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COMET TECHNOLOGIES INC

Form 10KSB

April 14, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004.
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission File Number: 0-26059

COMET TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its Charter)

Nevada

87-0430322

(State or other Jurisdiction of
Incorporation or Organization)

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

10 West 100 South, Suite 610, Salt Lake City, Utah 84101

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number including Area Code: (801) 532-7851

Securities Registered Under Section 12(b) of the Exchange Act: None.

Securities Registered Pursuant to Section 12(g) of the Act: Common Stock,
Par Value \$0.001

Check 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 past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues (consisting only of interest income) for its most recent fiscal year. \$350.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed on the basis of the last sale price on April 11, 2005, of \$0.20, was \$638,928.

As of April 11, 2005, the Registrant had outstanding 3,598,000 shares of its common stock.

Transitional Small Business Disclosure Format: Yes No

Documents incorporated by reference: None.

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The information contained in this Form 10-KSB for the fiscal year ended December 31, 2004, is as of the latest practicable date except for financial information, which relates to the fiscal year.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

Comet Technologies, Inc. (the "Company" or "Comet") is a "blank check" company which has been seeking to locate a business enterprise which it may acquire, merge or reorganize with, or become engaged in. The Company has been inactive for several years, and until January, 2004, when it entered into an agreement with Town House Land Limited, discussed below, had not located any specific business enterprise for its involvement, nor had it entered into any arrangement or agreements with respect thereto. Since the completion of the Company's public offering in August 1986, the Company has reviewed and evaluated numerous business ventures for possible acquisition or participation

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by the Company. To date, the Company has not acquired any business venture or engaged in any active operations.

The Company was inactive until January, 2004, when the Company entered into a Stock Exchange Agreement (the "Exchange Agreement") with Town House Land Limited ("Town House"), a company organized in the Hong Kong Special Administrative Region in The People's Republic of China, and the shareholders of Town House, providing for the acquisition of Town House in a reverse acquisition.

On or about February 9, 2005, the Company sent notification to Town House of its decision to terminate the Exchange Agreement between the Company, Town House and the shareholders of Town House. This notification occurred after approximately 14 months of efforts to complete this transaction. As reflected in the Company's Current Report on Form 8-K, filed on or about February 14, 2005, which is incorporated herein by reference, the decision to terminate the Exchange Agreement, and the reverse acquisition contemplated by the Exchange Agreement, was a result of the determination by the board of directors that Town House had undertaken actions and business efforts which were a material deviation from the business of Town House as described in the Company's preliminary information statement under Schedule 14C filed with the U.S. Securities and Exchange Commission ("SEC"). The board of directors concluded that this change would require an amendment to the Company's 14C Information Statement and would cause substantial additional delays and costs to the Company. Moreover, the board of directors concluded that the change in the business of Town House was contrary to the best interests of the Company and its shareholders. Town House acknowledged the Company's decision to terminate the Exchange Agreement and transactions contemplated by the Exchange Agreement.

As a result of this decision, the reverse acquisition contemplated by the Exchange Agreement will not occur. Management will now begin efforts to locate a suitable acquisition or merger candidate for the Company. Unfortunately, the Company expended over one year approximately \$24,000 in legal and accounting funds pursuing this opportunity and preparing and filing required information concerning the proposed transaction with the SEC. In addition, the Company's officers and directors devoted substantial time to the Company in connection with this transaction for which the Company has incurred a payable on the Company's balance sheet of \$57,795 as of December 31, 2004.

Comet is a public company whose securities are quoted on the over-the-counter Bulletin Board under the symbol "CMEK."

To date, opportunities have been made available to the Company through its officers and directors and through professional advisors including securities broker-dealers and through members of the financial community. It is anticipated that business opportunities will continue to be available primarily from these sources.

To a large extent, a decision to participate in a specific business opportunity may be made upon management's analysis regarding the quality of the other firm's management and personnel, the asset base of such firm or enterprise, the anticipated acceptability of new products or marketing concepts, the merit of the firm's business plan, and numerous other factors which are difficult, if not impossible, to analyze through the application of any objective criteria.

Since its inception, the Company has had no active business operations, and has been seeking to acquire an interest in a business with long-term growth potential. The Company currently has no commitment or arrangement to

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participate in a business and cannot now predict what type of business it may enter into or acquire. It is emphasized that the business objectives discussed herein are extremely general and are not intended to be restrictive on the discretion of the Company's management.

There are no plans or arrangements proposed or under consideration for the issuance or sale of additional securities by the Company prior to the identification of an acquisition candidate. Consequently, management anticipates that it may be able to participate in only one potential business venture, due primarily to the Company's limited capital. This lack of diversification should be considered a substantial risk, because it will not permit the Company to offset potential losses from one venture against gains from another.

Selection of a Business

The Company anticipates that businesses for possible acquisition will be referred by various sources, including its officers and directors, professional advisors, securities broker-dealers, venture capitalists, members of the financial community, and others who may present unsolicited proposals. The Company will not engage in any general solicitation or advertising for a business opportunity, and will rely on personal contacts of its officers and directors and their affiliates, as well as indirect associations between them and other business and professional people. By relying on "word of mouth," the Company may be limited in the number of potential acquisitions it can identify. While it is not presently anticipated that the Company will engage unaffiliated professional firms specializing in business acquisitions or reorganizations, such firms may be retained if management deems it in the best interest of the Company.

Compensation to a finder or business acquisition firm may take various forms, including one-time cash payments, payments based on a percentage of revenues or product sales volume, payments involving issuance of securities (including those of the Company), or any combination of these or other compensation arrangements. Consequently, the Company is currently unable to predict the cost of utilizing such services.

The Company will not restrict its search to any particular business, industry, or geographical location, and management reserves the right to evaluate and enter into any type of business in any location. The Company may participate in a newly organized business venture or a more established company entering a new phase of growth or in need of additional capital to overcome existing financial problems. Participation in a new business venture entails greater risks since in many instances management of such a venture will not have proved its ability, the eventual market of such venture's product or services will likely not be established, and the

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profitability of the venture will be unproved and cannot be predicted accurately. If the Company participates in a more established firm with existing financial problems, it may be subjected to risk because the financial resources of the Company may not be adequate to eliminate or reverse the circumstances leading to such financial problems.

In seeking a business venture, the decision of management will not be controlled by an attempt to take advantage of any anticipated or perceived appeal of a specific industry, management group, product, or industry, but will be based on the business objective of seeking long-term capital appreciation in the real value of the Company. The Company will not acquire or merge with a business or corporation in which the Company's officers,

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directors, or promoters, or their affiliates or associates, have any direct or indirect ownership interest.

The analysis of new businesses will be undertaken by or under the supervision of the officers and directors. In analyzing prospective businesses, management will consider, to the extent applicable, the available technical, financial, and managerial resources; working capital and other prospects for the future; the nature of present and expected competition; the quality and experience of management services which may be available and the depth of that management; the potential for further research, development, or exploration; the potential for growth and expansion; the potential for profit; the perceived public recognition or acceptance of products, services, or trade or service marks; name identification; and other relevant factors.

The decision to participate in a specific business may be based on management's analysis of the quality of the other firm's management and personnel, the anticipated acceptability of new products or marketing concepts, the merit of technological changes, and other factors which are difficult, if not impossible, to analyze through any objective criteria. It is anticipated that the results of operations of a specific firm may not necessarily be indicative of the potential for the future because of the requirement to substantially shift marketing approaches, expand significantly, change product emphasis, change or substantially augment management, and other factors.

The Company will analyze all available factors and make a determination based on a composite of available facts, without reliance on any single factor. The period within which the Company may participate in a business cannot be predicted and will depend on circumstances beyond the Company's control, including the availability of businesses, the time required for the Company to complete its investigation and analysis of prospective businesses, the time required to prepare appropriate documents and agreements providing for the Company's participation, and other circumstances.

Acquisition of a Business

In implementing a structure for a particular business acquisition, the Company may become a party to a merger, consolidation, or other reorganization with another corporation or entity; joint venture; license; purchase and sale of assets; or purchase and sale of stock, the exact nature of which cannot now be predicted. Notwithstanding the above, the Company does not intend to participate in a business through the purchase of minority stock positions. On the consummation of a transaction, it is likely that the present management and shareholders of the Company will not be in control of the Company. In addition, a majority or all of the Company's directors may, as part of the terms of the acquisition transaction, resign and be replaced by new directors without a vote of the Company's shareholders.

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In connection with the Company's acquisition of a business, the present shareholders of the Company, including officers and directors, may, as a negotiated element of the acquisition, sell a portion or all of the Company's Common Stock held by them at a significant premium over their original investment in the Company. As a result of such sales, affiliates of the entity participating in the business reorganization with the Company would acquire a higher percentage of equity ownership in the Company. Management does not intend to actively negotiate for or otherwise require the purchase of all or any portion of its stock as a condition to or in connection with any proposed merger or acquisition. Although the Company's present shareholders did not acquire their shares of Common Stock with a view towards any

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subsequent sale in connection with a business reorganization, it is not unusual for affiliates of the entity participating in the reorganization to negotiate to purchase shares held by the present shareholders in order to reduce the amount of shares held by persons no longer affiliated with the Company and thereby reduce the potential adverse impact on the public market in the Company's common stock that could result from substantial sales of such shares after the business reorganization. Public investors will not receive any portion of the premium that may be paid in the foregoing circumstances. Furthermore, the Company's shareholders may not be afforded an opportunity to approve or consent to any particular stock buy-out transaction.

In the event sales of shares by present shareholders of the Company, including officers and directors, is a negotiated element of a future acquisition, a conflict of interest may arise because directors will be negotiating for the acquisition on behalf of the Company and for sale of their shares for their own respective accounts. Where a business opportunity is well suited for acquisition by the Company, but affiliates of the business opportunity impose a condition that management sell their shares at a price which is unacceptable to them, management may not sacrifice their financial interest for the Company to complete the transaction. Where the business opportunity is not well suited, but the price offered management for their shares is high, Management will be tempted to effect the acquisition to realize a substantial gain on their shares in the Company. Management has not adopted any policy for resolving the foregoing potential conflicts, should they arise, and does not intend to obtain an independent appraisal to determine whether any price that may be offered for their shares is fair. Stockholders must rely, instead, on the obligation of management to fulfill its fiduciary duty under state law to act in the best interests of the Company and its stockholders.

It is anticipated that any securities issued in any such reorganization would be issued in reliance on exemptions from registration under applicable federal and state securities laws. In some circumstances, however, as a negotiated element of the transaction, the Company may agree to register such securities either at the time the transaction is consummated, under certain conditions, or at specified times thereafter. Although the terms of such registration rights and the number of securities, if any, which may be registered cannot be predicted, it may be expected that registration of securities by the Company in these circumstances would entail substantial expense to the Company. The issuance of substantial additional securities and their potential sale into any trading market which may develop in the Company's securities may have a depressive effect on such market.

While the actual terms of a transaction to which the Company may be a party cannot be predicted, it may be expected that the parties to the business transaction will find it desirable to structure the acquisition as a so-called "tax-free" event under sections 351 or 368(a) of the Internal Revenue Code of 1986, (the "Code"). In order to obtain tax-free treatment under section 351 of the Code, it would be necessary for the owners of the acquired business to own 80% or more of the voting stock of the surviving entity. In such event, the shareholders of the Company would retain less than 20% of the issued and outstanding shares of the surviving entity. Section 368(a)(1) of the Code provides for tax-free treatment of certain business

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reorganizations between corporate entities where one corporation is merged with or acquires the securities or assets of another corporation. Generally, the Company will be the acquiring corporation in such a business reorganization, and the tax-free status of the transaction will not depend on the issuance of any specific amount of the Company's voting securities. It is

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not uncommon, however, that as a negotiated element of a transaction completed in reliance on section 368, the acquiring corporation issue securities in such an amount that the shareholders of the acquired corporation will hold 50% or more of the voting stock of the surviving entity. Consequently, there is a substantial possibility that the shareholders of the Company immediately prior to the transaction would retain less than 50% of the issued and outstanding shares of the surviving entity. Therefore, regardless of the form of the business acquisition, it may be anticipated that stockholders immediately prior to the transaction will experience a significant reduction in their percentage of ownership in the Company.

Notwithstanding the fact that the Company is technically the acquiring entity in the foregoing circumstances, generally accepted accounting principles will ordinarily require that such transaction be accounted for as if the Company had been acquired by the other entity owning the business and, therefore, will not permit a write-up in the carrying value of the assets of the other company.

The manner in which the Company participates in a business will depend on the nature of the business, the respective needs and desires of the Company and other parties, the management of the business, and the relative negotiating strength of the Company and such other management.

The Company will participate in a business only after the negotiation and execution of appropriate written agreements. Although the terms of such agreements cannot be predicted, generally such agreements will require specific representations and warranties by all of the parties thereto, will specify certain events of default, will detail the terms of closing and the conditions which must be satisfied by each of the parties prior to such closing, will outline the manner of bearing costs if the transaction is not closed, will set forth remedies on default, and will include miscellaneous other terms.

Operation of Business After Acquisition

The Company's operation following its acquisition of a business will be dependent on the nature of the business and the interest acquired. The Company is unable to predict whether the Company will be in control of the business or whether present management will be in control of the Company following the acquisition. It may be expected that the business will present various risks, which cannot be predicted at the present time.

Governmental Regulation

It is impossible to predict the government regulation, if any, to which the Company may be subject until it has acquired an interest in a business. The use of assets and/or conduct of businesses that the Company may acquire could subject it to environmental, public health and safety, land use, trade, or other governmental regulations and state or local taxation. In selecting a business in which to acquire an interest, management will endeavor to ascertain, to the extent of the limited resources of the Company, the effects of such government regulation on the prospective business of the Company. In certain circumstances, however, such as the acquisition of an interest in a new or start-up business activity, it may not be possible to predict with any degree of accuracy the impact of government regulation. The inability to ascertain the effect

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of government regulation on a prospective business activity will make the acquisition of an interest in such business a higher risk.

Competition

The Company will be involved in intense competition with other business entities, many of which will have a competitive edge over the Company by virtue of their stronger financial resources and prior experience in business. There is no assurance that the Company will be successful in obtaining suitable investments.

Employees

The Company is a development stage company and currently has no employees. During the fiscal year, the officers were paid a total of \$30,000 for time expended in connection with a possible business combination in 2003. The officers accrued a total of \$57,795 for time expended in connection with a possible business combination in 2004.

Officers devote only such time to the affairs of the Company as they deem appropriate. Management of the Company expects to use consultants, attorneys, and accountants as necessary, and does not anticipate a need to engage any full-time employees so long as it is seeking and evaluating businesses. The need for employees and their availability will be addressed in connection with a decision whether or not to acquire or participate in a specific business industry.

ITEM 2. DESCRIPTION OF PROPERTY

The Company uses offices and related clerical services at 10 West 100 South, Suite 610, Salt Lake City, Utah 84101, provided by an officer and director of the Company at a monthly rental rate of \$200.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material pending legal proceedings, and to the best of its knowledge, no such proceedings by or against the Company have been threatened.

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

No matter was submitted to a vote of security holders in the fiscal year ended December 31, 2004.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Although quotations for the Company's common stock appear on the OTC Bulletin Board, there is no established trading market for the common stock. For the past two calendar years to the present, transactions in the common stock can only be described as sporadic. Consequently, the Company is of the opinion that any published prices cannot be attributed to a liquid and active trading market and, therefore, are not indicative of any meaningful market value.

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The following table sets forth for the respective periods indicated the prices of the Company's Common Stock in the over-the-counter market, as reported and summarized by the OTC Bulletin Board. Such prices are based on

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inter-dealer bid and asked prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions.

| Calendar Quarter Ended | High Bid (\$) | Low Bid (\$) |
|------------------------|---------------|--------------|
| March 31, 2003 | 0.0700 | 0.0700 |
| June 30, 2003 | 0.0700 | 0.0700 |
| September 30, 2003 | 0.0800 | 0.0700 |
| December 31, 2003 | 0.1500 | 0.0800 |
| March 31, 2004 | 0.3000 | 0.1500 |
| June 30, 2004 | 0.2500 | 0.2400 |
| September 30, 2004 | 0.2900 | 0.2000 |
| December 31, 2004 | 0.2900 | 0.2100 |

As of April 11, 2005, the closing bid price for the Company's common stock was \$0.20. There are outstanding options to purchase 600,000 shares of common stock at an exercise price of \$0.1875, which expire in March 2009. There is an outstanding warrant to purchase 50,000 shares of the Company's common stock at an exercise price of \$0.1875, which expires in March 2009. All shares of common stock outstanding may be sold without restriction under Rule 144(k) promulgated under the Securities Act of 1933, except 403,360 shares, which are held by officers and directors ("Control Shares"). Control Shares may be sold subject to complying with all of the terms and conditions of Rule 144, except the one-year holding period, which has been satisfied.

Since its inception, no dividends have been paid on the Company's common stock. The Company intends to retain any earnings for use in its business activities, so it is not expected that any dividends on the common stock will be declared and paid in the foreseeable future.

At April 11, 2005, there were approximately 97 holders of record of the Company's Common Stock.

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

FORWARD-LOOKING INFORMATION AND CAUTIONARY STATEMENTS

When used in this report on Form 10-KSB, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, operating results, and financial position. Persons reviewing this report are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors. Such factors are discussed under the headings "Item 1. Description of Business," and "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations," and also include general economic factors and conditions that may directly or indirectly impact the Company's financial condition or results of operations.

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PLAN OF OPERATION

The Company had no revenue from continuing operations for the years ended December 31, 2004 and 2003. The Company's plan is to seek a business venture

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in which to participate. The selection of a business opportunity in which to participate is complex and extremely risky and will be made by management in the exercise of its business judgment. There is no assurance that the Company will be able to identify and acquire any business opportunity that will ultimately prove to be beneficial to the Company and its shareholders.

The Company anticipates that businesses for possible acquisition will be referred by various sources, including its officers and directors, professional advisors, securities broker-dealers, venture capitalists, members of the financial community, and others who may present unsolicited proposals. The Company will not engage in any general solicitation or advertising for a business opportunity, and will rely on personal contacts of its officers and directors and their affiliates, as well as indirect associations between them and other business and professional people. By relying on "word of mouth", the Company may be limited in the number of potential acquisitions it can identify. While it is not presently anticipated that the Company will engage unaffiliated professional firms specializing in business acquisitions or reorganizations, such firms may be retained if management deems it in the best interest of the Company.

Compensation to a finder or business acquisition firm may take various forms, including one-time cash payments, payments based on a percentage of revenues or product sales volume, payments involving issuance of securities (including those of the Company), or any combination of these or other compensation arrangements. Consequently, the Company is currently unable to predict the cost of utilizing such services.

The activities of the Company are subject to several significant risks that arise primarily as a result of the fact that the Company has no specific business and may acquire or participate in a business opportunity based on the decision of management which will, in all probability, act without the consent, vote, or approval of the Company's shareholders. A description of the manner in which the Company will pursue the search for and participation in a business venture is described under "Item 1. Business," above.

Although the Company has no operations, it does incur expenses in connection with complying with reporting requirements under the Securities Exchange Act of 1934. General and administrative expenses for the years ended December 31, 2004 and 2003, consisted of general corporate administration, officer compensation, legal and professional expenses, and accounting and auditing costs. In the last quarter of 2003, and the entirety of 2004, the Company incurred significant legal, accounting and other expenses in connection with the proposed business combination with Town House. Total general and administrative expenses were \$94,101, and \$41,415 for 2004 and 2003, respectively. The increase in expenses in 2004 was due to expenses incurred relating to the proposed transaction between the Company and Town House which has been terminated. (See Item 1. Description of Business).

The Company had no interest expense in 2004 or 2003. Interest income resulted from the investment of funds in short-term, liquid cash equivalents. Interest income was \$350 in 2004 and \$1,326 in 2003.

As a result of the foregoing factors, the Company realized a net loss of \$91,593 in 2004, as compared to a net loss of \$40,089 in 2003.

At December 31, 2004, the Company had working capital of \$30,004. Working capital consisted of cash and cash equivalents less current

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liabilities. Management believes that the Company has sufficient cash and short-term investments to meet the anticipated needs of the Company's operations through at least the next 12 months. However, there can be no assurances to that effect, as the Company has no significant revenues and the Company's need for capital may change dramatically if it acquires an interest in a business opportunity during that period. The Company's current operating plan is to handle the administrative and reporting requirements of a public company and search for potential businesses, products, technologies and companies for acquisition. At present, the Company has no understandings, commitments or agreements with respect to the acquisition of any business venture, and there can be no assurance that the Company will identify a business venture suitable for acquisition in the future. Further, there can be no assurance that the Company would be successful in consummating any acquisition on favorable terms, if at all, or that it will be able to profitably manage the business venture it acquires.

ITEM 7. FINANCIAL STATEMENTS

The financial statements required by this Item 7 begin on Page 18 with the Index to the Financial Statements and are located following the signature page. All information that has been omitted is either inapplicable or not required.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are no reportable changes in or disagreements with accountants.

ITEM 8A. CONTROLS AND PROCEDURES

With the participation of management, the Company's chief executive officer and chief financial officer evaluated the Company's disclosure controls and procedures on December 31, 2004. Based on this evaluation, the chief executive officer and the chief financial officer concluded that the disclosure controls and procedures are effective in connection with the Company's filing of its annual report on Form 10-KSB for the year ended December 31, 2004.

During the fourth quarter of the year ended December 31, 2004, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, and no significant deficiencies or material weaknesses of internal controls that would require corrective action were identified during that period.

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ITEM 8B. OTHER INFORMATION

During the fiscal year ended December 31, 2004, the Company filed no reports on Form 8-K. However, on February 14, 2005, the Company filed a Current Report on Form 8-K, reporting the termination of the Exchange Agreement among the Company, Town House, and the shareholders of Town House. (See Item 1. Description of Business).

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

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DIRECTORS AND OFFICERS

Current Management of the Company

The following table sets forth the names, ages, and positions with the Company for each of the directors and officers of the Company.

| Name | Age | Positions* | Since |
|-------------------|-----|-----------------------------------|-------|
| Richard B. Stuart | 71 | President and Director | 1986 |
| Jack M. Gertino | 66 | Secretary, Treasurer and Director | 1986 |

* In August, 2003, Philip C. Gugel, Vice President and a director, passed away. Mr. Gugel has not been replaced.

All executive officers are elected by the Board and hold office until the next Annual Meeting of stockholders or until their successors are duly elected and qualified.

The following is information on the business experience of each director and officer.

Richard B. Stuart earned his BA at New York University in 1955 and masters and doctoral degrees at Columbia University in 1960 and 1965, respectively. He currently holds the following positions: President, Behavior Change Systems (Ann Arbor, MI), a firm offering business consulting and program development services; Program Director, Respecialization in Clinical Psychology, The Fielding Graduate Institute (Santa Barbara, CA); Clinical Professor Emeritus, Department of Psychiatry, University of Washington (Seattle, WA). Dr. Stuart also provides psychological services through a private practice in Seattle, WA. From 1972 to 1983, he was Psychological Director of Weight Watchers International and President of its subsidiary, One-To-One Weight Control Clinics. Dr. Stuart has also been a consultant to companies involved in businesses ranging from wholesale groceries to auto parts production and human services. Dr. Stuart was an officer and director of Domino Investments (Salt Lake City, UT).

Jack M. Gertino has been a private investor and business consultant in Salt Lake City, Utah, for the past ten years. For the past ten years, he has also been engaged in the private development of, and investment in, commercial and residential real estate in Utah, Arizona and New Mexico. He currently provides consulting services for financial institutions. Mr. Gertino has been involved in private and public financings over the past twenty years. From February 1992 to the present, he has served as a director of Red Horse Entertainment Corporation, a publicly held shell corporation seeking a business acquisition.

Audit Committee Financial Expert

Because we have had minimal operations, we do not have an audit committee serving at this time. Accordingly, we do not have an audit committee financial expert serving on an audit committee or any other committee of the Board.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our

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directors, executive officers and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock. The Company believes all forms required to be filed under Section 16 of the Exchange Act have been filed timely.

Code of Ethics

Due to the fact that we have minimal operations, we have not adopted a code of ethics for our principal executive and financial officers. Our management intends to promote honest and ethical conduct, full and fair disclosure in our reports to the SEC, and compliance with applicable governmental laws and regulations.

Other Shell Company Activities

Mr. Gertino is currently a director of Red Horse Entertainment Corporation, a publicly held shell corporations seeking a business acquisition. The possibility exists that one or more of the officers and directors of the Company could become officers and/or directors of other shell companies in the future, although they have no intention of doing so at the present time. Certain conflicts of interest are inherent in the participation of the Company's officers and directors as management in other shell companies, which may be difficult, if not impossible, to resolve in all cases in the best interests of the Company. Failure by management to conduct the Company's business in its best interests may result in liability of management of the Company to the shareholders.

ITEM 10. EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

The following sets forth the compensation of Comet's executive officers for the three fiscal years ended December 31, 2004.

| Name and Principal Position | Fiscal Year Ended December 31 | Salary (\$) | Bonus (\$) | Options (#) | All Other (\$) Compensation |
|---|--|-------------|------------|-------------|--------------------------------|
| Richard B. Stuart | 2004 | 0 | 0 | 0 (4) | 19,265 (1) |
| President and Chief Executive Officer | 2003 | 0 | 0 | 0 | 10,000 (2) |
| | 2002 | 0 | 0 | 0 | 5,000 (3) |
| Jack M. Gertino | 2004 | 0 | 0 | 0 (4) | 38,530 (1) |
| Secretary/Treasurer and Chief Financial Officer | 2003 | 0 | 0 | 0 | 20,000 (2) |
| | 2002 | 0 | 0 | 0 | 10,000 (3) |

(1) The Company recorded compensation expense for Richard B. Stuart and Jack M. Gertino, computed on an hourly basis, in the amounts indicated, for their efforts in reviewing the business opportunity with Town House for a possible business combination during the fiscal year 2004, participating in meetings and conference calls in connection with such opportunity, assisting in the negotiation and preparation of agreements and in the preparation of disclosure documents, and undertaking related activities.

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(2) The Company recorded compensation expense for Richard B. Stuart and Jack M. Gertino, computed on an hourly basis, in the amounts indicated, for their efforts in reviewing the business opportunity with Town House for a possible business combination during the fiscal year 2003, participating in meetings and conference calls in connection with such opportunity, and undertaking related activities.

(3) The Company recorded compensation expense for Richard B. Stuart and Jack M. Gertino, computed on an hourly basis, in the amounts indicated, for their efforts in reviewing a specific business opportunity for a possible business combination during the fiscal year, participating in meetings and conference calls in connection with such opportunity, and undertaking related activities. This possible transaction was terminated in October, 2002.

(4) On March 11, 1999, the Company granted to Richard B. Stuart, Phillip C. Gugel and Jack M. Gertino options to purchase 200,000 shares of common stock each at an exercise price of \$0.1875, which was the average of the bid and asked prices for the common stock on that date. The options are vested and expire in March 2009. The options were issued to compensate these persons for their services to the Company over the past 13 years, for which they had received no other compensation. The options of Mr. Gugel have now passed on to his estate.

The Company has no agreement or understanding, express or implied, with any officer, director, or principal stockholder, or their affiliates or associates, regarding employment with the Company or compensation for services. The Company has no plan, agreement, or understanding, express or implied, with any officer, director, or principal stockholder, or their affiliates or associates, regarding the issuance to such persons of any shares of the Company's authorized and unissued common stock. There is no understanding between the Company and any of its present stockholders regarding the sale of a portion or all of the common stock currently held by them in connection with any future participation by the Company in a business.

There are no other plans, understandings, or arrangements whereby any of the Company's officers, directors, or principal stockholders, or any of their affiliates or associates, would receive funds, stock, or other assets in connection with the Company's participation in a business. No advances have been made or contemplated by the Company to any of its officers, directors, or principal stockholders, or any of their affiliates or associates.

There is no policy that prevents management from adopting a plan or agreement in the future that would provide for cash or stock based compensation for services rendered to the Company.

On acquisition of a business, it is possible that current management will resign and be replaced by persons associated with the business acquired, particularly if the Company participates in a business by effecting a stock exchange, merger, or consolidation. In the event that any member of current management remains after effecting a business acquisition, that member's time commitment and compensation will likely be adjusted based on the nature and location of such business and the services required, which cannot now be foreseen.

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The following table sets forth certain information with respect to unexercised options held by the executive officers as of December 31, 2004.

| Number of Securities | Value of Unexercised |
|----------------------|----------------------|
|----------------------|----------------------|

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| Name and Principal Position | Underlying Unexercised Options at December 31, 2004 (#) | In-the-Money Options at December 31, 2004 (\$) (1) |
|--|---|--|
| | Exercisable/Unexercisable | Exercisable/Unexercisable |
| Richard B. Stuart President | 200,000/ -0- | -0-/-0- |
| Philip C. Gugel (2) Vice President | 200,000/ -0- | -0-/-0- |
| Jack M. Gertino Secretary and Treasurer | 200,000/ -0- | -0-/-0- |

(1) This value is determined on the basis of the difference between the average of the high bid and asked prices on December 31, 2004, of the securities underlying the options, and the exercise price.

(2) Mr. Gugel passed away in 2003; however, his options are held in trust by his estate.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth as of April 11, 2005, the number and percentage of the 3,598,000 outstanding shares of common stock which, according to the information supplied to the Company, were beneficially owned by (i) each person who is currently a director of the Company, (ii) each executive officer, (iii) all current directors and executive officers of the Company as a group and (iv) each person who, to the knowledge of the Company, is the beneficial owner of more than 5% of the outstanding common stock. Except as otherwise indicated, the persons named in the table have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable.

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| Name and Address | Common Shares | Options (1) | Percent of Class |
|---|---------------|-------------|------------------|
| Richard B. Stuart (2) (4) PO Box 236 Edmonds, Washington 98020 | 207,680 (2) | 200,000 | 10.73 (3) |
| Estate of Philip C. Gugel (5) 10 West 100 South, Suite 610 Salt Lake City, Utah 84101 | 0 | 200,000 | 5.27 (3) |
| Jack M. Gertino (4) 10 West 100 South, Suite 610 Salt Lake City, Utah 84101 | 195,680 | 200,000 | 10.42 (3) |
| The Harker Group Limited Partnership 1717 Monte Carlo Drive Salt Lake City, UT 84121 | 415,550 | 0 | 11.55 |
| All Executive Officers and Directors as a Group (2 persons) | 403,360 | 400,000 | 20.09 (3) |

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- (1) These figures represent options that are vested or will vest within 10 years from the date as of which information is presented in the table.
- (2) This ownership is held of record by Pershing, LLC ("Pershing"), a limited liability company of which Richard B. Stuart is the owner. Pershing has recently effected transfer of the shares back to Dr. Stuart.
- (3) These figures represent the percentage of ownership of the named individuals assuming each of them alone has exercised his or her options, and percentage ownership of all officers and directors of a group assuming all such purchase rights held by such individuals are exercised.
- (4) Messrs. Stuart and Gertino are officers and directors of the Company.
- (5) Options held by the estate of Philip Gugel, who passed away in 2003.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There are no proposed transactions and no transactions during the past two years to which the Company was a party and in which any officer, director, or principal shareholder, or their affiliates or associates, was also a party.

A shareholder of the Company, James C. Lewis, has provided legal services in connection with the Town House transaction, and will be compensated at his normal rates for such services.

ITEM 13. EXHIBITS

- (a) Exhibits. Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-B.
 - 3.1 Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
 - 3.2 By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
 - 10.1 Option granted to Richard B. Stuart dated March 11, 1999 (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
 - 10.2 Option granted to Philip C. Gugel dated March 11, 1999 (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
 - 10.3 Option granted to Jack M. Gertino dated March 11, 1999 (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
 - 10.4 Warrant granted to Mark E. Lehman dated March 11, 1999 (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).

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- 31.1* Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed as exhibits to this annual report on Form 10-KSB.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate fees billed by our principal accounting firm, for fees billed for fiscal years ended December 31, 2004 and 2003 are as follows:

Audit Fee

The aggregate fees billed for each of the last two fiscal years for professional services rendered by HJ & Associates, LLC, the Company's principal accountant, for the audit of the Company's annual financial statement and review of financial statements included in the Company's 10-QSB reports and services normally provided by the accountant in connection with statutory and regulatory filings or engagements were \$3,410 for fiscal year 2004 and \$3,663 for fiscal year 2003.

Audit-Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the Company's financial statements that are not reported above were \$0 for fiscal year ended 2004 and \$0 for fiscal year ended 2003.

Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning were \$0 for fiscal year 2004 and \$0 for fiscal year 2003.

All Other Fees

The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported above were \$0 for fiscal year 2004 and \$0 for fiscal year ended 2003.

The Company does not currently have an audit committee. As a result our

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board of directors performs the duties of an audit committee. The Company's board of directors will evaluate and approve in advance, the scope and cost of the engagement of an auditor before the auditor renders audit and non-audit services. We do not rely on pre-approval policies and procedures.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMET TECHNOLOGIES, INC.

Date: April 12, 2005

By: /s/ Richard B. Stuart

Richard B. Stuart, President and CEO

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 12, 2005

/s/ Richard B. Stuart

Richard B. Stuart
President, CEO and Director
(Principal Executive Officer)

Date: April 12, 2005

/s/ Jack M. Gertino

Jack M. Gertino
Secretary, CFO and Director
(Principal Accounting Officer)

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Report of Independent Registered Public Accounting Firm

Board of Directors
Comet Technologies, Inc.
(A Development Stage Company)
Salt Lake City, Utah

We have audited the accompanying balance sheet of Comet Technologies, Inc. (a development stage company) as of December 31, 2004 and the related statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2004 and 2003 and from inception on February 7, 1986 through December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Comet Technologies, Inc. (a development stage company) as of December 31, 2004, and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 and from inception on February 7, 1986 through December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ HJ & Associates, LLC

HJ & Associates, LLC
Salt Lake City, Utah
March 28, 2005

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COMET TECHNOLOGIES, INC.
(A Development Stage Company)
Balance Sheet

ASSETS

December 31,
2004

CURRENT ASSETS

Cash and cash equivalents \$ 90,864

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| | |
|---|-----------|
| Total Current Assets | 90,864 |
| TOTAL ASSETS | \$ 90,864 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| ----- | |
| CURRENT LIABILITIES | |
| Account payable | \$ 3,065 |
| Payable - related parties | 57,795 |
| Total Current Liabilities | 60,860 |
| TOTAL LIABILITIES | 60,860 |
| STOCKHOLDERS' EQUITY | |
| Preferred stock, \$0.001 par value, 5,000,000 shares authorized; none issued or outstanding | - |
| Common stock, \$0.001 par value, 20,000,000 shares authorized; 3,598,000 issued and outstanding | 3,598 |
| Capital in excess of par value | 238,561 |
| Deficit accumulated during the development stage | (212,155) |
| Total Stockholders' Equity | 30,004 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 90,864 |

The accompanying notes are an integral part of these financial statements.

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COMET TECHNOLOGIES, INC.
(A Development Stage Company)
Statements of Operations

| | |
|---------------------|--------------|
| | From |
| | Inception on |
| | February 7, |
| For the Years Ended | 1986 through |
| December 31, | December 31, |
| 2004 | 2004 |
| 2003 | |

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| | | | | | | |
|--|----|-----------|----|-----------|----|-----------|
| REVENUES | \$ | - | \$ | - | \$ | - |
| EXPENSES | | | | | | |
| General and administrative | | 94,101 | | 41,415 | | 360,617 |
| Total Expenses | | 94,101 | | 41,415 | | 360,617 |
| LOSS FROM OPERATIONS | | (94,101) | | (41,415) | | (360,617) |
| OTHER INCOME | | | | | | |
| Dividend income | | - | | - | | 5,493 |
| Interest income | | 350 | | 1,326 | | 147,461 |
| Reimbursement of fees | | 2,158 | | - | | 2,158 |
| Unrealized loss from marketable securities | | - | | - | | (6,650) |
| Total Other Income | | 2,508 | | 1,326 | | 148,462 |
| NET LOSS | \$ | (91,593) | \$ | (40,089) | \$ | (212,155) |
| BASIC LOSS PER SHARE | \$ | (0.03) | \$ | (0.01) | | |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | | 3,598,000 | | 3,598,000 | | |

The accompanying notes are an integral part of these financial statements.

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COMET TECHNOLOGIES, INC.
(A Development Stage Company)
Statements of Stockholders' Equity
From Inception on February 7, 1986 through December 31, 2004

| | Common Stock | Capital in | Deficit |
|---|--------------|------------|-------------|
| | Shares | Excess of | Accumulated |
| | Amount | Par Value | During |
| | | | Development |
| | | | Stage |
| Balance at Inception on February 7, 1986 | - \$ | - \$ | - \$ |
| Issuance of 1,098,000 shares of common stock to officers, directors | | | |

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| | | | | |
|---|--------------|----------|------------|----------|
| and other individuals for \$0.023 per share on February 7, 1986 | 1,098,000 | 1,098 | 23,902 | - |
| Public offering of the Company's common stock (Note 2) | 2,500,000 | 2,500 | 247,500 | - |
| Deferred offering costs offset against capital in excess of par value | - | - | (32,841) | - |
| Net loss from inception on February 7, 1986 through December 31, 1997 | - | - | - | (41,568) |
| | ----- | ----- | ----- | ----- |
| Balance, December 31, 1997 | 3,598,000 | 3,598 | 238,561 | (41,568) |
| Net loss for the year ended December 31, 1998 | - | - | - | (1,761) |
| | ----- | ----- | ----- | ----- |
| Balance, December 31, 1998 | 3,598,000 | 3,598 | 238,561 | (43,329) |
| Net income for the year ended December 31, 1999 | - | - | - | 145 |
| | ----- | ----- | ----- | ----- |
| Balance, December 31, 1999 | 3,598,000 | 3,598 | 238,561 | (43,184) |
| Net loss for the year ended December 31, 2000 | - | - | - | (1,803) |
| | ----- | ----- | ----- | ----- |
| Balance, December 31, 2000 | 3,598,000 | 3,598 | 238,561 | (44,987) |
| Net loss for the year ended December 31, 2001 | - | - | - | (7,412) |
| | ----- | ----- | ----- | ----- |
| Balance, December 31, 2001 | 3,598,000 | 3,598 | 238,561 | (52,399) |
| Net loss for the year ended December 31, 2002 | - | - | - | (28,074) |
| | ----- | ----- | ----- | ----- |
| Balance, December 31, 2002 | 3,598,000 \$ | 3,598 \$ | 238,561 \$ | (80,473) |
| | ----- | ----- | ----- | ----- |

The accompanying notes are an integral part of these financial statements.

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| | Common Stock | | Capital in | Deficit |
|--|--------------|----------|------------|--------------|
| | Shares | Amount | Excess of | Accumulated |
| | | | Par Value | During |
| | | | | Development |
| | | | | Stage |
| Balance, December 31, 2002 | 3,598,000 | \$ 3,598 | \$ 238,561 | \$ (80,473) |
| Net loss for the year ended December 31, 2003 | - | - | - | (40,089) |
| Balance, December 31, 2003 | 3,598,000 | 3,598 | 238,561 | (120,562) |
| Net loss for the year ended December 31, 2004 | - | - | - | (91,593) |
| Balance, December 31, 2004 | 3,598,000 | \$ 3,598 | \$ 238,561 | \$ (212,155) |

The accompanying notes are an integral part of these financial statements.

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COMET TECHNOLOGIES, INC.
(A Development Stage Company)
Statements of Cash Flows

| | For the Years Ended December 31, | | From Inception on February 7, 1986 through December 31, |
|---|-------------------------------------|-------------|---|
| | 2004 | 2003 | 2004 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income (loss) from operations | \$ (91,593) | \$ (40,089) | \$ (212,155) |
| Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities: | | | |
| Amortization | - | - | 301 |
| Change in operating assets and liabilities: | | | |
| Increase in taxes payable | - | - | 300 |
| Increase (decrease) in accounts payable | 30,860 | 15,000 | 60,559 |
| Net Cash (Used) by Operating Activities | (60,733) | (25,089) | (150,995) |

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| | | | |
|---|-----------|------------|-----------|
| CASH FLOWS FROM INVESTING ACTIVITIES | - | - | - |
| | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Organizational costs | - | - | (300) |
| Net stock offering proceeds | - | - | 242,159 |
| | | | |
| Net Cash Provided by Financing Activities | - | - | 241,859 |
| | | | |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (60,733) | (25,089) | 90,864 |
| | | | |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 151,597 | 176,686 | - |
| | | | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 90,864 | \$ 151,597 | \$ 90,864 |
| | | | |
| CASH PAID FOR: | | | |
| Taxes | \$ - | \$ - | \$ - |
| Interest | \$ - | \$ - | \$ - |

The accompanying notes are an integral part of these financial statements.

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COMET TECHNOLOGIES, INC.
A Development Stage Company)
Notes to the Financial Statements
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The financial statements presented are those of Comet Technologies, Inc. (the Company). The Company was incorporated in the State of Nevada on February 7, 1986. The Company was incorporated for the purpose of providing a vehicle which could be used to raise capital and seek business opportunities believed to hold a potential for profit. The Company has not presently identified a specific business area or direction that it will follow. Therefore, no principal operations have yet begun.

b. Accounting Method

The Company's financial statements are prepared using the accrual method of accounting. The Company has adopted a calendar year end.

c. Basic Loss Per Share

The computation of basic loss per share of common stock is based on the weighted average number of shares issued and outstanding during the period of the financial statements as follows:

| December 31, | |
|--------------|------|
| ----- | |
| 2004 | 2003 |

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| | | |
|---|-------------|-------------|
| Numerator - loss | \$ (91,593) | \$ (40,089) |
| Denominator - weighted average number of shares outstanding | 3,598,000 | 3,598,000 |
| Loss per share | \$ (0.03) | \$ (0.01) |

d. Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

e. Provision for Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax assets are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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COMET TECHNOLOGIES, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Provision for Taxes (Continued)

Net deferred tax assets consist of the following components as of December 31, 2004 and 2003:

| | 2004 | 2003 |
|---------------------------|-----------|-----------|
| Deferred tax assets: | | |
| NOL Carryover | \$ 51,860 | \$ 26,142 |
| Accrued Expenses | 23,735 | - |
| Deferred tax liabilities: | - | - |
| Valuation allowance | (75,595) | (26,142) |
| Net deferred tax asset | \$ - | \$ - |

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rates of 39% to pretax income from continuing operations for the years ended December 31, 2003 and 2002 due to the following:

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| | 2004 | 2003 |
|-----------------------|-------------|------------|
| | ----- | ----- |
| Book income | \$ (35,720) | \$ (9,785) |
| Meals & Entertainment | - | - |
| Other | (39) | (39) |
| Accrued Compensation | - | 5,850 |
| Valuation allowance | 35,759 | 3,974 |
| | ----- | ----- |
| | \$ - | \$ - |
| | ===== | ===== |

At December 31, 2004, the Company had net operating loss carryforwards of approximately \$130,000 that may be offset against future taxable income from the year 2004 through 2024. No tax benefit has been reported in the December 31, 2004 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years.

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COMET TECHNOLOGIES, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Estimates

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

NOTE 2 - PUBLIC OFFERING OF UNITS

In July of 1986, the Company completed a public offering of 2,500,000 shares of its previously authorized but unissued common stock to the public. An offering price of \$0.10 per share was arbitrarily determined by the Company. Offering costs totaled \$32,841 and were offset against capital in excess of par value. The net proceeds to the Company from the offering were \$217,159, which equals \$250,000 minus offering costs of \$32,841.

NOTE 3 - PREFERRED STOCK

None of the Company's authorized 5,000,000 shares of preferred stock is issued and outstanding and the Company currently has no plans to issue any preferred stock. The Company's board of directors has authority, without action by the shareholders, to issue all or any portion of the authorized but unissued preferred stock in one or more series and to determine the voting rights, preferences as to dividends and liquidation, conversion rights and other

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rights of such series. The preferred stock, if and when issued, may carry rights superior to those of the common stock.

NOTE 4 - NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

During the year ended December 31, 2004, the Company adopted the following accounting pronouncements which had no impact on the financial statements or results of operations:

- . SFAS No. 123(R), Share Based Payment—an amendment to SFAS No. 123, Accounting for Stock-Based Compensation;
- . SFAS No. 151, Inventory Costs—an amendment of ARB No. 43, Chapter 4;
- . SFAS No. 152, Accounting for Real Estate Time-Sharing Transactions—an amendment of FASB Statements No. 66 and 67; and
- . SFAS No. 153, Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29.

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COMET TECHNOLOGIES, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 2004 and 2003

NOTE 5 - SUBSEQUENT EVENT

On January 19, 2003 the Company entered into a Stock Exchange Agreement ("the Agreement") by and among the Company, Town House Land Limited, a company organized in Hong Kong Special Administrative Region in The People's Republic of China ("Town House"); and the shareholders of Town House (the "Town House Shareholders"). Town House owns all of the registered capital of Wuhan Pacific Industry Development Company Limited ("Wuhan"), a wholly-owned foreign enterprise organized in Hubei Province in The People's Republic of China ("PRC").

On or about February 9, 2005, the Company sent notification to Town House of its decision to terminate the Agreement between the Company, Town House and the shareholders of Town House. As a result of this decision, the reverse acquisition contemplated by the Agreement will not occur. Management will now begin efforts to locate a suitable acquisition or merger candidate for the Company.

The decision to terminate the Agreement, and the reverse acquisition and related transactions contemplated by the Agreement, was a result of the determination by the board of directors that Town House had recently undertaken actions and business efforts which were a material deviation from the business of Town House as described in the Company's preliminary information statement under Schedule 14C filed with the U.S. Securities and Exchange Commission. The board of directors concluded that this change would require an amendment to the Company's 14C Information Statement and would cause substantial additional delays and costs to the Company. Moreover, the board of directors concluded that the change in the business of Town House was contrary to the best interests of the Company and its shareholders.

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