 433,137	\$ 553,790
Due to related parties	82,521	83,088
Advance from customers	146,199	81,779
Income tax payable	75,451	17,707
Other current liabilities	42,405	45,397
Total current liabilities	779,713	781,761
Deferred revenue, non current	-	11,358
Total liabilities	\$ 779,713	\$ 793,119
Shareholders' deficit		
Common stock (\$0.001 par value, 100,000,000 shares authorized; 63,957,333 and 60,395,829 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively)	63,957	60,396
Additional paid in capital	1,263,756	1,166,474
Accumulated deficit	(1,678,073)	(1,555,510)
Accumulated other comprehensive loss	(56,490)	(59,158)
Total shareholders' deficit	(406,850)	(387,798)
Total liabilities and shareholders' deficit	\$ 372,863	\$ 405,321

See accompanying notes to the consolidated financial statements.

* *The assets of the variable interest entities (the "VIEs") can be used to settle obligations of the consolidated entities. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets (Note 3).*

China Network Media Inc.
Consolidated Statements of Operations and Comprehensive (Loss) Income
(U.S. Dollars, except shares)

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
- Third parties	\$ 861,619	\$ 649,590	\$ 274,279	\$ 222,229
- Related parties	20,324	20,092	6,761	6,754
	<u>881,943</u>	<u>669,682</u>	<u>281,040</u>	<u>228,983</u>
Cost of revenue				
- Third parties	358,419	370,671	92,067	126,507
- Related parties	8,455	11,465	2,304	3,845
	<u>366,874</u>	<u>382,136</u>	<u>94,371</u>	<u>130,352</u>
Gross profit	515,069	287,546	186,669	98,631
Operating expenses:				
Research and development expenses	97,147	84,724	30,810	31,197
Selling and marketing expenses	25,611	49,092	5,946	15,963
General and administrative expenses	465,224	425,382	106,161	90,226
Total operating expenses	<u>587,982</u>	<u>559,198</u>	<u>142,917</u>	<u>137,386</u>
(Loss) Income from Operations	<u>(72,913)</u>	<u>(271,652)</u>	<u>43,752</u>	<u>(38,755)</u>
Other income	<u>8,270</u>	<u>1,215,347</u>	<u>2,326</u>	<u>7,020</u>
(Loss) Income from operations before income taxes	(64,643)	943,695	46,078	(31,735)
Provision for income taxes	57,920	289,304	28,247	1,223
Net (loss) income	<u>(122,563)</u>	<u>654,391</u>	<u>17,831</u>	<u>(32,958)</u>
Other comprehensive income (loss)				
Foreign currency translation adjustment	2,668	(19,347)	(197)	(5,297)
Comprehensive (loss) income	<u>\$ (119,895)</u>	<u>\$ 635,044</u>	<u>\$ 17,634</u>	<u>\$ (38,255)</u>
Basic and diluted (loss) income per share	<u>\$ (0.002)</u>	<u>\$ 0.011</u>	<u>\$ 0.0003</u>	<u>\$ (0.001)</u>
Weighted-average number of shares outstanding -Basic and diluted	<u>62,455,847</u>	<u>59,940,664</u>	<u>63,636,868</u>	<u>59,940,664</u>

See accompanying notes to the consolidated financial statements.

China Network Media Inc.
Consolidated Statements of Cash Flows
For the Periods Ended September 30, 2014 and 2013
(U.S. Dollars)

	For Period Ended September 30,	
	2014	2013
	(Unaudited)	(Unaudited)
Cash Flows From Operating Activities		
Net (loss) income	\$ (122,563)	\$ 654,391
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	22,127	29,370
Issuance of shares to employees and part-time consultants	100,843	16,095
Changes in operating assets and liabilities:		
Accounts receivable	(678)	(5,358)
Prepaid expenses and other current assets	70,404	130,326
Advance from a customer	65,038	32,146
Deferred revenue	(116,984)	(315,401)
Prepaid taxes	(7,864)	168,014
Income tax payable	57,920	912
Other current liabilities	(2,685)	(1,146,670)
Deferred revenue, non current	(11,291)	(170,511)
Net cash provided by (used in) operating activities	54,267	(606,686)
Cash Flows From Investing Activities		
Purchases of property and equipment	(2,276)	(5,708)
Net cash used in investing activities	(2,276)	(5,708)
Cash Flows From Financing Activities		
Cash proceeds from a related party	178,855	-
Cash repayment to a related party	(178,855)	-
Net cash provided by financing activities	-	-
Effect of exchange rate fluctuation on cash and cash equivalents	(971)	11,372
Net increase (decrease) in cash and cash equivalents	51,020	(601,022)
Cash and cash equivalents, beginning of year	135,465	685,467
Cash and cash equivalents, end of period	\$ 186,485	\$ 84,445
Supplemental disclosure information:		
Income taxes paid	\$ -	\$ 127,201

See accompanying notes to the consolidated financial statements.

China Network Media Inc.
(Formerly Known As Metha Energy Solutions Inc.)
Notes to Consolidated Financial Statements
(Unaudited)
(U.S Dollars unless otherwise noted)

NOTE 1. DESCRIPTION OF BUSINESS AND ORGANIZATION

China Network Media Inc. (formerly known as Metha Energy Solutions Inc.) was incorporated on April 18, 2008 under the laws of the State of Delaware.

Science & Technology World Website Media Holding Co., Ltd. (“Science & Technology Holding”) was organized under the laws of the British Virgin Island on February 15, 2011.

Science & Technology World Website Media Group Co., Ltd. (“Science & Technology Media”) was organized under the laws of the British Virgin Island on February 15, 2011 to serve as a holding company for the People's Republic of China (the "PRC") operations. On September 16, 2011, Science & Technology Media established Science & Technology World Website Hong Kong Media Holding Co., Ltd. (“HK Science & Technology”) in Hong Kong to serve as an intermediate holding company.

On January 20, 2012, HK Science and Technology established Science & Technology World Website Trade (Dalian) Co., Ltd (the “WFOE” or “Science & Technology Trading”) in the PRC. Its purposes are, among others, a platform for online B2B service.

HK Science and Technology and the WFOE are considered foreign investor and foreign invested enterprise respectively under PRC law. As a result, HK Science & Technology and the WFOE are subject to limitations under PRC law on foreign ownership of Chinese companies. According to the Catalogue of Industries for Guiding Foreign Investment (2011 Revision) (the “Catalogue”), there are four kinds of industries which are encouraged, permitted, restricted and prohibited for foreign investment. The primary business of Dalian Tianyi Culture Development Co., Ltd (“Dalian Tianyi”) and Science & Technology World Network (Dalian) Co., Ltd (“Science & Technology (Dalian)”) are within the category in which foreign investment is currently restricted.

On January 21, 2012, the WFOE respectively entered into a series of agreements with Dalian Tianyi, Science & Technology (Dalian) and their respective shareholders (“Contractual Arrangements”). The relationship with Dalian Tianyi, Science & Technology (Dalian) and their respective shareholders are governed by the Contractual Arrangements. The Contractual Arrangements is comprised of a series of agreements, including Exclusive Technical Consulting Service Agreements and Operating Agreements, through which WFOE has the right to advise, consult, manage and operate Dalian Tianyi and Science & Technology (Dalian), and collect 85% of their respective net profits. The shareholders of Dalian Tianyi and Science & Technology (Dalian) have granted WFOE, under the Exclusive Equity Interest Purchase Agreement, the exclusive right and option to acquire all of their equity interests respectively in Dalian Tianyi and Science & Technology (Dalian). Furthermore, the shareholders of Dalian Tianyi and Science & Technology (Dalian) is under the procedure of pledging all of their equity interests respectively in Dalian Tianyi and Science & Technology (Dalian) to WFOE under the Exclusive Equity Interest Pledge Agreement, and through the Exclusive Equity Interest Pledge Agreement, WFOE can collect the remaining 15% of Dalian Tianyi and Science & Technology (Dalian)’s respective net profits.

According to the Power of Attorney executed by the shareholders of Dalian Tianyi and Science & Technology (Dalian), they exclusively authorized WFOE to perform and exercise any and all of the shareholder’s rights in Dalian Tianyi and Science & Technology (Dalian).

As a result of the Contractual Arrangements, under generally accepted accounting principles in the United States, or U.S. GAAP, Science & Technology Media is considered the primary beneficiary of Dalian Tianyi and Science & Technology (Dalian) (“VIEs”)

On October 29, 2012, Science & Technology Media entered into a Share Exchange Agreement by and among (i) Science & Technology Holding, (ii) the principal shareholders of China Network Media Inc., (iii) China Network Media Inc., (iv) the shareholders of Science & Technology Holding and (v) Science & Technology Media.

The acquisition was accounted for as a “reverse merger,” and Science & Technology Media was deemed to be the accounting acquirer in the reverse merger. Consequently, the assets and liabilities and the historical operations that would be reflected in the financial statements prior to the acquisition would be those of Science & Technology Media and its wholly owned subsidiaries and VIEs, and would be recorded at the historical cost, and the consolidated financial statements after completion of the acquisition would include the assets, liabilities and operation of China Network Media Inc., Science & Technology Media and its wholly owned subsidiaries and VIEs from the closing date of the acquisition. As a result of the issuance of the shares of common stock pursuant to the Exchange Agreement, a change in control of occurred as a result of the acquisition.

In connection with the closing of the Exchange Agreement, Toft ApS, China Network Media Inc.’ principal shareholder, agreed to cancel its 10,000,000 shares of the common stock that it owned in China Network Media Inc. and to issue 50,000,000 shares to shareholders of Science & Technology Holding, who acquired a majority interest in China Network Media Inc., in October 2012 for the purpose of the reverse acquisition of Science & Technology Media. Additionally, the existing officers and directors from China Network Media Inc. resigned from its board of directors and all officer positions effective immediately after the closing of the reverse merger. Accordingly, China Network Media Inc. appointed Mr. Jiang Wei, the former major shareholder of Science & Technology Holding as the Chairman of the Board and appointed Mr. Peng HuiAn, the former major shareholder of Science & Technology Holding as the Chief Executive Officer. The shareholders of Science & Technology Media shareholder were issued common stock of China Network Media Inc. constituting approximately 95.02% of the fully diluted outstanding shares. After the RTO, 52,620,030 common stock were outstanding.

China Network Media Inc.’ directors approved the Exchange Agreement and the transactions contemplated thereby. Simultaneously, the directors of Science & Technology Media also approved the Exchange Agreement and the transactions contemplated thereby.

As a result of the Exchange Agreement, China Network Media Inc. acquired 100% of the processing and production operations of Science & Technology Media and its subsidiaries, the business and operations of which now constitutes its primary business and operations.

On March 19, 2013, the Company submitted dissolution application for Science & Technology Holding which was approved on April 2, 2013.

China Network Media Inc., its wholly-owned subsidiaries and VIEs are collectively referred as “the Company”, “we”, “us”, “our” for the purposes of these notes.

We operate a multi-languages portal website that serves to the technology industry and provide advertising opportunities to the companies through our diverse business network in China. The Company currently operates its website through different versions in China.

As our main target, we provide online platform to business entrepreneurs and corporations with a B2B marketplace that can help our customers:

- Set their brand image through multiple languages online magazine, online corporate multimedia advertisement, executives interviews, institutional alliances and flexible membership package that tailor made based on what our customers need;
- Set up customer's online exhibition to introduce their products to the public, where they have our tailor-made corporate introduction with 3D product description and factory facilities online show room ;
- Develop intelligent leisure retirement industry through building a unique international intelligent technology health leisure endowment industrial district including residential area, holiday resort, spa area etc. ;
- Develop an e-commercial platform to combine the online sales business with above intelligent leisure district and all the branches over the world to provide elderly products and also exclusive products provided by our agents;
- B2B product purchase platform for companies and end-users;
- Online job opportunity section for corporate clients; and
- Corporate blogs.

We currently derive a substantial portion of our revenues from online advertising membership services. Our advertising membership solutions present corporate users with attractive opportunities to combine the visual impact and engagement of traditional television-like multimedia advertisements and online magazines with the interactivity and precise targeting capabilities of the Internet. We strive to promote a novel and unique advertising environment on our website to attract technology enterprises.

NOTE 2. GOING CONCERN AND LIQUIDITY

The accompanying unaudited consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company currently has limited revenue and has accumulated deficit of \$1,678,073 and \$1,555,510 as of September 30, 2014 and December 31, 2013 and net losses of \$122,563 and net income of \$654,391 for the nine months ended September 30, 2014 and 2013, respectively. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management plans to fund continuing operations through new financing from related parties and equity financing arrangements. The Company's continuation as a going concern is dependent on its ability to meet its obligations, to obtain additional financing as may be required until 2014 when it can generate sources of recurring revenues and to ultimately attain profitability. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The principal sources of liquidity are cash and cash equivalents, short-term investments, loans from shareholders, as well as the cash flows generated from our operations.

As of September 30, 2014, the Company had cash and cash equivalents of approximately \$186,485. As of December 31, 2013, the Company had cash and cash equivalents of approximately \$135,465. Cash and cash equivalents include cash on hand, deposits in banks with maturities of three months or less, and all highly liquid investments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less at the time of purchase.

The Company believes that the current cash and cash equivalents combined with proceeds that it expect to generate from operating activities are sufficient to meet anticipated working capital needs, commitments and capital expenditures over the next twelve months. It may, however, require additional cash resources due to changes in business conditions and other future developments, or changes in general economic conditions. The management also promised to provide economic supports to the Company for operation need including provide loans to the Company.

NOTE 3. VARIABLE INTEREST ENTITIES

To satisfy PRC laws and regulations, the Company conducts certain business in the PRC through its Variable Interest Entities (“VIEs”).

The significant terms of the VIE Agreements are summarized below:

Exclusive Technical Consulting Service Agreement: During the term of this Agreement, Science & Technology Trading shall provide the following technical consulting services to Dalian Tianyi and Science & Technology (Dalian) in accordance with this Agreement: (i) Provision of advanced management skills to offer a framework for the construction of a new management platform; (ii) Provision of technology information and materials related to Dalian Tianyi and Science & Technology (Dalian)’s business development and operation. The content of the technology information and documents may be enhanced or diminished during the performance of this Agreement and upon mutual agreement to address each Party’s requirements; and (iii) Training of technical and managerial personnel for Dalian Tianyi and Science & Technology (Dalian) and provision of required training documents. Science & Technology Trading will send technologists and managerial personnel to Dalian Tianyi and Science & Technology (Dalian) to provide related technology and training services as necessary. Dalian Tianyi and Science & Technology (Dalian) hereby agrees to accept the technical consulting services provided by Science & Technology Trading. Dalian Tianyi and Science & Technology (Dalian) further agrees that, during the term of this Agreement, it shall not accept technical consulting and services from any other party without the prior written consent of Science & Technology Trading. Science & Technology Trading shall be the sole and exclusive owner of all right, title and interests to any and all intellectual property rights arising from the performance of this Agreement, including but not limited to, copyrights, patent, know-how and commercial secrets, whether such intellectual property is developed by Science & Technology Trading or Dalian Tianyi and Science & Technology (Dalian).

Exclusive Equity Interest Purchase Agreement: Under the Exclusive Option Agreements entered into by and among Science & Technology Trading, each of the PRC Shareholders irrevocably granted to Science & Technology Trading the exclusive right to purchase or designate one or more persons to purchase all or any portion of the Equity Interest from the PRC Shareholders subject to compliance with legal restrictions under applicable PRC laws. The PRC Shareholders shall not sell or transfer all or any portion of the Equity Interest to any party other than Science & Technology Trading and/or the Specified Person.

Equity Interest Pledge Agreement: Under the Equity Pledge Agreements entered into by and among Science& Technology Trading, the PRC Operating Entities and each of the PRC Shareholders, the PRC Shareholders pledged all of their equity interests in the PRC Operating Entities as security to ensure that Science& Technology Trading collects the Consulting Fee under the Service Agreement. The Pledge shall be effective as of the date that the Pledge is recorded in the register of shareholders of Dalian Tianyi and Science & Technology (Dalian) and shall remain effective so long as this Agreement remains in effect. During the Term of the Pledge, Science& Technology Trading shall be entitled to foreclose on the Pledge in accordance with this Agreement in the event that Dalian Tianyi and Science & Technology (Dalian) fail to pay the Consulting Fees in accordance with the Service Agreement. Science& Technology Trading shall be entitled to exercise, dispose of or assign the Pledge in accordance with this Agreement.

Powers of Attorney: The PRC Shareholders have each executed an irrevocable power of attorney to appoint Science& Technology Trading as their sole representative with full authority to perform and exercise any and all shareholder’s rights associated with the Equity Interest, including but not limited to, the right to attend shareholders’ meetings, the right to execute shareholders’ resolutions, the right to sell, assign, transfer or pledge any or all of the Equity Interest and the right to vote the Equity Interest for all matters, including but not limited to, the appointment of legal representatives, board members, executive directors, inspectors, chief managers and other senior management officers and the submission of all the Company’s related documentations to the competent authorities. The term of each power of attorney is valid so long as such shareholder is a shareholder of the respective PRC Operating Entity.

As a result of these VIE Agreements, the Company through its wholly-owned subsidiary, Science& Technology Trading, was granted with unconstrained decision making rights and power over key strategic and operational functions that would significantly impact the PRC Operating Entities or the VIEs' economic performance, which includes, but is not limited to, the development and execution of the overall business strategy; important and material decision making; decision making for merger and acquisition targets and execution of merger and acquisition plans; business partnership strategy development and execution; government liaison; operation management and review; and human resources recruitment and compensation and incentive strategy development and execution. Science& Technology Trading also provides comprehensive services to the VIEs for their daily operations, such as operational technical support, OA technical support, accounting support, general administration support and technical support for products and services. As a result of the Exclusive Business Cooperation Agreements, the Equity Pledge Agreements and the Exclusive Option Agreements, the Company will bear all of the VIEs' operating costs in exchange for 100% of the net income of the VIEs. Under these agreements, the Company has the absolute and exclusive right to enjoy economic benefits similar to equity ownership through the VIE Agreements with our PRC Operating Entities and their shareholders.

These contractual arrangements may not be as effective in providing the Company with control over the VIEs as direct ownership. Due to its VIE structure, the Company has to rely on contractual rights to effect control and management of the VIEs, which exposes it to the risk of potential breach of contract by the shareholders of the VIEs for a number of reasons. For example, their interests as shareholders of the VIEs and the interests of the Company may conflict and the Company may fail to resolve such conflicts; the shareholders may believe that breaching the contracts will lead to greater economic benefit for them; or the shareholders may otherwise act in bad faith. If any of the foregoing were to happen, the Company may have to rely on legal or arbitral proceedings to enforce its contractual rights, including specific performance or injunctive relief, and claiming damages. Such arbitral and legal proceedings may cost substantial financial and other resources, and result in a disruption of its business, and the Company cannot assure that the outcome will be in its favor. Apart from the above risks, there are no significant judgments or assumptions regarding enforceability of the contracts.

In addition, as all of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through either arbitration or litigation in the PRC, they would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could further limit the Company's ability to enforce these contractual arrangements. Furthermore, these contracts may not be enforceable in China if PRC government authorities or courts take a view that such contracts contravene PRC laws and regulations or are otherwise not enforceable for public policy reasons. In the event the Company is unable to enforce these contractual arrangements, it may not be able to exert effective control over the VIEs, and its ability to conduct its business may be materially and adversely affected.

The assets of the variable interest entities (the "VIEs") can be used to settle obligations of the consolidated entities. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets.

Most of our operations are conducted through our affiliated companies which the Company controls through contractual agreements in the form of variable interest entities. Current regulations in China permit our PRC subsidiaries to pay dividends to us only out of its accumulated distributable profits, if any, determined in accordance with their articles of association and PRC accounting standards and regulations. The ability of these Chinese affiliates to make dividends and other payments to us may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations.

- A. Under PRC law, our subsidiary may only pay dividends after 10% of its after-tax profits have been set aside as reserve funds, unless such reserves have reached at least 50% of its registered capital. Such cash reserve may not be distributed as cash dividends.
- B. The PRC Income Tax Law also imposes a 10% withholding income tax on dividends generated on or after January 1, 2008 and distributed by a resident enterprise to its foreign investors, if such foreign investors are considered as non-resident enterprise without any establishment or place within China or if the received dividends have no connection with such foreign investors' establishment or place within China, unless such foreign investors' jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

As of September 30, 2014, there were no such retained earnings available for distribution.

The following financial statement amounts and balances of the VIEs were included in the accompanying consolidated financial statements as of and for the three months ended September 30, 2014 and 2013, respectively:

	<u>September 30,</u> <u>2014</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2013</u> <u>(Unaudited)</u>
Total assets	\$ 372,863	\$ 405,321
Total liabilities	\$ 779,713	\$ 793,119
	<u>Nine Months Ended September 30,</u> <u>2014</u> <u>(Unaudited)</u>	<u>2013</u> <u>(Unaudited)</u>
Revenues	\$ 881,943	\$ 669,682
Net (loss) income	\$ (122,563)	\$ 654,391
	<u>For Three Months Ended September 30,</u> <u>2014</u> <u>(Unaudited)</u>	<u>2013</u> <u>(Unaudited)</u>
Revenues	\$ 281,040	\$ 228,983
Net income (loss)	\$ 17,831	\$ (32,958)

All of our current revenue is generated in PRC currency Renminbi ("RMB"). Any future restrictions on currency exchanges may limit our ability to use net revenues generated in Renminbi to make dividends or other payments in U.S. dollars or fund possible business activities outside China.

Foreign currency exchange regulation in China is primarily governed by the following rules:

- Foreign Exchange Administration Rules (1996), as amended in August 2008, or the Exchange Rules;
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

Under the Administration Rules, RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the State Administration of Foreign Exchange (“SAFE”) is obtained and prior registration with the SAFE is made. Foreign-invested enterprises like ours that need foreign exchange for the distribution of profits to their shareholders may affect payment from their foreign exchange accounts or purchase and pay foreign exchange rates at the designated foreign exchange banks to their foreign shareholders by producing board resolutions for such profit distribution. Based on their needs, foreign-invested enterprises are permitted to open foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments of foreign exchange at certain designated foreign exchange banks.

NOTE 4. SUMMARIES OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The accompanying consolidated balance sheet as of December 31, 2013, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements as of September 30, 2014 and for the nine months and three months periods ended September 30, 2014 and 2013 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures, which are normally included in financial statements prepared in accordance with United States generally accepted accounting principles (U.S. GAAP), have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. The interim financial information should be read in conjunction with the Financial Statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the Company’s consolidated financial position as of September 30, 2014, its consolidated results of operations and cash flows for the nine months and three months periods ended September 30, 2014 and 2013, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

b. Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries and VIEs. Upon consolidation, all balances and transactions between the Company and its subsidiaries and VIEs have been eliminated.

c. Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Management makes these estimates using the best information available at the time the estimates are made; however actual results could differ from those estimates. Significant items subject to such estimates and assumptions include valuation allowances for receivables and recoverability of carrying amount and the estimated useful lives of long-lived assets.

d. Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on deposit with various financial institutions in PRC and all highly-liquid investments with original maturities of three months or less at the time of purchase. Cash accounts are not insured or otherwise protected. Should any bank or trust company holding cash deposits become insolvent, or if the Company is otherwise unable to withdraw funds, the Company would lose the cash on deposits with that particular bank or other financial institutions.

e. Accounts Receivable

Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts as needed. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on aging data, historical collection experience, customer specific facts and economic conditions. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company did not have any off-balance-sheet credit exposure relating to its customers, suppliers or others. As of September 30, 2014 and December 31, 2013, management has determined that no allowance for doubtful accounts is required.

f. Property and equipment

Property and equipment mainly comprise computer equipment, hardware and office furniture. Property and equipment are recorded at cost less accumulated depreciation with no residual value.

Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of the assets:

Office and other equipment	5 years
Computers	3 years

Depreciation expense is allocated among Research and development expenses, Selling and marketing expenses and General and administrative expenses.

When office equipment and electronic devices are retired or otherwise disposed of, resulting gain or loss is included in net income or loss in the year of disposition for the difference between the net book value and proceeds received thereon. Maintenance and repairs which do not improve or extend the expected useful lives of the assets are charged to expenses as incurred.

g. Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recognized for the difference between the carrying amount of the asset and its fair value. There were no impairment losses for the nine months ended September 30, 2014 and 2013, respectively.

h. Revenue recognition

The Company recognizes revenue in accordance with ASC 605, *Revenue Recognition*. Revenues are recognized when the four of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the service has been rendered, (iii) the fees are fixed or determinable, and (iv) collectability is reasonably assured. The recognition of revenue involves certain management judgments. The amount and timing of our revenues could be materially different for any period if management made different judgments or utilized different estimates.

Online Membership Revenue

Online membership revenue includes revenue from members for brand advertising services as well as others services.

The Company has the arrangements with nonrefundable up-front fees model (“the Model”) to recognize revenue for the online membership business. We apply the Model, where a contract is signed to establish a fixed price for our services to be provided for a period of time as a membership enrollment, for a majority of our online membership revenue. Revenue is recognized ratably over the membership periods on a straight line basis, unless evidence suggests that the revenue is earned or obligations are fulfilled in a different pattern, over the contractual term of the arrangement or the expected period during which those specified services will be performed, whichever is longer. The Company provides advertisement placements to our advertising customers on our different Website channels and in different formats, which can include, among other things, banners, links, logos, buttons, rich media, pre-roll and post-roll video screens, pause video screens and content integration, as specified in the contracts with the members. The members can choose various on line services from the membership contracts based on their yearly membership.

For online membership revenue recognition, the Company recognizes revenue when all revenue recognition criteria are met.

Others Revenues

Other revenues are primarily generated from online advertisement planning services which introduce our customer’s profile, product, and awareness promotion for their executive officers to build a better brand name for non-member companies. We follow the guidance of FASB Accounting Standards Codification No. 605 for revenue recognition for others revenues. The Company recognize others revenue when they are realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement that the services have been rendered to the customer, the sales price is fixed or determinable, the services are rendered and collectability is reasonably assured.

i. Related parties

A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

j. Loss per common share

Basic loss per share is computed by dividing income attributable to common shareholders by the weighted average number of common shares outstanding for all periods. Diluted loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of shares outstanding, increased by common stock equivalents. Common stock equivalents represent incremental shares issuable upon exercise of outstanding warrants. However, potential common shares are not included in the denominator of the diluted loss per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded.

k. Foreign currency transactions and translations

An entity's functional currency is the currency of the primary economic environment in which it operates, normally that is the currency of the environment in which the entity primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements. The reporting currency of the Company is United States dollars ("U.S. dollars" or "\$"), and the functional currency of HK Science & Technology is Hong Kong dollars ("HK dollar"). The functional currency of the Company's PRC subsidiary and VIEs is the Renminbi ("RMB"), and PRC is the primary economic environment in which the Company operates. The reporting currency of these consolidated financial statements is the United States dollar.

For financial reporting purposes, the financial statements of the Company's PRC subsidiary and VIEs, which are prepared using the RMB, are translated into the Company's reporting currency, the United States dollar. The financial statements of HK Science & Technology, which are prepared using the HK dollar, are translated into the Company's reporting currency, the United States dollar. Assets and liabilities are translated using the exchange rate at each balance sheet date. Revenue and expenses are translated using average rates prevailing during each reporting period, and shareholders' equity is translated at historical exchange rates. Adjustments resulting from the translation are recorded as a separate component of accumulated other comprehensive income in owners' equity.

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. The resulting exchange differences are included in the determination of net income (loss) of the consolidated financial statements for the respective periods.

The exchange rates used for foreign currency translation were as follows (US\$1 = RMB):

	September 30, 2014	December 31, 2013
Balance sheet items, except for equity accounts	6.1560	6.1140
	<u>Nine Months Ended September 30, 2014</u>	<u>2013</u>
Items in the statements of income and comprehensive income, and statements of cash flows	6.1502	6.2215

No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation.

Translations adjustments resulting from this process are included in accumulated other comprehensive loss in the shareholder's deficit were \$56,488 at September 30, 2014 and \$59,158 at December 31, 2013, respectively.

I. Fair Value Measurements

The Company applies the provisions of ASC Subtopic 820-10, Fair Value Measurements, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements. ASC 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes three levels of inputs that may be used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

There were no transfers between level 1, level 2 or level 3 measurements for the three months ended September 30, 2014 and 2013, respectively.

As of September 30, 2014 the Company used Level 2 to measure the fair value of the shares that the Company issued to employees and part-time consultants for the service rendered. As the Company's shares were still not active on OTCBB, no quoted price for those shares.

The carrying values of the Company's financial assets and liabilities, including accounts receivables, other current assets, and accrued expenses and other current liabilities, are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and if applicable, their stated interest rate approximates current rates available.

m. Share-Based Compensation

Pursuant to ASC Topic 718, *Compensation - Stock Compensation*, the Company measures the cost of employee services received in exchange for an award of stock-based compensation based on the grant-date fair value of the award. The cost is recognized over the requisite service period, except for awards granted to employees for past services, which are fully expensed by the grant date.

n. Recently adopted accounting pronouncements

In April 2014, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” This ASU changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal that “represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.” The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”. This ASU supercedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605-Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For all other entities (nonpublic entities), the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to apply this guidance earlier, however, only as prescribed in this ASU. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial position and results of operations.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company’s consolidated financial statements upon adoption.

NOTE 5. EARNINGS (LOSS) PER SHARE

The FASB’s accounting standard for earnings (loss) per share requires presentation of basic and diluted earnings (loss) per share in conjunction with the disclosure of the methodology used in computing such earnings (loss) per share. Basic earnings (loss) per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings (loss) per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. The Company has no potential dilutive securities as of September 30, 2014.

The following is a reconciliation of the basic and diluted (loss) earnings per share computations for the nine months ended September 30, 2014 and 2013:

	For Nine Months Ended September 30,	
	2014	2013
	(Unaudited)	(Unaudited)
Net (loss) income for basic and diluted (loss) earnings per share	\$ (122,563)	\$ 654,391
Weighted average shares used in basic and diluted computation	62,455,847	59,940,664
(Loss) earnings per share:		
Basic and diluted	<u>\$ (0.002)</u>	<u>\$ 0.011</u>
	For Three Months Ended September 30,	
	2014	2013
	(Unaudited)	(Unaudited)
Net income (loss) for basic and diluted earnings (loss) per share	\$ 17,831	\$ (38,255)
Weighted average shares used in basic and diluted computation	63,636,868	59,940,664
Earnings (loss) per share:		
Basic and diluted	<u>\$ 0.0003</u>	<u>\$ (0.001)</u>

NOTE 6. CONCENTRATION OF RISK***Credit risk***

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivables. The Company places its cash and cash equivalents with financial institutions, which management believes are of high-credit ratings and quality.

The Company conducts credit evaluations of customers and generally does not require collateral or other security from its customers. The Company establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

Concentration

During the nine months ended September 30, 2014 and 2013, the Company had concentration of sales to one and one customers accounting for 13% and 36%, respectively.

During the three months ended September 30, 2014 and 2013, the Company had concentration of sales to two and one customers accounting for 36% and 35%, respectively. For the three months ended September 30, 2014, two customers accounted for 20% and 16% of the Company's sales respectively.

For the nine months ended September 30, 2014, one supplier accounted for 17% of the Company's purchases. For the nine months and three months ended September 30, 2013, one supplier accounted for 32% of the Company's purchases.

NOTE 7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

At September 30, 2014 and December 31, 2013, prepayment and other current assets consist of:

	September 30, 2014	December 31, 2013
	(Unaudited)	
Prepaid rental, phone and to other vendors	\$ 10,961	\$ 11,036
Prepayment to advertisement and internet resources providers	20,576	75,106
Other current assets	20,137	36,708
	<u>\$ 51,674</u>	<u>\$ 122,850</u>

Prepayment to advertisement and internet resources providers consists of the deposits required by and made to the telecommunication platform operators for using their network services.

NOTE 8. PROPERTY AND EQUIPMENT

Property and equipment consists of network equipment and servers used for hosting Company's website and furniture, equipment and computers used in the office.

Property and equipment consists of the following:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
	(Unaudited)	
Office and other equipment	\$ 103,910	\$ 102,334
Computers	64,905	65,351
Property and equipment, cost	168,815	167,685
Less: accumulated depreciation	(139,665)	(118,366)
Property and equipment, net	<u>\$ 29,150</u>	<u>\$ 49,319</u>

Depreciation expense for the nine months ended September 30, 2014 and 2013 were \$22,127 and \$29,370, respectively. Depreciation expense for the three months ended September 30, 2014 and 2013 were \$6,882 and \$8,184, respectively.

NOTE 9. RELATED PARTY TRANSACTIONS

At September 30, 2014 and December 31, 2013, the Company had a balance due to Xie He Si Decoration Co., Ltd, a related company owned by the Chairman, Mr. Jiang Wei, of \$82,521 and \$83,088, respectively, for advances made to fund operations. This payable is due on demand, is non-interest bearing and has no maturity date.

NOTE 10. ADVANCE FROM CUSTOMERS AND DEFERRED REVENUE

Advances from customers represent customer payments for membership contracts but membership has not started. Deferred revenue represents customer payments made in advance for membership contracts while services have not been fully provided. Membership contracts are typically billed on full basis in advance and revenue is recognized ratably over the membership period. Deferred revenue, non-current consists of customer payments made in advance for membership contracts with terms of more than 12 months.

As of September 30, 2014 and December 31, 2013, advances from customers and deferred revenue consisted of the following:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
	(Unaudited)	
Advance from customers	\$ 146,199	\$ 81,779
Deferred revenue, current	433,137	553,790
Deferred revenue, non-current	-	11,358
Total	<u>\$ 579,336</u>	<u>\$ 646,927</u>

NOTE 11. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
	<u>(Unaudited)</u>	
Payroll payable	\$ 32,070	\$ 33,793
Other payable	10,335	11,604
Total	<u>\$ 42,405</u>	<u>\$ 45,397</u>

NOTE 12. TAXATION

A) Income Tax

Science & Technology Trading and our combined VIEs are established in Dalian, Province, PRC, and governed by the Income Tax Law of the PRC concerning privately-held enterprises, which are generally subject to tax at a statutory rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments in 2014 and 2013.

The effective tax rate for the Company for the nine months ended September 30, 2014 and 2013 was 90% and 30% respectively.

A reconciliation of the provision for income taxes determined at the U.S. federal corporate income tax rate to the Company's effective income tax rate is as follows:

	<u>September 30, 2014</u>	<u>September 30, 2013</u>
	<u>Unaudited</u>	<u>Unaudited</u>
US federal rate	35%	35%
Taxable losses (income)	64,643	(943,695)
Computed expected income tax benefit (expense)	22,625	(330,293)
Reconciliation items:		
Rate differential for domestic earnings	(6,464)	94,370
Non-deductible expenses	(709)	(1,321)
Valuation allowance on deferred tax assets	<u>(73,372)</u>	<u>(52,060)</u>
Effective income tax expense	<u>\$ (57,920)</u>	<u>\$ (289,304)</u>

Income tax expense for the nine months ended September 30, 2014 and 2013 were \$57,920 and \$289,304, respectively.

Realization of the net deferred tax assets is dependent on factors including future reversals of existing taxable temporary differences and adequate future taxable income, exclusive of reversing deductible temporary differences and tax loss or credit carry forwards. The Company evaluates the potential realization of deferred tax assets on an entity-by-entity basis. As of September 30, 2014, valuation allowances were provided against deferred tax assets in entities where it was determined it was more likely than not that the benefits of the deferred tax assets will not be realized. The Company had deferred tax assets which consisted of tax loss carry-forwards, which can be carried forward to offset future taxable income for five years from the year the loss occurred. The management determines it is more likely than not that these deferred tax assets could not be recognized, so full allowances were provided as of September 30, 2014 and December 31, 2013. The deferred tax assets arising from net operating losses will expire from 2018 if not utilized.

B) Value Added Tax and relevant surcharge

Revenue of our membership and advertising planning services are subject to 3% value added tax (“VAT”) and 0.36% total surcharge of the gross service income for the business incurred on and after November 1, 2013.

The Company pays the VAT when the invoices are issued to customers and estimates the income tax as the full received amounts had been recognized as revenue. The prepaid VAT and income tax are deductible in the following years.

NOTE 13. SHAREHOLDERS’ DEFICIT AND STATUTORY RESERVES

On October 29, 2012, Science & Technology Media entered into a Share Exchange Agreement by and among (i) Science & Technology Holding, (ii) the principal shareholders of China Network Media Inc. (iii) China Network Media Inc. and (iv) the shareholders of Science & Technology Holding.

As a result of the Exchange Agreement, China Network Media Inc. acquired 100% of the processing and production operations of Science & Technology Media and its subsidiaries, the business and operations of which now constitutes its primary business and operations. Specifically, as a result of the Exchange Agreement on October 29, 2012:

- China Network Media Inc. acquired and now owns 100% of the issued and outstanding shares of capital stock of Science & Technology Media, a British Virgin Islands holding company which controls Dalian Tianyi, Science & Technology (Dalian) and their telecommunications business;
- China Network Media Inc. issued 50,000,000 shares of common stock to the shareholders of Science & Technology Media shareholders; and
- Science & Technology Media were issued common stock of China Network Media Inc. constituting approximately 95.02% of the fully diluted outstanding shares.

As stipulated by the laws and regulations for enterprises operating in PRC, the subsidiaries of the Company are required to make annual appropriations to a statutory surplus reserve fund. Specifically, the subsidiaries of the Company are required to allocate 10% of their profits after taxes, as determined in accordance with the PRC accounting standards applicable to the subsidiaries of the Company, to a statutory surplus reserve until such reserve reaches 50% of the registered capital of the subsidiaries of the Company. The Company can use the statutory surplus reserve to offset deficits, expand its plant or increase capital when and only when the reserve balance exceeds 50% of the registered capital, and the amount capitalized should be limited to 50% of the statutory surplus reserve. The Company is not yet subject to the requirement to appropriate statutory reserves as they have not produced accumulated net earnings since inception

NOTE 14. SHARES GRANTED AND ISSUED TO EMPLOYEES

On January 16, 2013 and January 17, 2013, the Company granted equity awards of 5,950 shares and 3,838,830 shares to 2 employees and 37 part-time consultants, respectively, for the services rendered. The total fair value of these shares at the date of grant was estimated to be \$15,445. The fair value of the shares granted was \$0.004 per share calculated through the application of an income approach technique known as Discounted Cash Flow (“DCF”) method to evaluate the future value of the operation into a present market value. This method eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the operation.

On July 8, 2013 the Company granted equity awards of 156,140 shares to 13 part-time consultants, for the services rendered. The total fair value of these shares at the date of grant was estimated to be \$4,409.

On July 29, 2013 the Company cancelled 115,128 shares which have been issued to 6 employees, for the contracts terminated. The total fair value of these shares was estimated to be \$461.

On October 24, 2013 the Company cancelled 49,905 shares which have been issued to 6 employees, for the contracts terminated. The total fair value of these shares was estimated to be \$200.

On November 22, 2013 the Company granted equity awards of 219,200 shares and 40,290 shares to 14 part-time consultants and 2 employees, respectively, for the services rendered. The total fair value of these shares was estimated to be \$7,327.

On February 25, 2014 the Company cancelled 10,000 shares which have been issued to 1 consultant, for the contract terminated. The total fair value of these shares were estimated to be \$40.

On April 8, 2014 the Company granted equity awards of 2,377,950 and 820,354 shares to 10 part-time consultants and 53 employees respectively, for the services rendered. The total fair value of these shares at the date of grant was estimated to be \$90,305.

On September 17, 2014 the Company granted equity awards of 373,200 shares to 13 part-time consultants for the services rendered. The total fair value of these shares at the date of grant was estimated to be \$10,538.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes three levels of inputs that may be used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

Based on the guidance and background noted above, no quoted price for those shares as the Company's shares still not active on OTCBB. The Company decided to use Level 2 to measure the fair value of the shares.

The fair value of the shares granted was \$0.02824 per share calculated through the application of an income approach technique known as Discounted Cash Flow (“DCF”) method to evaluate the future value of the operation into a present market value. This method eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the operation.

Major assumptions used for measuring the fair value as follow:

- It is assumed that there will be no material change in the existing political, legal, technological, fiscal or economic condition which may adversely affect the business of the Company;
- The Company will adhere to the terms that bond with the contracts and agreements;

- The Company's competitive advantages and disadvantages will not change significantly during the period.

NOTE 15. COMMITMENTS

The Company's operating lease commitment as of September 30, 2014 and December 31, 2013 were \$14,332 and \$13,634, respectively. The unpaid contract amount is expected to be paid in one year.

NOTE 16. SUBSEQUENT EVENTS

There were no significant events occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our consolidated financial statements.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition for the quarter ended September 30, 2014. The discussion should be read along with our financial statements and notes thereto contained elsewhere in this Report. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results, expectations and plans discussed in these forward-looking statements. See “Cautionary Statement On Forward-Looking Information.”

Overview

We operate a multi-lingual portal website that offers advertising opportunities, technical support, and industrial information and community functions to science and technology companies and entrepreneurs in China. We conduct our business through our variable interest entities Dalian Tianyi and Science & Technology Network in China, which we control through a series of contractual arrangements.

Our website has 28 domestic channels featuring different regions in greater China area and two user interactive and information sharing platforms bulletin board system (BBS) and Blog and, is available in three languages Chinese, English and Japanese.

Our vision is to develop a worldwide online platform for science and technology companies and entrepreneurs to:

- Build brand image through a package of online magazine and multimedia advertisement, executive interview display, and online institutional alliances;
- Showcase products through our customer-made corporate and factory facilities online show room;
- Host product purchase for businesses and end-users;
- Publish job openings and seek talents for corporate clients; and
- Post corporate blogs;

We currently derive a substantial portion of our revenues from online advertising services.

Critical Accounting Policies and Management Estimates

Our discussion and analysis of our financial condition and results of operations relates to our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the consolidation, revenue recognition, income taxes and uncertain tax positions, computation of net loss per share, determination of net accounts receivable, and determination of functional currencies represent critical accounting policies that reflect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries and VIEs. Upon consolidation, all balances and transactions between the Company and its subsidiaries and VIEs have been eliminated.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Management makes these estimates using the best information available at the time the estimates are made; however actual results could differ from those estimates. Significant items subject to such estimates and assumptions include valuation allowances for receivables and recoverability of carrying amount and the estimated useful lives of long-lived assets.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 605, *Revenue Recognition*. Revenues are recognized when the four of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the service has been rendered, (iii) the fees are fixed or determinable, and (iv) collectability is reasonably assured. The recognition of revenue involves certain management judgments. The amount and timing of our revenues could be materially different for any period if management made different judgments or utilized different estimates.

Online Membership Revenue

Online membership revenue includes revenue from members for brand advertising services as well as others services.

The Company has the arrangements with nonrefundable up-front fees model (the “Model”) to recognize revenue for the online membership business. We apply the Model, where a contract is signed to establish a fixed price for our services to be provided for a period of time as a membership enrollment, for a majority of our online membership revenue. Revenue is recognized ratably over the membership periods on a straight line basis, unless evidence suggests that the revenue is earned or obligations are fulfilled in a different pattern, over the contractual term of the arrangement or the expected period during which those specified services will be performed, whichever is longer. We provide advertisement placements to our advertising customers on our different Website channels and in different formats, which can include, among other things, banners, links, logos, buttons, rich media, pre-roll and post-roll video screens, pause video screens and content integration, as specified in the contracts with the members. The members can choose various on line services from the membership contracts based on their yearly membership.

For online membership revenue recognition, we recognize revenue when all revenue recognition criteria are met.

Others Revenues

Other revenues are primarily generated from online advertisement planning services which introduce our customer’s profile, product, and awareness promotion for their executive officers to build a better brand name for non-member companies. We follows the guidance of FASB Accounting Standards Codification No. 605 for revenue recognition for others revenues. The Company recognize others revenue when they are realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement that the services have been rendered to the customer, the sales price is fixed or determinable, the services are rendered and collectability is reasonably assured.

Income Taxes and Uncertain Tax Positions

Income Taxes

The Company follows ASC 740, *Income Taxes*, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company adopted ASC 740-10-25, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax position. The Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Our estimated liability for unrecognized tax benefits, may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from our estimates. As each audit is concluded, adjustments, if any, are recorded in our financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require us to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. The Company has elected to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the combined statements of operations. The Company did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of ASC 740-10-25.

Accounts Receivable

Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts as needed. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on aging data, historical collection experience, customer specific facts and economic conditions. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company did not have any off-balance-sheet credit exposure relating to its customers, suppliers or others. As of September 30, 2014 and December 31, 2013, management has determined that no allowance for doubtful accounts is required.

Property and equipment

Property and equipment mainly comprise computer equipment, hardware and office furniture. Property and equipment are recorded at cost less accumulated depreciation with no residual value.

Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of the assets:

Office and other equipment	5 years
Computers	3 years

Depreciation expense is included in Selling and marketing expenses and general and administrative expenses.

When office equipment and electronic devices are retired or otherwise disposed of, resulting gain or loss is included in net income or loss in the year of disposition for the difference between the net book value and proceeds received thereon. Maintenance and repairs which do not improve or extend the expected useful lives of the assets are charged to expenses as incurred.

Foreign currency transactions and translations

An entity's functional currency is the currency of the primary economic environment in which it operates, normally that is the currency of the environment in which the entity primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements. The reporting currency of the Company is United States dollars ("U.S. dollars" or "\$"), and the functional currency of HK Science & Technology is Hong Kong dollars ("HK dollar"). The functional currency of the Company's PRC subsidiary and VIEs is the Renminbi ("RMB"), and PRC is the primary economic environment in which the Company operates. The reporting currency of these consolidated financial statements is the United States dollar.

For financial reporting purposes, the financial statements of the Company's PRC subsidiary and VIEs, which are prepared using the RMB, are translated into the Company's reporting currency, the United States dollar. Assets and liabilities are translated using the exchange rate at each balance sheet date. Revenue and expenses are translated using average rates prevailing during each reporting period, and shareholders' equity is translated at historical exchange rates. Adjustments resulting from the translation are recorded as a separate component of accumulated other comprehensive income in owners' equity.

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. The resulting exchange differences from settlement date are included in the determination of net income (loss) of the consolidated financial statements for the respective periods.

The exchange rates used for foreign currency translation were as follows (US\$1 = RMB):

	<u>September 30,</u> <u>2014</u>	<u>December 31, 2013</u>
Balance sheet items, except for equity accounts	6.1560	6.1140
	<u>Nine Months Ended September 30,</u> <u>2014</u>	<u>2013</u>
Items in the statements of income and comprehensive income, and statements of cash flows	6.1502	6.2215

No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation.

Translations adjustments resulting from this process are included in accumulated other comprehensive loss in the shareholder's deficit were \$56,488 at September 30, 2014 and \$59,158 at December 31, 2013, respectively.

Results of Operations for Nine Months Ended September 30, 2014 and 2013

The following table shows key components of the results of operations during nine months ended September 30, 2014 and 2013:

	For Nine Months Ended September 30,		Change of Amount	Change of %
	2014 (Unaudited)	2013 (Unaudited)		
Revenue				
- Third parties	\$ 861,619	\$ 649,590	\$ 212,029	33%
- Related parties	20,324	20,092	232	1%
	<u>881,943</u>	<u>669,682</u>	<u>212,261</u>	<u>32%</u>
Cost of revenue				
- Third parties	363,670	370,671	(7,001)	(2)%
- Related parties	3,204	11,465	(8,261)	(72)%
	<u>366,874</u>	<u>382,136</u>	<u>(15,262)</u>	<u>(4)%</u>
Gross profit	515,069	287,546	227,523	79%
Operating expenses:				
Research and development expenses	97,147	84,724	12,423	15%
Selling and marketing expenses	25,611	49,092	(23,481)	(48)%
General and administrative expenses	465,224	425,382	39,842	9%
Total operating expenses	<u>587,982</u>	<u>559,198</u>	<u>28,784</u>	<u>5%</u>
Loss from Operations	<u>(72,913)</u>	<u>(271,652)</u>	<u>198,739</u>	<u>(73)%</u>
Other income	8,270	1,215,347	(1,207,077)	(99)%
Income (loss) from operations before income taxes	(64,643)	943,695	(1,008,338)	(107)%
Provision for income taxes	57,920	289,304	(231,384)	(80)%
Net income (loss)	<u>(122,563)</u>	<u>654,391</u>	<u>(776,954)</u>	<u>(119)%</u>
Other comprehensive income (loss)				
Foreign currency translation adjustment	2,668	(19,347)	22,015	(114)%
Comprehensive income (loss)	<u>\$ (119,895)</u>	<u>\$ 635,044</u>	<u>\$ (754,939)</u>	<u>(119)%</u>

Revenue

Total revenues were \$881,943 for nine months ended September 30, 2014, compared to \$669,682 for the corresponding period in 2013. The increase was mainly attributable to increases in online members to 38 with average annual contract price of \$45,439, from 31 with average annual contract price of \$42,108 which was driven by our business development activities.

Costs and Expenses

Cost of revenue

Total cost of revenues was \$366,874 for the nine months ended September 30, 2014, compared to \$382,136 for the corresponding period in 2013. The decrease in cost of revenues from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$15,262, or 4%. The decrease in cost of revenues was mainly a result of decrease in the cooperation fee paid to WO 3G mobile TV for network building of \$59,576, decrease in website maintenance cost of \$1,832, and decrease in sales tax of \$34,212, offset by increase in labor cost of \$47,051 and other cost increase of \$33,307, which are all in line with the increased revenue.

Operating Expenses

Total operating expenses were \$587,982 for the nine months ended September 30, 2014, compared to \$559,198 for the corresponding period in 2013. The increase in operating expenses from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$28,784, or 5%. The increase was mainly caused by increase in research and development expenses of \$12,423 and increase in general and administrative expenses of \$39,842, offset by decrease in selling expenses of \$23,481.

Research and Development Expenses

Research and development expenses mainly consist of personnel-related expenses associated with research projects in new products and services, expenses related to improving existing products and services, and expenses related to optimizing our websites, mainly including development and maintenance costs online advertisements on our website.

Research and development expenses were \$97,147 for the nine months ended September 30, 2014, compared to \$84,724 for the corresponding period in 2013. The increase in research and development expenses from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$12,423, or 15%. The increase was mainly related to increase in salary and benefits expenses for research and development personnel.

Selling and Marketing Expenses

Selling and marketing expenses mainly consist of advertising and promotional expenditures, salary and benefits expenses for sales personnel, sales commissions and travel expenses.

Selling and marketing expenses were \$25,611 for the nine months ended September 30, 2014, compared to \$49,092 for the corresponding period in 2013. The decrease in selling and marketing expenses from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$23,481, or 48%. The decrease was mainly a result of decrease in salaries of sales personnel of \$11,458 and decrease in travel cost of \$9,700, and decrease in miscellaneous expense of \$2,323. The Company put more emphasis on exploring sizable customers and customers located in the northeast district of China, which led to a decrease in marketing expenses in the first half year of 2014.

General and Administrative Expenses

General and administrative expenses mainly consist of salary and benefits expenses for administrative personnel, professional service fees, and website hosting service fee, and office rental expenses.

General and administrative expenses were \$465,224 for the nine months ended September 30, 2014, compared to \$425,382 for the corresponding period in 2013. The increase in general and administrative expenses from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$39,842, or 9%. The increases were mainly due to increase of share-based payment of \$84,748, offset by decrease in office expenses of \$19,748, decrease in salaries of sales personnel of \$20,623 and decrease in miscellaneous fee of \$4,535 as the management adjusted the personnel structure and lowered the office expenses budget in the first half year of 2014.

Loss from Operations

As a result of the foregoing, our operating loss was \$72,913 for the nine months ended September 30, 2014, compared to loss of \$271,652 for the nine months ended September 30, 2013.

Other Income

Other income was \$8,270 for the nine months ended September 30, 2014, compared to other income of \$1,215,347 for the corresponding period in 2013. The difference was mainly a result of decreased subsidy income in 2014 and a lack of customer deposit in 2014 which was recognized as other income in the second quarter of 2013 due to the reasonably assured collectability.

Income Tax Expense

Income tax expense was \$57,920 for the nine months ended September 30, 2014, compared to \$289,304 for the nine months ended September 30, 2013.

Net Income (loss)

For the nine months ended September 30, 2014, we had net loss of \$122,563, compared to the net income of \$654,391 for the nine months ended September 30, 2013.

Results of Operations for Three Months Ended September 30, 2014 and 2013

The following table shows key components of the results of operations during three months ended September 30, 2014 and 2013:

	For Three Months Ended September 30,		Change of Amount	Change of %
	2014 (Unaudited)	2013 (Unaudited)		
Revenue				
- Third parties	\$ 274,279	\$ 222,229	\$ 52,050	23%
- Related parties	6,761	6,754	7	0%
	<u>281,040</u>	<u>228,983</u>	<u>52,057</u>	<u>23%</u>
Cost of revenue				
- Third parties	92,067	126,507	(34,440)	(27)%
- Related parties	2,304	3,845	(1,541)	(40)%
	<u>94,371</u>	<u>130,352</u>	<u>(35,981)</u>	<u>(28)%</u>
Gross profit	186,669	98,631	88,038	89%
Operating expenses:				
Research and development expenses	30,810	31,197	(387)	(1)%
Selling and marketing expenses	5,946	15,963	(10,017)	(63)%
General and administrative expenses	<u>106,161</u>	<u>90,226</u>	<u>15,935</u>	<u>18%</u>
Total operating expenses	<u>142,917</u>	<u>137,386</u>	<u>5,531</u>	<u>4%</u>
Income (loss) from Operations	<u>43,752</u>	<u>(38,755)</u>	<u>82,507</u>	<u>(213)%</u>
Other income	<u>2,326</u>	<u>7,020</u>	<u>(4,694)</u>	<u>(67)%</u>
Income (loss) from operations before income taxes	46,078	(31,735)	77,813	(245)%
Provision for income taxes	28,247	1,223	27,024	2,210%
Net income (loss)	<u>17,831</u>	<u>(32,958)</u>	<u>50,789</u>	<u>(154)%</u>
Other comprehensive loss				
Foreign currency translation adjustment	(197)	(5,297)	5,100	(96)%
Comprehensive income (loss)	<u>\$ 17,634</u>	<u>\$ (38,255)</u>	<u>\$ 55,889</u>	<u>(146)%</u>

Revenue

Total revenues were \$281,040 for three months ended September 30, 2014, compared to \$228,983 for the corresponding period in 2013. The increase was mainly attributable to increases in online members to 38 with average annual contract price of \$45,439, from 31 with average annual contract price of \$42,108.

Costs and Expenses

Cost of revenue

Total cost of revenues was \$94,371 for the three months ended September 30, 2014, compared to \$130,352 for the corresponding period in 2013. The decrease in cost of revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$35,981, or 28%. The decrease in cost of revenues was mainly a result of decrease in the cooperation fee for network building of \$40,584 paid to WO 3G mobile TV, and decrease in sales tax of \$11,697, offset by increase in labor cost of \$11,874 and other cost increase of \$4,426.

Operating Expenses

Total operating expenses were \$156,410 for the three months ended September 30, 2014, compared to \$142,917 for the corresponding period in 2013. The increase in operating expenses from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$5,531, or 4%. The increase was mainly caused by increase in general and administrative expenses of \$15,935, offset by decrease of selling expenses of \$10,017 and decrease in research and development expenses of \$387.

Research and Development Expenses

Research and development expenses mainly consist of personnel-related expenses associated with research projects in new products and services, expenses related to improving existing products and services, and expenses related to optimizing our websites, mainly including development and maintenance costs of online advertisements on our website.

Research and development expenses were \$30,810 for the three months ended September 30, 2014, compared to \$31,197 for the corresponding period in 2013. The decrease in research and development expenses from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$387, or 1%. The decrease was mainly related to decrease in salary and benefits expenses for research and development personnel.

Selling and Marketing Expenses

Selling and marketing expenses mainly consist of advertising and promotional expenditures, salary and benefits expenses for sales personnel, sales commissions and travel expenses.

Selling and marketing expenses were \$5,946 for the three months ended September 30, 2014, compared to \$15,963 for the corresponding period in 2013. The decrease in selling and marketing expenses from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$10,017, or 63%. The decrease was mainly a result of decrease in salaries for sales personnel by \$5,923 and decrease in miscellaneous expense of \$4,094. The main reason for the decrease of staff cost because contracts developed in 2014 were less than those in 2013, so did the incentive salary for selling personnel.

General and Administrative Expenses

General and administrative expenses mainly consist of salary and benefits expenses for administrative personnel, professional service fees, and website hosting service fee, and office rental expenses.

General and administrative expenses were \$106,161 for the three months ended September 30, 2014, compared to \$90,226 for the corresponding period in 2013. The increase in general and administrative expenses from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$15,935 or 18%. The increases were mainly due to increase in share-based compensation of \$10,538, increase in office expenses of \$1,804, and increase in miscellaneous fee of \$3,593 as the management adjusted the personnel structure from the second quarter 2014.

Income (Loss) from Operations

As a result of the foregoing, our operating income was \$43,752 for the three months ended September 30, 2014, compared to loss of \$38,755 for the three months ended September 30, 2013.

Other Income

Other income was \$2,326 for the three months ended September 30, 2014, compared to other income of \$7,020 for the corresponding period in 2013. The difference was mainly a result of increased subsidy income in 2014.

Income Tax Expense

Income tax expense was \$28,247 for the three months ended September 30, 2014, compared to \$1,223 for the three months ended September 30, 2013. The increase was led by increased operating income during the three months ended September 30, 2014 and the incurring of income tax expense in this period.

Net Income (loss)

For the three months ended September 30, 2014, we had net income of \$17,831, compared to the net loss of \$32,958 for the three months ended September 30, 2013.

Liquidity and Capital Resources

Our principal sources of liquidity are cash and cash equivalents, short-term investments, loans from shareholders, as well as the cash flows generated from our operations.

As of September 30, 2014, we had cash and cash equivalents of approximately \$186,485. As of December 31, 2013, we had cash and cash equivalents of approximately \$135,465. Cash equivalents primarily comprise petty cash and cash in the bank accounts.

Management plans to fund continuing operations through lending from related parties and equity financing arrangements to meet anticipated working capital needs, commitments and capital expenditures over the next twelve months. It may, however, require additional cash resources due to changes in business conditions and other future developments, or changes in general economic conditions. The management also promised to provide sufficient economic supports to the Company for operation need including provide loans to the Company.

Cash Generating Ability

We believe that we will generate cash flow from our membership business and other business, which, along with our available cash, will provide sufficient liquidity and financial flexibility.

Our cash flows were summarized below:

	Nine Months Ended September 30,	
	2014	2013
	(Unaudited)	(Unaudited)
Net cash provided by (used in) operating activities	\$ 54,267	\$ (606,686)
Net cash used in investing activities	(2,276)	(5,708)
Net cash provided by financing activities	-	-
Effect of exchange rate change on cash and cash equivalents	(971)	11,372
Net increase (decrease) in cash and cash equivalents	51,020	(601,022)
Cash and cash equivalents at beginning of period	135,465	685,467
Cash and cash equivalents at end of period	<u>\$ 186,485</u>	<u>\$ 84,445</u>

Net Cash provided by (used in) Operating Activities

For the nine months ended September 30, 2014, \$54,267 net cash provided by operating activities was primarily attributable to our net loss of \$122,563 adjusted by non-cash items of depreciation and amortization of \$22,127 and \$100,843 issuance of shares to employees and part-time consultants, decreased prepaid expenses by \$70,404 due to decreased advanced payment for advertising strategic cooperation fee, decreased other liabilities by \$2,685, decreased deferred revenue by \$128,275, and decreased prepaid tax by \$7,864, offset by increased advance from customers by \$65,038, increased income tax payable by \$57,920 and increased accounts receivable by \$678.

For the nine months ended September 30, 2013, \$606,686 net cash used in operating activities was primarily attributable to our net income of \$654,391 adjusted by non-cash items of depreciation and amortization of \$29,370 and issuance of stocks to employees of \$16,095, prepaid expenses decreased by \$130,326 due to decreased advanced payment for advertising strategic cooperation fee, and advance from customers increased by \$32,146 and offset by accounts receivable increased by \$5,358, deferred revenue decreased by \$315,401, other current liabilities decreased by \$1,146,670, prepaid taxes decreased by \$168,014, income tax payable increased by \$912, deferred revenue-noncurrent decreased by \$170,511.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2014, net cash used in investing activities of \$2,276 was due to the purchase of new office equipment.

For the nine months ended September 30, 2013, net cash used in investing activities of \$5,708 was primarily the result of the purchase of office equipment for \$5,708.

Net Cash Provided by Financing Activities

For the nine months ended September 30, 2014 and 2013, there was no cash provided by financing activities, respectively.

Going Concern

The financial statements have been prepared assuming that the Company will continue as a going concern. The Company currently has limited revenue and has accumulated deficit of \$1,678,073 and \$1,555,510 as of September 30, 2014 and December 31, 2013 and net losses of \$122,563 and net income of \$654,391 for the nine months ended September 30, 2014 and 2013, respectively. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management plans to fund continuing operations through lending from related parties and equity financing arrangements. However, no related parties are under contractual obligations to fund the Company; we do not have any currently available financing arrangements. The Company's continuation as a going concern is dependent on its ability to meet its obligations, to obtain additional financing as may be required until when it generates recurring revenues and ultimately attains profitability. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Off-Balance Sheet Commitments and Arrangements

As of September 30, 2014 and December 31, 2013, we had lease agreements for the principal offices with commitment amount of \$14,332 and \$13,634, respectively. The unpaid contract amount is expected to be paid in one year. We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or product development services with us.

Impact of Recently Issued Accounting Standards

In April 2014, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This ASU changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal that "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". This ASU supercedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605-Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For all other entities (nonpublic entities), the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to apply this guidance earlier, however, only as prescribed in this ASU. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's consolidated financial statements upon adoption.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Smaller reporting companies are not required to provide the information required by this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that despite our hiring of a financial consultant who is familiar with U.S. GAAP in January 2013 and additional trainings offered to our staff in the accounting department and improvements in internal control over financial reporting, our disclosure controls and procedures were not effective as of September 30, 2014 for the material weakness describe below.

- Lack of US GAAP expertise - Despite our efforts to improve the Company’s controls and procedures, our accounting personnel do not have sufficient knowledge, experience and training in maintaining our books and records and preparing financial statements in accordance with US GAAP standards and SEC rules and regulations. As such, our personnel do not have adequate accounting skills and understanding necessary to fulfill the requirements of US GAAP-based reporting, including the skills of US GAAP-based period end closing, consolidation of financial statements, and US GAAP conversion, and they are inadequately supervised by persons with requisite qualifications.

Our management has identified the following steps to address the above material weakness:

- (1) In January 2013, we engaged a financial accountant to assist us in preparing our financial statements in accordance with US GAAP standards and SEC rules and regulations.
- (2) We intend to hire, as needed, key accounting personnel with technical accounting expertise and reorganize the finance department to ensure that accounting personnel with adequate experience, skills and knowledge relating to complex, non-routine transactions are directly involved in the review and accounting evaluation of our complex, non-routine transactions.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors.

Smaller reporting companies are not required to provide the information under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On September 17, 2014 the Company granted equity awards of 373,200 shares to 13 part-time consultants for the services rendered. The total fair value of these shares at the date of grant was estimated to be \$10,538. The shares were issued in reliance upon exemptions from registration requirements pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit Number	Exhibit Title
31.1	Certification of Principal Executive and Principal Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Principal Executive and Principal Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

+In accordance with SEC Release 33-8238, Exhibit 32.1 is being furnished and not filed.

SIGNATURES

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

Dated: November 14, 2014

CHINA NETWORK MEDIA, INC.

By: */s/ HuiAn Peng*

HuiAn Peng
Chief Executive Officer and Chief
Financial Officer
(Principal Executive Officer and Principal Accounting and
Financial Officer)

**CERTIFICATION
OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, HuiAn Peng, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of China Network Media, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information;
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2014

By: /s/ HuiAn Peng

Name: HuiAn Peng

Title: Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial and
Accounting Officer)

**CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of China Network Media, Inc. (“Company”) on Form 10-Q for the period ended September 30, 2014 as filed with the Securities and Exchange Commission (the “Report”), I, HuiAn Peng, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2014

By: /s/ HuiAn Peng

Name: HuiAn Peng

Title: Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Accounting and
Financial Officer)

A signed original of this written statement required by Section 906 has been provided to China Network Media, Inc. and will be retained by China Network Media, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
