

MEDIA G 3, INC AND SUBSIDIARIES

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MEDIA G 3, INC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2010	December 31, 2009
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 300	\$ 538
Finished goods Inventory, net	353,591	353,591
Prepaid expenses and deposits	1,900	1,900
Prepaid expenses - media credits	5,000,000	-
TOTAL CURRENT ASSETS	5,355,791	356,029
 Property and Equipment, net	 12,165,220	 12,917,990
OTHER ASSETS		
Goodwill	1,564,037	1,564,037
Other non-current assets	22,419	22,419
TOTAL OTHER ASSETS	1,586,456	1,586,456
 Total Assets	 \$ 19,107,466	 \$ 14,860,476

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 970,689	\$ 948,956
Shareholder Loan	101,869	94,558
Accrued shareholder Loan interest	43,165	42,248
Notes Payable - Current	120,102	-
Accrued wages, payroll taxes, and benefits	1,656,906	1,656,211
Accrued wages - related party	180,000	180,000
Accrued Liabilities	6,500	7,195
Accrued Interest - notes payable	20,140	-
TOTAL CURRENT LIABILITIES	3,099,371	2,929,167
NON-CURRENT LIABILITIES		
Notes Payable - non-current	740,000	740,000
TOTAL NON-CURRENT LIABILITIES	740,000	740,000
TOTAL LIABILITIES	3,839,371	3,669,167
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$.001 per share, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, par value \$.001, 1,500,000,000 shares authorized, 1,055,247,882 issued and outstanding - 2010		
853,867,474 issued and outstanding - 2009	1,055,247	853,867
Paid in capital	27,832,961	22,917,302
Accumulated other comprehensive (loss) income	(29,431)	(29,431)
(Deficit) accumulated during the development stage	(13,590,682)	(12,550,429)
Total Stockholders' Equity	15,268,095	11,191,309
Total Liabilities and Stockholders' (Deficit)	\$ 19,107,466	\$ 14,860,476

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

MEDIA G 3, INC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
REVENUES	\$ 5,000	\$ 820	\$ 5,000	\$ 36,920
COST OF GOOD SOLD	-	-	-	-
GROSS PROFIT	5,000	820	5,000	36,920
EXPENSES				
Salaries, payroll taxes and benefits	530	190,448	811	393,335
Professional, Consulting, Accounting and Audit fees	66,664	-	68,012	-
Consulting Fees	137,773	221,460	150,962	304,608
Rent expense	6,695	5,250	12,295	21,000
Research and Development	1,107	-	1,107	-
Amortization & depreciation	637,220	118,279	755,017	236,057
General and administrative	28,331	19,137	35,992	264,157
Total expenses	878,319	554,574	1,024,195	1,219,157
Interest Expense	(0)	25,386	21,058	55,311
NET LOSS	(873,319)	(579,140)	(1,040,253)	(1,237,548)
LOSS ON SALES OF ASSET	-	-	-	(282,517)
COMPREHENSIVE LOSS	\$ (873,319)	\$ (579,140)	\$ (1,040,253)	\$ (1,520,065)
NET (LOSS) PER SHARE - BASIC	*	*	*	*
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,055,247,882	113,005,496	1,055,247,882	113,005,496

* less than \$(.01) per share

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

MEDIA G 3, INC AND SUBSIDIARIES
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Registered Capital</u>	<u>(Deficit) Accumulated During the Development Stage</u>	<u>Other Comprehensive loss</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
Balances, December 31, 2007, (unaudited)	18,049,973	18,050	14,298,968	-	(3,700,740)	(29,431)	10,586,847
Convertible Notes Payable into shares, January 31, 2008	227,770	228	383,509		-		383,737
Shares issued for Acquisition of BIT at \$3.00 per share on January 7, 2008	1,340,000	1,340	4,018,660		-		4,020,000
Shares issued for services performed and completed at \$3.00 per share on May 1, 2008	150,000	150	449,850		-		450,000
Notes Payable converted into shares of common stock, July 31, 2008	200,000	200	249,800		-		250,000
Accrued Interest converted into shares of common stock, September 23, 2008	103,330	103	34,629		-		34,732
Shares issued for marketing services performed and completed at \$0.71 per share on September 23, 2008	103,000	103	73,027		-		73,130
Shares issued for services performed and completed at \$0.10 per share on October 20, 2008	3,000,000	3,000	297,000		-		300,000
Shares issued for services performed and completed at \$0.09 per share on November 17, 2008	800,000	800	71,200		-		72,000
Net (loss) for the year					(3,916,956)		(3,916,956)
Translation loss						-	-
Balances, December 31, 2008, (unaudited)	23,974,073	23,974	19,876,642	-	(7,617,696)	(29,431)	12,253,490
Accrued Interest converted into shares of common stock, January 12, 2009	678,795	679	17,201		-		17,880
Accrued Interest converted into shares of common stock, January 21, 2009	300,001	300	21,471		-		21,771
Shares issued for marketing services performed and completed at \$0.055 per share on January 21, 2009	3,850,000	3,850	207,900		-		211,750
Shares issued for services performed and completed at \$0.05 per share on January 28, 2009	500,000	500	24,500		-		25,000
Shares issued for services performed and completed at \$0.036 per share on March 2, 2009	100,000	100	3,500		-		3,600
Shares issued for services performed and completed at \$0.035 per share on March 13, 2009	100,000	100	3,400		-		3,500
Shares issued for services performed and completed at \$0.02 per share on April 22, 2009	500,000	500	9,500		-		10,000
Shares issued for services performed and completed at \$0.017 per share on April 28, 2009	4,364,621	4,365	69,834		-		74,199
Shares issued for services performed and completed at \$0.02 per share on April 29, 2009	3,638,006	3,638	69,122		-		72,760
Shares issued for asset purchase of microwave towers performed and completed at \$0.02 per share on May 27, 2009	75,000,000	75,000	1,425,000		-		1,500,000
Accrued Interest converted into shares of common stock, July 8, 2009	1,061,978	1,062	35,662		-		36,724
Accrued Interest converted into shares of common stock, August 13, 2009	1,291,667	1,292	7,612		-		8,904
Shares issued for asset purchase performed and completed at \$0.001 per share on August 19, 2009	350,000,000	350,000	-		-		350,000

Accrued Interest converted into shares of common stock, September 28, 2009	33,332	33	282	-	315	
Private placement of shares of common stock issued for cash at \$0.02 per share on September 29, 2009	4,200,000	4,200	79,800	-	84,000	
Private placement of shares of common stock issued for cash at \$0.02 per share on October 1, 2009	7,500,000	7,500	142,500	-	150,000	
Private placement of shares of common stock issued for cash at \$0.02 per share on October 14, 2009	500,000	500	9,500	-	10,000	
Shares issued for services performed and completed at \$0.0083 per share on November 30, 2009	125,000,000	125,000	912,500	-	1,037,500	
Private placement of shares of common stock issued for cash at \$0.001 per share on December 9, 2009	250,000,000	250,000	(25,019)	-	224,981	
Accrued Interest converted into shares of common stock, December 29, 2009	1,275,001	1,275	26,394	-	27,669	
Net (loss) for the year				(4,932,733)	(4,932,733)	
Translation loss					-	
Balances, December 31, 2009, (unaudited)	<u>853,867,474</u>	<u>853,867</u>	<u>22,917,302</u>	<u>-</u>	<u>(12,550,429)</u>	<u>11,191,309</u>
Cashless exercise of outstanding warrants for Convertible debt on January 20, 2010	154,744,444	154,744	(154,744)	-	-	
Shares issued for services performed and completed at \$0.007 per share on April 15, 2010	16,719,998	16,720	100,320	-	117,040	
Cashless exercise of outstanding warrants for Convertible debt on June 14, 2010	19,915,966	19,916	(19,916)	-	-	
Shares issued for media credits purchased with stock on June 20, 2010	10,000,000	10,000	4,990,000	-	5,000,000	
Net (loss) for the year				(1,040,253)	(1,040,253)	
Translation loss					-	
Balances, June 30, 2010, (unaudited)	<u>1,055,247,882</u>	<u>\$ 1,055,247</u>	<u>\$ 27,832,961</u>	<u>\$ -</u>	<u>\$ (13,590,682)</u>	<u>\$ (29,431)</u>
						<u>\$ 15,268,095</u>

The accompanying notes are an integral part of these financial statements

MEDIA G 3, INC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended June 30,	
	2010	2009
OPERATING ACTIVITIES		
Net (loss)	\$ (1,040,253)	\$ (1,520,065)
Adjustments to reconcile net income (loss) to net cash used by operating activities		
Stock issued for services	117,040	400,810
Loss on sale of assets	-	282,517
Depreciation and amortization	755,017	236,057
Changes in operating assets and liabilities		
Accounts payable	21,733	129,904
Other payables and accrued liabilities	20,140	430,061
	<u>(126,323)</u>	<u>(40,716)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,245)	3,984
	<u>(2,245)</u>	<u>3,984</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
Proceeds from notes payable	120,102	-
Proceeds from shareholder loan payable	-	36,788
Repayments to shareholder loan payable	8,229	(9,565)
	<u>128,331</u>	<u>27,223</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	(238)	(9,509)
EFFECT OF EXCHANGE RATES ON CASH	-	-
CASH, BEGINNING OF PERIOD	<u>538</u>	<u>9,558</u>
CASH, END OF PERIOD	<u>\$ 300</u>	<u>\$ 48</u>
 SUPPLEMENTAL SCHEDULE OF CASH PAYMENTS		
Interest Paid	<u>\$ -</u>	<u>\$ -</u>
Taxes Paid	<u>\$ -</u>	<u>\$ -</u>
 SUPPLEMENTAL SCHEDULE OF NON-CASH PAYMENTS		
Acquisitions paid for in common stock:		
Assets acquired	\$ -	\$ 1,500,000
Prepaid Expenses - current	5,000,000	-
Common stock issued	(5,000,000)	(1,500,000)
	<u>\$ -</u>	<u>\$ -</u>
Notes payable and interest converted to common shares of stock		
Accrued Interest converted	\$ -	\$ 39,651
Common Stock issued	-	(39,651)
	<u>\$ -</u>	<u>\$ -</u>
Cashless exercise of warrants for common stock		
Common Stock	\$ 174,660	\$ -
Paid in Capital	(174,660)	-
	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

MEDIAG3 AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
For the six months ended June 30, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

(A) Organization

MediaG3, Inc. (“MediaG3,” “the Company,” “us,” “we,” “our,” “MDGC”) was incorporated in the State of Delaware on December 21, 2005, and became an operating company immediately upon acquiring two operating subsidiaries on December 28, 2005. MediaG3’s principal place of business is in San Francisco, California, USA.

MediaG3 is principally engaged in the design and sales of interactive marketing solutions for companies of all sizes.

Shanghai Little Sheep Children’s Product Development Limited (“Little Sheep”), a wholly owned subsidiary of MediaG3, was incorporated as a Limited Liability Company in the People’s Republic of China (“PRC”) on May 20, 2005 with its principal place of business in Shanghai, PRC.

Little Sheep is principally engaged in the design, sales and distribution of children’s wear in the PRC.

On December 28, 2005 Little Sheep and its shareholders executed a Stock Purchase Agreement and Plan of Reorganization with MediaG3, whereby MediaG3 issued 2,500,000 shares of its restricted common stock for 100% of Little Sheep.

Shanghai Oriental Media Communications, Limited (“Oriental Media”), was incorporated as a Company with Limited Liability in the People’s Republic of China (“PRC”) on April 8, 2004 with its principal place of business in Shanghai, PRC.

Oriental Media is principally engaged in the design, development and maintenance of websites, network advertisement, database management and network consulting.

On December 28, 2005, Oriental Media and its shareholders executed a Stock Purchase Agreement and Plan of Reorganization with MediaG3, whereby MediaG3 issued 2,250,000 of its restricted common stock for 100% of Oriental Media. The acquisition of Oriental Media is considered to be an acquisition of an entity under common control. As a result, the Company’s consolidated financial statements include Oriental Media’s historical balance sheet and related statements of income, of stockholders’ equity and of cash flows for all periods presented.

In January 2009, MediaG3 discontinued our operations in our Little Sheep and Oriental Media divisions, and sold the divisions to our past President in exchange for amounts owed to him of \$309,296, including advances of \$290,760 and accrued interest of \$18,536 (please see Note 13).

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(B) Principles of consolidation

The consolidated financial statements include the accounts of MediaG3 and its wholly owned subsidiaries from the date of acquisition, and are prepared in accordance with accounting principles generally accepted in the United States of America. All inter-company accounts and transactions have been eliminated.

Certain amounts in previous periods have been reclassified to conform to the current presentation. The reclassifications had no impact on total assets or net loss as previously reported.

(C) Use of estimates

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

(D) Going concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred operating losses since inception of \$13,590,682 but has a positive working capital of \$1,516,420 as of June 30, 2010, which is insufficient to meet our funding needs. As a result the Company's continuance depends on its ability to raise additional capital. There is no absolute assurance that the Company will be able to raise the needed capital to sustain its operation and continue as a going concern. The management's plan is to raise additional capital through offerings of common stock and debt.

(E) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits with a bank with an original maturity of less than 3 months.

(F) Accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. 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; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future. The Company determines the allowance based on historical write-off experience, current market trends, and customers ability to pay outstanding balances. The Company continually reviews its allowance for doubtful accounts.

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(G) Finished goods inventory

Inventories are stated at the lower of cost or market value, cost being determined on a first in, first out method. The Company provides for inventory allowances for excess and obsolete inventories determined principally by customer demand and each inventory item's activity. Inventories consist of finished goods.

(H) Intangible assets

The Company amortizes intangible assets, which consist of a purchased software and trademark, over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows, and, if impaired, written down to fair value based on either discounted cash flows or appraised value. Intangible assets with indefinite lives are tested annually for impairment and written down to fair value as required.

(I) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization.

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation and amortization are provided on a straight-line basis, less estimated residual value over the asset's estimated useful lives. The estimated useful lives are as follows:

Software	3 years
Machinery	10 years
Other equipment	5 years
Office equipment	3 years
Leasehold improvements	3 years

(J) Long-lived assets

The Company reviews property and equipment and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the assets' carrying amount to future undiscounted net cash flows the assets are expected to generate. Cash flow forecasts are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the projected discounted future cash flows arising from the assets or their fair values, whichever is more determinable. The Company did

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not record any impairment of long-lived assets during the six months ended June 30, 2010 and 2009.

(K) Fair value of financial instruments

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. Cash, receivables, payables and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of the instruments.

(L) Revenue recognition

The Company's revenue is derived by providing professional services for website design, development and maintenance, network advertisement, database management and network consulting, and by the sale of children's wear in the PRC.

To the extent that a website design or development contract extends over multiple accounting periods, revenues are recognized based on the percentage of completion method. Revenues from customer contracts requiring significant production, modifications, or customization are recognized over the installation and customization period. Labor hours and direct project expenses are used to determine the stage of completion. Revisions in estimated contract profits are made in the period, in which the circumstances requiring the revision become known. Provisions, if any, are made currently for anticipated losses on uncompleted contracts.

Revenues from network advertisement, database management and network consulting are recognized when services are rendered and obligations under related contracts are fulfilled.

Revenues from sales of children's wear are recognized upon delivery or shipment of the products, at which time title passes to the customer, provided that: there are no uncertainties regarding customer acceptance; persuasive evidence of an arrangement exists; the sales price is fixed or determinable; and collectability is reasonably assured.

Children's wear merchant customers can return the merchandise in exchange for different merchandise at full value within 90 days. Returns are provided in the allowance for sales returns based upon the individual evaluation of each customer's historical returns. During 2007, the Company changed the period to return the merchandise from 90 days to 60 days.

If a merchant customer can no longer operate its business due to causes beyond human control, such as war, major natural disaster and death etc., then the Company would take back the remaining merchandise at half the sales price. No provision for returns under this provision has been made, since there is no evidence or history of impairment, nor are any potential losses reasonably estimatable.

The Company assesses collectability based on a number of factors, including past transaction history with the customer and the credit worthiness of the customer. The Company generally does not request collateral from its customers. If the Company determines that collection of an

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account is not probable, it defers the amount and recognizes revenue at the time collection becomes probable, which is generally upon receipt of cash.

(M) Income taxes

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date.

Utilization of net operating losses and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating losses and tax credits before utilization.

The Company provides a valuation allowance for deferred tax assets when it is more likely than not that the net deferred tax assets will not be realized. At June 30, 2010, the Company had deferred tax assets of \$13,590,682 consisting of net operating loss carryforwards. Based on a number of factors, including the lack of a history of profits and future projected taxable income; management believes that there is sufficient uncertainty regarding the realization of deferred tax assets such that a full valuation allowance has been provided.

(N) Foreign currency translation

The functional currency of the Company's children's wear and software services subsidiaries is the Chinese Renminbi ("RMB"). Foreign currency transactions during the year are translated to RMB at the approximate rates of exchange on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the approximate rates of exchange at that date. Non-monetary assets and liabilities are translated at the rates of exchange prevailing at the time the asset or liability was acquired. Exchange gains or losses are recorded in the statement of operations.

The financial statements are translated into United States dollars ("US\$") using the closing rate method. The balance sheet items are translated into US\$ using the exchange rates at the respective balance sheet dates. The capital and various reserves are translated at historical exchange rates prevailing at the time of the transactions while income and expenses items are translated at the average exchange rate for the period. All translation differences are recorded as accumulated comprehensive loss within shareholder's equity.

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(O) Other comprehensive income (loss)

The foreign currency translation gain or loss resulting from translation of the consolidated financial statements expressed in RMB to the US\$ is reported as other comprehensive loss or gain in the consolidated statements of operations and comprehensive loss, and as a separate component of shareholders' deficit in the consolidated balance sheets.

(P) Recent accounting pronouncements

Below is a listing of the most recent accounting standards and their effect on the Company.

In January 2010, the FASB issued Accounting Standards Update 2010-02, Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary. This amendment to Topic 810 clarifies, but does not change, the scope of current US GAAP. It clarifies the decrease in ownership provisions of Subtopic 810-10 and removes the potential conflict between guidance in that Subtopic and asset derecognition and gain or loss recognition guidance that may exist in other US GAAP. An entity will be required to follow the amended guidance beginning in the period that it first adopts FAS 160 (now included in Subtopic 810-10). For those entities that have already adopted FAS 160, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December 15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted FAS 160. The Company does not expect the provisions of ASU 2010-02 to have a material effect on the financial position, results of operations or cash flows of the Company.

In January 2010, the FASB issued Accounting Standards Update 2010-01, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force). This amendment to Topic 505 clarifies the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topics 505 and 260. Effective for interim and annual periods ending on or after December 15, 2009, and would be applied on a retrospective basis. The Company does not expect the provisions of ASU 2010-01 to have a material effect on the financial position, results of operations or cash flows of the Company.

In December 2009, the FASB issued Accounting Standards Update 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update amends the FASB Accounting Standards Codification for Statement 167. (See FAS 167 effective date below)

In December 2009, the FASB issued Accounting Standards Update 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets. This Accounting

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Standards Update amends the FASB Accounting Standards Codification for Statement 166. (See FAS 166 effective date below)

In October 2009, the FASB issued Accounting Standards Update 2009-15, Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing. This Accounting Standards Update amends the FASB Accounting Standard Codification for EITF 09-1. (See EITF 09-1 effective date below)

In October 2009, the FASB issued Accounting Standards Update 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements. This update changed the accounting model for revenue arrangements that include both tangible products and software elements. Effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2009-14 to have a material effect on the financial position, results of operations or cash flows of the Company.

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements. This update addressed the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than a combined unit and will be separated in more circumstances that under existing US GAAP. This amendment has eliminated that residual method of allocation. Effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2009-13 to have a material effect on the financial position, results of operations or cash flows of the Company.

In September 2009, the FASB issued Accounting Standards Update 2009-12, Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This update provides amendments to Topic 820 for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). It is effective for interim and annual periods ending after December 15, 2009. Early application is permitted in financial statements for earlier interim and annual periods that have not been issued. The Company does not expect the provisions of ASU 2009-12 to have a material effect on the financial position, results of operations or cash flows of the Company.

In July 2009, the FASB ratified the consensus reached by EITF (Emerging Issues Task Force) issued EITF No. 09-1, (ASC Topic 470) "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance" ("EITF 09-1"). The provisions of EITF 09-1, clarifies the accounting treatment and disclosure of share-lending arrangements that are classified as equity in the financial statements of the share lender. An example of a share-lending arrangement is an agreement between the Company (share lender) and an investment bank (share borrower) which allows the investment bank to use the loaned shares to enter into equity derivative contracts with investors. EITF 09-1 is effective for fiscal years that beginning

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on or after December 15, 2009 and requires retrospective application for all arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. Share-lending arrangements that have been terminated as a result of counterparty default prior to December 15, 2009, but for which the entity has not reached a final settlement as of December 15, 2009 are within the scope. Effective for share-lending arrangements entered into on or after the beginning of the first reporting period that begins on or after June 15, 2009. The Company does not expect the provisions of EITF 09-1 to have a material effect on the financial position, results of operations or cash flows of the Company.

In June 2009, the FASB issued SFAS No. 168 (ASC Topic 105), “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162” (“SFAS No. 168”). Under SFAS No. 168 the “FASB Accounting Standards Codification” (“Codification”) will become the source of authoritative US GAAP to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. On the effective date, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. SFAS No. 168 is effective for the Company’s interim quarterly period beginning July 1, 2009. The Company does not expect the adoption of SFAS No. 168 to have an impact on the financial statements.

In June 2009, the FASB issued SFAS No. 167 (ASC Topic 810), “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”). SFAS 167 amends the consolidation guidance applicable to variable interest entities. The provisions of SFAS 167 significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). SFAS 167 is effective as of the beginning of the first fiscal year that begins after November 15, 2009. SFAS 167 will be effective for the Company beginning in 2010. The Company does not expect the provisions of SFAS 167 to have a material effect on the financial position, results of operations or cash flows of the Company.

In June 2009, the FASB issued SFAS No. 166, (ASC Topic 860) “Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140” (“SFAS 166”). The provisions of SFAS 166, in part, amend the derecognition guidance in FASB Statement No. 140, eliminate the exemption from consolidation for qualifying special-purpose entities and require additional disclosures. SFAS 166 is effective for financial asset transfers occurring after the beginning of an entity’s first fiscal year that begins after November 15, 2009. The Company does not expect the provisions of SFAS 166 to have a material effect on the financial position, results of operations or cash flows of the Company.

In April 2009, the FASB issued SFAS No. 164, (ASC Topic 810) “Not-for-Profit Entities: Mergers and Acquisitions – including an amendment of FASB Statement No. 142” (“SFAS 164”). The provisions of SFAS 164 provide guidance on accounting for a combination of not-

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for-profit entities either via merger or acquisition. SFAS 164 is effective for mergers occurring on or after the beginning of an initial reporting period beginning on or after December 15, 2009 and acquisitions occurring on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. The Company does not expect the provisions of SFAS 164 to have a material effect on the financial position, results of operations or cash flows of the Company.

In June 2009, the Securities and Exchange Commission's Office of the Chief Accountant and Division of Corporation Finance announced the release of Staff Accounting Bulletin (SAB) No. 112. This staff accounting bulletin amends or rescinds portions of the interpretive guidance included in the Staff Accounting Bulletin Series in order to make the relevant interpretive guidance consistent with current authoritative accounting and auditing guidance and Securities and Exchange Commission rules and regulations. Specifically, the staff is updating the Series in order to bring existing guidance into conformity with recent pronouncements by the Financial Accounting Standards Board, namely, Statement of Financial Accounting Standards No. 141 (revised 2007) (ASC Topic 805), Business Combinations, and Statement of Financial Accounting Standards No. 160 (ASC Topic 810), Non-controlling Interests in Consolidated Financial Statements. The statements in staff accounting bulletins are not rules or interpretations of the Commission, nor are they published as bearing the Commission's official approval. They represent interpretations and practices followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the Federal securities laws.

In September 2008, the FASB issued exposure drafts that eliminate qualifying special purpose entities from the guidance of SFAS No. 140 (ASC Topic 860), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and FASB Interpretation 46 (ASC Topic 810) (revised December 2003), "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51 (ASC Topic 810)," as well as other modifications. While the proposed revised pronouncements have not been finalized and the proposals are subject to further public comment, the Company anticipates the changes will not have a significant impact on the Company's financial statements. The changes would be effective March 1, 2010, on a prospective basis.

(Q) Advertising Expense

Advertising costs are expensed as incurred. Advertising expense was \$465 and \$212,445, for the six months ended June 30, 2010 and 2009, respectively.

2. ACCOUNTS RECEIVABLE, NET

Accounts receivable consists of the following:

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	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Accounts receivable	\$ -0-	\$ -0-
Less: allowance for doubtful accounts	-0-	-0-
Less: allowance for sales returns	-0-	-0-
Accounts receivable, net	<u>\$ -0-</u>	<u>\$ -0-</u>

The accounts receivable balances were part of our discontinued operations as shown in Note 13.

3. OTHER CURRENT ASSETS

Other current assets consist of the following:

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Prepaid Media Credits - current	\$ 5,000,000	\$ -0-
Other receivables	-0-	-0-
Prepayments	1,900	1,900
Trade deposit	-0-	-0-
	<u>\$ 5,001,900</u>	<u>\$ 1,900</u>

On June 20, 2010, we purchased Media Credits that are current assets, for our use to promote our business plan, valued at \$5,000,000 in exchange for 10,000,000 shares of our common stock.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Machinery and office equipment	\$ 10,327,791	\$ 9,975,487
Less: accumulated depreciation	(2,282,215)	(1,270,441)
	<u>\$ 8,045,576</u>	<u>\$ 8,705,046</u>

All of the Company's net fixed assets were located in the PRC and the USA as of June 30, 2010 and 2009. Significant purchases of fixed assets for cash during the six months ended June 30, 2010 and 2009 were \$-0- and \$3,984, respectively. On May 27, 2009, we made an asset purchase of microwave towers in the amount of \$1,500,000 in exchange for 75,000,000 shares of our common stock. In January 2009, we also disposed of some assets as part of the sale of our discontinued operations as further discussed below in Note 13.

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The depreciation expense for the six months ended June 30, 2010 and 2009 was \$196,019 and \$236,057, respectively.

5. SOFTWARE

Software consists of the following:

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Software	\$ 6,529,247	\$ 6,529,247
Less: accumulated amortization	(2,409,603)	(1,088,208)
	<u>\$ 4,119,644</u>	<u>\$ 5,441,039</u>

The amortization expense for the six months ended June 30, 2010 and 2009 was \$558,998 and \$0-, respectively.

6. TRADEMARK, NET

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Trademark	\$ -0-	\$ -0-
Less: accumulated amortization	-0-	-0-
	<u>\$ -0-</u>	<u>\$ -0-</u>

The no amortization expense for the six months ended June 30, 2010 and 2009. In January 2009, this trademark was included as part of the discontinued operations discussed in Note 13.

7. NOTES PAYABLE

In November 2007, the Company entered into a note and equity purchase agreement with an individual and issued a convertible promissory note in the original principal amount of \$300,000. The note bears interest at the rate of 10% per annum and matures in 12 months from the date of the note. The holder of the note may, at his option, convert the outstanding principal and interest into common stock at the then market price. The Company will also issue to the holder of the note shares of the Company's common stock with an aggregate value equal to 10% of the principal amount of the note divided by \$3.00 per share. Such shares will be issued on the earlier

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to occur of (i) conversion of the note and (ii) maturity of the note. On April 21, 2008, we received an additional \$100,000 from the same note holder under the same terms as above.

During the year ended December 31, 2008, we entered into several notes payable bearing an interest rate of 10%, and mature in 12 months from the date of the note. We received an aggregate amount of \$340,000 under these notes.

During the six months ended June 30, 2010 and 2009, we expensed \$21,058 and \$54,311, respectively, and is reflected in interest expense.

8. OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the following:

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Other payables	\$ -0-	\$ -0-
Compensation payable to shareholder	180,000	180,000
Accrued expenses	6,500	7,195
Customer deposits	-0-	-0-
Accrued interest	63,305	93,210
Employee benefits payable	106,535	100,835
Accrued staff salaries	1,447,500	1,077,500
Other taxes payable	102,871	97,613
Accrued staff welfare	-0-	-0-
	<u>\$ 1,906,711</u>	<u>\$ 1,556,353</u>

9. COMMITMENTS

Lease commitments

The Company and its two subsidiaries lease office facilities from third parties under operating lease agreements. As of June 30, 2010, future minimum rental payments required under these leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

2010	\$	6,000
2011		6,000
Thereafter		21,000
	<u>\$</u>	<u>33,000</u>

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10 . LOSS PER SHARE CALCULATION

Basic earnings per share (“EPS”) are computed by dividing net loss by the weighted average number of common shares outstanding during the period. Basic earnings per share exclude any dilutive effects of options, warrants and convertible securities. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period.

11. SHAREHOLDERS’ EQUITY

The authorized stock of the Company consists of 1,500,000,000 shares of common stock and 5,000,000 shares on preferred stock, \$.001 par value, of which 1,055,247,882 and 113,005,496 shares of common stock were outstanding at June 30, 2010 and 2009, respectively, and there was no preferred stock outstanding as of June 30, 2010 and 2009.

On January 21, 2009, we issued 3,850,000 shares of our common stock for marketing services rendered to us by an independent third party. We valued these shares at \$211,750 and are reflected in advertising expense.

During the year December 31, 2009, we issued shares of our common stock as payment for accrued unpaid interest on notes payable, for an aggregate amount of \$113,263 and an aggregate amount of 4,640,774 shares of common stock.

During the year ended December 31, 2009, we also issued and aggregate amount of 9,202,627 shares of our common stock for services rendered to us, and has been valued at \$189,059, and is reflected in consulting fees.

On May 27, 2009, we made an asset purchase of microwave towers in the amount of \$1,500,000 in exchange for 75,000,000 shares of our common stock. In addition to the previous, we also acquired certain software and technologies valued at \$350,000 in exchange for 350,000,000 shares of our common stock.

On November 30, 2009, we issued 250,000,000 shares of our common stock for finder’s fees associated with the private placements that have occurred in the year ended, December 31, 2009. These shares were valued at \$1,037,500 and are reflected in consulting fees.

During the year ended December 31, 2009, we completed several tranches of private placement equity financing for an aggregate total of \$468,981, net of offering costs, and 262,200,000 shares of common stock.

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On January 20, 2010, a warrant was exercised for 154,744,444 shares of our common stock for the cashless option under the terms warrant. Additionally, on June 14, 2010, an additional warrant was exercised for 19,915,966 shares of our common stock for the cashless option under the terms warrant

During the six months ended June 30, 2010, we also issued 16,719,998 shares of our common stock for services rendered to us, and has been valued at \$117,040, and is reflected in consulting fees.

On June 20, 2010, we purchased Media Credits that are current assets, for our use to promote our business plan, valued at \$5,000,000 in exchange for 10,000,000 shares of our common stock.

12. RELATED PARTY TRANSACTIONS

As of June 30, 2010 and 2009, the Company and its subsidiaries owed \$101,869 and \$94,558, respectively, to shareholders of the Company. Of these amounts, \$94,558 was a loan from William Yuan, founder and Chief Executive Officer of the Company, in 2006, and bears interest at the rate of 8% per annum. During the six months ended June 30, 2009, we repaid the shareholder \$290,760 of the amounts due to him.

13. DISCONTINUED OPERATIONS

On January 1, 2009, the Company determined to discontinue operations at its Little Sheep and Oriental Media divisions, and put the assets and business up for sale. The Company decided to eliminate this division primarily because it has incurred significant operating losses since December 28, 2005 and because the division has not increased its market share as planned. On January 1, 2009, the Company completed the sale of these divisions to our past President in exchange of amounts due to him for total non-cash proceeds of \$309,296. The assets sold consisted primarily of accounts receivable, inventories, property and equipment, and other assets. The buyer also assumed certain accounts payable and accrued liabilities.

In 2009, the Company recognized a loss on disposal of \$282,517 for the write-down of the two divisions' carrying amounts to fair value less cost to sell.

The following is a summary of the net assets sold as initially determined at and as finally reported on the closing date of January 1, 2009:

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	<i>January 1,</i> <i>2009</i>
Cash	\$ 9,565
Accounts receivable	59,036
Inventories	62,275
Property and equipment, net	958,935
Other assets	64,173
Total assets	<u>1,153,984</u>
Accounts payable	449,237
Shareholder's advances and accrued interest	309,296
Accrued liabilities	112,933
Total liabilities	<u>871,466</u>
Net assets of discontinued operations	<u>\$ 282,517</u>

14. SUBSEQUENT EVENTS

Media Credits

In August 2010, we purchased additional Media Credits that are current assets, for our use to promote our business plan, valued at \$5,000,000 in exchange for an additional 10,000,000 shares of our common stock.